

# **Performance-related pay and the teaching profession: A review of the literature**

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## **ABSTRACT**

This paper examines and summarises research into performance-related pay. It was undertaken as part of the Teachers' Incentive Pay Project, currently in progress at the University of Exeter, which is a study of the introduction of threshold assessment and performance management for teachers in schools in England and Wales. The paper examines research into the effects of pay on employees' behaviour and considers the claimed benefits and disadvantages of performance-related pay, both generally and with particular reference to the teaching profession. Proponents of performance-related pay claim that it improves the motivation of employees and assists in the recruitment and retention of high quality staff. Disadvantages include neglect of unrewarded tasks; disagreement about goals; competitiveness; lack of openness about failings; cost and the possibility of demotivating those who are not rewarded. Performance-related pay has long been a feature of teachers' remuneration in the US, where it has usually been promoted in response to national crises perceived to be rooted in educational failure. Traditionally, most US merit pay schemes for teachers have not been long-lasting. This paper considers research into a variety of US schemes, including studies of the conditions under which they are found to succeed. Performance-related pay works best in situations in which there are easily measured outcomes, such as in manufacturing, but the outcomes of teaching are many and varied and there have been problems related to measuring teachers' effectiveness. The paper reports claims by Odden (2000) that measuring teachers' performance is now more feasible and that, therefore, the time is right for the introduction of performance-related pay for teachers.

**Key Words:** performance-related pay, teachers, incentive, threshold assessment.

## **Performance-related pay and the teaching profession: A review of the literature**

“I cannot promise the House that this system will be an economical one and I cannot promise that it will be an efficient one, but I can promise that it shall be one or the other. If it is not cheap it shall be efficient; if it is not efficient it shall be cheap.” (Bourne and MacArthur 1970 p.20)

With these words, performance-related pay for teachers in England was introduced to the House of Commons in 1861. The plan, which, it was thought, would cut the growing cost of education if teachers did not succeed or raise standards if they did, was the idea of a commission into the state of popular education in England (The Newcastle Commission). It proposed

“to institute a searching examination....of every child in every school...and to make the prospects and position of the teacher dependent, to a considerable extent, on the results of the examination.” (Bourne and MacArthur 1970 p.20)

The notorious ‘payment by results’ system lasted for thirty years, during which time teachers taught to the test, were confined to a narrow, boring curriculum, attempted to arrange the school intake, cheated, ignored bright children and drilled and beat the slower ones until they could satisfy the all-powerful inspectors. Although this was over a hundred years ago, the experience had a lasting effect on the British teaching profession’s folk memory, colouring their views and prejudicing them against performance-related pay in any form. Until the current plans for Threshold Assessment and Performance Management were introduced, performance-related pay for classroom teachers in England had not been tried again, though it has been in operation for head teachers since 1991.

## **Performance-related pay: A definition**

There are five different ways in which an organisation can reward its employees according to its perception of their individual merit. Three of these, piece work and the distribution of Equity and Profit shares, are not relevant to a public sector profession such as teaching. The fourth - the allocation of one-off bonuses, often on the completion of a particular project or in recognition of a specific contribution - is not currently under discussion in England. The fifth is performance-related or merit pay which, once agreed, becomes a regular part of the employees' salary and is usually taken into account for pension purposes.<sup>1</sup>

According to Murlis (1992) this form of performance-related pay may be organised in four ways. Firstly, arrangements may be made for those perceived to be performing well to proceed more quickly up an incremental scale. This often occurs in unionised organisations, as it is compatible with a negotiated uniform salary structure, but it has two main drawbacks - good performers get stuck on the top of the scale, and even the poor performers will get there eventually. This problem is partially addressed by the second arrangement whereby employees are paid between 80% and 120% of a midpoint, so that poor performers never reach the top - though there still comes a time when good performers have nowhere further to go. Under this arrangement, higher increases may be paid to those who perform well when relatively new to the job - on the grounds that people with more years of experience could be expected to perform well, whereas the new ones are still learning. The third form of performance-related pay which, again, often occurs in unionised work places, is performance-related increases in addition to a cost of living increase for everyone.

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<sup>1</sup> Economists distinguish between the terms 'performance-related pay' and 'merit pay'. The former is used in situations where there are specific measurable outcomes, whereas 'merit pay' may be given for less easily measured behaviour. It follows, therefore, that performance-related pay is more common for manual workers and merit pay for non-manual and professional workers. That said, most writers do not distinguish between the terms and tend to use 'merit pay' if they are American and 'performance-related pay' if they are British.

Finally there is the arrangement of giving increases only for personal performance, often within the range of 0% - 20% possibly at the discretion of the manager.

### **Rationale**

Many advantages are claimed for performance-related pay, though its primary purpose in any organisation is to recruit, retain and motivate the workforce. It is believed that high quality workers are attracted to an organisation where they believe their ability will be rewarded, while the current workforce is given the message that good performers are valued and poor performers are not. The prospect of earning more money is assumed to motivate workers to work harder and/or more effectively.

