

# PERFORMANCE MANAGEMENT IN LOCAL GOVERNMENT

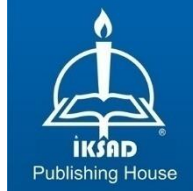
Dr. Şükrü ÖZCAN



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# PERFORMANCE MANAGEMENT IN LOCAL GOVERNMENT

**Dr. Şükrü ÖZCAN**



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This work was produced from the dissertation prepared by the author that had aimed to critically evaluate the effects of using performance management systems in the British and Turkish local governments.

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E mail: iksadyayinevi@gmail.com  
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## **PREFACE**

The concept of performance management has been one of the most significant and positive developments in the sphere of management since the 1960s. With the introduction of New Public Management (NPM) in the 1980s in the UK, performance management and measurement systems have been introduced into all public sector organizations including local authorities. While performance measurement has been used in the public sector since the early 1980s in the UK, it was introduced into the Turkish public sector only in 2002 with The Performance Measurement Systems for Local Governments Project (BEPER). This work aims to critically evaluate the effects of using performance management and performance measurement systems in the British and Turkish local governments.

One of the most controversial developments in the field of performance management has been the introduction of performance-related pay (PRP) into public sector organizations in the UK since the 1980s. However, PRP now seems to be at the point of being practically bankrupt and is giving way to new payment systems in the public sector institutions including local authorities. This work explores why most of the local authorities in the UK have abandoned PRP. It also investigates the impact of PRP on the motivation of local officials through exploring the concept of motivation and the link between motivation and performance.

In conclusion, such performance measurement-based systems have some positive effects on organizational working style in all public service institutions particularly in local authorities. However, they can lead to job dissatisfaction when they are used as a tool of control. They can even produce some unintended side-effects like demotivation as long as they focus on only organizational targets. Therefore, in order to get better results from their practices in local authorities in the UK and Turkey, employees should be well informed about what the organization wants to achieve and how they can make a contribution.

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## INTRODUCTION

Performance management can be defined as systems and attitudes which help organizations to plan, delegate and assess the operation of their services (LGMB, 1994). In other words, performance management is about managing the organization. It provides a basis for managing expectations. As a process for managing expectations, performance management acts as an integrating force and it serves as a means of clarifying the psychological contract and of building a climate of trust (Brown and Armstrong, 1999, p.242). It is a normal procedure of management, not a system or technique (Fowler, 1990, p.47). It is generally accepted that performance management is a process which is designed to improve organizational, team and individual performance. If, however, performance management process aims to examine why individuals, teams and departments have failed to perform, it will be a defensive and closed process (Neely *et al*, 2006, p.5). This process shows itself clearly in many different forms. There is no one right way of managing performance. Armstrong (1994, p.14) has drawn attention to the fact that the approach must depend on the context of the organization-its culture, structure,

technology- the views of stakeholders and the type of people involved. There are a lot of stakeholders who have an interest in this process such as staff, employers, boards of governors, local and central government funding agencies and so on (Jennings and Lomas 2003, p.370).

The concept of performance management has been one of the most significant and positive developments in the sphere of management since the 1960s and it has become popular in the public sector from the late 1970s after the positive results of its implementation in the private sector. As Redman and Wilkinson (2001, p. 61) state, like many new practices in Human Resource Management (HRM), performance management is an American import that has been a great driver in the increased use of performance appraisal by British institutions. With the introduction of New Public Management (NPM) in the 1980s in the United Kingdom, performance management has systematically begun to be used in the public sector because NPM aims at raising accountability, efficiency and effectiveness in public service institutions by enforcing market mechanisms. Performance management systems have been pushed through all public sector organizations including

local authorities in the UK since the mid-1980s because organizations are required to assess and report their performance to increase public accountability and to become more efficient and effective (Neely et al, 2006, p.7).

Like many British public sector organizations, Portsmouth City Council (PCC) uses performance management system. While the Political Cabinet has a strategic role in establishing the Council's performance management policy and for monitoring the performance management processes, the key officer body driving performance management in Portsmouth City Council is the Strategic Directors Board (PCC Performance Management Strategy 2008/09, p. 14). PCC has a framework for managing its performance and the framework includes a number of different elements such as The Community Strategy, The Corporate Plan, Service Level Business Plans, Corporate Scorecards, Best Value Reviews and The Comprehensive Performance Assessment Process so on (Nash & May, 2005, p.4). However, there are a number of difficulties in implementing performance management in the public sector organizations because public sector has a number of distinctive features compared to private sector. The most important one is

that public sector is more resistant to change whereas performance management tries to establish a new culture based on motivating public officials to perform well.

Motivation refers to “the forces either within or external to a person that arouse enthusiasm and persistence to pursue a certain course of action” (Daft, 1997, p.526). Motivation theories are based on different concepts such as expectancy, reasons for engagement, equity and justice, and consolidation so on (Weiner, 1992, p.17). Therefore, they approach the concept of performance differently. For example, while expectancy theory sees the performance as “the product of an individual’s ability and motivational force to engage in one type of behavior rather than another”, goal setting theory defines it as “the result of individual commitment to specific and attainable goals” (White, and Druker, 2009, p.130). Performance is a multidimensional concept which includes measures of output quantity, output quality, efficiency, effectiveness and economy (Boyne et al, 2006, p.5). In other words, the dimensions of performance are mostly drawn from the ‘3 Es’ model of economy, efficiency and effectiveness or

the IOO model of inputs-outputs-outcomes (Boyne et al, 2006, p.15).

Performance-related pay (PRP) has often been viewed as supporting the performance management scheme, sharpening the way in which it is perceived and underlining its seriousness (Rashid, 1999, p.31). The main feature of the system is to determine either some part of employees' earnings or additional payments based on their performance. PRP aims to present the ways for higher motivation of service providers and to utilize the tools required for delivery of productive and qualified public services (Aydin and Demir, 2008, p.45). However, there has been a long-standing discussion about the effects of using PRP in public services institutions. Although some management experts and academics accept that PRP plays a vital role in both motivation of employees and achievement of the organizations, there are a number of opposite ideas on this issue. For example, according to Hague (cited in Brown and Armstrong, 1999, p.8) PRP is "demotivating staff and it is inappropriate for professionals, damaging to teamwork and often applied unfairly...irrelevant

to helping individuals and organizations in meeting their objectives.”

PRP is as old as the industrial revolution in the United Kingdom. After the recession of the early 1980s, PRP began to spread rapidly for the professional and managerial staff in the public sector in the UK (Brown and Armstrong, 1999, p.4). It is mostly applied to senior staff in British local government. Concerns about performance-related pay throughout local government have been raised in the UK since the mid-1990s. To make clear, some observations show that there is a risk that PRP could demotivate rather than motivate people: PRP could be divisive especially when it is applied only to more senior staff in local authorities (Rashid, 1999, p.32).

There is obviously a close relation between performance measurement and performance management. They are sometimes mistaken for each other. In careful usage, performance management is the larger domain and includes performance measurement as a component. The performance measurement process is not simply a technical one. Operational managers must know what to measure, how to measure and

how and when to communicate messages about performance (Rashid, 1999, p.113). Otherwise, performance measures which are designed to improve the quality of a service can become an end in themselves with processes being reformed in order to meet particular performance targets without contributing to an overall better service (Stoker, 2003, p.10-11).

Many organizations have adopted the performance measurement systems in the private sector around the world (Neely et al, 2006, p.6). Similarly, public organizations have been interested in using performance measurement systems for a longtime because the performance of public agencies are constantly scrutinized by stakeholders such as citizens, service users, politicians and government inspectors (Boyne et al, 2006, p.1). While performance measurement has been used in the public sector since the early 1970s in the developed countries (Cave et al, 1990, p.39), it was introduced into the Turkish public sector only in 2002 with The Performance Measurement Systems for Local Governments Project (BEPER), conducted by the Ministry of Internal Affairs. The project aims to establish a performance measurement system in



order to monitor the performance of the municipalities and to be able to compare their organizational performance. BEPER was formulated in accordance with the main provisions and principles of the reforms in the Turkish public administration. These reforms focused on measuring performance in the public sector and, in particular, re-organization of local government (Cetin, 2006, p.75).

This work will examine effects of using such performance measurement- based systems in local authorities. In particular, it will question how successful performance management and measurement systems are in improving individuals' performance. It will also question whether PRP really motivates individuals in particular public officials and seek what motivates individuals to perform well. As for the structure of the work, chapter 1 will explore the origins of performance management and its introduction into the public sector especially into local government. It will then focus on the definitions and functions of performance management. There are a lot of functions given in the literature. They will be divided into two groups: generic and specific ones. In addition, after performance management processes will be summarized,

the arguments against performance management will be given in this chapter. In the light of these explanations, chapter 2 will narrow down to the practices of performance management in Portsmouth City Council. It will also assess the effects of using performance management in public sector in particular in local authorities. Chapter 3 will explain the concept of motivation and its relationship with the concept of performance. I will specifically focus on both theories of motivation and what motivates individuals to perform well in this chapter. In chapter 4, first of all, performance-related pay and its practices in British local government will be explored. Secondly, the effects of using PRP will be critically assessed. Thirdly, the concept of performance measurement will be explained. Finally, the application of performance measurement in Turkish local authorities, namely BEPER Project will be evaluated in the final chapter. The work will end with conclusions.

