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PERFORMANCE RELATED PAY (PRP) TO SOCIAL WORKERS IN DANISH JOB CENTRES

RESEARCH DEPARTMENT OF EMPLOYMENT AND INTEGRATION

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1. Introduction

Performance Related Pay (PRP) means that typically a fraction of an employee's wage depends on the employee's performance (individual PRP) or a team's performance (collective PRP). PRP presupposes that performance can be measured by one or more indicators for a certain period of time. The indicators may be objective, i.e. verifiable by both management and employees, or subjective i.e. dependant on an assessment – typically made by management. The employee must know the indicators beforehand. A system with a so-called one-off payment (ex post) for an exceptional effort is not considered as PRP. Thus, the relation between obtained results (performance) and payment must be fixed in advance.

This paper discusses two issues:

- Why has some Danish local employment administrations introduced performance related pay (PRP) for social workers while others have not?
- Does PRP to social workers imply better efforts to bring long-term recipients of social assistance into employment?

Three major reasons make these purposes relevant. First, although PRP is widespread internationally the management tool has been relatively seldom used in the Danish public sector. It is therefore interesting to understand how PRP is implemented and which results it can generate in a Danish context. Second, a historical low rate of unemployment in Denmark makes it critical to refocus on, how social clients with high levels of different social and personal problems can be integrated into the labour market. And third, in an international perspective surprisingly few empirical investigations of the impact of PRP have been made, especially of the impact of PRP in the public sector. These points of departure are elaborated below.

(1) PRP has become more widespread internationally in recent decades both in the private and in the public sector (Child, 2005; Jaffee, 2001; OECD, 2005) where New Public Management emphasise use of Management by Objectives and economic incentives at different organizational levels. In Denmark, the reform “New Wage” from 1997 paved the way for new wage systems where wage could also depend on the specific kind of task performed (functional wage), specific qualifications deployed (qualification wage) and results obtained (PRP). Still, however PRP is rarely used in the Danish public sector in particular at the level of subordinate employees.

(2) Unemployment in Denmark has decreased significantly since 1993 where the rate of unemployment was more than 12 per cent. In 2008 the rate was less than 2 per cent. The increasing demand for labour has also meant that the number of recipients of social assistance (cash benefit) has decreased to some extent. Most recipients of social assistance are classified by the local employment administration as “not immediately available for the labour market”, i.e. persons in this group are not included in the unemployment figures as they do not fulfil the ILO criteria for being unemployed. Because of the good labour market situation the remaining recipients of social assistance without a job are more and more characterised by different kind of social and personal problems. The group has, however, become highly relevant in Danish employment policy because of the increasing demand for labour. Many measures have been undertaken to promote employment chances of recipients of social assistance.

One significant measure that the Danish Government has implemented is the programme “A New Chance for Everyone” launched in 2006. The target group for the plan was long-term recipients of “passive” social assistance i.e. persons having received social assistance for at least one year without participating in any kind of activation measures during this period. It was a really hard core group of disadvantaged persons. The extra effort towards the group including more than 60,000 persons has been undertaken in the 2-year period from July 2006 to June 2008. Immigrants and descendants from non-western countries comprise about one third of the group.

Government allocated funds to the extra efforts under “A New Chance for Everyone”. A special amount was reserved for Performance Related Pay to social workers. Social workers could be given an extra (performance related) reward every time a person in the target group went into employment. This way, the New Chance plan represents a perfect case to study and discuss whether performance related pay (PRP) to social workers in Danish local employment administration increases the social workers efforts to bring disadvantaged social clients into employment.

(3) Despite a comprehensive sociological, psychological and economic literature on work motivation (Pinder, 1998; Latham & Pinder, 2005; Gibbons, 1998; Prendergast, 1999) relatively few empirical investigations on the impact of PRP on employee effort have been undertaken, in particular employees in public administration, cf. also the OECD review on PRP in the public sector in 12 countries (OECD, 2005). This holds also for Denmark (cf. e.g. Andersen et al., 2006).

The paper is organized as follows. To understand the context in which PRP is introduced the next section 2 describes the organization of the Danish Employment Policy system (2006-2008) and the package “A new chance for everyone”. Section 3 presents our theoretical frame of reference and the data used in the study. Section 4 and 5 present our result. Section 4 focuses at the decision to introduce PRP or not and on the formal contents of local PRP arrangements. Section 5 discusses on the basis of qualitative interview data the significance of PRP for the behaviour of social workers. Section 6 summarizes and concludes.

2. The Danish Employment Policy System and the programme: “A New Chance for everyone”.

2.1. The Danish Employment Policy System¹

Denmark is a small country (5.4 millions inhabitants). 80 per cent of the men and 73 per cent of the women aged 16-66 belong to the labour force. The public sector accounts for about one third of total employment. The private sector is characterised by many small and medium sized companies. About 80 per cent of the labour force is member of a union and an unemployment insurance fund. The population aged 16-66 not in the labour force comprises mainly two categories: (1) Persons (mainly young people) in school, under vocational training or participating in higher education, (2) Persons receiving different kinds of public income transfers such as: Allowances under activation, social assistance, sickness benefit, anticipatory (disability) pension and early retirement wage. Home working housewives is a nearly nonexistent social category in Denmark today. Unemployed

¹ The description of the Danish system is based on information on organization and legislation which can be found on the homepages of The Ministry of Employment and of The Danish National Labour Market Authority, cf. www.bm.dk and www.ams.dk. The material here also includes a number of reports and statistics which can be downloaded from the homepages. Supplementary information on the concrete structure of Job Centres has been presented on the basis of Eskelinen (2008). Finally, the description draws on our qualitative interviews with managers and social workers in 11 Job Centres.

persons in Denmark (in the ILO sense) include a majority of insured persons (members of unemployment insurance funds) and a minority of non-insured persons receiving social assistance (cash benefit - the lowest social security net in Denmark). The (ILO) unemployed persons receiving social assistance comprise only a minor fraction of the total number of recipients of social assistance. The majority of recipients of social assistance is assessed to be “not ready for the labour market” because of different kinds of social, health or other problems.

Both insured unemployed people and recipients of social assistance have a right and an obligation to go into activation after some time without a job. Participation in activation required by the authorities is a precondition for receiving unemployment benefit and social assistance. The unemployment benefit is paid to the insured unemployed persons by the unemployment insurance funds. Social assistance is paid to the recipients by the municipalities (the so-called Allowance Office, cf. below). In 2008 there was about 65,000 insured unemployed persons and about 100,000 recipients of social assistance in Denmark at a given point of time. These numbers include activated persons in the respective categories. It is possible to receive unemployment benefit for 4 years – there is no time limit with respect to social assistance.

Unemployment in Denmark increased nearly all the time from mid 70s to 1994. Since then unemployment has decreased very much. In accordance with the so-called flexicurity model labour market policy (today called employment policy) has become more and more active – both the policy targeted the traditional (ILO) unemployed persons but also, and increasingly, the employment policy towards recipients of social assistance not immediately ready for the labour market.

Employment policy in Denmark has for many years been implemented in a two-tier system where the state was responsible for the insured unemployed people whereas the municipalities were responsible for recipients of social assistance (social clients). In recent years efforts have been made to harmonise the two systems. One of the milestones in this process was the reform in employment administration set into force on 1.1.2007 at the same time as a general administrative reform in Denmark where the number of municipalities was reduced from 271 to 98. The main features of the present system (2008) are as follows.

Danish public administration is divided into three levels: State, 5 regions and 98 municipalities. The municipalities are responsible for public day care and schools for children, elderly care, other social policies and employment policy targeted recipients of social assistance. The regions deal primarily with health care (hospitals). The State deals with, among other things, higher education, research, and employment policy for members of unemployment insurance funds. The municipalities and regions are political entities governed by bodies elected by voters every fourth year.

Every municipality, except a few very small ones, has a local Job Centre. There are 91 local Job Centres in Denmark. 77 of these centres consist of two parts: A State part (headed by a State Manager) and a municipality part (headed by a Municipality Manager). The *State Manager* refers to the central state employment policy administration headed by the Minister of Employment. The state part with its own budget and personnel administers employment policy targeted insured unemployed people. The municipality part administers policy targeted recipients of social assistance, recipients of sickness benefit and new immigrants and refugees in the local geographical area. The Municipality Manager refers to a chief in the municipality administration ultimately governed by the political elected body, cf. above. The municipality part of the Job Centre also has

its own budget and personnel. Thus most local Job Centres are still two-tier systems. The remaining 14 so-called Pilot Job Centres are purely municipality organisations, i.e. all the tasks of the state have been delegated to the municipality. In a Pilot Job Centre there is only one manager and the whole budget and all the personnel belong to the municipality. From August 2009 all Job Centres in Denmark will become organised as the present Pilot Job Centres.

The Job Centre is responsible for the *active employment policies* towards, among others, insured unemployed people and recipients of social assistance. The Job Centre does not pay money to persons without work. Only the *active policies* are handled by the Job Centre. Social assistance is paid by the *Allowance Office* – a separate entity in the municipality administration. Unemployment benefit to insured unemployed persons is paid by the unemployment insurance fund. Social measures and different kinds of treatment (e.g. in relation to drug abuse) are taken care of not by the Job Centre but other parts of the municipality administration. But when initiatives of these kinds are taken in relation to e.g. recipients of social assistance the measures are coordinated by the Job Centre.

The *active policies* toward unemployed persons and recipients of social assistance include three main types of measures: (1) Counselling and training (often in different kinds of projects), (2) Work practice in an ordinary work place, (3) Temporary employment in a wage subsidised job. The projects may be organised by the Job Centre or by other parties and organisations either private or public. The Job Centre also delivers services to employers, e.g. in relation to recruitment of personnel. When a citizen in the local area needs money because of lack of a job he/ she can turn to the Job Centre for help. When an employer needs a new employee the employer may contact the job centre. Thus, the Job Centre delivers services both to the citizens in a certain geographical area and to public and private employers.

The organisational units dealing with employment policy typically include four parts in the municipalities. In very large municipalities the number of units can be larger than four, in small municipalities there may be e.g. only two units – but nevertheless there are everywhere four main types of functions in the implementation of employment policy at local level and the functions are performed by different personnel.

(1) The first function is the place where newly unemployed people should go to when they have just become unemployed. It is a sort of *reception, a part the Job Centre*. Some counselling may be received here but the main task for personnel in the reception is to assess what kind of client the person is. It is determined whether the person is ready for the labour market or not. Depending on this assessment the client is handed over to social workers specialised in clients ready for the labour market or not, respectively. In some municipalities there are special sections for e.g. immigrants. One may say that the first step in the handling of clients in the employment policy effort is a kind of sorting. This function is important and may be of significance for the client's career in the system and future prospects in the labour market. In addition the reception will also refer the client to the so-called Allowance Office which pays the social assistance (cash benefit) to the client.

(2) The reception does not decide on matters concerning cash benefit to the client. This is done by the so-called *Allowance Office*. According to law the municipal Allowance Office must not be part of the Job Centre. As social assistance is means tested and there are different rates according to age, marital status and other criteria it can often be quite complicated to compute how much money the client is entitled to get and the client must fulfil a number of preconditions to be entitled to the

money. For example the client must participate in activation and attend meetings with his/her social case worker. If a social assistance recipient does not comply with the rules concerning entitlement to cash benefit it is the Allowance Office that makes the decision to stop the money or to reduce the amount paid. In its decisions the Allowance Office may rely on information from others parts of the municipality e.g. from the client's social case worker in the Job Centre. The Allowance Office may counsel clients so that they become better able to manage their private economic affairs.

