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# NOT TO BE USED DURING FIRE:

Performance-related pay for civil servants as an anticorruption tool

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## ABSTRACT

The last decades' restructuring of public administrations has in numerous countries included the use of performance-related pay (PRP) programs. Such reforms have been said to reduce civil servants' incentives for corrupt behavior and have therefore been promoted as an anticorruption tool. However, the article hypothesize that such schemes' suppressing effect on corruption incentives is questionable in highly corrupt settings because the absence of noncorrupt senior managers—and hence independent performance evaluations—may lead to the capture of such programs. An in-depth study of reforms in the South African civil service provides micro-level insights to the process in which such reforms may fail. The investigation outline how PRP-bonuses are used as rewards from corrupt senior managers to colluding subordinates. Honest bureaucrats are instead isolated and receive no addition to their salary. These selective rewards make honest behavior increasingly costly and function as an incentive for civil servants to engage in bribery.

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## **Introduction**

A general consensus among scholars and policy makers asserts that having a bureaucracy infested with corruption—the abuse of entrusted power for private gain—tends to give rise to a number of undesired social and economic outcomes (see Treisman 2007). In a majority of the world's countries the presence of small-scale bribery—for instance, the practice of asking citizens for payments to obtain documents they are entitled to, or the habit of taking bribes to overlook law violations—is widespread among civil servants, such as doctors, policemen or administrative clerks. Yet, while reducing bureaucratic corruption is one of the prime targets of the international discussion on anticorruption policies, there is less agreement over which reforms are effective in this regard. In fact, how to reduce bureaucratic corruption has been described as the 'million dollar question' for scholars of public administration (Rothstein 2011). A literature examines the linkages between the structure of the civil service—focusing on aspects such as recruitment or salary levels—and national levels of corruption (e.g., Evans and Rauch 1999; Rauch and Evans 2000; Dahlström et al. 2012). However, this field of research has so far not paid much concern to programs of performance-related pay (PRP).

The reform of civil services has included an increasing use of PRP schemes in both industrialized and developing countries (OECD 2005; Cardona 2007; OECD 2014a). Though such schemes come in various forms they all aim to link employees' financial rewards to their professional performance.<sup>1</sup> Research from different disciplines has investigated under which conditions PRP programs have a positive or negative effect on performance.<sup>2</sup> Moreover, such reforms have been said to reduce civil servants' incentives for corrupt behavior and have there-

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<sup>1</sup> Also named Performance-Based Pay, Merit Pay, and Pay For Performance, such schemes may be oriented toward individuals or collectives and measured through behavior or results (Rynes et al. 2005).

<sup>2</sup> For instance, within educational science (Springer and Winters 2009), personal management (Schay and Fisher 2013) and personnel psychology (Rynes et al. 2005).

fore been suggested by influential scholars as a tool for anticorruption policy (Klitgaard 1988; Elliott 1997; Rose-Ackerman 1999). However, according to a review article: “Evidence that directly links performance pay or other incentive schemes with corruption outcomes is largely lacking” (Olken and Pande 2012, 500).

The rationale of incentivizing the behavior of civil servants through PRP schemes stem from principal agent theory, a line of thinking that builds on the assumption of the presence of an honest principal to steer policies (Rauch and Evans 2000). However, it has been said that when bribery is widespread corruption takes the form of a collective action problem, as it becomes rational for an individual to partake in this behavior when “everybody else” is perceived as doing it (Karklins 2005; Miller 2006; Rothstein 2011). In such a context it has been posited that if principals—for instance senior managers in a bureaucracy—is involved in corrupt practices themselves, anticorruption reforms founded on a notion of principal agent theory may face challenges (Persson et al. 2013). Apart from this general caution, PRP systems in particular are described as inherently giving a large portion of discretion to senior managers to assess employees’ performance (Dahlström and Lapuente 2010).

In combination—if such managers may be involved in corruption and are given discretion to assess performance—there are hence theoretical reasons to question if PRP reforms are viable as anti-corruption tools in settings where bribery is endemic. Yet, research currently lacks a detailed understanding of the process in which such schemes may fail to reduce incentives for bribe taking in corrupt contexts. This article hypothesizes that such schemes’ suppressing effect on corruption incentives is questionable in highly corrupt settings because the absence of noncorrupt senior managers—and hence independent performance evaluations—may lead to the capture of such programs. The purpose of this article is therefore to contribute theoretically as well as empirically by exploring the potential of PRP-reforms to curb incentives for bribery

among civil servants in a context of high corruption. This issue is examined empirically through an in-depth study of reforms in the South African civil service, where bribery is widespread. Using material from confidential interviews with public servants in the Compliance Directorate of the Department for Agriculture, Forestry and Fisheries (DAFF)—which has been tainted by bureaucratic corruption for decades—the article offers insights regarding the process in which such reforms may fail to reduce corruption incentives and discusses these findings in a broader perspective.