## CHAPTER 1

### PERFORMANCE MANAGEMENT

#### 1.1. Origins of Performance Management

There is no precise information about the origins of performance management in the literature. It is written that the emperors of Wei dynasty had an imperial rater whose task was to assess the performance of the official family (Armstrong and Baron, 2005, p.6). The US armed services used rating for officers in the 1920s and then the US and UK began to use merit rating in the 1950s and 1960s (Armstrong and Baron, 2005, p.6). Performance management, however, was first used as a ‘term’ in the 1970s by Beer and Ruh. Their thesis was that “performance is best developed through practical challenges and experiences on the job, with guidance and feedback from superiors.” (Armstrong and Baron, 2005, p.7) Performance management was initially applied to reduce costs and increase profits in the private sector and then it was reformed for non-profit public organizations without losing its core features.

With the introduction of New Public Management (NPM) in the 1980s in the UK, “private sector management practices and competition were needed in the public sector to achieve the 3 Es; economy, efficiency and effectiveness” (Horton, 2008, p.1). NPM aims at raising accountability, efficiency and effectiveness in public service institutions by enforcing market mechanisms. It has changed the culture, structures, practices, perceived roles of civil servants and public officials. NPM has been introduction of performance management into the public sector. NPM has meant decentralizing management of the public sector and “remodeling it to reflect the best commercial practice” (Jennings and Lomas 2003, p.369). Therefore, the concept of performance management has systematically been used in the public sector from the late 1970s although it has been applied since the beginnings of the second half of twentieth century in the private sector (Horton, 2008, p.1). However, performance management systems were introduced into British local government in the early 1990s. As the brand leader of a certain model of local governance British local authorities began to use performance management earlier than its counterparts.

## **1.2. Definitions and Features of Performance Management**

There are a variety of different definitions of performance management. According to Walters (as cited in Armstrong, 1994, p.19), performance management is about “directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization.” A study by Costello (1994, p.75) shows that performance management underpins an organization’s overall business objectives by linking the work of each employee or manager to the general mission of the work unit. Fletcher (cited in Armstrong, 1994, p.22) defines it as follows:

*The real concept of performance management is associated with an approach to creating a shared vision of the purpose and aims of the organization, helping each employee understand and recognize their part in contributing to them and in so doing, manage and enhance the performance of both individuals and the organization.*

Armstrong (1994, p.14) states that one of the most important features of performance management is that it is based on the “principle of management by contract rather than command, in spite of the fact that this does not exclude the need to incorporate high performance expectations in such contracts. Essentially, performance management is a shared process between managers and the employees and the teams they manage. Armstrong (1994, p.24) draws attention to the fact that performance management is based on the simple proposition that when people know and understand what is expected of them, and have been able to take part in forming those expectations, they can and will perform to meet them. The concept of performance management is related to a number of concepts as follows:

- ✓ The outputs-the achievement of results- and the stages needed to get these results,
- ✓ the inputs in terms of skills and competences anticipated from the teams and individuals involved,
- ✓ planning ahead to achieve future success,
- ✓ continuous development and improvement providing opportunities for the integration of learning and work so

that everyone can learn from the successes and issues inherent in their day-to-day activities.

- ✓ the measurement of results and reviewing progress towards achieving objectives as a basis for action; (Armstrong and Baron,1998, p.8)

The measurement of results appears to be the basis for performance management because it is argued that we can manage something only as long as it can be measured. However, as Wright points out (cited in Redman and Wilkinson, 2001, p.72), “measurement is often difficult and there are a lot of jobs in which the meaningful is not measurable and the measurable is not meaningful.”

### **1.3. The Functions of Performance Management**

The functions of performance management can be seen as both generic and specific ones. These are not contradictory but complementary. The work of Armstrong (1994, p.24) shows that the overall function of performance management is to establish a culture in which individuals and teams take responsibility for the continuous improvement of the business

process and of their own skills and contributions. According to Simmons and Iles (2001, p.4), the principal role of performance management is to align the performance of individuals with the mission of organization and attempt to ensure their congruence. In addition to these, performance management provides the structures built round the natural planning, monitoring and reviewing processes of management and provides the stimulus for planned and systematic learning activities and events. (Armstrong and Baron, 1998, p.56)

There are also specific functions of performance management (Armstrong, 1994, p.15&25). First, it aims specifically to improve a few aspects of performance such as achievement of objectives, knowledge, skill and overall competence, day-to-day effectiveness and so on. Second, it aims to achieve sustainable developments in organizational performance and to increase the motivation and commitment of individuals and enable individuals to develop their abilities or raise their job satisfaction. The third one is to provide for the precise and objective measurement and evaluation of performance with regard to agreed targets and standards so that employees get feedback from managers on how well they work. The fourth



function is to provide a chance for individuals to make their aspirations and concerns about their work clear. In addition to these, performance management aims to demonstrate to everyone that the organization values them as individuals and it helps to retain high quality people. Furthermore, it aims at the integration of organizational and individual and team objectives, and underpinning the core values of the organization.

Performance management also aims to establish communication which can be done by providing a climate in which a continuing dialogue between managers and the staff takes place to define expectations and share knowledge related to the mission, values and objectives of the organization (Armstrong and Murlis, 1994, p.212). There are lots of things written about the importance of communication (Morgan & Murgatroyd, 1994; Kaplan & Norton, 2006; Brown & Armstrong, 1999). Staff can understand how their performance affects the institution and their payment through well-established communication. A failure in communication can result in misunderstandings, wasted effort, loss of alignment within the organization. The lack of communication

is also an important reason for failings of performance pay schemes. On the other hand, communication of vision, mission and strategy is also the first step in creating intrinsic motivation among employees. Performance management is also related to satisfying the needs and expectations of all the organization's stakeholders-owners, management, employees, customers, suppliers and the general public (Armstrong and Murlis 1994, p.212). To sum up, it is generally said that performance management concerns everyone in the environment of the business.

#### **1.4. Performance Management Processes**

Performance management is a process which is designed to improve organizational, team and individual performance. Performance management processes include measurement and improving performance as well as paying for performance (Brown and Armstrong, 1999, p.242). Performance management targets are about getting better results from the work of organization, teams and individuals in both the short and longer terms. In order to achieve these targets, a full performance management process should be composed of a

number of activities which include preparation of the organizational mission, definition of departmental goals, agreement of performance measures and performance improvement, action plans, continuous management of performance throughout the year, rating or ranking performance and finally rewarding performance. These activities are largely successive however they can overlap and there is scope for feedback during the year (Armstrong & Murlis, 1994, p.224).

The most important thing about the process is that managers and employees should become convinced that performance management is worthwhile. There are four ethical principles which should be built into the performance management process; these are respect for the individual, mutual respect, transparency of decision-making and procedural fairness (Brown & Armstrong, 1999, p.263). Among these values, transparency is significant because the lack of transparency means lack of communication and staff involvement which damages the process.

Performance management processes are generally composed of performance planning, performance execution, performance assessment and performance review. Performance planning is the first step of an effective performance management process as it gives a clear idea of the priorities and targets of the organization. The step also focuses on ‘how do we get to where we want to be’ rather than ‘why are we where we are now’ (Neely *et al*, 2006, p.25). Performance execution is the second phase in which the organization tries to achieve the objectives and targets by reference to the plans (Grote, 2002, p.48). Some of the objectives and priorities can be updated or altered in this stage when new situations arise during the application (Armstrong, 2006, p.71). Performance assessment is the third phase of a performance management system. It focuses on a retrospective analysis of results and the reasons for the level of achievement reached (Armstrong & Baron, 2005, p.36). Therefore, it is essential for the learning, development and success of each part of the organization. However, assessment requires the ability to judge organizational and individual performance, and good judgment is a matter of using both clear standards and objective criteria (Armstrong, 2006, p.102). Performance review is the final stage of the performance

management process. Performance review is framed as a performance planning process, focusing on the likely impact of today's activities on future performance (Neely *et al*, 2006, p.5). Performance review plays a vital role in the performance management process because it can enhance accountability by demonstrating success in achieving policy objectives effectively.

### **1.5. Arguments against Performance Management**

Performance management is now more widespread than at any time in its history and the organizational resources consumed by its practices are enormous. However, at the same time its critics grow both in number and in the ferocity of their attacks (Redman and Wilkinson, 2001, p.74). First, performance management involves the top-down imposition of objectives and the top-down appraisal and rating of performance (Armstrong and Baron, 1998, p.79). Second, performance appraisals appear to be one human resource activity that everyone loves to hate (Redman and Wilkinson, 2001, p.71). Third, practices of performance management in any business can produce undesirable side-effects like demotivation on the

one hand and over bureaucratization on the other (Armstrong and Baron (2005, p.56). Fourth, performance management embodies all the insensitive factors of human resource management and there is no conclusive evidence that it results in increased performance (Jennings and Lomas, 2003, p.370).

