



Strengthening Public Organisations

Session 2. Incentives and Performance

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8 July 2022

Incentives and Performance

Should your organisation be using an employee incentive scheme?

Yes or no.

Incentives and Performance

Plan

1. What is an employee incentive scheme?
2. Choosing objective performance metrics
 - What does the theory say?
 - Evidence of (un)intended consequences?
3. Summing up

1. What is an employee incentive scheme?

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What do you understand by the term *employee incentive scheme*?

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What are some examples that you are familiar with from your organisation, or other organisations with which you work?

A rich design space

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- 3 What are the consequences?
 - Financial (bonus, promotion) or non-financial...

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- ② Absolute, threshold scheme.
- ③ Financial payoff (3 percent of salary).

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What do you think these principles should be?

Are there issues that you would be particularly concerned about?

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Why?

- A To ensure choice of **informative performance metrics**.
- B To avoid **multitasking** and **gaming** concerns.

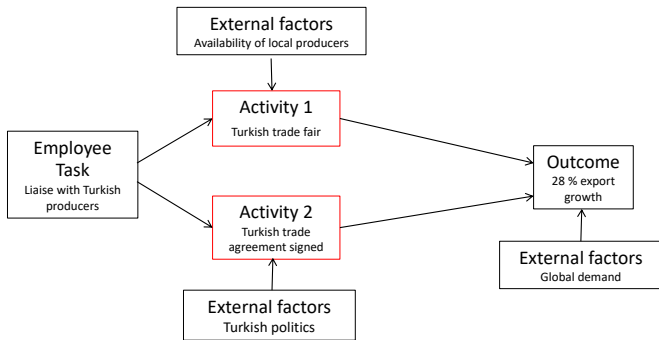
Choosing only informative performance metrics

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A hypothetical production function, inspired by a MINICOM SAP.

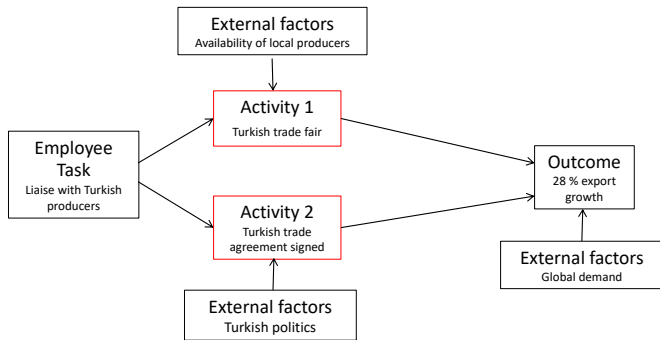
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What metrics should be included in the employee's imihigo contract?

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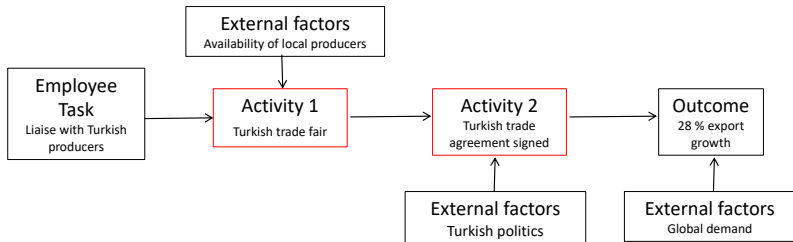
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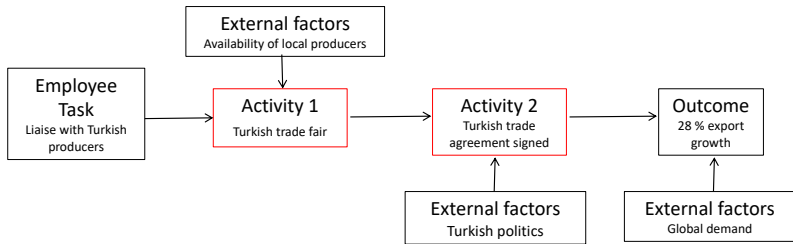
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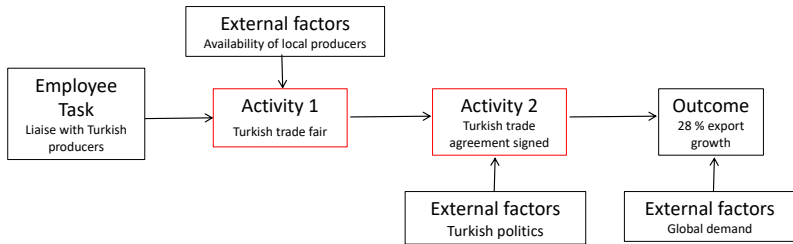
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But what if the underlying production function looks like this....





Should Activity 2 still be included as a performance metric?



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No. It is no longer informative.