(3) The third function is in a way the *core function in the active employment policy effort*. This function is typically and primarily performed by social case workers with 3-4 years of education and employed in the *Job Centre*. Many have long time experience in the local employment policy system. The social caseworker "owns the case". It is the responsibility of the social worker to handle the case. In many Job Centres there are two sections: One section for clients whose only problem is lack of a job (unemployed persons in the ILO sense) and another section for persons "not immediately ready for the labour market". Most social clients fall in the latter category. The basic philosophy is that the kind of active measures that a client will need depends on the types of problems that the client have. This means that the social case worker must assess what kind of problems the person has and take action accordingly.

Put simply the actions (active measures) can be of two main types. Firstly, the social worker can initiate different kind of treatment programs (e.g. medical treatment or treatment directed at reducing alcohol abuse) – the treatment will then take place in other sections of the public welfare state system, i.e. not in the local employment policy system, but the social worker has the role of coordinating the different efforts with the final goal of bringing the client into employment or closer to the ordinary labour market.

The second kind of actions concerns initiatives within the employment policy system. The social caseworker may refer the client to some kind of activation of which there are three main kinds: a) Counselling and training, b) Temporary work-training in an ordinary workplace, c) Temporary employment with a wage subsidy to the employer. The social worker makes authoritative decisions on behalf of the municipality, i.e. the social case worker makes decisions involving use of resources of the municipality and exercising municipality power over the social client. The client is obliged to participate in some kind of activation. Most of the social clients in the target group for New Chance is activated in measures of type a (counselling and training). When clients are to be activated in ordinary workplaces (measures of type b and c) the jobs or training places are often found by so-called job-consultant. A job-consultant is specialised in working with the companies and finding suited jobs and training places to the social clients. Sometimes the job-consultants are organised as a special team in the local employment policy organisation. The social caseworker owning the case is obliged according to law to have a talk (a conversation) with the client every third month, to write a case history and other information about the client in the electronic file in the ICT system of the municipality and to use a number of special devices in the handling of the case; for example a so-called "dialogue guide" giving guidelines for the topics which should be covered in the conversations with clients. The social caseworker will also have to assess whether the client is available for the labour market. If the social case worker think there is a problem here he/ she will have to inform the Allowance Office, cf. above.

(4) The fourth main type of function in the municipalities' employment policy system is the so-called *activation projects*. These fall under the first main type of active measures mentioned (counselling and training). In some municipalities they are part of the Job Centre, in others they are

not. Sometimes projects are managed by private consultancies. This is increasingly the case. The projects are physical and geographically located activation places where clients work together or are being trained or counselled together. In the project there are project leaders and project employees. The project leaders often decide which persons are allowed to participate in the project. The social caseworker “owning a case” may refer a client to a certain project – e.g. a project where the participants are to learn something on ICT. If the project leader thinks that the person, for some reason, will not be able to benefit from the project the project leader may refuse to let the person participate in the project. In the municipalities there are a large number of different projects for different types of clients and with different kinds of activities. The project leader will typically also to some extent counsel the participants and the project leader will also somehow give feedback to the social caseworker on the client behaviour and progress in the project. Sometimes it is the project leader or project employees who in fact are getting the client a job on the ordinary labour market. In the daily practice of the employment policy system it is often the project leader and project employees who have the most intimate and deepest knowledge about the clients.

It is clear from this description of typical characteristics of the local employment policy system in Denmark that the effort to get clients into work is mainly collective. Very often no single employee and no single unit is the primary causal factor behind a success i.e. that a social client gets a job. All may contribute and it seems difficult to identify the size of contribution from each of the functions although it seems that the caseworker (and the job-consultant) in the Job Centre and the personnel in the activation projects may be the most important actors.

Thus, the employment policy system is functionally differentiated (reception, payment, casework, activation) and it is difficult to figure out how the overall goal (employment of social clients) translates into goals of the different functions. This is not specific for the local employment policy system but is characteristic of any functionally differentiated structure.

2.2. “A New Chance for Everyone”

“A New chance for everyone” is a two-year plan that was set into force by Danish Government in July 2006. The aim of the plan was to put renewed focus on long-term recipients of social assistance. The municipalities should go through all long-term social clients’ cases again, in order to promote an active effort for the target group which was: Recipients of social assistance, whom in the recent year (the last 65 out of 69 weeks) had not participated in any active employment policy measures. The target group included more than 60,000 persons during the 2 year period.² About one third was immigrants or descendants from non-western countries. Most were less than 50 years old. A little more than half were men. About two thirds was assessed to be not immediately ready for the labour market because of different kinds of social, health, personal or other problems.³

The programme “A New chance for everyone” had three objectives decided by Danish Government (The Minister of Employment):

² At the beginning of the 2-year period about 40,000 persons fulfilled the criteria for being in the target group – during the 2-year New Chance period further about 20,000 persons fulfilled the criteria at some point.

³ In Denmark, the caseworker must evaluate unemployed persons and recipients of social assistance according to a so-called “Match Group System” with five categories. A client is assessed to be in category 1, 2, 3, 4 or 5 depending on the client’s “match” with the labour market. A match of 1, 2 or 3 means that a person is assessed to be ready for the labour market whereas a match of 4 or 5 means that the person is not immediately ready to go into a job in the labour market. Of the target group for New Chance 57 per cent were in match categories 4-5 and 21 per cent in categories 1-3. 22 per cent were unclassified. Most persons in this last group may be assumed to fall into match categories 4 or 5.

Objective no. 1: 25 per cent of the target group⁴ should be in employment or participate in ordinary education by the end of the programme period (June 2008). This objective was set on the basis of data from the 2-year period preceding New Chance where only 12 per cent of a comparable group of recipients of social assistance went into employment or education.

Objective no. 2: In the 2-year period from July 2006 to June 2008 the persons in the target group should on average be self-supporting 15 per cent of the time in which they have belonged to the target group of New Chance. The objective was also determined on the basis of data from a preceding 2-year period where persons in a comparable group only were self-supporting in about 7 per cent of the time.

Objective no. 3: In the 2-year period from July 2006 to June 2008 the persons in the target group should on average be in activation 40 per cent of the time in which they have belonged to the target group of New Chance. This objective was also determined on the basis of data from a preceding 2-year period where persons in a comparable group only were in activation in about 11 per cent of the time.

In order to fulfil the three objectives Danish Government allocated around DKK 480 million (64,407,052 Euro) to the initiative. 90 millions (12,076,322 Euro) were earmarked to a reassessment of each social client's case, 380 millions (50,988,916 Euro) were allocated to activation, and 10 millions (1,341,813 Euro) to performance related pay (PRP).

For every person (client) in the target group going into employment for at least 13 weeks out of a period of 15 weeks the state would pay 1000 DKK to the municipality (Job Centre) handling the client - if the municipality (Job Centre) had established an agreement on PRP in relation to the New Chance programme⁵. The 1000 DKK should be used to PRP (performance related pay) to employees in the Job Centre in accordance with the rules in the local PRP-agreement.

It was voluntary for the municipalities to establish a PRP agreement. In line with Danish tradition a PRP agreement is an agreement between the employer (the municipality) and the relevant unions which here are a. o. the Danish Association of Social Workers (DS) and the union organising commercial and clerical employees (HK).

The results (number of clients in employment for 13 weeks) were to be computed on the basis of information in administrative registers for each of the four half year periods in the 2-year New Chance period. That is, PRP was to be paid four times during the 2-year period. The municipalities could notify on December 1st 2006, June 1st 2007, December 1st 2007 or June 1st 2008 to The National Labour Market Authority that they had established a PRP agreement. The municipalities

⁴ As mentioned the target group was defined as the persons, which at some point in the New Chance period *moved into* the target group. During the New Chance period some of these persons died, emigrated or went into some permanent pension scheme. These categories of persons were excluded from the denominator in the definition of Objective 1.

⁵ For the sake of simplicity we use the term "employment" although "employment" may in some few cases reflect other states in particular "participation in ordinary education" or a state where the person is economically fully supported by his/ her family (e.g. spouse). On the basis of information in administrative registers the criteria for obtaining the 1000 DKK to PRP are that a client in 13 out of 15 weeks: (1) has not received any kind public income transfers such as e.g. social assistance, allowances under activation, early retirement wage, anticipatory pension, unemployment benefit or sickness benefit, or (2) participates in publicly certified vocational training, school training or higher education, or (3) has a flexjob which is a wage subsidised job for persons with a permanent reduced capacity for work.

were not required to submit the concrete agreements but only to inform The National Labour Market Authority that they in fact had established an agreement on PRP in relation to the New Chance programme. If a municipality submitted a notification in a given half year the municipality would be entitled to PRP money in this half year period and also in the following half year periods in the New Chance programme period July 2006 - June 2008.

In the 2nd half year of 2006 26 of the former 271 municipalities notified The National Labour Market Authority that they had established a PRP agreement. As mentioned an administrative reform meant that the number of municipalities was reduced from 271 to 98 as of 1.1.2007. Many small municipalities were merged with each other or with bigger municipalities. Of the 98 new municipalities 33 had a PRP agreement in the first half year of 2007. That is, some of the municipalities that had not established a PRP agreement in the first quarter the New Chance programme period did so in the second quarter of the period (1st half year of 2007). In the 2nd half year of 2007 4 more municipalities established a PRP agreement; in the first half year of 2008 no further municipalities established agreements. This means that 37 out of 98 municipalities had a local PRP agreement in the second half of the New Chance period.

3. Theory

3. 1. The Decision to introduce PRP

As mentioned it was voluntary for the municipalities to introduce PRP under the New Chance Programme. Four types of theoretical reasoning may individually or in combination explain why some municipalities established PRP agreements while others did not:

(1). *A rational model.* From an economic point of view (principal agent theory) one may expect that the decision to establish a PRP agreement will be taken if the benefits are expected to exceed the costs. The net benefits should be expected to be relatively high in municipalities with many persons in the target group for New Chance because the probability of getting PRP money, others things being equal, must be higher here. The net benefits should also be high in municipalities where it is relatively easy to bring persons in the target group into employment, i.e. in municipalities with many “strong” persons in the target group and in municipalities with a favourable labour market (low unemployment).

On the basis of our interviews in Job Centres (cf. below) it is the impression that the costs of negotiating the agreements on PRP (time and energy used) have been rather low. Most of the agreements are simple and the implementation of the agreements did not imply high costs. The computation of results (number of persons going into employment for 13 weeks) was undertaken by The National Labour Market Authority and the subsequent calculation and distribution of the PRP money within the municipality also seems to have been rather simple.

For these reasons one can wonder why not all municipalities established PRP-agreements. The PRP money from the central state fund was purely extra money from the point of view of both management and employees in the Job Centres. These observations make other possible explanations than a rational model relevant to consider.

(2) *A diffusion model.* From research on innovation and institutional organization theory (Scott 2001) it is well know that new phenomena (e.g. organisational forms or elements) do not spread to all organisations at once. There are early and late adopters. The early adopters are more centrally

placed in the communication network, they are less risk averse than the late adopters and they have more resources in terms of human and economic capital. From such point of view also follows that municipalities adopting PRP will be the ones which cooperate with or have close contacts with municipalities which have already established PRP-agreements. As larger municipalities may be more centrally placed in communication networks than smaller ones one might expect that larger municipalities have a higher probability of introducing PRP than smaller ones.