Moreover, while Barlow (cited in Redman and Wilkinson, 2001, p.73) asserts that the performance assessment of managers is little more than the “routinized recording of trivialities”, Engelmann and Roesch (cited in Armstrong and Baron, 1998, p.86) claim that performance management systems do not work effectively in many cases because of the prevalence of poorly designed also poorly administered schemes. According to Armstrong and Baron (1998, p.426), there are two principal bases for the criticism of performance management. The first is that the concept is diffuse: it is all things to all individuals, and increasingly provides little more than an umbrella under which to describe a lot of well-tried and generally rather dated ideas. The second one is that any rigorous appraisal has failed to show that performance management has any influence on the performance. Indeed, performance management has been criticized so much because

there seems to be considerable, although not universal, dislike of and dissatisfaction with all performance-appraisal systems to some degree.

In the light of these explanations; an overview of the performance management practices in British local government system may really help to comprehend the concept of performance management and to evaluate the effects of using it. Therefore, the next chapter will narrow down the application of performance management in Portsmouth City Council.

## **CHAPTER 2**

### **PERFORMANCE MANAGEMENT IN PORTSMOUTH CITY COUNCIL**

#### **2.1. Performance Management in Portsmouth City Council**

Portsmouth City Council has been using an organizational performance management system rather than an individual one. Performance management is a shared responsibility. While the Political Cabinet has a strategic role in establishing the Council's performance management policy and for monitoring the performance management processes the key officer body driving performance management in Portsmouth City Council is the Strategic Directors Board (PCC Performance Management Strategy 2008/09, p. 14). The Board aims to champion and drive performance management across the City Council and to encourage continuous improvement. The Board is responsible for:

- monitoring, evaluating and improving the performance management arrangements within the City Council



- tracking corporate performance indicators and identifying where performance is causing concern because it is falling, static or targets are consistently missed
- challenging performance where it is causing concern by asking the appropriate chief officer to describe the performance and to provide plans to secure improvements (Nash & May, 2005, p.17).

There are some overarching principles that inform the Council's approach to performance management as follows:

**Robust** - PCC's approach to performance management ensures systematic monitoring and review of its key priorities by Heads of Service, Directors, elected members, and key partnerships.

**Transparent** - Performance information is made available publicly through a wide-range of sources, with the aim of making data as accessible as possible to all key stakeholders.

**Partnership Working** - Working in partnership with other organizations is seen as strength for PCC.

**Priority-focused** —its approach to performance management enables PCC to focus on the top priorities for the city and the authority. The introduction from 2008 of ‘key delivery targets’ will ensure political ownership of important performance issues.

**Data Quality** -Data Quality is of key importance in the delivery of effective performance management (PCC Performance Management Strategy 2008/09, p. 4).

Portsmouth City Council has a framework for managing its performance which consists of a number of different elements. It has:

- Key things that it wants to deliver, both in terms of outcomes for local people and the way it wants to be as an organisation
- Plans for achieving these things
- Key principles that it adheres to in all of its work

- Ways of monitoring how it is doing, and deciding what more it can do to bring about improvements (PCC, 2009, p.1).

The framework includes:

**The Community Strategy** which sets key outcome targets for the seven priority themes such as improving opportunity and achievement in education, skills and lifelong learning; making Portsmouth an accessible city; developing Portsmouth as a city of innovation and enterprise with a strong economy and employment opportunities for all; delivering affordable, quality housing where people want to live; celebrating the many diverse and different communities within Portsmouth; making Portsmouth a united city in which everyone shares responsibility for success and so on (Vision for Portsmouth 2008-18). Thus, the Council declares its objectives for the next decade and maybe gives a chance to local people to appraise the performance it displays.

The Community Strategy document is supported by a series of more detailed delivery plans, each championed by theme

partnerships. Partnerships were set up to oversee progress for each of the key themes, and to prepare detailed delivery plans to drive progress towards the outcomes. PCC is part of the Local Strategic Partnership (LSP) for Portsmouth. The Community Strategy was developed by the LSP, and endorsed by PCC, and takes account of national requirements (Nash & May, 2005, p.4). The LSP aims to transform how the city solves big problems that affect people living in Portsmouth, such as health, crime and the environment. The LSP brings together key stakeholders from the voluntary and community sector, public sector and business to tackle important local issues through effective partnership working. (PCC Performance Management Strategy 2008/09, p.7).

**The Corporate Plan** is a rolling 3-year plan that is generally updated and published annually, edited to include audited Best Value Performance Indicators. It identifies the corporate priorities Portsmouth City Council has signed up to and each chapter looks in detail at how services are significantly contributing to the achievement of each of the corporate priorities. The Council's targets within each of the corporate priorities are taken from its Local Area Agreement (LAA),

which it has developed with the LSP. The Council and the LSP manage the LAA targets contained within this plan. These targets are stretching as well as specific, measurable, achievable, relevant and time-limited (SMART). The targets and actions in the Cabinet's pledges are monitored on a quarterly basis. Reports are taken to councillors and managers describing progress, with traffic light ratings for each priority based on agreed performance criteria. The monitoring of the Cabinets' pledges is linked into the Council's overall Performance Management (Corporate Plan 2008-11).

By providing a focus on priorities, the plan aims to bring about real change through the corporate efforts of the city council, both working on its own and in partnership. Therefore, it is important to recognize that the Corporate Plan is a working document that exists to make sure the whole authority works towards a common purpose (Nash & May, 2005, p.9). The plan identifies the major pressures and drivers for change and says what key actions the Council will take to respond. The Plan meets the statutory requirement to produce a Best Value Performance Plan, and is therefore a publicly available

document (PCC Performance Management Strategy 2008/09, p.8).

**Service Level Business Plans** show how services will contribute to Corporate Priorities, what they will achieve and how this will be resourced. Service Level Business Plans are the documents that set out how each service in the authority will develop in the medium term in such a way that supports the achievement of the objectives contained within the Corporate Plan (Corporate Plan 2008-11). The business plans give a clear idea of the priorities of the directorate, related to the corporate objectives, supported by unambiguous, measurable targets that are challenging but realistic, taking into account the context, including past trends. The plans show that risks have been considered and are being properly managed, and that the resources and capacity exist to ensure the achievement of the plan (PCC Performance Management Strategy 2008/09, p.8).

PCC follows a single business planning process using the same terms in a consistent way across the authority. All service level business plans include:

- A statement of purpose and vision for the service
- A review of the external and internal issues that will have an impact on the service
- The outcomes that the service will deliver, and how these will be measured including key targets for the coming year
- Outline strategies for delivering the outcomes
- Contributions to: corporate priorities, the Vision, the LAA, Equality & Diversity, Sustainability issues
- The Resources and capacity that the services has to deliver its objectives
- Risk assessment
- How performance against the plan will be monitored (Corporate Plan 2008-11).

The planning process is the basis for the Council's integrated performance management framework, as the details of how it will achieve all of the things it is trying to achieve will be contained within these documents. Each year, guidance is produced for the business planning process and this year's guidance has been approved by the Strategic Directors and

Directorates are currently preparing business plans in accordance with this guidance (Nash & May, 2005, p.10&11).

**Staff appraisals** are an integral part of the organizations' performance plans etc. Staff appraisal is an essential part of the Council's policy because -as mentioned before -performance management aims to achieve sustainable developments in organizational performance and to increase the motivation and commitment of individuals and enable individuals to develop their abilities, and make their job satisfaction higher. However, the Council does not give the staff extra payment or financial rewards when they perform satisfactorily.

**Corporate scorecards** - A key feature of the development of performance management in Portsmouth City Council has been the emergence of a method of monitoring performance indicators known as the corporate scorecard. These scorecards look at progress against key measures of service and corporate performance on a monthly, quarterly and six monthly basis (Nash & May, 2005, p.4). At its simplest, the scorecard is a set of performance indicators that enable the Council to monitor performance against its priorities indicators and to identify



performance trends and variances against agreed targets (PCC, 2009, p.1). The scorecard forms the basis for a great deal of performance monitoring at PCC and elsewhere. Scorecards are a widely-used tool for performance reporting throughout PCC, with a single Corporate Scorecard summarizing a number of directorate or service-level scorecards (PCC Performance Management Strategy 2008/09, p.9). Scorecard data is presented in numerical and graphical form for ease of monitoring, and is reported to the Strategic Directors Board with exception reports.

**Best Value Reviews** look in detail at themes or individual services and propose improvement plans to improve performance. The City Council reports performance every year against a set of Best Value Performance Indicators (BVPIs), introduced by the Government in 1999 as part of the Local Government Act (Nash & May, 2005, p.11). The indicators are published, as required by legislation, in the Corporate Plan and allow people to compare the performance of PCC over time, and with that of other authorities (PCC Performance Management Strategy 2008/09, p.9).

Best Value Reviews are carried out according to 4 Cs as follows:

- **Challenge** – why and how a service is provided
- **Compare** – how PCC performs with other councils and service providers to see where PCC can improve, and how services can be provided in better ways
- **Consult** – local taxpayers, service users, partners and the wider business community about what they want from the Council’s services
- **Compete** – wherever practical, fairly and openly to provide the best services (Nash & May, 2005, p.11).

