

POLICY EXPECTATION MODERATES THE RELATIONSHIP BETWEEN MERIT PAY POLICY EFFECTIVENESS AND PUBLIC SERVICE MOTIVATION

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We explored how policy expectation influences the relationship between public service motivation (PSM) and perceived merit pay policy effectiveness among public sector employees. Using survey data from 581 Chinese compulsory school teachers, we tested the influence of merit pay policy on PSM using multiple regression analysis. The results demonstrated that the relationship between the perceived effectiveness of merit pay policy and PSM is U-shaped. That is, teachers' PSM declined in the case of a weak perception of policy effectiveness but improved when teachers perceived that policy effectiveness was high. In addition, policy expectations moderated this link, suggesting that taking this variable into account can help to improve teachers' acceptance of the reward policy. The theoretical and managerial implications relating to strategies for implementing performance pay systems, study limitations, and possible future research directions are discussed.

Keywords: merit pay, policy effectiveness, policy expectation, public service motivation, compulsory school teachers, public sector employees.

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In the past three decades, increasing numbers of performance-related pay programs have been implemented as motivational tools in various public sectors throughout countries including the United States, the United Kingdom, and Australia (Kellough & Nigro, 2002). For example, policy makers in the United States have discussed whether merit pay should be offered to public school teachers, as is common practice in the United Kingdom (Woessmann, 2011). In China, as the first step to reforming the wage system in public service institutions, in 2009 a merit pay policy was implemented for teachers working in *compulsory schools*—that is, public schools offering free education from Grade 1 to Grade 9 (Ministry of Education of the People's Republic of China, 2008). However, as many scholars have expressed doubt regarding the actual benefits of utilizing performance pay programs in public sectors in the West (Ingraham, 1993; Perry, Engbers, & Jun, 2009), the Chinese government and scholars from this country (e.g., Meng & Wu, 2015) have also questioned whether the merit pay policy is a useful incentive for public service employees and whether it can fulfill its original purposes of attracting talented individuals to teaching roles by offering a competitive compensation system and improving student achievement by increasing teacher effectiveness.

Per crowding theory, the use of pay systems may mean that the altruistic intentions of public sector employees are overlooked or even diminished (Moynihan & Pandey, 2008). In contrast, Stazyk (2012) found that performance-related pay was associated with greater job satisfaction among U.S. local government managers, especially those who possessed strong *public service motivation* (PSM), which is defined as “an individual's predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations” (Perry & Wise, 1990, p. 368). PSM is an important antecedent of work-related outcomes, such as job performance (Vandenabeele, 2007; Wright & Pandey, 2008), in that employees with high PSM tend to experience high levels of autonomy, task identity, and task significance (Perry & Wise, 1990). Therefore, we examined the relationship between the merit pay policy effect and PSM in a Chinese school teacher context, as well as the conditions that moderate this relationship.

Literature Review and Development of Hypotheses

Perceived Merit Pay Policy Effectiveness and Public Service Motivation

Perceived policy effectiveness refers to the belief of the involved actors that intended goals are being achieved through enacting relevant policies (Lubell, 2003). In this study, we considered the perceived effectiveness of the merit pay policy as reflecting the practical result of this system. The goal of a merit pay policy is to help organizations attract and retain the best and brightest employees,

and to improve organizational flexibility and generate better outcomes. In addition to sociodemographic and socioinstitutional factors, such as level of education, family ethnic background, and religion (Perry, 1997), Moynihan and Pandey (2008) also demonstrated that organizations can affect employees' PSM. Previous researchers have shown that a performance pay system may provide the perception of increased self-determination because the employee can optimize the combination of effort and income in accordance with their own preferences (Eisenberger, Rhoades, & Cameron, 1999; Green & Heywood, 2008). Thus, an effective merit pay policy may incentivize public sector employees and foster their PSM.