(3) *A political model.* Such a model emphasise ideological and attitudinal factors. Seen in a left-right perspective it could be expected that municipalities governed by right wing parties were most favourable towards the introduction of economic incentives in terms of PRP in particular because central Government (in 2006-2008) also can be characterised as a government dominated by right wing parties. At a the level of the Job Centre one could expect that the attitudes of management and social workers towards PRP could be of significance for the establishment of PRP in the Job Centre.

It is well known that many professional groups, for example social workers, traditionally have looked with suspicion at PRP. A widespread resistance towards PRP and other New Public Management tools among social workers might be a factor behind the fact that only a little more than one third of the municipalities introduced PRP in the New Chance period.

From model 2 and 3 follows that PRP in relation to the New Chance programme could be expected to be implemented in particular in the municipalities that had already introduced PRP in local employment policy administration. To some extent model no. 1 could also lead to such an expectation as the costs of PRP could be expected to be lower if the local authority already had some experience with PRP.

(4) *A garbage can model.* According to this model an organisation is conceived of as random steams of problems, solutions, participations and decision opportunities that intertwine or flow in the organization. The streams combine in different ways depending on organizational structure and learning resulting in outcomes described as problem solving, flight or oversight. The core idea behind the model is that events which from the point of view of the decision process on PRP are random may influence whether a municipality establishes a PRP agreement or not.

To investigate the mechanisms behind introduction of PRP we will in section 4 make a statistical analysis of which of the former 271 municipalities were especially prone to introduce PRP in relation to New Chance in 2006. A similar analysis will be made in the same section for the 98 new municipalities in 2007/08. In section 4 we will also present qualitative data from interviews in the Job Centres on the motives and processes behind introduction of PRP in relation to New Chance.

3.2. The impact of PRP on social workers

As mentioned, PRP means that typically a fraction of an employee's wage depends on the employee's performance (individual PRP) or a team's performance (collective PRP). PRP presupposes that performance can be measured by one or more indicators for a certain period of time. The indicators may be objective, i.e. verifiable by both management and employees, or subjective i.e. dependant on an assessment – typically made by management. The employee must know the indicators beforehand. A system with a so-called one-off payment (ex post) for an exceptional effort is not considered as PRP. Thus, the relation between obtained results (performance) and payment must be fixed in advance.

We will use *expectancy theory* (Vroom, 1964; Porter & Lawler, 1968) as our general point of departure. According to this theory a worker makes an *effort* (works) to produce *results*. Other things being equal, the worker will make a higher effort the more the worker believes that the effort in fact will produce results. The correlation between effort and results depends on the worker's qualifications (ability, education and on-the-job training) and understanding of the work role. More qualified workers and workers who understand what is required from them perform better. These correlations presuppose that results (good performance) have consequences in terms of positive rewards.

The rewards may be *intrinsic*, i.e. stemming directly from performance or the effort in itself (satisfaction, joy) or *extrinsic*, for example continued employment, wage increase, advancement or social approval from management or co-workers. The subjective reward depends on the value (valence) that the reward has from the point of view of the worker. The total subjective reward due to an (increased) effort equals the sum of many single rewards weighted by the valences. Other things being equal the worker will make an effort if he/she expects that this will lead to a subjective reward.

This presupposes that the reward structure is legitimate from the point of view of the worker. This means that the reward must be equitable both in relation to the worker's effort (the effort-reward relationship) and in relation to the rewards to other comparable workers inside and outside the organisation.

The worker makes an effort to produce results i.e. to obtain subjective goals. Goal-setting theory (Locke & Latham, 2002) points out that formulated goals (a condition for PRP) influence behaviour. Accepted goals have a motivational impact that is both an energy mobilising and a cognitive function. Operational (in contrast to vague and unclear) goals and goals neither too easy nor too difficult to reach increase the worker's effort, including learning processes, to obtain the goals. The motivational impact of goals presupposes feedback to the worker on the degree to which goals are reached.

It is well documented that accepted goals influence the behaviour of workers. This means that if only some of the goals are explicitly formulated (for example the most measurable ones) the worker will strive to reach these goals at the expense of others (Etzioni, 1972; Gibbons, 1998; Mintzberg, 1979). A crucial question in relation to PRP, therefore, concerns the relation between formulated goals in a PRP system and the important goals that the organization has according to management, workers or other partners.

Expectancy theory implies that the worker's behaviour depends on the worker's wants. Classical *principal agent theory* (Milgrom & Roberts, 1992; Gibbons, 1998; Bregm, 2004b), and much other economic theory, assume that the worker works to make money and that work does not imply other rewards but only costs in terms of use of time, effort and other inconveniences. This means that the incentive impact of PRP increases with the size of the wage and decreases with the size of the indicated costs.

The employer (principal) wishes, that the worker (the agent) makes an effort. As the employer cannot fully observe the effort (at reasonable costs) but only results the parties cannot conclude a contract where wage depends on effort. A contract with a fixed wage is also not optimal for the employer as such a contract will create an incentive on the part of the worker to shirk. A contract

where the wage depends solely on results (performance) will create an incentive for the worker to produce much but will at the same time expose the worker to risk because the results also depend on unforeseeable factors that the worker cannot control. As the worker is assumed to be risk averse the employer must pay a higher (average) wage than in the fixed wage situation. The employer must therefore make a trade-off between this cost of PRP and the benefit (the incentive effect of PRP). The conclusion is that the optimal contract under certain conditions will be a contract where the wage paid consists of a fixed component plus a performance related element. Thus, classical principal agent theory is an argument in favour of PRP.

Much empirical research is consistent with the theory. In his review Prendergast (1999) mentions eight investigations showing “considerable effects of compensation on performance”. The investigations include workers with relatively simple tasks. One of the most well known is Lazear’s (Lazear, 2000). It concerns an auto glass firm with about 3,000 workers which over a period in the 90’s abolished hourly wage and introduced PRP (piece rates) where the workers’ wage depended on the number of auto glasses they mounted. It was concluded “that workers respond to prices just as economic theory predicts”. Productivity increased more than 40 per cent both due to an incentive effect and a selection effect (piece rates attract the most able workers). The two effects were of approximately of the same size. A given worker’s wage increased 10 per cent.

A positive productivity impact of PRP presupposes that the worker thinks that the piece rate will not be reduced when the worker as a consequence of PRP reveals how much he or she in fact can produce. Thus, lack of trust can reduce the impact of PRP as pointed out by Taylor (1914), the first outstanding proponent of PRP in organization theory.

Another condition for successful use of PRP is that intrinsic motivation is not reduced by the introduction of PRP, cf. the motivation crowding theory formulated by Frey (Frey, 1997; Frey & Jegen, 2001; Frey & Osterloh, 2002). According to this theory a so-called external intervention, e.g. introduction of PRP, means that extrinsic motivation increases. Intrinsic motivation may remain unchanged, increase or decrease. In the two first cases there will be a positive impact of PRP – in the first case the impact will be strengthened: Crowding in. The third case, crowding out, means that the intrinsic motivation decreases as a consequence of PRP. The reduction may outweigh the increase in extrinsic motivation so that the total motivation decreases when PRP is introduced.

Crowding out may occur if the worker thinks that PRP reduces his/ her autonomy in the job, the worker’s status or feeling of recognition. The theory also implies that crowding out can take place if the worker thinks that PRP is in conflict with his/ her professional identity, i.e. the norms and values in the professional group. For example, a social worker may be demotivated by the introduction of PRP which may send the signal that the social worker in his/ her profession is motivated by an egoistic economic drive. Demotivation may also occur if the formulated goals in a PRP system does not, according to the social worker, reflect important professional objectives.

Frey’s theory includes the symbolic function of a wage system. The symbolic function of wage and wage systems was first introduced by the Human Relations tradition in organization theory in the 30s (Jaffee, 2001). One main thesis here was that employees are mainly motivated by a desire for social approval from co-workers and management. The wage paid could have a symbolic function i.e. be perceived as a sign of recognition from management. In this way PRP could have a motivating impact although through other mechanisms that pointed out by the more economic oriented theories outlined above.

From the above exposition can be concluded that the following conditions must hold if PRP is going to have the expected impact (higher motivation and better performance) on social workers in the local employment administration in Denmark:

- There are formulated operational *goals* for the employment policy effort.
- The social worker must know the goals, accept the goals and think that the goals, at least to some extent, are realistic (obtainable).
- The degree of fulfilment of goals must somehow be visible, i.e. the social worker must get feedback on the extent to which efforts have been successful.
- It should be possible to figure out which individual social workers have contributed to the realising the goals, i.e. how much of a success that can be traced back to which social workers. At least it should be possible to figure out which team was responsible for a success.
- The social worker must know which actions to be taken to reach the goal or to come closer to the goal – in other words the technology (means-end relationship) must be known either beforehand or as a consequence of successive learning on the job.
- Some sort of reward to the employee must follow if the goal is reached.
- The employee must know and accept the connection between obtaining the goal and the resulting reward.
- The reward must have a sufficient size to motivate the employee.
- The PRP set up must be legitimate from the point of view of the social worker.

These points will form the frame of reference for the analysis of our empirical qualitative data on the functioning of PRP under the New Chance programme in the local Job Centres, cf. section 5 in the paper.

3.3. Data

We have collected the following types of data:

(1) *The PRP-agreements.* – From the Danish National Labour Market Authority we collected information on which 37 municipalities had introduced PRP and when they introduced PRP. The municipals had not been obliged to send in their agreements to The National Labour Market Authority, whom the municipals only had to inform that they in fact had established a local agreement. This complicated the data collection. Some municipals had a lot of difficulties with locating the agreement in the organisation and a few municipals either had not made the final agreement or still needed the unions to sign the agreement even in September 2008, i.e. after the New Chance period had expired. However in 36 of the 37 municipalities it was possible to either get the local agreements or a description of the contents of the agreement. In a number of cases it was necessary to interview leaders or personnel officers in the municipalities to get a clear understanding of the contents of the local agreements. The lengths of the agreements varied from a few lines to 2-3 pages.

(2) *Quantitative data on municipalities.* – On the basis the register data on the municipalities (from the National Labour Market Authority and Statistics Denmark) and a coding of the contents of the local PRP agreements along a number of dimensions we established two data set (one for the 270 “old” municipalities – before the structural reform as of 1.1.2007, and one for the 98 “new” municipalities after 1.1.2007). These data makes it possible to figure out which municipalities were most prone to introduce PRP.

(3) *Qualitative data from Job Centres.* – We collected information by telephone interviews and face-to-face interviews with social workers, shop stewards and leaders in 15 Job Centres with PRP. Face-to-face interviews were performed in 11 Job Centres: 23 interviews of which some were group interviews. We selected the Job Centres among those who had most clients (in absolute terms) in the target group for the New Chance programme. It was assumed that the New Chance programme and therefore PRP within the context of this programme was most salient in these types of municipalities. This means that our information is primarily from Job Centres in relatively large municipalities. In the choice of municipalities we also prioritized to get interviews in Job Centres where the contents of the local agreements were different. Our aim was to cover different kinds of PRP agreements.

4. The Introduction of PRP

4.1. Which municipalities introduced PRP?

The New Chance period is in this section divided into two periods: The second half year of 2006 (where Denmark had 270 municipalities) and the remaining period from 1.1.2007 to 30.6.2008 (i.e. after the administrative reform as of 1.1.2007) where Denmark had 98 municipalities.

4.1.1. PRP among the former 270 municipalities⁶

As mentioned PRP under the New Chance programme was initiated by Danish Government. A certain amount of money was set aside to PRP and the municipalities could establish a PRP agreement and get money from the central fund. Thus, the initiative to introduce PRP in relation to New Chance was not taken by local government employers or by unions. Instead PRP was part of an employment policy plan to promote employment chances of the most disadvantaged recipients of social assistance in Denmark.