There are additional aims, one of which is to make employees more aware of or more committed to certain organisational goals. When employees learn that certain skills or specific behaviour are rewarded in a performance-related pay system, they also learn what it is that their employer considers important. As Protsik (1996) says, the ways an organisation pays, or as she puts it, 'compensates' its employees is strategic.

“Compensation... serves more than the simple purpose of paying people for their time and hard work. Compensation systems communicate organizational desires to employees.”

(p.266)

Other objectives of performance-related pay identified by Kessler and Purcell (1991) are:

- ◆ weakening the power of the unions by making individual rather than collective contracts;
- ◆ making managers responsible for taking decisions;
- ◆ giving better value for money;
- ◆ advertising the organisation's core values,

- ◆ changing the culture of the organisation,

while the OECD's study of performance-related pay in the public sector (1993) also mentions:

- ◆ encouraging greater accountability
- ◆ strengthening the relationship between individual job goals and organisational goals
- ◆ giving managers greater flexibility
- ◆ saving money by reducing automatic increments
- ◆ enhancing job satisfaction.

## **Evidence**

There is a body of research into the effects of pay - performance-related or otherwise - on employees' behaviour. The findings are not conclusive, however, in supporting the belief that performance-related pay will improve motivation, recruitment and retention of high quality staff.

### *Motivation*

Empirical studies of some non-teaching organisations which introduced performance-related pay do show that it has a motivational effect. Lazear (1999) studied a car windscreen fitter over the nineteen months in which it changed its pay structure by switching to piece rates and increasing its output by 44%, half of which was attributed to improved working by the existing staff and half to improved recruitment. Fernie and Metcalf (1996) found that jockeys performed better when paid according to results than when paid under a retainer system. Because of this, over time, the retainer scheme became less popular, though it is not explained how this success could be maintained. A horse race can have only one winner, and so once all jockeys are paid according to their performance, the success of performance-related pay in producing winners must diminish.

Murnane and Cohen (1986) claim that performance-related pay works best where there are clearly measurable outcomes, and, although this applies to fitting windscreens and racing horses, it is not true of teaching, unless pupil test results are the sole criterion of success. As Murlis (1992) says:

“New systems need to match the culture and values of the organization. For those in education, this means that the pay and performance management systems operated in industry cannot be translated wholesale. They must be modified, adapted, even rethought, to match the special demands of schools and other educational institutions.” (p.69)

There are other public sector jobs with hard to measure outcomes, however, where performance-related pay has been introduced and its motivational effect observed. Marsden and Richardson (1994) studied the effects of the introduction of performance-related pay into the Inland Revenue and found that staff did not report that their motivation had improved. Asked if performance-related pay had led them to change in line with a range of objectives such as improve the quality or quantity of their work, work harder or give sustained high performance, a large majority replied negatively. Marsden and Richardson concluded that:

“The positive motivational effects of Performance Pay...were at most very modest...Even worse, there is clear evidence of some demotivation.” (p.253)

Similarly, Marsden and French's study of performance-related pay in public services (1998) found that most staff did not believe it had raised their own motivation, though about a half of civil service and hospital line managers believed that it had raised productivity and, to a lesser extent, quality. Richardson (1999a), in his report commissioned by the NUT, considered studies into the introduction of performance-related pay in local government (Heery 1996) and the NHS (Dowling and Richardson 1997), which again rely on self-reported judgements about individual behaviour.

While over half of the local government respondents said that performance-related pay had had an impact on their work behaviour, a large majority did not believe that they worked harder. Amongst the NHS workers, just under 30% agreed that performance-related pay had improved their motivation, but it was still a small percentage (12%) that agreed that they worked harder.

When considering the finding that workers did not believe performance-related pay had motivated them, however, it should be remembered that the admission that one works harder for extra money is not easy to make as it involves admitting that one could have worked harder previously but chose not to. Indeed, it may be especially difficult for those involved in public service rather than private industry. It also should be remembered that even if all employees do not work harder or more effectively, improving the performance of between 12% and 30% may be considered worthwhile (as long, of course, as the other 70% - 88% are not demotivated and working less effectively).

In the 1960s, a study of employee motivation (Herzberg 1966) suggested that employees are influenced by two types of rewards which he calls 'motivators' and 'hygiene' factors. Motivators are intrinsic rewards such as recognition, responsibility, achievement and the actual work, while 'hygiene factors' are extrinsic. These make work less unpleasant than it otherwise would be - good working conditions and salary. Herzberg argued that hygiene factors have little effect on increasing effort because they do not promote psychological growth, and, from this, Jacobson (1992) deduces it would be more productive to try to improve the intrinsic rewards of teaching, such as recognition of the value of teachers' work and the time they are able to devote to the children in their classes.

