

Non-Technical Summary

There has been a significant drive towards incentivising the public sector over the last twenty years a key element of which has been the introduction of incentive pay schemes for employees. This paper selectively overviews a sizeable economic literature relating to the provision of incentives within firms and discusses the suitability of this programme in light of the evidence.

The following broad conclusions are drawn:

- Employees do respond to incentives, often in sophisticated ways that may or may not be to the benefit of the organisation as a whole. The design of the scheme is hence extremely important.
- The pattern of existence of schemes is broadly in line with theory: where a worker has many tasks to perform or where output is difficult to measure, objectively assessed performance related pay is observed less frequently and subjectively assessed bonus payments are observed more frequently.
- Public sector workers are motivated by more than just their own income. We do not know if the same result holds for workers in the private sector.
- Differences in the pattern of existence of incentive schemes between the public and private sectors are not easy to interpret but may indicate that there are inefficiently few schemes in the public sector.
- Other aspects of organisation design such as promotion systems and hierarchical reward structures also provide incentives although there is less evidence on this.

This survey reveals several gaps in the empirical literature. We have very little evidence relating to incentives for those whose pay is determined subjectively by their superiors; we do not know how incentive schemes

interact with the need for proper behaviour by public servants and we do not have a full understanding of the provision of and response to incentives for teams.