### **The Comprehensive Performance Assessment Process**

which includes an overall score for the authority as well as a detailed corporate assessment. CPA has been the government’s overall framework for assessing the performance of local authorities since 2002. CPA looks at how well the council delivers some core services such as social care, housing, environmental protection and so on, uses its resources and manages itself, to arrive at an overall assessment (PCC Performance Management Strategy 2008/09, p.9). The overall assessment comes in two parts- one assessing current

performance, which comes in the form of a star rating, from zero to four stars- the other describing the authority's direction of travel, with judgement labels applied to describe the rate of improvement in services and in outcomes for local residents (Corporate Plan 2008-11). PCC is currently rated as a **3 Star** authority under the CPA regime. CPA has been replaced with Comprehensive Area Assessment (CAA) in 2009. CAA aims to take a more outcome-focussed view of each local area, with less emphasis on individual service performance. In this respect, PCC will be able to focus more of its attention on improving performance.

## **2.2. Evaluation of Using Performance Management**

The management style in the public sector has been changing in both developed and developing countries since the 1980s because public services are under increasing pressure to improve efficiency and effectiveness. It is difficult to find a general model of management for public sector organizations because they are mostly providing services rather than manufactured products (Morgan and Murgatroyd, 1994, p.9). The new approach to public management, however, is

connected to an increasing interest in performance management in public sector institutions because performance management is a coherent and systematic approach to determination, evaluation and improvement of both individual and institutional performance (Neely et al, 2006, p.7). As a modern approach, performance management is assertive in reducing service costs, increasing productivity and enhancing participation in the public sector organizations (Neely et al, 2006, p.7).

However, there are a number of difficulties in implementing performance management in the public sector because, as Morgan and Murgatroyd (1994, p.43-46) point out the public sector has a number of distinctive features compared to private sector. First, the public sector is more resistant to change. However, performance management aims to establish a new culture in the organization as mentioned before. Second, the resourcing of public sector provisions is not connected to performance or demand. In other words, public service organizations are not paid according to what the taxpayer and customer mean by results and performance. The concept of customer is more ambiguous in the public sector. There are lots

of different views about the concept of customer in the public sector around the world but these are beyond the field of this study. Third, its nature is not open to the reception of innovations. Fourth, the work cultures of the professionals in the public sector are inimical to the new techniques transferred from the private sector. Moreover, while performance is mostly accepted to be a simple concept in the private sector as most stakeholders agree that strong financial results are important for achieving business success, it is seen as a multidimensional concept in the public sector, and different stakeholders can have widely different interpretations of both success and failure (Boyne et al, 2006, p.15). In addition to these, public sector organizations, in particular local authorities serve the whole community, or at least a wide range of people with different wishes and expectations (Cave et al, 1990, p.10).

Using performance management in local authorities has several positive effects. First, performance management systems provide clarity about who is responsible and accountable for ensuring whether objectives are achieved or not and what the expected outcomes are. Second, performance management focuses on the priorities of the local authorities and harnesses

their energy to achieve them. Third, it provides a balanced approach to monitoring and evaluating performance, learning and feed back activities to bridge performance gaps in local government. Moreover, performance management makes clear what the individual, team and organizational targets are and provides organizations with more accurate and realistic data about whether the goals can be achieved or not and ,more importantly, it enables both the staff and the Councils to use limited resources more effectively and efficiently (Rashid, 1999, p.17-25).

However, performance management does not work effectively although its main driver is the improvement of individual performance. There are a number of reasons for its failure in increasing individuals' performance. First, it is an unnatural act for managers, with the result that, unless they are trained properly, it will be done poorly (Redman and Wilkinson, 2001, p.72). Second, its practices require subtle psychological and social skills which many managers do not have (Armstrong and Baron, 1998, p.85). In other words, most managers are not capable of conducting performance management in spite of the widely held belief to the contrary (Redman and Wilkinson,

2001, p. 72). Third, performance management gives the priority to the results, but results alone cannot reflect performance as a whole because many other factors have influences on individual performance (Armstrong and Baron, 1998, p.85).

One of the most important factors affecting individual performance is motivation. However, the contribution of performance management to individual motivation remains very limited because of some reasons. First, as can be seen from the practices in PCC, performance management focuses on only the results of organizational targets but ignores employees' needs as the basic stimulator to motivate people. Second, it ignores system factors (Armstrong and Baron, 1998, p.85). To make this point clear, performance management works within an organization as a system and there are individuals (employees) at the centre of this system. However, performance management takes into account an organization's overall business objectives rather than individuals expectations that serve to stimulate the individuals. Third, performance management cannot motivate some individuals who still have some difficulties in meeting their some needs such as

physiologic, security and social ones. Furthermore, it is generally used as a tool of forceful or repressive control that can lead to job dissatisfaction.

The next chapter will focus on what motivates individuals to perform well. It will also explore motivation theories and the relationship between the concept of motivation and performance.



## CHAPTER 3

### THE CONCEPT and THEORIES of MOTIVATION

#### 3.1. Motivation

Motivation is a Latin originated word and means ‘to move’ in Latin (Palfreyman and Smith, 2003, p.80). Motivation is the condition of being moved to action or the intrinsic desire to act (Palfreyman and Smith, 2003, p.80). Motivation is shaped by individual expectations, ideas, feelings, desires, hopes, attitudes and values (Mason, 2004, p.122). Although motivation is basically an intrinsic drive, it can be affected by environmental (external) factors such as rewards and punishments (O’Neil and Drillings, 1994, p. 56). As defined by Daft (1997, p.526), it refers to “the forces either within or external to a person that arouse enthusiasm and persistence to pursue a certain course of action.” However, the following definitions of motivation reflect the general consensus that motivation is an intrinsic state or condition (sometimes described as a need, desire, or want) that serves to activate or energize behavior and give it direction (Kleinginna and Kleinginna, 1981, p.263-291).

- internal state or condition that activates behavior and gives it direction;
- desire or want that energizes and directs goal-oriented behavior;
- influence of needs and desires on the intensity and direction of behavior.

### 3.2. The Motivation Process

Motivation process starts with emerging an individual need. If there is a need of an individual, she or he wants to satisfy his or her needs; hence, the individual is stimulated with a pushing factor. The individual has intrinsic and external motivational factors and the aim is to satisfy the needs. The process ends with reduction of tension after the need is satisfied. In fact, the motivation process is ongoing because meeting our needs is a never-ending process.

**Figure 3.1: The Motivation Process**



**Source:** Decenzo and Robbins, 1996, p.305

### **3.3. Motivation Theories**

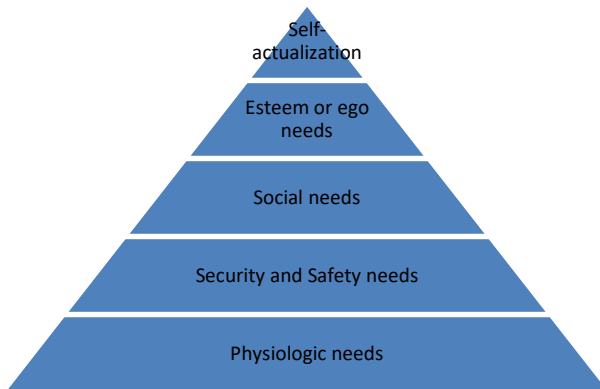
There are many theories of motivation that change in terms of their origins. Motivation theories have different approaches to motivation. For example, while psychological theories take a much broader view of human motivation looking beyond narrow monetary dimensions and focus on understanding the cognitive processes associated with motivation (White and Druker, 2009, p.130), economic theories take a particular approach to the question of work motivation and see motivation in terms of the satisfaction which can be anticipated as deriving from it (Lea et al, 1987, p.144). However, their common feature is that they present very basic motivation strategies in business.

#### **3.3.1. Maslow's Hierarchy of Needs**

Abraham H. Maslow attempted to synthesize a large body of research related to human motivation in his conceptualization of a hierarchical arrangement of needs as motivating factors in 1954 (Mason, 2004, p. 151). Maslow's theory is based on inner forces (needs) which drive an individual into action and some needs take precedence over others (Demirci, 2007, p.7). Needs

are classified into a pyramid arrangement according to their priority and importance to the individual (Mason, 2004, p. 151). Figure 3.2 shows Maslow's pyramid.

**Figure 3.2: Maslow's Hierarchy of Needs**



According to Maslow the hierarchical arrangement in ascending order is as follows:

**Physiologic needs:** These are basic survival needs such as oxygen, food, water and rest. These needs must be satisfied before any others can become relevant.

**Security and Safety needs:** This level represents human requirements to be safe from harm, and for protection against

physical injury. They include shelter, economic self-sufficiency (job), protection, and freedom from fear and anxiety.

**Social needs:** These include love and social belonging, affectionate relationships and a place in one's culture, group or family.

**Esteem or Ego needs:** This level refers to feelings of self-worth (competence, achievement, mastery or independence) as well as the need to gain the respect (status, esteem) of others.