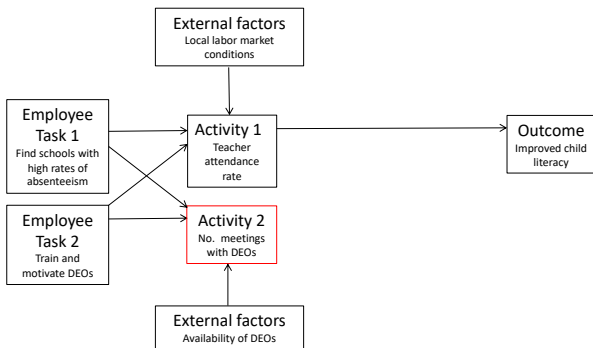
Avoiding multitasking

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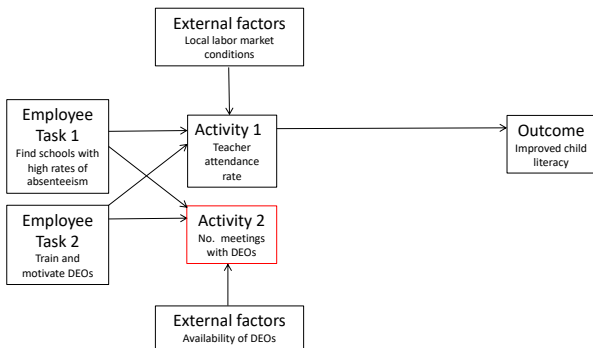
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Only Activity 2 is observable. Should it be included in the contract?

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But what if another activity—the number of phone calls to DEO offices—becomes available as an observable performance metric...

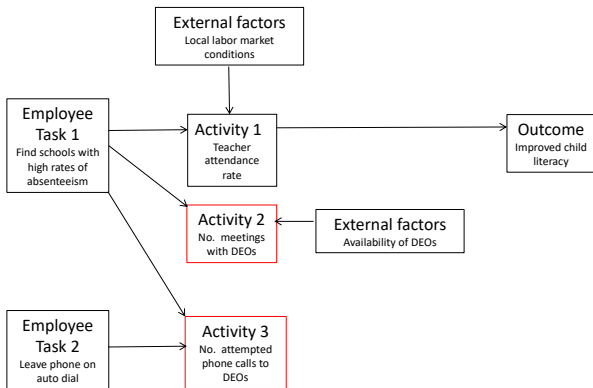
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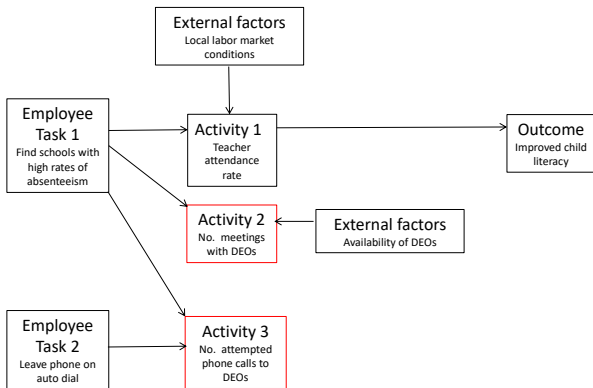
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Should Activity 3 be included in the contract?

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This is typically referred to as [gaming](#).

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Is there any **evidence** that an incentive scheme, based on objective performance metrics linked to financial rewards, can improve valued outcomes **without creating unintended consequences**?

Yes, with careful design. Will briefly describe the key features of the STARS scheme, designed in partnership with MINEDUC and REB.

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- 3 Penalties if enrolled children did not sit tests, to avoid gaming concerns.
- 4 Budget comparable to imihigo scheme (not currently used for teachers).

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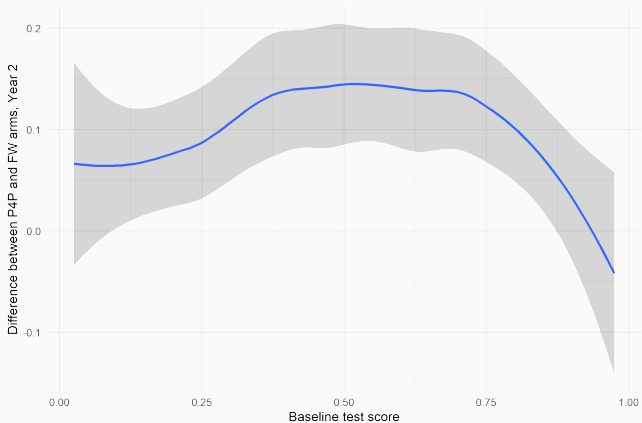
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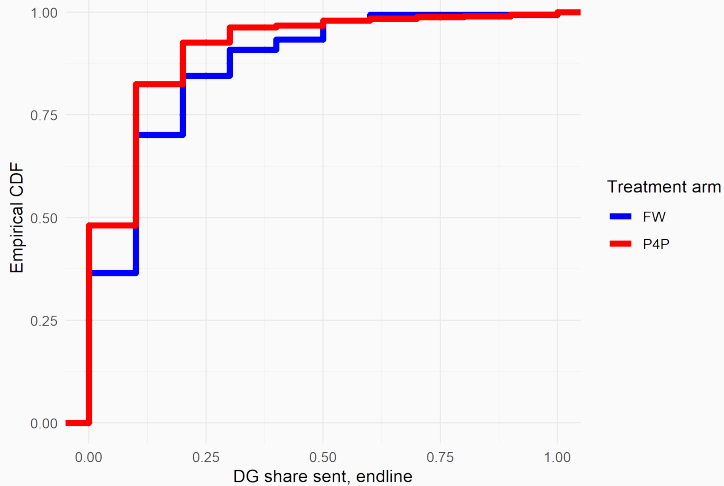
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- BUT some evidence of weakened pro-social motivation.

Distributional effects by baseline (same-subject) scores, Year 2





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Even if yes to all three, is the scheme right for your *political* context?

Should your organisation be using an employee incentive scheme?

Yes, no, not sure.