Before New Chance a small number of municipalities (about 10) had introduced PRP as a result of local initiatives (cf. Rambøll Management, 2004, and table 1 in the appendix). This number more than doubled to 26 municipalities which introduced PRP in 2006 under New Chance. *Thus the initiative from Central Government clearly had an impact on the adoption of PRP.*

5 of the 10 municipalities with experience with PRP before the New Chance programme established also PRP in 2006 under the programme. Of the remaining 260 municipalities without earlier experience 21 established PRP under New Chance. This means that the probability of introducing PRP under New Chance is much higher (50 per cent) in municipalities with PRP before than in municipalities without PRP experience before (8 per cent). Thus there may be a kind of *history dependence* in the introduction of PRP.

Of the 26 municipalities with PRP under New Chance in 2006 10 were placed around Copenhagen (Greater Copenhagen), 6 in other areas on Zealand (mostly cities of some size), 7 in a certain geographical area in southern Jutland and 3 in other areas in Jutland (two big cities and a smaller town). Just looking at it in this way brings the diffusion model into the mind and maybe also the rational model (cf. section 3). There seems to emerge a rather clear *geographical clustering* of the municipalities with PRP and it also seems that *municipalities of some size* are overrepresented among the municipalities that introduced PRP in 2006.

⁶ Cf. tables 1 and 2 in the appendix.

The *geographical clustering* can also be illustrated in another way. Before 1.1.2007 Denmark was divided into 15 counties⁷. Each county comprises a number of municipalities. In 6 of the counties comprising 89 municipalities no municipalities at all had established a PRP agreement. In 7 counties comprising 147 municipalities 10 of these (7 per cent) had established PRP agreements. In the two last counties comprising 34 municipalities nearly half of these had established PRP agreements: 44 per cent on one county, 50 per cent in the other.

The *size of the municipality* also correlates strongly with the introduction of PRP. In the 128 municipalities with less than 10,000 inhabitants only one (1 per cent) had established PRP. The corresponding figure in the 77 municipalities with 10,000-19,999 inhabitants was 5 per cent whereas it was 22 per cent in municipalities with 20,000-39,999 inhabitants and 46 per cent in the remaining 28 municipalities with more than 40,000 inhabitants.

A logistic analysis of regression clearly shows that both geographical clustering and the size of the municipality independently influence the probability of establishing PRP⁸.

The significance of size can be explained in at least two ways. First, size may be an indicator of an ability to receive new information: Larger municipalities have more such resources. Larger units may be more innovative and they may have more experiences with PRP e.g. at managerial levels. This explanation is in line with the diffusion argument. Against this kind of reasoning may, however, be said that smaller units could be more flexible and change oriented.

A second explanation could be that in larger municipalities there are on average more recipients of social assistance and more persons in the target group for New Chance. The proportion of recipients of social assistance of the total population also increases with the size of the municipality. Thus, one might suspect that it is the number of persons in the target group (an indicator of the expected reward of establishing PRP) rather than the size of the municipality in itself that influences the probability of establishing PRP. However, this does not seem to be the case. If we introduce number of recipients of social assistance or number of persons in the target group in addition to geography and size in the logistic model, no significant positive impacts of the additional variables can be observed. We have also tried to introduce the local rate of unemployment and local historical data on employment chances of the target group in the statistical model. But neither of these variables (indicators of the relative costs of bringing the target group into employment) seems to have any impact on the probability of establishing PRP.

In principle the decision to introduce PRP will always include elements of rationality: One introduces PRP to get an economic benefit. But the data on the first half year of the New Chance period does not clearly support the contention that the larger the net benefits for a given municipality the higher the probability of introducing PRP. Rather the data seems more consistent with the diffusion argument.

⁷ To be more precise: There were 14 counties and one area comprising the municipalities of Copenhagen and Frederiksberg not belonging to any county.

⁸ We have introduced "PRP before 2006 yes/no" in the statistical model but the variable does not turn out to have a significant impact although the size of the odds ratio is as expected, cf. table 2 in the appendix.

4.1.2. PRP among the 98 new municipalities⁹

The 26 municipalities that introduced PRP in 2006 correspond to 21 of the new 98 municipalities established after the administrative reform as of 1.1.2007. 12 additional municipalities introduced PRP in the first half year of 2007 and further 4 in the second half year of 2007. In the first half year of 2008 no further municipalities introduced PRP. Thus, 37 (= 21+12+4) municipalities had a PRP agreement in the second year of the whole 2-year New Chance period from 1.7.2006 to 30.6.2008. This corresponds to 38 per cent of the 98 municipalities.

There is a clear geographical variation in this fraction from more than 50 per cent among municipalities in Zealand Region to less than 20 per cent in Region of Southern Denmark. In the Capital Region and Central Denmark Region more than 40 per cent of the municipalities had established PRP. The proportion was 27 per cent in North Denmark Region. There is also a clear variation with the size of the municipality from 24 per cent of municipalities with less than 30,000 inhabitants to 36 per cent in municipalities with 30,000 – 49,000 inhabitants, 46 per cent in municipalities with 50,000 - 99,999 and 67 per cent in entities with more than 100,000 inhabitants.

We have conducted a logistic analysis of regression of the probability that a municipality had established PRP in the second half of the New Chance period. We find to some extent the same results as for 2006, cf. above. The size factor is of significance as well as the geographical location of the municipality but not the absolute number of persons in the target group. We have also looked at the political orientation of the major in the municipalities but we find this having no significance for the establishment of PRP.

Finally we have looked at composition of the group of recipients of social assistance. We find that this factor is of significance. The larger proportion the target group comprises of recipients of social assistance, the larger the probability of having introduced PRP. We also find that the larger the proportion of recipients of social assistance that are assessed to be not ready for the labour market the higher the propensity to having introduced PRP. That is, the weaker the group of recipients of social assistance the larger the probability of having introduced PRP.¹⁰

If we compare the results of the analysis of the former 270 municipalities with the 98 new ones it appears that the size factor is of less importance among the new larger municipalities. It seems that size has not so much significance in the analysis of the 98 new municipalities. Second it appears that the composition of the new municipalities' recipients of social assistance correlates with adoption of PRP: The probability of having established PRP increases with the proportion of disadvantaged clients among the recipients of social assistance. This was not the case in the analysis based on the former 270 municipalities.

How can we understand that the composition of the group of recipients of social assistance is of significance for the probability of introducing PRP? Perhaps this composition is an indicator of the extent to which the employment problems of recipients of social assistance is on the agenda in the municipality. If only a minor fraction has severe problems no special efforts are needed to handle the recipients of social assistance in the municipality. If, however, a large fraction of the recipients

⁹ Cf. tables 3-5 in the appendix.

¹⁰ We have investigated the same possible correlation in the data with the 271 former municipalities but without any significant result.

of social assistance have severe problems then special efforts and initiatives (e.g. PRP) may be seen as appropriate.

4.2. The contents of PRP agreements

We have collected the local PRP agreements or information from interviews on the contents of the agreements. In several cases we have collected additional information to understand the agreements.

We have classified the agreements along two dimensions. Some agreements (2) imply individual PRP which means that PRP is paid according to the results of the *individual* social worker. The majority of agreements (31) implies PRP according to *collective* results. A few (2) combine these elements. In two municipalities no precise information exists on this dimension. The basic explanation why so many PRP agreements are collective must be that it is often not possible to assess which individual social worker has caused a given client to obtain a job. Thus, the nature of the labour process explains this content element in the PRP agreements.

Another dimension of the agreements is whether the payment of PRP is in kind (i.e. further education or a social arrangement) or in money. In 26 agreements the payment is in money, whereas the payment is in kind in 9 municipalities. In one municipality the two forms of payment is combined. For one municipality no information exists. The reason behind choosing payment in kind seems to be that the administrative costs of paying an amount to many persons are rather significant if the amount is very small. Consequently some municipalities decided to make payments in money only if the amount was more than a given threshold.

We can combine the two dimensions:

Table 1: PPR agreements according to two dimensions.

		Type of payment		Total
		Monetary	Non-monetary	
Individual/ Collective	Individual	2	0	2
	Collective	24	9	33
Total		26	9	35

Note: For 2 agreements complete information is not available. These agreements are not included in the table. Two agreements which combine individual and collective elements are classified as collective. One agreement combining monetary and non-monetary payments is classified as non-monetary.

The collective agreements can further be divided into two subgroups: Collective agreements with a “target group” focus and collective agreements with a “Centre as a whole” focus. 16 out of 37 municipalities can be categorised as having a “target group” focused agreement. In these cases the PRP will be earmarked to one or more teams in the municipality that are specifically defined as working with the target group of the New Chance programme. The PRP-pool received will accordingly be equally divided between the team members based on the performance of the team(s) as a whole. 14 of the 37 municipalities can be categorised as having a “Centre focus”. In these agreements, all employees working at the specific Job Centre will benefit equally from the PRP-pool. That is, either divide the monetary compensation equally (6 out of 14 cases) or equally share the PRP pool for non-monetary purposes (8 out of the 14 cases).

4.3. Motives for introducing PRP

As shown in the previous section the contents of the local agreement differ quite a lot. In this section, we will try, on the basis of qualitative interviews, to reveal how some of this diversity also might be explained by the motives of the leaders and the values at the workplace.

Implementing or refusing PRP – a matter of the leaders ideological motives and values?

Based on 9 interviews with Municipal leaders, Rambøll Management has recently investigated the leaders' motives for either implementing or rejecting PRP. Rambøll concludes that the leaders' motivations and reasoning can be grouped into four ideal types. Ideal types 1-2 explain the leaders' positive reason for choosing PRP while ideal types 3-4 explain the leaders' reasons to refuse PRP:

1. Salary should be closely tied to the individuals performance, because salary motivates the individual to make an additional effort
2. Extra salary encourages a group to make an extra effort. Extra money should therefore be earmarked to the group as a whole and not to individuals.
3. The social worker is not motivated primarily by the wage but by professional values and success experiences with the clients. Specific and narrow goals will introduce a short-term perspective and a quantitative instead of a qualitative focus.
4. PRP will harm the collective. Increased competition will undermine the possibility to obtain good results.

Ideal types 1 and 2 are clearly connected to the assumptions in the principal agent theory, which assumes that caseworkers are driven by economic incentives. Ideal type 2 however has a group perspective, whereas ideal type 1 has an individualistic perspective. Ideal type 3 and 4 are more inspired by the Human Relation tradition. Case workers are expected to be motivated primarily by the intrinsic aspects of the job. As well, in accordance with the Human Relation tradition, the consequences of introduction of an economic incentive are expected to be a focus on quantity instead of quality and a crowding out effect.

Our qualitative data show that these ideal types not only can be perceived as arguments pro- and against PRP. Our data suggest that some of the leaders who in fact have implemented PRP basically have the ideal type 3 or 4 attitude towards PRP i.e. they are sceptical towards economic incentives as a management tool.

Rambølls' conclusions seem to suggest that the leaders' choice to implement or refuse PRP rest on a kind of rational decision making model i.e. the assumptions that the goals with the PRP were clearly defined and the alternative ways to achieve the goals were known in advance and evaluated according to the criteria's deemed most important in the specific Job Centre (Hatch, 1997). In what follows, we will focus on clarifying these two conclusions.