On the other hand, numerous researchers have argued that implementing merit pay systems in the public sector has adverse effects on employees' perceptions of incentives (Durant, Kramer, Perry, Mesch, & Paarlberg, 2006). Some scholars have also provided indirect evidence based on motivation crowding theory that extrinsic rewards, such as money, decrease employees' intrinsic motivation, especially in the context of public organizations (Georgellis, Iossa, & Tabvuma, 2010). According to Frey and Jegen (2001), locus of control determines whether intrinsic motivation is crowded in or out by extrinsic motivation. If individuals perceive the intervention to be controlling, then external interventions crowd out (i.e., reduce) intrinsic motivation. In contrast, if the intervention is perceived as supportive, thus fostering self-esteem and causing individuals to gain more self-determination, it will "crowd in" intrinsic motivation (Frey & Jegen, 2001). This suggests that a positive effect of financial incentives may be observed only if these incentives satisfy employees' needs. In contrast, insufficient rewards may be considered as a controlling tool to change the norms that guide behavior in accordance with the incentives (Bregm, 2013). Therefore, variable pay levels may cause employees to engage in goal displacement or overlook other relevant organizational values (Moynihan & Pandey, 2008), thereby diminishing employees' PSM in the long term.

To reconcile the inconsistent findings obtained in previous studies, we reasoned that the link between the extent of the perceived merit pay policy effectiveness and PSM might be U-shaped. That is, at relatively low levels of policy effectiveness perception, employees in the public sector cannot perceive a reward effect, which reduces their self-determination and crowds out their PSM. However, when they have relatively high levels of policy effectiveness perception, employees may feel that their work is being reasonably rewarded and that their personal values are approved of by the organization, thereby enhancing their PSM. Thus, we formed the following hypothesis:

Hypothesis 1: The relationship between perceived merit pay policy effectiveness and public service motivation will be U-shaped.

The Role of Policy Expectation in the Relationship Between Nonlinear Policy Effectiveness and PSM

Expectation theory involves the attempt to relate action to the perceived attractiveness of expected consequences, and it has been used extensively to explain how variables such as managerial motivation, salaries, and pay effectiveness affect employee attitudes (House, Shapiro, & Wahba, 2007). Individuals with high levels of expectancy believe that if they put forth enough effort, they will be able to obtain valuable rewards (Brouer, Harris, & Kacmar, 2011). However, if their efforts are not rewarded in the desired manner, employees may feel that their performance has not been recognized, which decreases their expectancy or valence beliefs and results in unfavorable work-related attitudes, such as lower job satisfaction and organizational commitment (Rosen, Levy, & Hall, 2006).

Although there is some evidence of a nonlinear relationship between perceived merit pay policy effectiveness and PSM, whether individuals can fully benefit from the policy is likely to be influenced by both the individual's internal attitude toward the policy and its practical implementation in the external environment. Previous researchers have suggested that any positive benefits of the pay policy may be offset by poor policy implementation (Perry et al., 2009). In an environment perceived to have poor policy implementation, the reward would be less than employees expected; thus, employees with high policy expectations would be frustrated. However, when well-organized policy implementation and the real effect of the policy match their expectations, employees would grant more approval to the policy makers and also exhibit increased interest in their work owing to value convergence. On the other hand, individuals with lower policy expectations are mainly driven by their own altruistic motivation to work, that is, PSM. When perceptions of the policy's effectiveness are low, individuals are less influenced by the difference between expectation and perceived policy effectiveness, and PSM is not lowered too much owing to low levels of disappointment with the policy. In contrast, these individuals perform more productively if the policy's effectiveness is high because the rewards are above their expectations. Hence, we proposed the following hypothesis:

Hypothesis 2: Policy expectation will moderate the U-shaped relationship between perceived merit pay policy effectiveness and PSM, such that employees with high policy expectation will show a faster and more pronounced decline in PSM at low levels of perceived policy effectiveness, and a slower rise in PSM at high levels of perceived policy effectiveness.