**Self-Actualization or Self-Realization:** This level represents the state of fully achieving one's potential, and being able to control one's needs rather than being controlled by them. It is a driving need to reach the top of one's chosen areas of interests. Daniels (2005, p.120) sees self-actualization as a dynamic process which represents optimal psychological health and functioning including self-acceptance, lack of defensiveness, autonomy, spontaneity and profound interpersonal relations while Demirci (2007, p.8) suggests self-actualized people are generally characterized by: i) being problem-focused; ii) incorporating an ongoing freshness of appreciation of life; iii) a concern about personal growth; and iv) the ability to have peak

experiences. According to Maslow (cited in Behn, 2004, p.90), satisfaction of the self-esteem need leads to feelings of self-confidence, worth, strength, capability and adequacy of being useful and necessary in the world. Therefore, if managers want to achieve organizational goals and objectives, they must take into account the esteem needs of employees and enable them to gain a reputation for achievement.

### **3.3.2. Theory X and Theory Y**

Theory X and theory Y, developed by McGregor (Tomey, 2004, p. 182-183) refer to management styles which depend on different philosophies of human nature. While theory X represents an authoritarian management style, theory Y represents an enlightened and humanistic management style. Theory X and theory Y are based on different assumptions. While theory X assumes that people inherently dislike work, therefore; they must be coerced, controlled or threatened to achieve organizational objectives, theory Y assumes that the expenditure of physical and mental effort is as natural and people will be self-direction and in self-control towards objectives to which they are committed. “Commitment to

objectives is a function of the rewards associated with their achievement. The most significant of such rewards, e.g., the satisfaction of ego and self-actualization needs, can be direct products of effort directed toward organizational objectives” (Gershenfeld, 2006, p.65). Furthermore, whilst theory X says that the average human being prefers to be directed, wishes to avoid responsibility and wants security; theory Y assumes that human beings are internally motivated to reach targets; they will seek and accept responsibility (Parhizgar, 2002, p.121). Another assumption of Y theory is that external control and threat of punishment are not the only means for bringing about effort toward organizational objectives (Coronas and Oliva, 2008, p. 753).

### **3.3.3.ERG Theory**

Clayton Alderfer expanded Maslow’s hierarchical theory and his ERG theory can be seen as an alternative to Maslow. He assumed three main need categories: existence (e.g., the needs for food, water, clothing, shelter and a secure environment), relatedness (e.g., the needs for satisfactory personal relationships with family, friends and fellow workers) and

growth (e.g., the needs for self-development and productive work). While Maslow claimed that people typically move up the need hierarchy, for Alderfer, reality was more complex. For example, according to his ERG theory, after one of a person's existence needs is satisfied, he or she may have a desire for growth needs. Alternatively, if one of a person's higher-order needs is not satisfied, he/she will continue to focus on lower-order needs and regresses on the need hierarchy (Tosi and Mero, 2003, p.75). In conclusion, compared with Maslow hierarchy of needs, the ERG theory is more consistent with educational and cultural differences among individuals because it does not have a strict assumption that the needs are satisfied in a hierarchical manner and a ranking of needs is not required (Gunkel and Wolff, 2006, p.10).

#### **3.3.4. Herzberg's Two Factor Theory**

Frederick Herzberg developed his Two-Factor Theory, also called the Motivation-Hygiene Theory, from a study designed to test the concept that individuals have two sets of needs which are avoidance of unpleasantness and personal growth (Borkowski, 2005, p.120-121). According to Herzberg there



are two distinct factors that have an influence on job satisfaction: motivators also called satisfiers, (e.g., recognition, achievement, growth, advancement and responsibility etc.) and hygiene (e.g., supervision, working conditions, status and job security and salary). While recognition, responsibility and opportunities for personal growth are important motivators and lead to high performance by individuals, hygiene factors are also necessary to avoid dissatisfaction but by themselves they do not satisfy or motivate. Therefore, managers should provide hygiene factors sufficient to meet basic needs and then use motivators to meet higher-level needs and propel employees towards greater achievement and satisfaction (Daft and Lane, 2008, p. 629).

There are two important criticisms leveled against Herzberg's Two Factor Theory (Borkowski, 2005, p.122). One is that while a factor can motivate one individual, it can cause job dissatisfaction for another. For example, increased responsibility may be welcomed by one person but resented by another. The second critique is that Herzberg describes salary or pay as a hygiene factor and therefore did not value money as a motivator. However, what he meant was that the absence of

some hygiene factors, including money, would potentially block any attempt to satisfy and motivate the individual. Others point out that Herzberg's theory is based on the study of engineers and accountants who are a distinct occupational group of professionals not typical of the workforce in general.

### **3.3.5. Equity Theory**

As a process theory, equity theory aims to examine how individuals select behavioral actions to meet their basic needs and determine whether their choices were successful or not (Daft and Lane, 2008, p. 630). It focuses on people's perception of how fairly they are treated and paid in comparison to others. It was developed by J. Stacy Adams, who found that equity exists when people consider their compensation equal to the compensation of others doing the same work (Gannon and Newman, 2002, p.201). Equity theory contends that people judge equity by comparing inputs (i.e., task performance, education, experience, effort, and ability) to outcomes such as pay, recognition, benefits, and promotion (Swanepoel et al, 2004, p. 333).

Feelings of inequity can motivate individuals to work more or less depending on the kind of the inequity. “The greater the perceived inequity and resulting tension, the greater the motivation to reduce tension” (Shortell and Kaluzny, 1997, p.82). Therefore, when an employee thinks that he/she is paid less than others in the same job role, the employee is likely to seek some remedy such as filing a grievance, work slowdown or seeking a new job, to return to a state of perceived equity (Mckenna, 2000, p.111). According to Daft and Lane (2008, p. 630) individuals are motivated to seek social equity in the rewards they expect for performance.

### **3.3.6.Expectancy Theory**

Another process theory, expectancy theory, developed by Victor Vroom, seeks to explain why people behave as they do. The theory defines performance as the product of a person’s ability and motivational force, which is shaped by three factors: expectancy, instrumentality and valence (White and Druker, 2009, p.130). Expectancy is the individual’s perception of the probability that a certain effort will lead to intended performance; instrumentality is the degree to which the

individual believes that working at high level of performance will lead to a reward and valence is the strength of the individual's desire or need for a potential reward. When these three conditions are met the individual will perform at high levels but if one or more of the conditions is absent the individual's motivational force is likely to be reduced.

In line with earlier behaviorist theories, expectancy theory contends that individuals are motivated to maximize pleasure and minimize pain but they are capable of choice based on their perceptions and beliefs (Knight and Willmott, 2007, p.51). However, the theory has two important weaknesses in its hidden assumptions: First, it assumes that the person is a rational actor who behaves intentionally. Second, the attractiveness of the end result induces the individual to behave as he/she does (Condrey and Perry, 2005, p.482).

### **3.3.7. Goal Setting Theory**

As an important process theory, goal setting theory, developed by Locke and Latham in 1984, assumes that setting goals together with the individual is an effective way of increasing performance and producing feelings of competencies among

individuals (Karwowski, 2006, p.836). In other words, it predicts that individual commitment to specific and attainable goals leads to higher levels of performance and task effectiveness (Craighead et al, 2002, p.1115). Goals, in particular difficult ones, raise individual performance by “directing attention and action, mobilizing effort, increasing persistence and motivating the search for effective performance strategies” (Golembiewski, 2001, p.38).

According to this theory, goal setting plays a critical role as a mediator between incentives and performance and encourages individuals to compete with themselves as long as the goals force them to reach higher levels of achievement (Condrey and Perry, 2005, p.291). However, it posits that individuals are inclined to focus their attention solely on incentives and overlooks other factors playing an important role in contributing to performance (White and Druker, 2009, p.131).

### **3.3.8. Reinforcement Theory**

Reinforcement theory, developed by Skinner, assumes that learning is a function of behavioral changes resulting from the

necessity of individual's response to events (Jonassen, 2004, p.552). Reinforcement- in Skinner's view- has a vital role in operant conditioning and guiding the overall process of learning (Larson, 2004, p. 84). Operant conditioning is the presentation of a response-contingent stimulus, which produces a number of characteristic response changes including an increase in response frequency (Leslie and O'Reilly, 2000, p.101).

There are both positive and negative reinforcements. While positive reinforcement makes behavior stronger through a contingent relationship with a satisfying consequence, negative reinforcement strengthens behavior through a contingent relationship involving the removal or avoidance of dissatisfying events (Brown, 2004, p.524-525). According to Skinner (cited in Rungapadiachy, 1999, p. 140-141) there are two types of reinforcers which are primary and secondary. Primary reinforcers such as food and water do not require prior association with other reinforcers. On the other hand, secondary ones such as money and success in a job need prior association with other reinforcers to function as a reinforcer.