Another 1960s model of employee motivation known as the Expectancy Theory was put forward by Vroom (1964). This states that prospective rewards will motivate employees only if they believe that they can improve their performance by working harder, that if they do work harder there is a high probability they will be rewarded, and if they are attracted by the thought of having more



money. Relating this theory to teaching, Jacobson (1992) claims that the relationship between teachers' efforts and performance or results is not straightforward and that the realisation that certain conditions such as overcrowded classes and poor resources were preventing teachers from gaining their anticipated performance-related rewards might be demotivating. He also questions the extent to which teachers are motivated by money, whether in the form of performance-related pay or high salaries and additional payments suggesting that "people should not be expected to work hard for rewards they do not find especially attractive." (p.37)

The findings on the attraction of money for teachers are somewhat contradictory - or perhaps illustrative of the fact that teachers' motivations are not one-dimensional. Jacobson (1992) cites the work of Lortie (1975) which indicated that the financial rewards of teaching were not as attractive as the opportunity to work with children and do a worthwhile job. Yet Jacobson (1995) claims that teachers in the US do respond to financial incentives, and sometimes demand extra payment for activities such as attending school governors' meetings which other governors do voluntarily. This may be resented, and points, he considers, to a dilemma in that:

"school systems turn to monetary incentives to motivate teachers, yet they really don't want teachers who are primarily motivated by money." (p.30)

Recent research by Heneman and Milanowski (1999) into new performance-related pay plans in Kentucky and Charlotte-Mecklenburg found that teachers valued their bonuses. Given seventeen outcomes of the scheme, the \$1000 bonus scored well for desirability, but Heneman and Milanowski were less sure about whether it actually motivated teachers. It should also be remembered that the teachers were asked, however, to rate the various outcomes of the scheme according to desirability, and not asked about the desirability of the scheme itself.

Money, though motivating, is not the only reward teachers value. Jacobson (1995) notes that in Canada, where teachers have had the opportunity to take unpaid leave since the 1970s, many do so, even at financial cost to themselves, because they prefer increased leisure or educational opportunities to more money.

“Those who advocate the use of monetary incentives in education believe that teachers presently have plenty of free time, and therefore additional time and effort to be purchased. But ... many teachers view time as a more attractive incentive than money. (p.33)

Current suggestions that teachers in England may wish to take a salary cut or spread four years' salary over five years in order to have the fifth year off have been criticised as unlikely to be taken up widely. Time will tell whether many English teachers, like those in Canada, prefer time to money.

### *Recruitment*

School districts in the US set their own wage rates, and teachers' salaries vary widely. This makes it possible to study the effect of differences in starting salaries, and even in the majority of districts which do not have performance-related pay the effect of monetary reward may be observed. Jacobson (1995) studied districts of New York with different starting salaries and found that those offering more money than neighbouring districts were better able to attract applicants of high quality, thus indicating that newly qualified teachers do respond to financial incentives.

Richardson (1999a) also argues that starting salaries are more important in recruiting newly qualified teachers than the prospect of performance-related pay.

“Some may be attracted by the (uncertain) prospect of accelerated increments but the effect on their career choice now of moving on to the proposed new pay spine in 5 - 9 years’ time looks rather small.... It is probably starting salaries that have a disproportionate influence on young teachers’ career choices. (p.28)

Kyriacou and Coulthard’s findings on that point (2000), however, cast some doubt on Richardson’s claim. Asked to select various factors which might be important in the choice of career, their sample of students placed a good starting salary 18<sup>th</sup> out of 20 possible factors, with only 19% of them saying that a good starting salary was ‘very important’ in their choice of career (and only 5% thinking they would find it in teaching). The students were divided into three groups - those who already wanted to teach, those who definitely did not and those who had considered teaching and might be encouraged to choose it as their career. The factors the whole group identified as most likely to encourage them to teach were the long holidays, a wish to share their knowledge and the fact that they would not have to pay for a PGCE course. They were influenced against teaching by the media image of teachers and the belief that they would have to deal with disruptive pupils, perform bureaucratic tasks, face OFSTED inspections and work in underfunded schools. The undecided group was then asked about policies which might encourage them to take up teaching, and it was at this point that 64% selected improved starting salaries. At the top of this list (selected by 68%) were improved resources for schools and higher salaries generally (65%), while down the bottom (considered as definitely encouraging by only 27%) was performance-related pay. While it is clear that salary has an effect on recruitment, Kyriacou and Coulthard’s findings suggest that it is not paramount in the choice of teaching as a career.

### *Retention*

Murnane et al (1991) found that in Michigan and North Carolina, where attempts were made to attract people to teaching and cut staff turnover, teachers who received \$2000 per annum more than

the state average were half as likely to leave teaching after one year than those who received \$2000 less than average. This accords with the findings of Jacobson (1988) that those districts which gave attractive salaries to teachers in mid-career were those with the lowest rates of turnover. He notes that this applied also to women, thus challenging the commonly held assumption that salary is of less importance to women. Chapman and Hutcheson (1982) and Goodlad (1983) also found that although teachers might not expect large salaries early in their careers, eventually they became unhappy with their remuneration and this affected the decision of some not to remain in teaching.

The OECD (1993) examined many public service performance-related pay schemes but reported they provided little firm evidence about staff turnover. In the US, performance-related pay schemes were introduced in the 80s into several naval research laboratories on an experimental basis and these were then compared with similar laboratories without performance-related pay. Turnover amongst high performers at the demonstration laboratories was lower than at the controls and average salaries were higher.