Method

Participants and Procedure

Participants were 700 Chinese teachers from 14 compulsory schools located in

Guangdong and Shaanxi Provinces, which provide free education to students aged 7–15 years. In 2011 and 2012, all the teachers in these schools were informed that they were to take part in a conference, and we then described the purpose of the study and the rating procedure. Those who agreed to participate in the study were required to complete the survey independently and anonymously. Teachers who were unable to attend the meeting but were interested in completing the survey were contacted in person and asked to complete the measures and return these in a sealed envelope to their supervisor, who then mailed all of the envelopes together to us. Out of the 648 responses received (92.6% return rate), 581 were complete and valid (89.7% effective return rate). On the basis of the Chinese Educational Statistics (Ministry of Education, 2010), the demographic makeup of our sample was representative of the compulsory school population, with 29.1% being male and 70.9% being female, and with ages ranging between 23 and 55 years. The respondents' basic demographic data are presented in Table 1.

Table 1. *Participants' Demographic Statistics*

Variables	<i>N</i>	%	Variables	<i>N</i>	%
Gender			School level		
Male	169	29.1	Primary	265	45.6
Female	412	70.9	Middle	316	54.5
Job tenure			Pay level		
< 10	213	36.6	Reduced	159	27.4
10–20	264	45.4	No change	256	44.1
> 20	104	17.9	Increased	166	28.6
Level of education			Work type		
≤ Bachelor's degree	562	96.7	Administrator	16	2.8
> Bachelor's degree	19	3.3	Teacher	565	97.2
Region			School size (teachers)		
Shaanxi	282	48.5	< 50	213	36.7
Guangdong	299	51.5	≥ 50	368	63.3

Measures

Unless otherwise indicated, responses to all scales were made on a 5-point Likert scale (1 = *strongly disagree* to 5 = *strongly agree*). We consulted with a professional English interpreter who has extensive experience in English translation for the back-translation procedure to avoid semantic deviation and misunderstanding of the item meanings in the translated measures. Scale scores were summed to create an overall score for each variable, with higher scores representing higher levels of the construct in question.

Public service motivation. Numerous researchers (e.g., Kim, 2009; Vandenabeele, 2007) have used Perry's (1996) four-dimensional PSM scale in various countries. Teachers are required to have high levels of compassion

and self-sacrifice toward their students, but compulsory school teachers in China have few opportunities to engage in the policy making process. This is because the only forum for these teachers to express their opinion is the annual Teacher Representative Conference, and not every teacher can be elected as a representative and attend this conference. Further, the Principal Responsibility System is practiced in most Chinese schools, whereby the school's principal has the right to modify and make final decisions on the implementation of all school policies, even those that were decided on by teachers at the conference. Thus, the dimension of attraction to policy making in Parry's scale is less relevant to compulsory school teachers, so we used a shortened 5-item version that was adapted from Perry's original scale but contains three dimensions: commitment to public interest, compassion, and self-sacrifice (Wright, Moynihan, & Pandey, 2011). The Cronbach's alpha value for this measure was .74 in this study.

Perceived merit pay policy effectiveness. Three focus groups of compulsory school teachers were organized to identify expectations and perceptions of the real outcomes of the merit pay policy. We voice recorded the focus group discussions and took notes on key points. Merit pay policy effectiveness was assessed in relation to the teachers' perceptions of whether current policies addressed existing problems (e.g., low salaries and high turnover intention) and whether policy objectives were being achieved. On the basis of the focus group discussions and policy content analysis, two of the initial seven items covering a variety of policy objectives were removed, and we then conducted reliability and factor analyses to refine the instrument. The remaining five items are "I'm satisfied with the merit pay policy implementation at our school," "I get a fair salary based on performance appraisal," "My salary is above the average level of the local civil servant," "The merit pay policy favors the course teachers who are responsible for teaching tasks but not school administrative work," and "The merit pay policy helps me to have better understanding of the goal." The Cronbach's alpha value was .73 in this study.