### **3.4. Motivation - Performance Relation**

Prior to explaining the relationship between motivation and performance, the concept of performance needs to be defined and described. Performance is a multifaceted concept including outputs, efficiency, effectiveness, and responsiveness (Boyne et al, 2006, p.14-15). Outputs are linked with the quantity and quality of services; efficiency means the cost per unit of outputs; effectiveness includes the achievement of goals and objectives; responsiveness refers to the measures of satisfaction, as judged by direct service users and staff. The concept of performance is also concerned with economy, inputs and outcomes. “Performance is not a unitary concept, with an unambiguous meaning. Rather, it must be viewed as a set of information about achievements of varying significance to different stakeholders” (Bouckaert and Halligan, 2008, p.14).

Individual performances depend on the degree to which a person is motivated. It is clear that individuals who are motivated to achieve organizational targets perform better than others who are not motivated. Therefore, managers have an

important responsibility to motivate their staff by appealing to individuals' desire to work for a more effective and successful organization that makes a more positive contribution to the world (Kaplan and Norton, 2006, p.264). In other words, good management will make work more satisfying and rewarding for individuals to keep individual motivation high to keep their work performances high. This is a complex task for both organizations and managers because there are lots of factors (such as economic, psycho-sociological and organizational incentives etc.) which have an influence on both motivation and performance.

There is also a close relation between performance and job satisfaction. Job satisfaction is a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences. (Nelson and Quick, 2007, p.96) Characteristic of individuals, specific dimensions of the job such as challenging work, rewards, promotion opportunities, supervision and coworkers can all affect job satisfaction. High job satisfaction leads to high motivation, and high motivation is required for achieving high performance (Honeycutt et al, 2003, p.173). However, there is an important point that motivation is



required for performance, but alone cannot guarantee it because performance is a function of several factors such as effort, skill and environment (Green, 1992, p.5).

In the light of these explanations about the concept of motivation, the next chapter will examine the effects of PRP schemes on individual motivation in public sector organizations and then evaluate the effects of using performance measurement systems in local authorities.

## CHAPTER 4

### PERFORMANCE-RELATED PAY and PERFORMANCE MEASUREMENT

#### 4.1. Performance- Related Pay (PRP)

The concept of modern management foresees motivating individuals by means of some incentives depending on their rate of success (Aydin and Demir, 2008, p.7). According to Currie (as cited in Jennings and Lomas, 2003, pp.370), reviewing employees' performance is one of the managerial activities through which the performance of the whole organization is managed. In this context, many appraisal or performance management systems have been implemented in public sector organizations around the world. One of them is PRP. PRP is different from other forms of incentive schemes in terms of not only the speed of its application but also the fact that it represents a great move away from traditional patterns of thinking about remuneration (Rogers, 1990, p. 93). Unlike earlier forms of incentive schemes, PRP is related to the evolution of Management by Objectives and begins with the need to achieve goals and objectives by means of performance

management systems. PRP is concerned with changing the organizational culture and with individual responsibility (Cannell and Wood, 1992, p. 66-67). Performance-based payment systems, according to Aydın and Demir (2008, p.7), are :

*The instruments which are used to reward and appreciate employees in parallel with their success in achieving their individual performance goals or the aims of their organizations. Such payments depend on the performance of employees achieved in a specific period and they might have variations based on the performance of the organization, team or individual.*

PRP aims to promote a change of management culture through getting employees to focus more on targets and to motivate employees by making annual salary increases dependent on performance rather than length of service (Marsden and French, 1998, p.1). Hence almost all PRP schemes used in both private and public sectors include three steps: defining the performance to be achieved, assessing the performance

achieved and making pay decisions in accordance with the assessments (Rogers, 1990, p.98).

Performance pay approaches in the private sector since the economic crisis of the mid-1970s, in a context often referred to as the “*new managerialism*” (OECD, 2003, p.4). However, it is not a new idea for the public sector. According to an OECD survey (2003, p.5) on strategic human resources management pay for performance has been used in the public sector since the mid-1940s. To give some examples from this survey results (p.5), in France, the possibility of rewarding public officials for remarkable performance was codified in 1946; in Japan, there has been a provision for a “diligence allowance” for national civil servants since the early 1950s; Canada has been using monetary rewards since 1964. However, while these early incentives were given on an ad hoc basis, current PRP has become a permanent characteristic of public sector pay schemes (OECD, 2003, p.5). While PRP was introduced into the public sector at senior level in the US in 1978, it was introduced into the public sector in other European countries such as, Denmark, Sweden, Spain, the Netherlands and UK in the early 1980s ( OECD, 2003, p.5).

A summary of PRP practices in British local government system may also clarify the concept of PRP and help to criticize the effects of using it.

#### **4.1.1. PRP in British Local Government**

One of the most considerable developments in the field of performance management has been the introduction of PRP into local authorities at senior level in the UK since the 1980s (Rogers, 1990, p.93). According to an Local Government Employers report (2008), while bonus incentive schemes for many blue collar employees have been used in British local authorities since the mid-1960s, it was introduced for white collar employees in several councils (mainly South East) in the late 1980s as a result of local market-driven initiatives. Pay for performance was initially based on work measurement and predominantly applied to males in full time occupations but they were latterly contract-driven (LGE, 2008).

PRP was adopted by British local authorities because of the necessity to compete with the private sector under compulsory competitive tendering (Cannell and Wood, 1992, p.54). But

local authorities also wanted to improve their performance and regarded PRP as a way of providing incentives for senior managers to achieve this. Another reason was to provide a reward package designed to improve recruitment and retention of senior staff. The latter one was essential in the context of an increasing gap in pay differences between high-skill employees in the private and public sector, which was a serious threat for the recruitment of high quality managers in the public sector (OECD, 2003, p.4). Furthermore, containing salary costs and reducing the pay bills of the local authority organizations and improving accountability of senior civil servants can be regarded as the other reasons for using PRP schemes (OECD, 2003, p.3).

There are three steps in creating a PRP scheme in British local government: setting objectives, appraising results and linking achievements to pay (LGE, 2008). Workers are given a number of targets to achieve within a certain period and their performance is assessed according to performance indicators determined by the local authority itself. Employees are periodically assessed according to their performance and graded on a scale, to which financial bonuses are linked

(Halliday, 2004). In individual PRP systems for workers at senior levels the pay packet is made up of a number of components, generally including a fixed salary element, where progress through a range may be according to performance, and/or a variable bonus paid out for achieving set objectives (LGE, 2008). Variable bonus payments are usually unconsolidated and may be paid monthly, half yearly or yearly.

#### **4.1.2. Evaluation of Using PRP**

During my research, I realized that most of the local authorities in the UK had abandoned using PRP. Individual performance-related pay seems to be at the point of being practically bankrupt and to give place to new payment systems in the public sector because -first- it is unfair and far from objective judgments (White and Druker, 2009, p.12). Second, it gives priority to individuals rather than teams. Therefore, it destroys teamwork. Third, PRP makes the manager's job more complicated and complex. Fourth, it can be both bureaucratic and costly and bring about pay rising faster than performance (Rashid, 1999, p.33). Fifth, PRP may have complicated and inconsistent objectives unless a balance is found between

recognition and reward for the performance of the employee, the team and the organization as a whole (White and Druker, 2009, p.12). Sixth, when PRP is not managed well, it will turn into a set of routine and bureaucratic procedures and any motivational impact on public officials which may have been created will be lost (Rogers, 1990, p.101). Moreover, such a managerialist intervention would undermine the public service values and public accountability of employees in local government (Redman and Wilkinson, 2001, p.74). As for the other one, “PRP is divisive, undermines morale, causes jealousies and inhibits workplace cooperation” in local authorities (Marsden and French, 1998, p.7). In addition, designing PRP schemes depends on various co-related factors which can interact to produce either more or less negative outcomes (White and Druker, 2009, p.132). More importantly, PRP pays too much attention to money as a motivator, and ignores other motivational factors although money is not the only or even a major motivator (Cannell and Wood, 1992, p.27).

Motivation can be affected by environmental factors such as rewards and punishments but it is basically an internal state or



condition that activates behaviors and gives them direction. PRP gives little attention to intrinsic factors such as individual expectations, ideas, feelings, desires and hopes so on. Therefore, it can be claimed that its influence on individuals' motivation is likely to remain limited. More important, it ignores individual needs such as social ones and self-esteem etc. To remember the Maslow's approach to the relationship between the concept of motivation and performance, individuals whose self-esteem needs are satisfied have high work motivation and performance as satisfaction of the self-esteem need leads to feelings of self-confidence, worth, strength, capability and adequacy of being useful and necessary in the world. On the other hand, there is no clear evidence whether PRP schemes increase employees' motivation and morale through rewarding high performance, or whether they serve to demotivate employees who are not rewarded. However, it is clear that financial incentives do not motivate individuals who have non-financial expectations to be satisfied (Bilgin, 2004, p.87). Similarly, they do not motivate individuals who believe they will never get the additional payment.