The first question that needs to be answered is off course, why some leaders, who basically have a critical attitude towards PRP, have implemented a PRP agreement. Most of our respondents have mentioned that the primary reason to introduce PRP was the possibility to get some extra money, as many have said something like this: "*who would say no to money?*"; and: "*we saw it as a present. Who would say no to a present?*". That is, in the first place, it seems that most decisions to introduce PRP have not primarily been driven by ideology framed strategic choices, but by the incentive to claim "free" money. Several respondents reported that they suddenly discovered or realised that it was time to apply. Some came too late in the first round. Thus it seems that many

choices have been accidental. The choice to introduce PRP in relation to New Chance seems in this perspective often to have a character similar to the Garbage Can decision-making model, cf. above. PRP has been one event out of many that has steamed through the organizations. In this perspective, it might therefore, in some of the organizations, rest on a coincident as opposed to a well considered rational choice, whether PRP has been introduced or not. Our data, however, does also show that some of the Municipal leaders seemed to have chosen PRP on the basis of ideological reasoning.

The PRP-agreements: A matter of the leaders' ideological motives and workplace values?

Although ideological motives seem to have influenced the choice to introduce or refuse PRP to a lesser extent than what one could expect, the contents of the PRP-agreements seem to a large degree to reflect ideological driven motives and the values at the Job Centres. All the leaders we have been able to interview have reported that they had some kind of hesitations with a direct implementation of PRP (as a monetary individualistic oriented payment) or that they met some kind of resistance among the employees towards the idea, which forced them to rethink the PRP model. A central consideration in the implementation process seems to have been to avoid “conflicts and envy”. Almost all Job Centre leaders have in this connection mentioned the importance of creating a “*fair*” or/and a “*solidary*” plan. The specific understanding and emphasis of fairness and/or solidarity at the different Job Centres seems to have shaped the locally formulated plans.

In some cases, a fair plan has been seen as founded on a type of *solidarity with all the employees at the Job Centre*, cf. the collective monetary or non-monetary agreements. The argument has been that “we all are in the same boat”. That is, the perspective, that everybody in the Job Centre work equally hard and with the same rate of success, and as well, the understanding that the Job Centre is a type of collaborative, where the employees work closely together on the clients. Fairness at these centres is the very act of sharing and showing solidarity with *all* colleagues. One respondent mentions that the focus on one specific target group, at the moment, reflects a political awareness that bears the stamp of the period. That is, one group of clients at the Job Centre is positively discriminated at the moment as a result of political awareness and decisions at central state level. At one Job Centre a leader mentions that the political focus on this particular target group in fact is a strain on the other employees that don't work with this group. This perspective is however opposed by another leader that mentions a spill-over effect from the positive focus on one area to other areas. In practice, this solidarity-with-all the employees' perspective has led to 3 types of “solidarity for all” models:

- (a) The collective competence model where all the employees at the Job Centre have received PRP as a competence benefit – or as a social arrangement benefit.
- (b) The monetary solidarity-for-all model, where all the money has been equally spread out between the employees at the Job Centre. As mentioned above, a few cases have used this model as a result of lacking criteria for a fair allocation mechanism. In these cases there is a clear inconsistency between intentions formulated in the local plan and how it has been implemented in practice.
- (c) The individual – sooner to become a collective model: In this type of model the specific employees that actually worked with the target group has been pointed out as the recipients of PRP. However, the leaders at these Job Centres have asked the municipals for additional money. These money have either been given to the group of employees that did not work with the target group i.e. all the employees have this way received the same amount of PRP or the additional money has been equally spread out to all the employees i.e. everybody has received something “extra” but some more than others.

In other cases there has been a rather different perception of how a fair plan should look like. In these cases, a *fair plan has been more narrowly defined as either those individuals or the group of individuals that worked with the target group*. In some of these cases, it has not even been questioned whether or not the money should be earmarked to the caseworkers working with the target group or the whole jobcentre. Nevertheless, despite the more narrowly defined fairness in most of these cases there has been a solidarity-within-the-group attitude. That is the money has been equally shared within the group. In practice, this “solidarity-within-the-group” model has led to two types of models. In the first model the money has been given to a defined group. In the second model there has been a differentiation between different groups. That is, different groups or teams have received different amounts of money – however within these groups the money has been divided equally among group members.

5. The impacts of PRP

5.1. The size and effect of the reward

One perspective to evaluate the impact of PRP concerns the *amount of PRP*. Very different amounts have been allocated at the different workplaces. The amount has both varied as a function of the municipals’ goal attainment (number of clients who got a job) and as a function of the chosen PRP model i.e. depending of how many people who were supposed to share the money.

There are three broad perspectives on how the size of PRP amount has affected the caseworkers. First, many respondents report that the PRP-amount allocated has been too little (much less than 5 per cent of the normal wage in most cases) to have any significant effect from an economic point of view and that a larger amount might have led to a larger effect. Some respondents mention that the attention to the PRP during the period has been virtually non-existing.

Second, other respondents highlight that the immediate impact of the PRP pay check has been positive. Although the amounts have been small, the PRP has caused a feeling of recognition and satisfaction/ happiness. As a leader explains, it has not been the amount of PRP itself, which has led to a feeling of recognition, but the symbolic value inherent in the intention to positively recognize the employees’ effort. One caseworker describes it in this way: *“Well the economic benefit is not overwhelming. It will not make you rich. Nevertheless, you receive recognition when you succeed and get some money out of it”*. A leader explains: *“PRP is like salt on the egg. It will not satisfy your hunger, but it makes the egg taste better”*.

These findings confirm the Human Relations’ thesis on the importance of the symbolic function of rewards. Nevertheless, a leader within this category of respondents mentions that his experience is that both the money in themselves and the symbolic recognition has only a short term effect: *“As I perceived it, people were happy. But then after a week, everything is forgotten. It is a recognition of their effort, but the recognition is not sustained. Recognition gained from monetary incentives will only last for a week, later then they will be forgotten. After 14 days everything is the same again”*.

Third, other respondents have experienced the opposite tendency i.e. that the attention to the PRP arrangement has increased during the period. This growing awareness seems in some cases to be related to an increased possibility of earning more money, than the employees had expected in the first place. This seems to have encouraged some respondents to make an extra effort as time went on and they were positively surprised about there ability to obtain the goals.

5.2. Operational Goals

Confusion about the operational goals might have contributed to a limited effect of PRP. Many respondents seemed to mix-up the New Chance three general objectives (cf. above) with the conditions for receiving PRP. As we have explained above, there is however a difference between these two dimensions. The confusion indicates that some respondents have been unaware about the criterion for payment of PRP which consequently might have reduced the potential impact of PRP. However, there is to some extent a kind of overlap between the two first New Chance objectives and the objectives implied in the criterion for payment of PRP money from the central state fund. Working for the two first general New Chance objectives (that clients become self-supporting) will at the same time increase the probability that clients go into employment for at least 13 weeks (the criterion for payment of PRP).

The New Chance objectives seem to be perceived as rather clear in most Job Centres. Nevertheless, the respondents seem to disagree about how *realistic* the goals were. Some mentioned that the goals were realistic and in some cases “too easy”, other respondents’ expressed that they found all the three goals unrealistic, and others again were of the opinion that the two first New Chance goals were realistic while the last one was unattainable: “*We did not even bother to reach that goal*”. The perception of unrealistic goals was primarily related to the caseworkers’ perception on the New Chance target group i.e. a group with a severe social, health and psychological problems, which in the beginning left many caseworkers with a more or less sceptical about the possibility to gain any considerable PRP reward. As explained in the previous section it was first, when the caseworkers realised that it was possible to attain the goals that they started to view the PRP in a less sceptical way and was motivated to make an extra effort. This confirms some of the predictions of the goal-setting theory (cf. above). Goal-setting theory predicts that the PRP goals must be neither too easy nor too difficult to achieve, if the energy mobilising and cognitive effect of explicit and operational goals is occur. The respondents’ diverse perceptions of their ability to attain the goals make it difficult to draw a clear conclusion on this perspective. However it is interesting that a workplace in fact gave up the goal, that they found most unrealistic, and focused on those they found realistic, and that the effect of the PRP increased at some workplaces as the caseworkers realised that the goals in fact were more realistic, than they believed in the beginning.

A concern formulated by goal-setting theory is also that employees will strive to reach the formulated and explicit goals on the expense of other types of goals. Most respondents denied, that they, as a consequence of the formulated PRP goals, have reprioritised their work at the expense of other organisational goals. As one respondent explains: “*We did not change our work routines, ran faster or anything like that (..) the clients have not been able to see any changes in our services*”. And another: “*We have not pushed harder than previously*”. One respondent, however, confirms the thesis: “*New chance changed the focus in our work, but we still had to follow up on our usual tasks – it has not been easy to do that (..) we had other tasks and activities that became under prioritised*”.

5.3. The Guidelines: Uncertainty about the basic elements in the PRP-agreements

Another perspective on the small effect of PRP seems to be that the guidelines to the content of the local PRP-agreements have been rather limited. This seems to have caused some confusion and uncertainty with regard to how the recipients of the PRP-money should be defined and how the money was supposed to be allocated. This confusion seems to have been reinforced by a general lack of experience with PRP-arrangements in the Municipals.

The definition of recipients of PRP

Some respondents have expressed a confusion or lack of information about which employees PRP was supposed to be given to, how the target group for the New Chance policy effort in practice was defined, and who the corresponding caseworkers were.

On their web page, The New Chance initiative has recognized some of this confusion, and has, on request, specified that PRP should be earmarked to the people in the Municipals, working specifically with the target group (<http://www.nychance.dk/sw673.asp>). When we look at majority of the agreements where the money has been equally divided between all the employees at the Job Centre, it must however be concluded that this information came too late.

In one Job Centre, the leader wanted to earmark PRP to caseworkers, who specifically worked with the target group that released the money i.e. to earmark the money specifically to the individuals that worked with the concrete cases. That is, he wanted to follow the above-described intention with in the central rules. Nevertheless he found this intention impossible to accomplish, because it resulted in a lot of administrative perplexity. He could not make a clear connection between the performance and the result, as he wished. The New Chance homepage frequently updated the connection between goals and results at the level of the municipality (Job Centre). However, the results were not reported at department, team or employee level. The National Labour Market Authority who had the information's about which cases (and which caseworkers) that released PRP was not willing (for principal ethical reasons) to supply the Job Centres with this information. According to the leader mentioned above, that made it impossible to pay the PRP money strictly in accordance with the formulated intentions.

However, other Job Centres do not mention this allocation uncertainty problem as a major issue. This holds for centres where everybody equally has shared the PRP and centres where a specific pre-determined New Chance group was defined. A pitfall with such allocation methods has been that the link between the individual caseworkers' goal-attainment and the reward has been weaker. This is, off course, is more true for the first type of division than the second, and it can be questioned whether giving the PRP to all employees in the whole Job Centre is in fact consistent with the basic intention in the law.

The allocation of the PRP: Competence development or money?

Some respondent have expressed a confusion or lack of information about how the PRP money was supposed to be used. Also on request, The National Labour Market Authority has emphasised on the New Chance webpage, that the PRP money should be paid out as salary and not for instance used on education and competence improvements (<http://www.nychance.dk/sw673.asp>). Some of the respondents we have interviewed still seem to be unaware about these restrictions, and even consider a change from a monetary- to a competence-model: *"The PRP agreement only resulted in a very limited amount to each employee (...) since then we have discussed how we can use the money more constructively to e.g. competence development or quality development"*.

The explained uncertainties about the basic element in the agreements seem, in some Job Centres more than others, to have caused very vague agreement formulations. In some of the cases we have discovered a discrepancy between the agreements and the practical implementation of the agreements. This discrepancy and the vague formulations puts into question whether the agreements have been sufficiently visible.