Merit pay policy expectation. The same procedures were used to develop the policy expectation measures. Per Bandura's (1977) definition, we interpreted *policy expectation* as the extent of an employee's belief that the expected outcome of the merit pay policy can be reached. The final policy expectation measure comprised three items: "I think it is necessary to implement a merit pay policy for compulsory school teachers," "I hope to implement a merit pay policy for compulsory school teachers," and "I think a merit pay policy could play an incentive role for compulsory school teachers." The Cronbach's alpha value was .84 in this study.

Control variables. We controlled for four individual variables (gender, age, job tenure, and level of education) and two organizational variables (school size and region) because previous researchers have provided empirical evidence that these variables are positively associated with PSM (Clerkin & Cogburn, 2012).

Data Analysis

As recommended by Podsakoff, MacKenzie, Lee, and Podsakoff (2003), we checked for common method bias by conducting a series of confirmatory factor analyses on the dataset using AMOS version 20.0. The full measurement model was examined by loading all items on their intended constructs. An acceptable level of overall model fit was reflected by the root mean square error of approximation value of .07 and the chi square/degrees of freedom ratio of 3.946. Furthermore, to assess the distinctiveness of the constructs in this study, we used sequential chi-square difference tests. Three alternative models were compared to the full measurement model. As is shown in Table 2, none of these alternative models yielded an acceptable fit, demonstrating that all of the constructs in this study were distinct from each other. The Cronbach's alpha values for all constructs were higher than the minimum accepted standard of .70, indicating that the measures had sufficient construct reliability.

Table 2. *Fit Statistics From Results of Confirmatory Factor Analyses*

Models	χ^2	<i>df</i>	χ^2/df	RMSEA	IFI	CFI
Harman's single factor test	1309.151	65	15.987	.158	.580	.576
Model A	1149.893	64	17.967	.169	.532	.527
Model B	1015.632	64	15.869	.158	.590	.585
Model C	407.553	64	6.368	.095	.852	.850
Full measurement model	244.627	62	3.946	.070	.921	.920

Note. $N = 581$. χ^2 = chi-square discrepancy, *df* = degrees of freedom, RMSEA = root mean square error of approximation, CFI = comparative fit index, IFI = incremental fit index. Model A = policy expectation, perceived policy effectiveness + public service motivation. Model B = perceived policy effectiveness, policy expectation + public service motivation. Model C = policy expectation + perceived policy effectiveness, public service motivation.

Results

Preliminary Analyses

Descriptive statistics and correlational analyses are presented in Table 3. Among the control variables, region, school size, age, and gender were significantly correlated with PSM. Regarding the independent and moderating variables, both perceived policy effectiveness and policy expectation were significantly correlated with the dependent variable of PSM. We further explored the relationships among these variables using regression analysis, and found that the mean value of policy expectation was higher than that of policy effectiveness. This result demonstrates that teachers held high expectations for the merit pay policy, but that the policy was not as effective as they expected.

Next, we used SPSS version 20.0 to conduct an ordinal linear sequence regression analysis to test both the curvilinear and moderating relationships.

Table 3. Descriptive Statistics and Correlation Results

Variables	M	SD	1	2	3	4	5	6	7	8
1. Region	0.5150	0.500								
2. School size	0.3666	0.482	-.676*							
3. Gender	0.2910	0.455	-.091*	.173*						
4. Age	2.4680	0.746	.194*	-.133*	.132*					
5. Level of education	0.0330	0.178	-.189*	.222*	.053	-.090*				
6. Job tenure	2.6920	0.902	.344*	-.291*	.068	.766*	-.141**			
7. Policy expectation	3.3750	0.947	.077	-.129**	.003	.016	-.069	.009		
8. Policy effectiveness	2.9290	0.810	-.116**	.036	.029	.044	.023	-.032	.561**	
9. PSM	4.0580	0.606	.134*	-.130**	-.090*	.105*	.016	.077	.167**	.078*

Note. N = 581. * p < .05, ** p < .01. PSM = public service motivation.