When investigating the possible effects of performance-related pay on retention in the teaching profession, Richardson (1999a) considered the possibility that the expected decrease in turnover of teachers who receive performance-related awards will be offset by increased turnover of disaffected teachers who do not receive the awards. He also speculates that the pay increases for some will be met, not by new money from the treasury, but by lower increases for other teachers, thereby risking that overall turnover will increase. As one of the usually stated aims of performance-related pay, however, is to encourage high performers to stay and poor performers to leave, this may be seen as a positive rather than negative outcome - though not, presumably, if it results in an overall shortage of teachers.

Kerchner and Elwell (2000) considered the US Department of Education's Baccalaureate and Beyond study which followed those who gained degrees in 1992-93. It found that 20% of those who started teaching in 1993 left within three years. However, it was not evident that they left because of dissatisfaction with their salary. Lack of a proper teacher induction programme meant that new teachers were more than twice as likely to leave as others, as were those dissatisfied with their school's environment and student discipline.

Kerchner and Elwell argue that the career plans of today's US teachers may be very different from those of a previous generation, in a climate in which most of their contemporaries will change jobs several or even many times. Some evidence supporting this claim comes from Peske et al (2000) who studied new teachers in Massachusetts and found that some of them were exploring whether they liked the job rather than anticipating dedicating themselves to it for life, others had taken up the job for altruistic motives, while others again were doing the job to subsidise the activities which were more important to them, such as music. Peske et al say that whether the group they call 'explorers' stay in teaching depends on whether they find it interesting rather than the pay they receive.

### **Disadvantages of performance-related pay**

Despite some evidence that performance-related pay motivates employees to work harder or more productively, attracts suitable recruits and helps retain high quality staff, there is also evidence of disadvantages and failures. Sometimes the problems are that the scheme does not produce the hoped for benefits and sometimes that it has some of the unacceptable and undesirable side effects described below.

### *Neglect of unrewarded tasks*

By rewarding particular aspects of a job, performance-related pay sends out messages about what is valued and the sort of behaviour that is desired. This is recognised as being an objective of performance-related pay but it may also be counter-productive as one of the main criticisms of performance-related pay is that employees become so firmly fixed on hitting their measurable targets that other important elements of their jobs are ignored. According to Kessler and Purcell (1991):

“The first and most commonly cited [difficulty] is the possibility of the individual tending to focus on specified objectives as a means of ensuring enhanced payment to the neglect of other features of the job.”

Examples of this problem abound. Asch (1990) studied a Navy recruitment scheme, which set targets of how many recruits were wanted, and rewarded recruiters if they reached their targets by specific dates. Asch records how, immediately before the critical date, the number of recruits rose and their quality fell, suggesting that recruiters became less discriminating in response to their expected reward.

Heery's study (1996) of Local Authority employees found that 14% admitted to concentrating on the measurable aspects of their job, while 10% said they were less prepared to take on tasks not covered in their appraisal. This is not a large proportion of the workforce, but still undesirable and potentially dysfunctional. Richardson (1999a) notes that the proposed annual performance review for teachers set out in the Government's Green Paper is expected to concentrate on three objectives. He says:

“Unless some of these are set out in terms that are so general as to be vacuous there is a real danger that such a limit will mean that important parts of a teacher’s normal duties will not be covered. If so it is very likely that some teachers will disregard some of their normal tasks.” (p.29)

Murnane and Cohen (1986) identify what they call opportunistic behaviour amongst some recipients of performance-related pay. They argue that workers ironing shirts and being paid piece rates may neglect their machinery, while teachers may concentrate on raising pupils’ test scores but neglect their emotional needs or wider curricular goals. In some industries it is possible to overcome this problem by employing other workers to concentrate on those neglected tasks (e.g. service the machinery), but it would not be easy to employ additional workers to instil into pupils a sense of responsibility or a distaste for taking drugs. Corbett and Wilson (1989) similarly express concern that teachers become overconcerned about test results and then:

“the end result is that the major emphasis in the school becomes to improve the next set of test scores rather than some longer-term more general goal of improving student learning.” (p.36)

Teachers might also concentrate their attention on the pupils most likely to improve their test scores, ignoring those who were already good enough or those who would need a great deal of time and attention and still might not attain the required standard. There is anecdotal evidence that this occurs in schools attempting to raise their proportion of pupils gaining GCSE A - C grades and it was one consequence of ‘Payment by Results’ in 19<sup>th</sup> Century England. Gramlich and Koshel (1975) found that it also happened in the US when some private firms were rewarded for teaching reading in state schools on the basis of pupils’ test scores.

### *Disagreement about goals*

The problem that teachers might concentrate on certain, measurable tasks is further compounded by disagreement about the goals of education. For example, in Cincinnati, a new performance-related pay scheme which was agreed by a majority of the district's teachers, was opposed strongly by teachers at the district's Montessori schools (Pilcher 2000). Their philosophy of education and teaching methods differ from those in mainstream schools and there was concern that they might be judged according to goals they do not necessarily share. Johnson (1984) argues that without a clear consensus on what schools and teachers are aiming to do, merit pay, which rewards certain outcomes above others, is unsuitable.