To question whether PRP really motivates employees in the public sector, the relation between PRP and motivation can be explained through taking into account crowding-out effects of intrinsic motivation and overjustification effects. Under certain conditions, a pay for performance scheme has an undermining effect on the intrinsic motivation of public officials and this effect results from the close connection between output based controls and financial incentives (Osterloh et al, 2007, p.11). Extrinsic incentives can crowd out the intrinsic motivation to work one's own sake and this is called the 'crowding out effect' (Neely, 2002, p.108). It can be discussed that, in general, crowding out effect can be greater in the public sector compared to the private sector for two reasons (Osterloh et al, 2007, p. 11&9): First, public officials are different from employees in the private sector. Public officials are inclined to put more weight on the belief in the importance of work, are higher on the achievement motive scale, are less attracted by monetary incentives and have a greater interest in altruistic activities and socially desirable outcomes. In addition, they also rate intrinsic incentives higher than extrinsic ones while private sector employees rate extrinsic incentives higher. Second, since public sector organizations have to provide

complex and to certain degree abstract services such as ‘good health’, ‘good education’ or ‘knowledge’ there are difficulties in identifying clear objectives and performance measures in public institutions. In order to have a good pay for performance scheme, it would be necessary to specify every aspect of a task, e.g. via output indicators.

The theoretical underpinnings of the crowding –out effect of intrinsic motivation have been developed in self-determination theory (Osterloh et al, 2007, p.6). According to this theory, external controls such as monetary incentives decrease intrinsic motivation also cause pressure and tension (Deci and Ryan, 1985, p.50). As a result individuals shift their locus of causality from the inside to outside and they only do their duty as long as external incentives are provided (Osterloh et al, 2007, p.6). Self-determination theory also states that an extrinsic incentive has positive effects on intrinsic motivation only when it is perceived as supportive (Deci and Ryan, 1985, p.297). PRP schemes are not perceived as supportive in many cases. A similar theoretical underpinning of the crowding- out effect is called the ‘overjustification effect’ (Osterloh et al, 2007, p.11). This can undermine the intrinsic motivation

because when intrinsically motivated employees are rewarded by external incentives - in particular by monetary ones – they may shift their interest from delivering a socially desirable public service to monetary rewards and the mind's attention becomes focused on these incentives (Albarracin et al, 2005, p.254).

Moreover, according to the study carried out in the British public sector -conducted by Marsden and French in 1998- most staff in the public sector, including local authorities, believe that PRP demotivates rather than motivates them. To assess the impact of PRP on the British local officials' motivation, it is difficult for two main reasons: First, as Brown and Hudson (cited in Brown and Armstrong, 1999, p.36) state, in many cases performance pay schemes were not intended to link pay and individual motivation, but were adopted as a tactic to achieve more flexibility in base pay levels, and to respond to external market pressures and skill shortages. Second, while “PRP schemes used in some cases are rigid, formulaic and points based” (Brown and Armstrong, 1999, p.41), some of them are likely to have been carefully designed and to exist

within local authorities which have a more consistent culture of performance-oriented management (Rogers, 1990, p.95).

In order to avoid its negative effects and get better results from its applications in local authorities, first, the differences between the characteristic of tasks and motivation in the private and public sectors should be considered. Second, as Cannell and Wood (1992, p.113) point out PRP should work harmoniously with appraisal, performance management and other systems which relate to and influence the performance of employees because inconsistencies and contradictions between the parts can be harmful for the effectiveness of a total package of management and motivational practices and policies. Furthermore, strong collaboration between local authorities and unions is necessary (OECD, 2003, p.3). Finally, the staff should be informed well about the objectives and functioning of the PRP scheme (OECD, 2003, p.3).

#### **4.2. Performance Measurement**

Performance measurement is a component of performance management as performance management requires

performance measurement. Measurement is “an integral component of any drive to improve productivity” (Ghobadian and Ashworth, 1994, p.35) and part of a control process leading to actions in the light of the findings (Holloway et al, 1995, p. 241). Performance measures are derived from different sources including inspections, user and citizen satisfaction surveys and archival data (Boyne et al, 2006, p.6). Halachmi and Bouckaert (1996, p.12) define performance measurement as the regular collection and reporting a range of data including inputs (staff, material etc.), workload or activity levels, output or final products, outcomes of products or services, and efficiency- cost per unit output or output per unit cost, sometimes referred to as productivity. For performance measurement, it is essential that services provided by an organization are assessed quantitatively and produced goods be measured relatively according to basic performance indicators (Koseoglu, 2005, p.34).

Rogers (1990, p.52) has identified three important functions for performance measurement. First, it plays a critical role as a trigger for more investigation and possible remedial action to improve the quality of inputs and outputs. Second, it assists in

determining the most cost- effective set of service levels to achieve a pre-determined goal. Third, it evaluates the final outcomes of the organization's activities. More importantly, the main function of performance measurement, in particular- in public organizations, is “to support better decision-making, leading to improved outcomes for people” (Halachmi and Bouckaert, 1996, p.2).

With the growing demand for the public sector to be more responsive, accountable, and efficient in using organizational resources, performance measurement has become a focus of attention (Halachmi and Bouckaert, 1996, p.1). From the early 1970s, the drive for reform in the public sector worldwide has focused attention on performance measurement in public sector institutions especially in local government because local authorities have traditionally been concerned with the delivery of primary services at the expense of secondary objectives (Kloot and Martin, 2000, p.231). However, performance measurement in local government is a difficult task because local authorities offer a wide range of services with both tangible and intangible outputs and local people rarely pay an

economical price for these services (Ghobadian and Ashworth, 1994, p.35).

An overview and exploration of the performance measurement applications in Turkish local authorities can make the concept of performance measurement clear and help to assess the effects of using it.

#### **4.2.1. Performance Measurement in Turkish Local Government (BEPER Project)**

Performance measurement has been the subject of considerable discussion in the Turkish public sector since the late 1990s, but significant developments in its practical application have been made only in the last five years. The current central government, in pursuit of its objective of making the public sector- in particular, local government- more dynamically performance-orientated, has played a vital role in these developments (Genc, 2007, p.91).

The General Directorate for Local Authorities in the Ministry of Internal Affairs has developed a performance measurement system (BEPER), to monitor the performance of municipalities



and to be able to make comparisons among them (Dinc, 2006, p.85). With a grant of \$ 350.000 obtained from the World Bank, under a financial agreement, BEPER Project commenced in August 2002 (Bilge, 2006, p.152). An international consultant , a local consultant and a software consultant firm have taken part in the project (Bilge, 2006, p. 153). Seven (7) pilot municipalities were chosen by the Ministry of Interior and the project was extended to a total of 129 municipalities which had a population of more than 100.000 (Dinc, 2006, p.86).

#### **4.2.1.1. Objectives of BEPER Project**

The BEPER Project is formulated in accordance with the main provisions and principles of new legislation relating to public administration and the re-organization of local authorities. Performance measurement is one of the key principles of this new legislation which includes the Public Management and Control Law numbered 5018, Principles of Public Management Law numbered 5227 and the Municipality Law numbered 5393. The other core principles cited in these laws can be summarized as follows (Koseoglu, 2005, p.82):

- Effective service mechanisms
- A planned and systematic approach to solving local problems
- Community involvement and leadership
- Working with partners

The project aims to:

- determine performance indicators for the goods and services provided by the municipalities, and to develop a model which allows for comparison among the municipalities,
- increase the quality of the goods and services provided by the municipalities,
- provide an opportunity for decision makers and citizens to make evaluations based on objective performance indicators,
- Strengthen public participation, transparency and self-control mechanisms (Bilge, 2006, p.153).

#### **4.2.1.2. Performance Indicators of BEPER**

Performance indicators have been formulated and the evaluation has been made based on the answers given to more than 300 questions related to the municipality services. Performance measurement is based on three sets of basic indicators which are service, infrastructure and financial indicators. There are actually 32 different service indicators used such as water quality, daily water consumption per person, quality and quantity of public transport, the number of municipality staff/ 1000 local people, the number of computers/ the number of staff and the percentage of collecting tax revenue and so on. There are 15 infrastructure indicators including as population/hectare, public car parking area/ 1000 people, green space area (m<sup>2</sup>) per person etc. Finally, there are also 23 financial indicators including financial assets per person, annual budget per head of population, real estate revenue/total revenue and expenditures for environmental protection/total revenue, and the number of houses and so on (Dinc, 2006, p.86-96).

In addition to these indicators, there are 5 "Key Performance Indicators" which are;

- ✓ Result of service activities,
- ✓ Service cost,
- ✓ Service quality,
- ✓ Administrative efficiency,
- ✓ Overall environmental care (Bilge, 2006, p.154).

Within the context of the Project, comparisons and rankings of 129 municipalities can be made. To introduce the Project and for capacity building purposes, seven regional meetings were held in Istanbul, Ankara, Izmir, Adana, Diyarbakir, Samsun and Erzurum in 2003 & 2004 (Dinc, 2006, p.87). A total of 518 people, out of which 465 were municipal staff, have been participated in the regional meetings held in the year 2004 (BEPER, 2009). Together with the number of participants that have attended the regional meetings held in 2003, the total number of personnel trained and informed about BEPER is over 1000 (BEPER, 2009). However, it is hard to say that the project has achieved its objectives because most of the mayors have been reluctant to share their poor statistics of their

municipalities with the public and they have obstructed the application of BEPER since the beginning.