Table 4. Ordinal Linear Sequence Regression Analysis—Dependent Variable: Public Service Motivation

Predictor	Model 1	Model 2	Model 3	Model 4	Model 5
Control variables					
Region	-.085	-.084	-.076	-.080	-.081
School size	.072	.040	.035	.034	.043
Gender	.088**	-.090**	.092**	.089**	.091*
Age	-.157**	-.135**	-.135**	-.136**	-.150*
Level of education	-.055	-.066	-.071	-.072	-.071
Tenure	.080	.050	.047	.047	.061
Main effects					
Policy expectation		.191***	.190***	-.192	-.203
Policy effectiveness		.018	-.016**	-.030*	-.019
Policy effectiveness ²		.085**	.021*	.028*	
Moderator model					
Policy expectation × Policy effectiveness			.097*	.090*	
Policy expectation × Policy effectiveness ²			-.026		
R ²	.040	.064	.071	.076	.076
Adj. R ²	.030	.051	.057	.060	.058
ΔR ² change	.040	.024	.007	.005	.001
F	3.991***	4.907***	4.878***	4.688***	4.270***
ΔF	3.991***	6.804***	3.997**	2.85*	0.569

Note. N = 581. * p < .10, ** p < .05, *** p < .01.

Curvilinearity was tested by squaring perceived policy effectiveness and entering it in the third step after the control variables and linear terms were entered. Table 4 (Model 3) shows that the squared term coefficient was significant. As is shown in Figure 1, graphing this curvilinear relationship suggests that the curve initially slopes downward, then turns back before becoming slightly positive at the higher level of perceived policy effectiveness. Hence, Hypothesis 1 was supported.

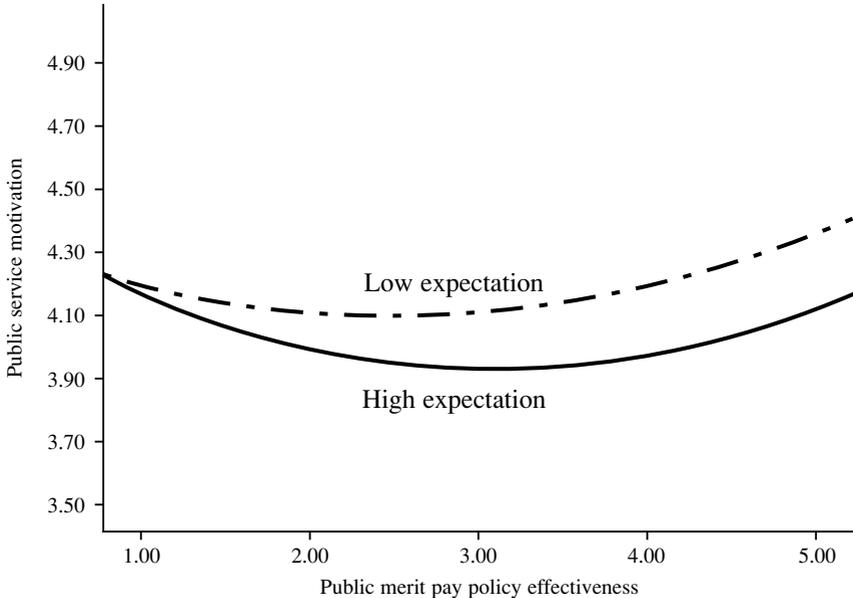


Figure 1. *The moderating effect of policy expectation on the relationship between perceived merit pay policy effectiveness and public service motivation.*

Testing for Moderating Effects

To assess the moderating effect of the curvilinear relationship, we created interaction terms composed of the quadratic of perceived policy effectiveness and the moderator of policy expectation. In Table 4 (Model 4), the significance of the cross-product term shows that the interactive effect of policy expectation interdependence and perceived policy effectiveness on PSM was significant, and that the overall variance explained by this block of moderators was also significant. Therefore, the existence of a moderating effect was supported. To facilitate the interpretation of the interaction effect, teachers with high and low policy expectation interdependence were divided into two groups: those whose scores were one standard deviation above the mean of the moderator and those whose scores were one standard deviation below. As shown in Figure 1, the

moderating effect was in the expected direction. That is, those teachers with high policy expectation interdependence experienced a faster decline in PSM compared to those with low policy expectation, with the effect being most profound at low levels of policy effectiveness.