“If schools do not define their goals, and if they pursue many goals simultaneously, expectations for teacher performance will be vague, muddled, or conflicting. No evaluation instrument, however carefully designed, can settle such issues.” (p.181)

She lists many of the things teachers are expected to teach - reading, computation, inferential reasoning and critical analysis, creative expression, handwriting, exposition, social adjustment, and more, and points out that, for teachers, though not for manufacturers:

“The quality and consistency of the raw materials of teachers' work - the children whom they teach - are beyond their control. Teachers are expected to do the best with what they are given; discards are not permitted.” (p.182)

### *Lack of openness*

Murnane and Cohen (1986) say that employees with performance-related pay will expect to have convincing reasons as to why some employees get more than others, and will want clear guidance as how they too can earn more money. Teaching, they argue, is not easy to evaluate in such a clear-



cut way and that one result may be that teachers are less willing to discuss problems with the head teacher, fearing, that once their coach has turned referee, these will be held against them. They also argue that because of the imprecise nature of teaching, supervisors cannot give a clear answer to the teacher who wants to know what s/he could do to earn the merit pay.

“Without an unequivocal answer to this second question, teachers may have little incentive to change their behavior in pursuit of higher income. What is worse, teachers may learn that concealing their problems and playing up to evaluators is what the organization rewards - dramatically complicating managers’ evaluation problem.” (p.7)

### *Cost*

Despite the assumption that performance-related pay schemes save money because money does not have to be spread so widely, there are significant costs. Not only is there the actual money paid to the employees who are thought to deserve it, but also the cost of administration including monitoring, appraisal and performance management. On the subject of administration, Lipsky and Bacharach (1983) claim:

“the single salary schedule reduces uncertainty and unpredictability of future salary costs.... In terms of administrative cost per se, the simplicity of the single salary schedule makes it quite inexpensive to implement....In comparison with other schemes (such as merit pay), few administrative personnel are needed to maintain the system. Widespread adoption of some alternative pay plan would probably require districts to hire additional administrators and would no doubt lead to a substantial restructuring of roles within the administration and possibly within the teaching staff itself.” (p.7)

Studying US school districts which dropped their merit pay plans, Cordes (1983) found that 17% blamed financial problems (wholly or partially). Heywood (1992) draws attention to the difference between funding performance-related pay schemes in the public and private sectors. He cites the scheme organised for Her Majesty's Inspectorate (HMI) which was resented because funds were limited and inspectors who had earned additional pay did not receive the full amount. He assumes that within teaching money will always be in short supply and the number of bonuses given will be limited. This is different from the situation in the private sector where costs can be passed on to customers, and it can cause resentment and rivalry. Hatry et al (1994) studied eighteen US school districts from 1983 and found that few performance-related pay schemes were successful and lasting. They found that schemes are expensive if done well, but attempts to impose quotas on the number of teachers able to receive the awards, in order to limit costs, are destructive of teacher morale.

Protsik (1996) refers to the scheme in a district of Virginia US in which bonuses were awarded to teachers who were rated "skilful" or "exemplary", but after five years the plan was suspended because of budget cuts. She claims this is the common fate of performance-related pay plans in teaching, saying:

"Most merit pay plans are discontinued within six years, largely due to problems of administration and personnel, collective bargaining, and budgetary shortfall." (p.274)

The OECD (1993) report also refers to funding problems in the public sector generally, as it is not so easy to assess the cost-benefit of improved performance. Consequently, attention is focused on the cost of the scheme rather than the more nebulous benefits. There is also the likelihood that:

"funding for performance pay schemes in the public sector may be vulnerable to budgetary

cutbacks in times of economic constraint. This is a critical issue because the level and stability of funding for schemes are likely to have a major impact on the success of schemes.”  
(p.62)

It is also critical because teachers’ acceptance or rejection of a scheme may depend on their beliefs about its fairness, reliability and longevity. Marsden (2000) found that 82% of the teachers he asked agreed with the statement that “many excellent teachers will not pass the Threshold because there is certain to be a quota on places available”. Teachers in England may not follow the progress of performance-related pay schemes in the US, but their scepticism about politicians’ promises and their experience of funding problems makes them suspect that at some stage the money will not be available to fund the scheme fully or fairly.

The money needed is not simply for the additional salary for good performers. Evaluating performance requires meetings, lesson observations and a variety of administrative tasks. Performing these will have costs, either in paying supply teachers and additional administrative staff or the cost of other worthwhile activities left undone. As Murnane and Cohen (1986) observe “Monitoring the output or actions of individual workers is costly.” Evaluating a complex activity such as teaching is not easy. Either it is done thoroughly, with a great deal of thought going into the assessment criteria and taking up the time of the head teacher and senior management team, or it is done perfunctorily in which case it will be resented and may result in dissatisfaction and demotivation.