5.4 The visibility of the PRP agreements

The question about the visibility of the PRP agreements can be divided into two issues: The visibility of the agreement in the introductory phase and the visibility of the agreement in the everyday working life. These issues are interrelated. We have, not surprisingly, found that the degree of the visibility of PRP in the everyday work practice of the caseworker had a corresponding effect on the case workers awareness about the PRP. As the visibility of the PRP has varied a lot so has the awareness about the agreement - ranging from full awareness to no knowledge at all about the agreement. The degree of the awareness seems to depend on at least four parameters: (1) the character of the introduction process, (2) the chosen model, (3) a time factor and the feedback and discussion among employees during the process and (4) individual differences between the employees.

First, the introduction (implementation) phase in the municipals seems to have differed a lot and depending on this differentiation also the awareness of PRP. In some municipals the implementations process had a top-down character and in other municipals a bottom-up character. If the implementation phase had a top-down character it has typically only been the leader and maybe a union representative, who have decided whether or not an agreement should be concluded and how the agreement should look like. In Job Centres where the implementation had a bottom-up character it has typically also been the leader who have decided whether or not an agreement should be concluded – however, the employees and the union representatives have been seen as important actors in formulating the content of the agreement i.e. in the decision about who the money should be earmarked to, and how the money should be allocated. Between the bottom-up and top-down models are those cases where a presentation of the top-down initiated agreement met critic from the employees at the presentation, and where the content of the agreement as a consequence was reformulated in collaboration with the employees or in MED¹¹. The tendency seems to be that the awareness about the PRP agreement during the process was larger where a bottom-up model was used than where a top-down model has been used. This can be explained by the degree of involvement the bottom-up model requires i.e. that there has been more information meetings and discussions about the agreement than the top-down model typically has caused.

Second, the chosen model seems to have influenced the awareness about the agreement. Thus, the tendency is, that the awareness about the agreement was higher at workplaces where the money was earmarked to caseworkers working with the target group and/or where PRP was paid as monetary benefits, than in Job Centres where the whole workplace shared the money or where the payment was in kind (competence development or social events) rather than in money.

Third, the awareness of PRP seems to be influenced by the degree of feedback, the degree of discussion among the caseworkers and a time factor. Most leaders acknowledge that the visibility of the agreement has been non-existent or too little at the workplaces because a lack of systematic feedback has made it difficult for the employees to get current information about their results. According to a leader, “*feedback could have been better, much better*”. Some respondents report that a lack of a strategically use of the PRP and tools that could show the relation between effort and results have been a barrier to the visibility and thereby the impact of PRP at the workplaces. The scanty leadership attention and feedback might also have caused the fact that most caseworkers mentioned: That they practically never discussed PRP among each other.

¹¹ MED is a special Danish collaborative institution at work places where management and employees are equally represented.

However, as mentioned earlier in this paper, the time factor has been crucial. It is a general tendency that the first payroll reminded most respondents about the arrangement and forced them to think of the contents of the agreements. Several of our respondents express something like that: *“We were kind of surprised, when we received the money”*, or *“We suddenly received some money and had to figure out, how to use them, because it was very unclear what exactly the arrangement concerned”*.

It seems likely that time has changed some respondents’ attitudes towards PRP. A caseworker explains: *“We are waiting for the last round of the PRP now, and some people have asked, when we will get it. That shows a new kind of attention to PRP”*. And another employee: *“When it became visible for us, that the agreement resulted in more money than we had expected, that encouraged us to make an extra effort, and an extra effort more”*.

Fourth, an interesting aspect of our findings is that although the degree of employees’ awareness seems to be related to the above described workplace specific parameters, individual differences between the employees at the workplaces still seem to exist and to be of significance. One employee explains, how she in general is competitive oriented, and therefore experience PRP as positive element in her job: *“I have personally followed up on how it was going with my clients: he disappeared – yes – and oh no he is back again”*. Another employee at the same workplace describes PRP and other assessment tools as a negative or unimportant element in her job: *“Our leader runs after us with lists all the time, however I experience them as a strain (..) I try to follow the goals that I formulate myself”*.

At another workplace two employees also had totally different opinions about the effect of the PRP arrangement. The first concludes that: *“PRP has not influenced my priorities in my work. It has not been in my awareness that I could receive extra money”*. The other employee concludes: *“It [PRP] encouraged me to make an extra effort”*. The resistance towards PRP seems to be group specific. At some workplaces, it is mentioned that it is specific groups of professionals that has been more opposed to PRP than other groups of professionals. One leader explains the difference this way: *“I think there have been different individual responses to PRP. It depends on which profiles you have and where you have worked before – in “Company Service” we have quite a few, who have worked in the private sector (..) and tried PRP before (..) we have been positive and open towards the idea, while others did not believe in the effect of PRP”*.

Thus, our data supports the contention in the theoretical frame of reference that feedback and visibility of the relation between effort and results are crucial for a positive impact of PRP. Our interviews also put into focus how important it is that PRP agreements are formulated and communicated in a very clear, accepted and consistent manner.

5.5. Legitimacy of PRP

Another perspective on PRP is that the inherent character of PRP as an economic incentive seems in a broad perspective to have a low legitimacy among social caseworkers.

Social work is often considered as having a special character different from other types of jobs. According to the International Federation of Social Workers (IFSW) social work is founded on a special set of values. First and foremost social work builds on the principles of human rights and social justice. Thereby, social work puts a focus upon humanitarian and democratic ideals and

values such as respect for equality, human worth and dignity to all human beings. In practice, the work concerns the diverse complex relations and reciprocal influences that are among humans and the environment. The holistic perspective on humans and the environment are thereby in the centre of social work and the inequality and injustice that surround the society¹².

That is, social work builds on a feeling of solidarity with marginalised people in society. It is these peoples' needs, development potentials and change of their situation that are the driving force of social work. It seems that many Danish social workers share this understanding of their job, i.e. that it is the possibility to help people and being able to change other peoples lives in a positive direction that are considered as the core elements of the job.

In Denmark, 13,000 social workers are organised in the Danish association of social workers (DS). It may be assumed that DS plays a key role in framing attitudes among social workers in Denmark, for example towards PRP. DS plays a key role in negotiation of wage and wage systems in the municipals.

DS made already in 2003 a pamphlet describing central considerations that local union representatives are supposed to make when negotiating PRP. DS is not negative towards PRP per se in this pamphlet but sceptical when it comes to a direct transfer of the idea behind PRP from the private sector to the public sector: There are "*elements [concerning PRP] that not necessarily are transferable to the public sector, and which in some cases are directly in conflict with the character of social work*". It is specified that PRP could be appropriate in certain kinds of projects or tasks, e.g. development of systems with a faster reply and a more understandable language in the letters to the social assistance recipients. Such projects are pretty bounded and are supposed to run over a specific period of time. These projects focus on improving the quality of the work.

As opposed to such projects are those which are not considered appropriate for PRP in social work: "*DS considers PRP to be problematic if it.. focuses.. on quantitative effectiveness, where agreements propose enforcing piece rates into social work. This purpose will motivate the employees to ignore the quality and solely rely on numbers. If a PRP agreement consists of quantitative goals, these should be supported by qualitative goals.*" DS recommends that PRP are implemented as collective agreements rather than individual PRP. Two reasons are explained. First it will often be impossible to assess whether it is the individual or the groups' effort that caused the results. Second, collective agreement will have a positive effect on the collaborations among the caseworkers and contribute to the holistic perspective on the work.

As described in previous sections, most respondents, both leaders and employees, seem to have the general assumption that the PRP arrangement itself has not led to changes in the specific caseworkers' behaviour and priorities - neither at places where the employees seemed to be aware nor at Job Centres where they seemed to be unaware about the PRP agreement. One aspect of this perspective seems to be that PRP, from the point of view of many caseworkers, is a non-neutral

¹² According to ISFW, the mission of social work is: "*to enable all people to develop their full potential, enrich their lives, and prevent dysfunction. Professional social work is focused on problem solving and change. As such, social workers are change agents in society and in the lives of the individuals, families and communities they serve (...) In solidarity with those who are disadvantaged, the profession strives to alleviate poverty and to liberate vulnerable and oppressed people in order to promote social inclusion*" (www.ifsw.org/en/f38000138.html).

management tool. The respondents seem to relate PRP with certain values that are if not new, then in conflict with some of the existing norms and values within social work.

A respondent gives a hint about the values that he perceives are closely connected to PRP and how they contradict with the values within social work: *“Nobody is supposed to make a fortune out of this work – just because they are so lucky that the client gets a job”*. Another respondent that generally thinks positively about PRP also expresses some hesitations about implementing PRP at his Job Centre: *“It is not a money-machine (...) we are not supposed to sell a product. It is human beings we are taking about”*. These two respondents seem to express some important concerns about the implementation of PRP in social work. The caseworkers obviously make a close association between receiving PRP and being a salesman, who sells a certain product with the specific purpose of making money out of it. A clear distinction is thus made between products that can be “sold” and the products they as caseworkers can offer. It is e.g. indicated that “luck” plays an important role in their work.

This perspective is clarified by another caseworker (the one that mentioned that her effort was reinforced by the PRP): *“I don’t think that people have done something that they would not have done without PRP. I think people value their professional competence very highly, and is very committed to their work”*. Another explains: *“Some employees might have thought: was this a case that released 1000 DKK? However, I am sure, that it would not have influenced the help offered to the social assistance recipient in the specific case”*. These formulations show that some caseworkers perceive it as a loss of professional competence and commitment if they prioritize differently as a consequence of PRP. In other words caseworkers are not “supposed” to be motivated by the same values as a salesman. It is not legitimate within the social field. In general, when asked about what motivates social workers both leaders and employees agree that it is in particular the following aspects:

- The opportunity to see and have a positive influence on other peoples’ life and to get personally and professionally involved in the work and help other people.
- A good working environment: Good colleagues and leaders, respect and recognition, influence.
- A well functioning team that obtain its goals.
- That the boundaries or needed settings concerning the job are good.

Expectancy theory underlines that a legitimate reward structure is crucial for a positive result of PRP. Legitimacy in this perspective is primarily understood as a fair system. As we have explained in a former section in this paper a fair system and the importance of avoiding conflicts have been important issues in the implementation process. However, this section describes another kind of legitimacy, the legitimacy of the values that are inherent in specific types of reward systems themselves. PRP is associated with specific values that are different from values associated with other rewards systems. Although this “value legitimacy” is related to the justice (fairness) perspective, we will argue that it can be seen as a distinct category.

It is obvious that this study has confirmed that intrinsic motivation is crucial when we look at the specific character of social work. Nevertheless, no evidence of a crowding out effects has been found in our interviews. It seems likely that most employees have seen the PRP reward as a supporting rather than a controlling instrument (cf. Frey). The intrinsic motivation seems to have been either unchanged (in most cases) or increased – as a consequence of PRP. The reason why this

might have been the case could be that although the reward system has been perceived as illegitimate – the efforts to obtain the PRP made sense in many caseworkers mind. One social worker explains: *“It was not that much money, so it was not the money, but the programme itself that was the main focus. Also: Because it made sense. You refocused on cases that had been in the drawer unattended for quite a long time – so it made sense to us”*.

Below we will elaborate how the character of the New Chance programme as a whole makes it difficult to draw a clear conclusion about the effect of PRP – and how other initiatives in the programme might have been an important source to avoid a crowding out effect.