#### **4.2.2. Evaluation of Performance Measurement**

Performance measurement can be productive and improve organizational performance in local authorities. It plays an important role in creating a more performance-conscious climate in local authorities. However, it may have a few unintended effects on local authorities to which it is applied (Cave et al, 1990, p.132). First, it can affect the exercise of individual initiative and discretion in the use of organizational resources. Second, it may have an impact on local authorities' responsiveness to demands made by citizens. Third, output measurement may result in a neglect of other crucial activities or qualities. Furthermore, it can have negative impact on individual motivation as long as it focuses on only organizational targets and ignores individual needs that motivate people to perform well. Hence its contribution to individuals' performance remains limited. More importantly, it may demotivate individuals when it is seen as a tool of forceful and repressive control because - as mentioned in Herzberg's

Two- Factor Theory- as a hygiene factor, supervision can lead to job dissatisfaction.

If performance measurement is applied poorly in local government, it will be not only very costly but also ineffective and destructive (Neely et al, 2006, p.8). Rogers (1990, p.19) identified local authorities' shortcomings making performance measurement applications quite difficult. The Turkish municipalities chosen for BEPER had many of these shortcomings:

- Lack of direction and sense of purpose
- Lack of accountability-internally and externally
- Lack of willingness to accept responsibility
- Lack of action- too much deliberation, discussion and delay
- Confusion of roles and responsibilities
- Failure to respond to customers and citizens
- Lack of a market mechanism to allocate resources
- Lack of motivation to achieve
- Excessively detailed controls and rules and lack of appropriate incentives

- Lack of information on which to base judgments and make decisions
- Failure to quantify results explicitly

There were also a number of obstacles to the use of performance measurement in Turkish local authorities. First, using performance measurement is alien to the background and management style of many Turkish mayors (Senturk, 2005, p. 44). Secondly, they are reluctant to report the bad as well as the good (Saran, 2004, p. 23). Third, most of the mayors are not familiar with using data as a basis for decision-making (Eryilmaz, 2004, p. 142). Furthermore, they tend to be mistrustful of measurement-based approaches to perceiving events and problems (Koseoglu, 2005, p. 135). Unfortunately, a few mayors who focus on quality and performance measurement systems are denigrated in some quarters as stupid people (Cetin, 2006, p. 23).

Therefore, in order to get better results from the practices of performance measurement in Turkish local authorities, first of all, measurement of organizational performance must be based on scientific criteria and principles rather than subjective ones

such as observations, interviews and citizen satisfaction (Altintas, 2005, p.19). Secondly, mayors and senior officials must be trained about the aims and advantages of performance measurement (Koseoglu, 2005, p.136). Thirdly, there must be satisfying incitement and non-financial awards in addition to the financial ones in order to encourage local authorities to compete in providing local services (Bilgin, 2005, p.81). Fourthly, as Rashid (1999, p.21) points out, political support must be gained along with managerial commitment to working hand in hand with local people in monitoring and measuring performance. Furthermore, as Rashid (1999, p.21) has drawn attention, local authorities should update their financial, management and geographical information systems to measure performance more precisely on a regular basis at strategic, operational and neighborhood levels. More importantly, as performance measurement is a component of performance management, performance management system should be carried out as soon as possible. Indeed, an already well-functioning performance management system is essential for the successful implementation of both performance measurement and PRP.



## **CONCLUSION**

Performance management embraces all formal or informal methods adopted by an organization and its managers to increase commitment and individual and corporate effectiveness (Armstrong and Murlis, 1994, p.206). It is a much broader concept than performance measurement and pay for performance. One of the most important features of performance management is that it has the “principle of management by contract rather than command, in spite of the fact that this does not exclude the need to incorporate high performance expectations in such contracts” (Armstrong, 1994, p.14). It is generally accepted that performance management is a key instrument for organizational success. The goal of performance management is to achieve human capital advantage because people are now recognized as the most important source of competitive advantage (Armstrong and Baron, 2005, p.8). The most significant thing concerning performance management is that it is a continuous process shared between managers and the individuals and teams for whom they are responsible and a good practice of performance management means that individuals are clearer about their

priorities and their targets (Armstrong and Murlis, 1994, p.207).

As can be seen from the practices in PCC, performance management is based on the priorities of the local authorities and harnesses their energy to achieve these targets. However, at the same time its critics grow both in number and in the ferocity of their attacks because there has been no conclusive evidence that performance management systems have resulted in increasing individuals' performance within organizations including public sector ones. Performance management can even produce some negative outcomes like demotivation when it is seen as a tool of forceful or repressive control. Besides, as long as it takes no notice of human needs and focuses on only the results of organization's activities, it will not be able to be successful in raising individuals' motivation and performance.

Motivation is basically an intrinsic drive, but it can be affected by external factors such as economic incentives, punishment and management style etc. Motivation refers to the process that causes individuals to behave as they do. The motivation process starts with emerging a need and ends with satisfaction

or dissatisfaction. There are many motivation theories that have different focal points and assumptions. Whilst content theories focus on identifying and classifying needs in order to explain what motivates individuals, process theories focus on examining how and why people are motivated. Moreover, while needs theories assume that any need can be a motivator if it is relatively unsatisfied, Herzberg argues that only higher-level needs serve as motivators; and that a worker can be relatively dissatisfied in both higher-order and lower-order needs simultaneously (Shell, 2002, p.172). However, all motivational theories emphasize the growth needs of individuals and imply that a democratic or involvement style of management will be more effective in raising the level of employee performance (Shell, 2002, p.172). A lot of factors have an impact on individual performance. High motivation is a prerequisite for achieving high performance, but alone will not be enough since performance is the result of various factors such as “interaction of person, occupation and environment” (Missiuna, 2001, p.115).

PRP uses only financial incentives as motivators. However, financial incentives do not motivate public officials who have

non-financial expectations to be satisfied. Similarly, they do not motivate public officials who believe they will never get the additional payment. Under certain conditions, a pay for performance scheme has an undermining effect on the intrinsic motivation of public officials and this effect is resulted from the close connection between output based controls and financial incentives. Extrinsic incentives can crowd out the intrinsic motivation to work one's own sake and this is known as the 'crowding out effect.' The theoretical underpinnings of the crowding –out effect of intrinsic motivation have been developed in self-determination theory. It emphasizes that external factors such as monetary incentives decrease intrinsic motivation also cause pressure and tension (Deci and Ryan, 1985). As a result individuals shift their locus of causality from the inside to outside and they only do their duty as long as external incentives are provided.

While PRP is widely seen as an important motivator in terms of encouragement of co-operation and teamwork, achievement of high standards of quality, under certain conditions PRP produces negative outcomes and these negative effects can be stronger within the public sector institutions than the private

sector. Problems with PRP generally result from applying objective-based appraisal system. Indeed, PRP movement was based on a false assumption that organizations can be administered scientifically, and that inequities and emotions can be squeezed out by applying a common, objective system (Hunt, 1998). It has no positive effect on individual motivation and organizational performance, and actually damages teamwork and quality; it does not motivate staff to high individual performance. Therefore, many British public organizations including local authorities have abandoned using PRP schemes and traditional ‘pay for performance’ systems seem to have given place to new payment systems in British local authorities (White and Druker, 2009, p.12).

Using performance measurement systems in local government can enhance the quality of public services and citizens’ satisfaction by linking individual and organizational goals and objectives as it enables people to understand how their organization’s performance can be improved (Neely *et al*, 2006, p.5). It is of critical importance to the effective and efficient functioning of the performance management system because it is at the heart of the performance management

process and enables an organization to plan, measure and control its performance (Abdullah et al, 2006, p. 3). However, the contribution of a performance measurement system to individual performance remains very limited as it focuses on only organizational targets and the results of institutional activities but ignores individuals' needs and expectations which motivate people to perform well. It can provoke dysfunctional behavior and even demotivate individuals within an organization when it is seen as a means of control because supervision is a hygiene factor that can cause job dissatisfaction (Neely *et al*, 2006, p.5). However, in order to get better results from the practices of performance measurement in Turkish local authorities, measurement of organizational performance must be based on scientific criteria and principles rather than subjective ones such as observations, interviews and citizen satisfaction.

To sum up, as the concepts of new public management disciplines such performance measurement- based systems have some positive effects on organizational working style in all public services institutions particularly in local authorities. However, contrary to expectations – their positive effects on

individual motivation and performance remain limited because they are usually used as a tool of supervision and focus on only organizational targets. Hence in order to get better results from their practices in local authorities in the UK and Turkey -as Kaplan and Norton (2006, p.265) point out- employees should become truly empowered by understanding what the organization wants to achieve and how they can make a contribution. More importantly, PRP schemes and performance measurement systems should be supported by performance management systems since a well-functioning performance management system is essential for the successful implementations of PRP and performance measurement. In other words, PRP schemes and performance measurement systems should work harmoniously with performance management systems which relate to and influence the performance of employees because inconsistencies and contradictions between the parts can be harmful for the effectiveness of a total package of management and motivational practices and policies.

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