#### *Demotivation for the unrewarded*

The theory behind the motivational effects of performance-related pay is that the unrewarded will get the message that their performance is unsatisfactory and either improve or leave - both satisfactory outcomes from the perspective of the employer. Like many theories, however, it is too

simple for complex reality, and, in practice, many employees who are satisfactory or better may be demotivated by schemes which do not benefit them. In some schemes, in order to prevent spiralling costs or 'rating drift', quotas are set so that only a certain percentage of employees can receive bonuses or merit awards. The OECD (1993) reports that in a scheme in the UK civil service introduced in 1987 a 25% quota was set, later raised to 35%. Thus 65% of the staff, the vast majority of whom were appraised as being 'fully satisfactory', received no benefit. Dissatisfaction with this aspect of the scheme led to it being replaced by a new scheme with no quota. The OECD says:

"If the aim of the performance pay scheme ... is to raise the performance of all managers then any assumptions regarding normal distributions of performance, and the resulting forced distributions of rewards, may be dysfunctional. Forced distributions and quotas create "winners and "losers" with the latter suffering some loss of self-esteem and becoming demotivated." (p.66)

If everyone benefits, however, the purpose of the scheme is undermined. The OECD cites examples of plans where the majority of managers were rated as superior or outstanding, which, if the comparison was internal, is not logically possible. This corroborates findings on teachers' appraisals also, whether or not linked to pay awards. For example, in Baltimore, Philadelphia, in 1983, 44.6% of teachers were rated 'outstanding' (Digilio 1984), and Bridges (1992) cites examples of teachers, diagnosed as extremely poor performers, who had been given good evaluations for many years in the hope of raising their esteem and encouraging them to live up to expectations.

Thus, if everyone is rewarded the scheme is undermined, but if quotas are maintained these may demotivate the majority of satisfactory or good performers and also lead to the possibility of competitive attitudes replacing co-operation.

### *Competition instead of co-operation*

There are several studies of the effects of performance-related pay on the level of co-operation in public services. Marsden and Richardson (1994) found that 26% of their sample of Inland Revenue staff reported that performance-related pay had made them less willing to assist colleagues. A follow-up study by Marsden and French (1998) found that, despite management attempts to deal with some of the earlier disadvantages of the scheme, this percentage had risen to 63%. The same survey found that 67% agreed with the sentiment that performance-related pay discourages team-working, while the percentage who thought that it had caused jealousies had risen from 62% to 86%. Heery (1996) found that among employees from four Local Authorities, 18% felt that co-operation and teamwork had been damaged, while in a study of NHS managers, Dowling and Richardson (1997) found that although 14% thought they co-operated less or much less with their colleagues, 9% thought they co-operated more or much more, and 77% reported no change in co-operative behaviour. Similar findings emerge from a study of the Employment Service (Marsden and French 1998) in which 52% of the sample said that staff were less willing to assist colleagues with their problems at work, and 78% reported jealousies between staff.

Co-operation at work is required not only between equals but also between employees and their managers. Heery (1996) found that, of his sample of Local Authority employees, 16% agreed that performance-related pay had eroded some of the trust between employee and manager, while Marsden and French (1998) found that 19% of the NHS workers they surveyed admitted being less willing to co-operate with management. Marsden and French (1998) also looked at the problem from the perspective of NHS line managers and asked them about the attitudes of their subordinates, and 30% reported that many members of staff were less willing to co-operate with management. It is interesting that a higher proportion of managers reported decreased co-operation between employees and management than did the employees themselves.

In his report for the NUT Richardson (1999b) concludes:

“Very many public sector workers see individual performance-related pay as leading to heightened tensions at work. It is seen to create jealousies amongst staff... a sense of unfairness and ... to lead to a frequent loss of respect for management...It strengthens a them-and-us attitude and reduces the sense of the team as a whole.” (p.30)

In an attempt to avoid the problems of competition, some performance-related pay schemes reward teams of employees rather than individuals. One such scheme is described in the following section on the experience of merit pay for teachers in the US.

### **Merit pay for teachers: the picture from the US**

Although performance-related pay for teachers in England was discontinued over a hundred years ago, in the US, where the idea of individual financial reward fits well with their market-orientated society, it has rarely been off the agenda. In 1918, 48% of school districts operated some form of merit pay, but schemes were usually short-lived, ‘merit’ often turned out to mean being white and male, and by the end of the 1920s the percentage of districts with merit pay had fallen to 18%. The reasons given for introducing merit pay were similar to those set out in the section of this paper on the Rationale but were often prompted by events which promoted a perception of failing educational standards. As Johnson (1984) says:

“In the 1920s and again in the 1960s, educators enthusiastically instituted merit pay plans throughout the country. Each time widespread public concern about the country's international standing, promoted in the first instance by World War 1 and in the second by the

launching of Sputnik and the ensuing space race, fueled merit pay plans. Many citizens were convinced that if schools were to prepare students to meet international challenges, they would have to become more rigorous, business-like places.” (pp.175/6)

Later, in the 1980s, “A Nation at Risk” (National Commission on Excellence in Education 1983) - a critical report of America’s education standards - prompted debate about teachers’ pay. President Reagan (1983) contributed the view that teachers should be “paid and promoted on the basis of their merit and competence” if schools were to improve.