5.6. The effect of PRP – difficult to isolate

The effect of the PRP seems to be difficult to isolate from other initiatives in relation to the New Chance programme in general. One caseworker explains: *“None of the people from the New Chance target group are easy to activate, we have been sitting with a large group, that we did not know what to do with. I guess that was way we thought in the beginning: yes, yes now they bring in money, and think automatically that we can do more than we could before. We thought that was rather hilarious. We could not do an extra effort just because of a bonus, the conditions and means were still the same. However, when other things followed with the PRP, and the leaders realised what our problems were – that we did not have the offerings to these people, then they did something”*. This caseworker puts attention to a general problem that has been formulated in a some cases. The New Chance target group is a group that in many cases has been “forgotten” for a rather long period and a group where large proportions have serious social, health, economic, psychological and other problems. To help this group allocation of money to a PRP arrangement is not perceived as sufficient. Instead, respondents have mentioned that important motivators and means to get better results are e.g. method-development – primarily better offers, hiring of more personnel and collaboration with other specialists (doctors, consultants etc.). Some respondents have mentioned that the new positive attention and focus on the caseworkers working with the target group, both from the government and the local leaders in the municipalities have had a positive impact on their work. The caseworkers have been given a common goal and in some cases forced to be more collaborative. One employee explains: *“Our collaboration is very limited in our everyday life, now we were supposed to work together – the responsibility was shared. Every effort counted in the same account”*.

With the same account this employee is both referring to the output of PRP, however also to the competition with other municipals. The New Chance programme created a website where it was possible for the municipals to see how they compared to other municipals concerning the the main objective of the New Chance programme. This competition between the municipals seems to have been a motivational factor for several respondents. These parameters may also contribute to explain why a crowding out effect seems to have been avoided.

A more pessimistic leader, however, adds: *“Our results are in (general) more a result of good trade circles, randomness and luck – not the individuals specific contribution”*. That is, activating this specific target group is seen as more or less independent of the case workers performance.

5.7. The cost of the PRP arrangement and perspective for future PRP arrangements

From an economic point of view it is crucial that the costs used to run a PRP system must not be higher than the economic benefits gained by the system. At the outset we expected that the costs (time and energy) of negotiating and implement the PRP would be rather low in the Job Centres.

The calculation of results (number of persons going into employment for 13 weeks) was undertaken by The National Labour Market Authority and the subsequent calculation and distribution of the PRP within the Job Centre seemed rather simple. However, our data revealed that quite a lot of time and energy was used in the negotiation process at some workplaces - partly because of a lack of experience with PRP and partly because of a lack of clear guidelines about the arrangement. Some respondents also pointed to the fact that calculation and payment of PRP money to each employees' account could be rather time consuming.

In a broader perspective however, the lack of guidelines has left a space for creative adoption of the PRP to the specific goals and cultures at the Job Centres. Many workplaces explain that the PRP arrangement has functioned perfectly as trail balloon, precisely because it was a quite limited amount of money – and money that did not influence the ordinary salary. The PRP arrangement created an opportunity to see how such an arrangement suited the workplace – and many workplaces express that they are positive towards future experiments with PRP. Several respondents have talked about how PRP can be seen as a result of a general value change within social work from a focus on professional competence and a holistic picture of the client to a more narrow focus on work-fit and results. In one respondent's perspective, a leader, these value changes open up for the introduction of new reward systems. The introduction of a new reward system can be a strategic tool to change the organisational climate and in the longer perspective the culture in organisations. However, new reward systems might also be a testimony of how new values have occurred within social work.

6. Summary and conclusions

6.1. The Danish context and aim of the paper.

One of the main tasks of the 98 Danish municipalities' employment administrations is to bring long-term unemployed recipients of social assistance (social clients) into employment. It has proved difficult in spite of the low unemployment in Denmark in recent years. The social workers are a distinct professional group with a rather high level of education: 3-4 years at a University College. They are organized in a nationwide union and professional association.

During recent decades performance-related pay (PRP) has internationally become more widespread (Child 2005, OECD 2005). New Public Management has emphasized the use of economic incentives. In Denmark, the reform "New Wage" from 1997 paved the way for PRP. Increasingly there are examples of PRP also among rank and file members of professional groups in public service organizations.

In the paper PRP is defined as a system where part of the pay for an individual or a group depends on measured output according to a predetermined scheme. For social workers the output is that a social client gets a job. A few municipalities in Denmark have practiced such payment systems for their social workers for some years. Recently PRP was introduced on a much larger scale in the 2-year period from July 2006 to June 2008 as part of a comprehensive programme to bring social clients into employment.

The target group for this programme, labelled "A New Chance for Everyone", was about 60,000 long-term recipients of social assistance. Government allocated funds to the extra efforts. A special amount (about 1.34 million EURO) was reserved for PRP to social workers who could be given an extra reward every time a person in the target group went into employment for at least 13 weeks.

The reward was 1000 DKK (about 134 EURO). It was voluntary for the municipalities to introduce PRP. If a Job Centre wanted to get some of the money allocated to PRP by the state, the municipality (The Job Centre) would have to make a collective agreement on PRP with the local union for social workers and subsequently inform the central level (The Ministry of Employment). 37 of the 98 municipalities introduced PRP for their social workers.

This way, the “New Chance for Everyone” programme represents a relevant case to study issues related to PRP for a professional group as social workers. The present paper focuses primarily on whether *PRP to social workers seems to influence their motivation and efforts to bring disadvantaged social clients into employment*. The empirical data include material from interviews with leaders and social workers in 16 Job Centres with PRP and all (except two) local agreements on PRP in the 37 Job Centres. The local agreements describe the local types of PRP.

The main scientific relevance of the paper stems from the fact that despite a comprehensive sociological, psychological and economic literature on work motivation (Pinder 1998, Latham & Pinder 2005, Gibbons 1998) relatively few empirical investigations on the impact of PRP on employee effort have been undertaken, in particular professionals in public administration (OECD 2005).

6.2. Theory

According to *expectancy theory* (Vroom 1964, Porter & Lawler 1968) a worker makes an *effort* (works) to produce *results*. Other things being equal, the worker will make a higher effort the more the worker believes that the effort will in fact produce results. The correlation between effort and results depends on the worker’s qualifications and understanding of the work role, and presupposes that results (good performance) have consequences in terms of positive rewards.

The rewards may be *intrinsic*, i.e. stemming directly from performance or the effort in itself or *extrinsic*, e.g. continued employment, wage increase, advancement or social approval from management or co-workers. The subjective reward depends on the value that the reward has from the point of view of the worker. The total subjective reward due to an (increased) effort equals the sum of many single rewards weighted by their values. Other things being equal the worker will make an effort if he/she expects that this will lead to a subjective reward.

This presupposes that the reward structure is legitimate from the point of view of the worker. This means that the reward must be equitable both in relation to the worker’s effort (the effort-reward relationship) and in relation to the rewards to other comparable workers inside and outside the organisation.

Goal-setting theory (Locke & Latham 2002) points out that formulated goals (a condition for PRP) influence behaviour. Accepted goals have a motivational impact. Operational (in contrast to vague and unclear) goals and goals neither too easy nor too difficult to reach increase the worker’s effort, including learning processes, to obtain the goals. The motivational impact of goals presupposes feedback to the worker on the degree to which goals are reached.

Expectancy theory does not itself say anything concrete on PRP. Two more concrete perspectives are the principal agent theory (in favour of PRP) and more critical social psychological inspired theories, cf. below.

Classical *principal agent theory* (Milgrom & Roberts, 1992; Gibbons, 1998) assume that the worker works to make money and that work does not imply other rewards but only costs in terms of use of time, effort and other inconveniences. This means that the incentive impact of PRP increases with the size of the wage and decreases with the size of the indicated costs.

The employer (principal) wishes, that the worker (the agent) makes an effort. As the employer cannot fully observe the effort but only results the parties cannot conclude a contract where wage depends on effort. A contract with a fixed wage is also not optimal for the employer as such a contract will create an incentive on the part of the worker to shirk. A contract where the wage depends solely on results (performance) will create an incentive for the worker to produce much but will at the same time expose the worker to risk because the results also depend on unforeseeable factors that the worker cannot control. As the worker is risk averse the employer must pay a higher (average) wage than in the fixed wage situation. The employer must therefore make a trade-off between this cost of PRP and the benefit (the incentive effect of PRP). The conclusion is that the optimal contract under certain conditions will be a contract where the wage paid consists of a fixed component plus a performance related element. Thus, principal agent theory is an argument in favour of PRP.

Much empirical research is consistent with the theory. In his review Prendergast (1999) mentions eight investigations showing “considerable effects of compensation on performance”. The investigations include workers with relatively simple tasks (e.g. Lazear 2000).

Social psychological inspired theories assume that employees work not just for the money (Pinder 1998, Jaffee 2001). The Human Relations School focused in particular on the employees’ social needs and consequently on group dynamics and leadership as important for employee motivation. Classical observations are that work groups develop informal norms on the appropriate level of production and that pay can also have a symbolic function (recognition from management). The Human Resources tradition emphasises that employee effort depends on the content of the job in terms of complexity, identity, autonomy and feedback (Hackman & Oldham 1992) whereas theories on organizational culture (Schein 1985) point out that employee behaviour is influenced by the values and basic assumptions of organizational culture (Schein 1986). Generally these theories have not been much interested in pay. An exception is Herzberg’s much discussed theory (Herzberg, Mausner & Snyderman 1959) implying that pay increase has, at best, a short-term positive influence on motivation. In general pay is a so-called hygiene factor.

Pay is taken up more explicitly in the literature on interaction between extrinsic and intrinsic motivation inspired by Deci (Deci 1972, Deci & Ryan 1985). According to Frey’s theory (Frey 1997, Frey & Osterloh 2002) PRP leads to increased extrinsic motivation. Intrinsic motivation may remain unchanged, increase or decrease. In the two first cases there will be a positive impact of PRP. The third case, labelled crowding out, means that intrinsic motivation decreases as a consequence of PRP. The reduction may outweigh the increase in extrinsic motivation so that total motivation decreases when PRP is introduced. Crowding out may occur if the worker thinks PRP reduces his/ her autonomy in the job, the worker’s feeling of status or recognition or if the worker thinks that PRP is in conflict with his/ her professional identity. The crowding hypothesis is controversial. Frey & Jegen (2001) summarise observations in favour of their thesis whereas Cameron & Pierce (2002) are more critical towards Deci’s basic argument.

Conditions for PRP to function as intended

The basic argument in favour of PRP in Danish Job Centres is simple. However, for PRP to function as intended a number of conditions must hold, cf. the theories:

- PRP must imply operational goals.
- The social worker must accept the goals and think that the goals are realistic.
- The social worker must know which actions to be taken to reach the goals.
- The degree of fulfilment of goals must be visible and it should be possible to figure out which social workers have contributed to the realising the goals.
- The reward due to PRP must have a sufficient size to motivate the social worker.
- The monetary reward must not crowd out the social worker's intrinsic motivation
- The whole PRP set up must be legitimate from the point of view of the social worker.

Our empirical analyses focus in particular on these themes.

6.3. Main findings.

(0) The adoption of PRP: 37 of the 98 municipalities introduced PRP in the New Chance period from July 2006 to June 2008. There seems to be a rather clear geographical clustering of these municipalities. Further, it seems that larger municipalities and municipalities with relatively many disadvantaged recipients of social assistance had a higher than average propensity to introduce PRP. The interpretation of these findings is that the New Chance Programme caused a significant increase in the number of local employment administrations with PRP (an increase of about 2-300 per cent). The adopters were municipalities receptive of new ideas and municipalities where the New Chance programme was most relevant due to the composition of the social clients.