Discussion

Mixed results have been obtained in previous studies of the relationship between merit pay and PSM. Our results provide new evidence to support many aspects of the proposed theoretical framework. First, we found that the effect of perceived merit pay policy effectiveness on PSM was U-shaped and more complex than previously thought. As shown in Figure 1, PSM initially decreased as the perceived policy effectiveness rose; however, it then increased slightly at a higher level of perceived effectiveness. This suggests that there may be a complex mechanism for understanding the degree of policy effectiveness that an employee can perceive, beyond which a positive effect on PSM can occur. Our results also support crowd out theory (Frey & Jegen, 2001), whereby it is only if the benefits, substantial rewards, and implementing fairness of a policy are recognized and accepted by teachers, that PSM can be improved.

Second, policy expectation was found to moderate the relationship between perceived policy effectiveness and PSM. Previous researchers found that individuals with high PSM focus more on intrinsic rather than extrinsic aspects of work (Bright, Pryor, & Harpham, 2005). Our results show that individuals with a low, compared to high, level of merit pay policy expectation may have higher PSM, which indicates that a merit pay policy may have less effect on employees who care less about monetary rewards. This result also provides support for the assumption that individuals who work in public (vs. private) sectors are more likely to obtain satisfaction from their work and to be less motivated by money (Perry, 1986).

Managerial Implications

As there are few empirical studies on merit pay policy and their effectiveness in public service institutions in China, our findings have several implications for merit pay policy implementation. First, we found that the effect of perceived merit pay policy effectiveness on PSM has a curvilinear shape. The preconditions for the successful implementation of a merit pay policy include sufficient financial resources, standardized criteria, and a clearly designed variable pay system (Kellough & Nigro, 2002; Sanders, 2004). Therefore, proactive human resources departments in the public sector should optimize merit pay budget resources, make performance evaluation plans, and distribute rewards fairly. This will help to ensure that the real policy results meet the expected goals and that

employees will be motivated by satisfaction of their needs for monetary rewards and social recognition.

Second, our finding that policy expectation moderates the relationship between perceived policy effectiveness and PSM confirms the critical roles of transparency and building reasonable expectations in policy making and implementation. Leaders should both implement the policy fairly and interpret the policy-making process and executive plan clearly. If the information provided is insufficient, employees may misunderstand the policy and form unreasonably high expectations, thus resulting in reduced PSM when the policy effect is not as good as expected. Transparency in policy making and implementation can help to build trust and understanding between leaders and employees, leading to greater acceptance of the policy result, even if there are some defects in the implementation of the policy.

Study Limitations and Directions for Further Research

Although we have made contributions to the existing literature and our findings have practical implications, there are several limitations in this study. The data were collected at one point in time and all participants were compulsory school teachers, which limits the generalizability of the results to other public service fields. We believe that the use of a time-series experimental design could provide stronger evidence for the true effect of merit pay policy effectiveness on PSM. In addition, future researchers should include in their samples employees from other public service areas. Second, the scales we used to measure policy expectation and perceived policy effectiveness were self-developed via focus group discussions within the given definition. In the future, researchers should consider developing a more comprehensive and objective measure to better represent these constructs. Third, it will take some time for the real effect of the existing merit pay policy to be understood and this research was carried out in 2011, when the policy had only been in place for 2 years, so additional work needs to be conducted to verify how the results track over a longer time period.

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