### *The 50s to the present day*

Post-war, enthusiasm for merit pay - from administrators and the public if not from teachers - has come and gone in waves since the mid-50s, and there are now signs that it is on the increase again. Previously, although schemes varied across the country, there were some discernible trends, with earlier schemes favouring evaluations of teaching made by supervisors, either making subjective assessments or ticking lists of supposedly desirable teaching behaviour. These were widely criticised, for example by Darling-Hammond (1986) who claimed that ticklist evaluation “exacerbates the tendency to think of teaching as an unvarying didactic exercise that is unresponsive to the characteristics of students or the nature of learning tasks” (p.535). Johnson (1984), too, argued that merit pay, which may be easy to organise in certain industries, is unsuitable in education because of the difficulties of measuring teacher effectiveness.

By the early 1970s the number of merit plans in existence had halved, down to 5.5% of school districts, and most had not lasted long. According to Johnson (1984), a survey of plans by the Education Research Service in 1978 found that they had been dropped

“for a wide range of technical, organizational, and financial reasons: difficulties in evaluating personnel, failure to apply criteria fairly, teacher and union opposition, poor morale, staff dissension and jealousy, failure of the plans to distinguish between merit and favoritism, failure of the plans to meet their objectives, changes in the school systems' leadership or philosophy, collective bargaining, funding shortages, overall expense of the programs, and recognition that the merit pay bonuses did not provide sufficient incentives to teachers. The problems were legion.” (p.180)

Despite this, in the 1980s merit pay was once more on the agenda, due, according to Johnson (1984) to concern about the decline of productivity in the US relative to Japan and other industrialised countries. This time, the financial incentives offered were often given for quantity rather than quality (Jacobson 1992), with bonuses given for extra work or good attendance. The problem was that while subjective judgements were just that, liable to bias and open to accusations of favouritism, supposedly objective judgements measured what was measurable and not necessarily what was important. Neither form of evaluation was based on the outcomes of good teaching - pupil progress.

Despite criticism and problems, the interest in merit pay for teachers never dies away in the US, especially in the poorer, southern states, and in the 1990s it was being discussed once again. Johnson et al (2000) believe that new and prospective teachers have different expectations of their career from those trained in the 1960s and may be more enthusiastic about a pay system which rewards their performance. A variety of new schemes is being introduced.

In Cincinnati, for example, a plan has been agreed whereby different standards will be expected of teachers at different stages of their careers and they will be able to progress through five levels from apprentice to accomplished teacher. Their progress through the levels (and up the salary scale) will



depend on evaluation of their performance in sixteen standards in four areas: planning and preparation; creating a learning environment; teaching for learning; and professionalism, and time limits will be set as to how long they can remain on the lower levels. Teachers in shortage subjects may progress more swiftly - an arrangement which prompts difficult questions about equity. Under a new scheme in Philadelphia, teachers will receive a bonus simply for agreeing to take part, but rewards will then be conditional on evaluations of their teaching ability. Most of these plans do not tie teachers' pay explicitly to pupils test results but in Denver a scheme is being piloted in which teachers will be rewarded if the majority of their students improve according to attainment tests (Janofsky, 1999). It will be interesting to see whether all or any of these schemes last longer than those of previous decades.

#### *Group Payment Schemes*

Attempting to overcome the problems of individual performance-related pay and to answer the criticism that it is divisive and unfair, some school districts have experimented with schemes which reward the whole staff if certain goals are met. For example, in a pilot scheme in Kentucky, schools are assessed according to 'accountability goals' and placed at one of five levels. Only those schools on the top level - the ones which exceeded their goals - receive a financial reward while those down in the bottom three categories have to produce 'transformation' plans, either on their own (category three) or with the help or under the control of a distinguished educator. To start with, the rewarded schools were given the money and staff voted whether to share it amongst themselves or spend it in some other way, and, unsurprisingly, this caused some dissension, with disagreements about whether non-teaching staff should share the bonuses. Kentucky has now joined some other states in rewarding the school with money to spend on extra equipment. Investigating the success of the scheme, Kelley (1998) found that teachers were motivated more by fear of the sanctions and negative publicity that accompanied being judged to be a school in crisis than they were by the expectation of money if they succeeded.

Protsik (1996) argues that group-based performance pay plans help to focus teachers' efforts on working together to improve student learning. The jury is still out, however, on the success of such group schemes. While group rewards are intended to promote a collaborative culture, but they too have potential drawbacks. The extent to which merit pay can influence the content of lessons, for example, may be seen in reports of a school in North Carolina. A bonus of \$1,500 was on offer for all teachers if students improved, but as one of the targets for improvement was Maths, teachers of all subjects focused on that subject. According to the New York Times (Steinberg 2000):

“Several times a month, in preparation for a statewide math exam later this school year, the opening minutes of every 9th and 10th grade class ... are devoted to math, no matter whether the class is Latin, history or physical education. The math teachers give the gym instructors problems about batting averages, and ask the social studies teachers to work through equations related to the population of Japan. High school teachers sometimes isolate themselves in their classrooms, but the instructors ... in this suburb... have been brought together, at least in part, in pursuit of a common goal: money.”