(1) The local agreements on PRP: Most of the 37 PRP systems were collective (33 Job Centres) where the reward depends on results obtained by a collective of employees. If, for example the Job Centre gets 10 clients into employment then the reward (10,000 DKK) is divided among the members of the collective, in most cases the amount was divided equally among the members. The collective consists in some cases of the all employees in the Job Centre - typically between 30 and 130 persons. In most cases the collective comprised social workers directly involved with the target group for the New Chance, i.e. the *team* (5-7 employees). In most Job Centres the reward was monetary but in some Job Centres the reward consisted of some sort of social or training arrangement. The reason behind payment in kind seemed to be that the administrative costs of paying money to many persons is rather significant if the amount to each person is small.

(2) The reason behind collective PRP-agreements seemed to be:

a) *Measurement of results* (social clients going into employment for 13 weeks, the criterion for PRP) was undertaken by the Ministry of Employment on the basis of registers. The results was registered 4 times during the New Chance period (July 2006 – June 2008), that is shortly after the first, second, third and fourth half year period. The Job Centre then received an amount from The Ministry according to the number of clients who went into employment, but it was difficult for the Job Centre to figure out precisely which concrete clients released the money and consequently which concrete social workers were involved with the cases.

b) *The nature of social work is typically collective.* Most often more than one employee in the Job Centre is involved when a social client gets a job. The functional division of labour implies that different functions are performed by different persons in relation to each individual client, in particular in larger Job Centres.

c) *Ideological factors*. A general norm of solidarity or fairness also seemed to be a force promoting collective PRP agreements. A central consideration from both management and union representatives was to avoid “conflict and envy” when PRP was introduced. Almost all Job Centre leaders stressed the importance of creating a *fair* PRP-arrangement. In some cases fairness meant that also employees in the Job Centre not working with the target group for The New Chance programme should have some sort of PRP. Why should not these persons also have a chance to earn some extra money?

(3) *The size of PRP* for the individual social workers under PRP arrangements varied very much. In most cases PRP payment for half a year was much less than 5 per cent of the normal wage for half a year. Most respondents were of the opinion that the PRP amount generally was too little to have any large impact on social workers’ behaviour although for some social workers the amount could be of a significant size in absolute terms. A larger amount could have had larger impacts according to some respondents. But many social workers perceived PRP as a sort of (symbolic) recognition of their efforts.

(4) *The relation between effort and results*. Under the New Chance programme the objective (intended result) was clear: Social clients should go into employment. It also seems that the objective by and large was accepted by the social workers – at least they said so in the interviews. But at the same time they indicated that they often found it very difficult to reach the objective or to come closer to it. The means used by the social workers are: Different kinds of counselling, treatment and activation (training or job-training in projects or ordinary work places). The social worker may draw on counselling, treatment and activation facilities inside or outside the Job Centre. As mentioned, the target group for New Chance comprised the most disadvantaged social clients. Most have different kinds of problems in addition to lack of a job: Social problems, psychological problems (disorders), lack of training, family problems, housing problems, economic problems (debt) and severe problems in relation to alcohol and other forms of abuse. Generally quantitative evaluations have shown that it is very difficult to get positive results of employment policy measures targeted the most disadvantaged clients. The general point, also stressed by our respondents, is that there exists no general (evidence based) methods and efforts that social workers can use which with a very high probability will bring the most disadvantaged clients into employment or closer to the labour market. Randomness (luck) plays a role. This does not necessarily reduce a motivational impact of PRP as research (Skinner) have shown that rewards that are to some extent unexpected may under certain circumstances have a larger motivational impact than rewards given according to a fixed predetermined scheme. The important thing is that the social workers have some conceptions of what is meaningful to do with the clients although they know that their chance of success in the short term is often low and that they are often not certain as to the consequences of their handling of the clients.

(5) *Professional values and PRP*. Put simply, the traditional professional ideology of social work may be formulated as follows:

“Social work is about helping disadvantaged members of society to make a decent living. A social worker does her/his job to help the clients. The social worker’s orientation is towards the intrinsic and humanitarian aspects of the job. Of course, a social worker needs money as everybody else, but the social worker’s motivation to do a good job is not monetary. Therefore, the assumption behind PRP that human beings are motivated by money is basically in conflict with the professional values of social workers.”

Many of our respondents expressed such kinds of points of view. Therefore, it would be inherently illegitimate for a social worker to admit that PRP in fact has had any impact on the way social work was performed. To say so would be a sign of incompetence in social work. Social work should be carried out according to the routines and ideas of the profession and economic rewards for certain results should have no influence whatsoever on the way social work is done.

These considerations also represent a methodological problem when we try to figure out the impact of PRP on social workers from interviews with these same social workers.

(6) *The impact of PRP on social workers.* The introduction of PRP in the Job Centres was voluntary as mentioned above. Both management and the local union had to accept PRP and to agree on the concrete design of PRP under “The New Chance for Everyone” employment policy programme. Thus PRP was accepted by the local union representative in the 37 Job Centres. The main reason for accept was that some extra money from the state “could not do any harm”. From our respondents we have heard of no severe resistance against the concrete PRP arrangement in their respective Job Centres despite the general scepticism at ideological level.

From our interviews it is also difficult for us to detect anykind of crowding out of intrinsic motivation. Skimming effects of PRP (concentrating on the “best” clients) have not been registered.

A number of objective factors reduced the potential impact of PRP on social workers: The limited amount of reward, the collective nature of the PRP-arrangement and the loose coupling between effort of the individual social worker and results obtained. However, the feeling of recognition due to PRP and the fact that PRP in most cases promoted a feeling of a collective effort and common goals of the employment policy effort in the Job Centre seemed to have contributed higher motivation of the social workers.

Appendix: Tables on PRP-agreements in municipalities.

Table A.1:

Per cent of municipalities with PRP in the second half year of 2006.

Variable	Description	Per cent with PRP	N
Size: Number of inhabitants in the local authority	Less than 10,000	1	128
	10,000 - 19,999	5	77
	20,000 - 39,999	22	37
	40,000 -	46	28
County	1. Copenhagen & Frederiksberg municipalities	0	2
	2. Copenhagen county	50	18
	3. Frederiksborg	11	19
	4. Roskilde	18	11
	5. West Zealand	9	23
	6. Storstrøm	4	24
	7. Bornholm & Funen	0	32
	8. Southern Jutland	0	23
	9. Ribe	0	14
	10. Vejle	44	16
	11. Ringkøbing	0	18
	12. Århus	4	26
	13. Viborg	6	17
	14. North Jutland	4	27
	County no. 1, 3-9, 11-14	4	236
	County no. 2 and 10	47	34
PRP before 2006	Yes	50	10
	No	8	260
Denmark	All municipalities	10	270

Source: Data from the National Labour Market Authority and Statistics Denmark.

Table A.2:

Logistic analysis of regression: Municipalities' probability of introducing PRP in the second half year of 2006.

Variable	Description	OR	P
Size: Number of inhabitants in the municipality	Less than 10,000	-	-
	10,000 - 19,999	4.2	0.217
	20,000 - 39,999	22.0	0.006
	40,000 -	65.8	0.000
County	County no. 1, 3-9, 11-14	-	-
	County no. 2 and 10	13.1	0.000

Note: Pseudo R2 = 0.43 270 observations. We have one by one introduced the following variables in this model: (1) No. of recipients of social assistance, (2) No. of recipients of social assistance as a fraction of the population in the municipality, (3) No. of recipients of social assistance in the target group for New Chance, (4) No. of recipients of social assistance in the target group for New Chance as a proportion of the population in the municipality, (5) No. of recipients of social assistance in the target group for New Chance as a proportion of the total number of recipients of social assistance in the municipality (6) Local unemployment rate, (7) The employment probability of the target group for New Chance based on historical data. (8) Whether or not the municipality's employment administration had PRP before 2006. - However, none of these other variables has any significant impact on the probability of introducing PRP.

Source: Data from the National Labour Market Authority, Statistics Denmark and Rambøll Management (2004).

Table A.3:

Per cent of municipalities with PRP in the second half year of 2007 and first half of 2008.

Variable	Description	Per cent with PRP	N
Size: Number of inhabitants in the local authority	Less than 30,000	24	25
	30,000 - 49,999	36	39
	50,000 - 99,999	46	28
	100,000 -	67	6
Part of country	1. Copenhagen city	25	4
	2. Copenhagen suburbs	69	13
	3. North Zaeland	27	11
	4. Bornholm	0	1
	5. Eastern Zealand	60	5
	6. West- and South Zealand	50	12
	7. Funen	0	10
	8. Southern Jutland	33	12
	9. East Jutland	45	11
	10. West Jutland	38	8
	11. North Jutland	27	11
	Part no. 4 and 7	0	11
	Part no. 1, 3, 8, 10 and 11	30	46
	Part no. 2, 5, 6 and 9	58	41
Region	Capital Region (part 1, 2, 3 and 4)	45	29
	Region Zealand (part no. 5 and 6)	53	17
	Region Southern Denmark (part no. 7 and 8)	18	22
	Region Middle Jutland (part no. 9 and 10)	42	19
	Region North Jutland (part no. 11)	27	11
Target group for New Chance as per centage of recipients of social ass.	- 25 per cent	21	29
	25-34 per cent	40	45
	35 -per cent	54	24
Per cent of recipients of social ass. not ready for the labour market	- 49 per cent	20	25
	50 – 64 per cent	31	51
	65 – per cent	73	22
Denmark	All municipalities	38	98

Source: Data from the National Labour Market Authority and Statistics Denmark.

Table A.4:

Logistic analysis of regression: Municipalities' probability of having established PRP in the second half year of 2007 and first half of 2008.

Variable	Description	OR	P
Size: Number of inhabitants in the municipality	Less than 30,000	-	-
	30,000 - 49,999	2.0	0.252
	50,000 - 99,999	3.0	0.085
	100,000 -	12.3	0.017
Part of country	Part no. 4, 7, 1, 3, 8, 10 and 11 (cf. table 3)	-	-
	Part no. 2, 5, 6 and 9 (cf. table 3)	4.9	0.001

Note: Pseudo R²= 0.13 Number of observations=98. In this model we have introduced the following variables one by one: (1) Number of recipients of social assistance in the municipality, (2) Number of recipients of social assistance as a proportion of the population in the municipality, (3) Number of persons in the target group for New Chance, (4) Number of persons in the target group for New Chance as a proportion of the population in the municipality (5) The local rate of unemployment, (6) The political party of the major of the municipality. However, non of these variable had any significant impact on the probability of having introduced PRP.

Source: Data from the National Labour Market Authority and Statistics Denmark.

Table A.5:

Logistic analysis of regression: Municipalities' probability of having established PRP in the second half year of 2007 and first half of 2008.

Variable	Description	OR	P
Size: Number of inhabitants in the municipality	Less than 30,000	-	-
	30,000 - 49,999	1.5	0.587
	50,000 - 99,999	3.0	0.147
	100,000 -	4.4	0.374
Part of country	Part no. 4, 7, 1, 3, 8, 10 and 11 (cf. table 3)	-	-
	Part no. 2, 5, 6 and 9 (cf. table 3)	4.0	0.009
Target group for New Chance as a fraction of recipients of social ass.	- 25 per cent	-	-
	25-34 per cent	1.7	0.408
	35 -per cent	5.2	0.031
Per cent of recipients of social ass. not ready for the labour market	- 49 per cent	-	-
	50 – 64 per cent	1.6	0.490
	65 – per cent	10.1	0.004

Source: Data from the National Labour Market Authority and Statistics Denmark.

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