Many people may applaud such a cross-curricular effort, but the possibility exists that subjects such as P. E. or music might be down-graded in importance and that children may be short-changed and miss out on a broad curriculum as their teachers strive to secure the bonus that comes from good Maths scores. The morale of P.E. and music teachers might also be affected adversely.

Kelley (1998) analysed similarities between the Kentucky schools which achieved their goals and were rewarded, and her findings might fuel the worries of those concerned about the loss of teachers' autonomy and the imposition of particular goals. Describing the successful schools (successful, that is in achieving the goals set by the district authority) she said:

“All of these schools aligned their curriculum to the assessment instrument and/or to the state curriculum guides. All incorporated test-taking strategies into their regular curriculum... they had direct contacts with the accountability program through professional teacher ties and current or past participation of teachers on state committees. As a result, these schools were more likely than others to know how to use and interpret the considerable amount of information issued by the state as a guide to help schools improve practice.” (p.309)

Fears of the return of ‘teaching to the test’ will not be allayed by Kelley’s findings. One of the aims of performance-related pay is to alert employees to those elements of their jobs that employers wish to emphasise, and this is as true of group schemes as it is of individual ones. With all the discussion about the merits of merit pay, there has been little discussion about the ends of education. The worries of Cincinnati’s Montessori teachers (Pilcher 2000) are understandable if they are not involved in discussing the criteria according to which they will be judged.

#### *Long-lasting Merit Pay schemes*

As has been said, most schemes are short-lived, but in an attempt to find factors which enabled some districts to buck this trend, Murnane and Cohen (1986) surveyed those with long-lasting systems. They looked in vain for districts in urban or disadvantaged areas - the very places to find schools in most need of the high-quality, well-motivated teachers that performance-related pay should encourage - but found that they were mostly small districts with homogenous populations and that most gave bonuses too small to be motivational. Murnane and Cohen then selected six districts which did give larger differentials (up to \$2000 per annum in the 1980s) for closer scrutiny. These were all desirable neighbourhoods with above average pay scales and good working conditions and they also had the following in common:

1. They gave extra pay for extra work, often also requiring teachers to produce evidence and documentation to prove their suitability.
2. They strove to make all their teachers feel special and did not force teachers to participate in the merit pay scheme.
3. The schemes were low-profile.
4. Teachers were involved in planning the schemes, so there was general acceptance of the criteria for the awards and a feeling of ownership.

Murnane and Cohen concluded that these schemes did not really address the problems or provide the benefits that merit pay is generally supposed to - motivation, recruitment, retention and improving educational standards - but that they had other benefits. They supported good teachers and gave them the choice of whether to opt for a higher workload or more free time, and they encouraged teachers to be involved in evaluation. In a country where local democratic involvement in education is high and often vociferous, they also helped to build community support for local schools and their teachers.

### *The way forward*

Some of the most intractable problems surrounding performance-related pay for teachers have been associated with evaluating the work that they do. Either assessment is based on the subjective opinion of principals, or the objective judgements of the ticklist or the pupils' tests. In addition, according to Odden (2000), there have been problems caused by lack of funding and "because merit pay is at odds with the team-based, collegial character of well-functioning schools" (p.362). Despite past failures, however, he believes that the time is now right to introduce a new way of paying teachers, one that reinforces the elements that intrinsically motivate teachers, such as learning new teaching skills and being successful in helping pupils learn.

In order for performance-related pay schemes to work, he argues, (Odden and Kelley 1997), that they need:

- ◆ involvement of all the key parties;
- ◆ adequate funding;
- ◆ training;
- ◆ no quotas;
- ◆ persistence.

These criteria could have been met in the past, but the crucial difference now is that the existence of fairer, broad-based evaluation instruments to assess what teachers know and can do. Odden (2000) cites, as examples, The Educational Testing Service (ETS) and the Council of Chief State School Officers (CCSSO) assessment instruments for use early in a teacher's career and the National Board for Professional Teaching Standards (NBPTS) standards for outstanding experienced teachers. For use at stages in between, Odden cites the criteria devised by Danielson (1996) to be used in mid-career. These cover four aspects of a teacher's rôle - planning and preparation, the classroom environment, instruction and professional responsibilities - which are similar to the criteria used in English teachers' Threshold Assessment.

This similarity is not simply coincidental. Odden has been consulted by the DfEE, and, according to Lewis (2000) the British Government is now moving further and faster than that of the US. She says:

“None of the British reforms are unknown in this country. True, centralization makes the task of instituting them comparatively easier in Britain, but schools with top performance are free of most supervision — other than a national assessment system. The major contrast, other than a willingness to link teacher performance to teacher pay, is a sense of urgency about the

reforms. Professional development in Britain, for example, is expected to produce improvement within months, not the years predicted in the U.S.” (p.4)

It is these ‘months’ which the Teachers Incentive Project is studying. There is evidence, however, from our national questionnaire survey of 1,000 head teachers and from our surveys of both ‘successful’ teachers and those who have been deemed to have ‘not yet met’ the standards required under the Threshold Assessment procedure, that there has been little impact on classroom performance as yet.

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