## Theory

### Reforms to Link Civil Servants' Pay to Performance

In recent decades PRP reforms have increasingly been implemented in public administrations around the world (OECD 2005). According to Heneman (1992), already in the early 1990s, 80 percent of all U.S. public organizations used such systems. More recent figures estimate that PRP programs support nearly 300,000 federal employees in the United States alone (USOPM 2007, 3). One may find such schemes in industrialized countries such as New Zealand as well as in numerous transitioning and developing countries.<sup>3</sup> Moreover, these reforms have also in many ways changed the very foundation in which employees in public sectors are rewarded. Consider, for instance, the situation for civil servants in Ukraine where the performance-share of a salary for employees in the public sector was as high as 80 percent in 2006. Similarly, employees in some public sectors in Georgia recently had a variable part of the salary amounting to 100 percent of the fixed part (OECD 2014a, 110).

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<sup>3</sup> Although PRP reforms might foremost exist de jure in some countries (Dahlström and Lapuente 2010).

The increased occurrence of PRP reforms is a part of the broader trend of a more businesslike approach in public administration, stemming from the New Public Management (NPM) doctrine (Cardona 2007). As such, these reforms are one of several examples of “market mimicking” mechanisms.<sup>4</sup> In short, the basic idea of PRP programs is that connecting financial rewards to an employee’s performance should lead to behavioral change among civil servants (Mogultay 2006). As noted by Schay and Fisher (2013) the success and failure of PRP reforms may be contingent on a range of factors, historical as well as cultural. However, this literature has seldom studied the extent to which the contextual degree of corruption matters.<sup>5</sup>

### Incentivizing Civil Servants to Reduce Bureaucratic Corruption

Theoretically it has been proposed that anticorruption reforms could target the incentives of public officials by linking rewards to their performance. In this line of reasoning, the idea is to make it rational for the utility-maximizing bureaucrat to refrain from corrupt acts by rewarding actions that denote honest behavior: “Indeed, sufficiently high rewards would eliminate all incentives to accept bribes” (Polinsky and Shavell 2000, 4). The notion of incentivizing civil servants through financial means is similar to the thought that points to the importance of the fixed salary paid to public servants (see Becker and Stigler 1974). Accordingly, the size of the salary, in relation to the gains from corrupt transactions and the risks of losing future benefits from the employment if one gets caught, is a strong determinant for bureaucrats’ incentives to engage in bribery (Shleifer and Vishny 1993). Several authors have therefore suggested that

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<sup>4</sup> Comparative studies on the link between NPM reforms and corruption are scarce. While Dahlström and Lapuente (2012, 161), say that such reforms “open windows of opportunity for corruption” this claim is not substantiated. They refer to a study by Erlingsson et al. (2008) in which a relevant argument is proposed. Accordingly, NPM reforms may result in “parts of the public administration slowly fall[ing] into a grey area between public and civil law” and where this has been done rapidly, “there has been neither the time nor knowledge to design new mechanisms for supervision” (Erlingsson et al. 2008, 603).

<sup>5</sup> When Heneman (1992) discusses situations where PRP reforms are not to be used—when (1) the budget is too small to grant rewards, (2) where employees value other rewards than financial ones, and (3) where the rating of performance does not capture the performance valued by the organization—the context of corruption is absent.

competitive salaries would be one of the aspects of a meritocratic recruitment that “reduces the relative attractiveness of the quick returns available from corrupt individual practices” (Evans and Rauch 1999, 752). While this issue has been widely investigated, it can be noted that the link between competitive salaries in the civil service and corruption across countries is not uniformly supported (Van Rijckeghem and Weder 2001; Treisman 2007; Dahlström et al. 2012).

### PRP Reforms as an Anticorruption Tool

The incentive-focused reasoning likewise underpins the idea behind PRP reforms. As stated in a review article focusing on such schemes, “pay for performance draws on standard economics, particularly the economic principal agent view … the bottom line is that interests between the agent and the principal are to be aligned via monetary incentives” (Weibel et al. 2010, 388). This is also the thinking behind the suggestion that PRP programs may have potential to reduce bureaucratic corruption (Elliot 1997, 211). In line with the reasoning supporting principal-agent theory, “a powerful and determined outside monitor (principal) can reduce corruption and improve delivery of services by his bureaucratic agents” (Rauch and Evans 2000, 51), and accordingly there are different “strategies a principal can use to elicit better performance from his agents, such as performance-based pay” (*ibid*, 51). Importantly, influential authors have argued that rather than focusing on the fixed part of the salary, it is the varying part that really activate employees’ incentives and therefore should have the potential to curb corruption: “A more effective strategy is to change the specific rewards that accrue to specific actions. For example, the U.S. government is using the need to fight fraud, waste and abuse to justify movements towards merit pay” (Klitgaard 1988, 77).

As Mogultay (2006) identifies, PRP schemes generally share two thoughts: first, financial rewards are the prime motivator in employees’ performance and, second, that linking

these rewards to measurable output increases performance because employees will behave in a way that maximizes earnings. In the suggestion that PRP reforms may curb bureaucratic corruption, the idea is to tie noncorrupt behavior to such performance measures in order to make these incentives decrease bribery. Theoretically, Ades and Di Tella (1997) argue that corruption may be reduced through “providing the right incentives to bureaucrats, and designing competitive market structures both for bureaucrats and firms” (504), such as PRP reforms. However, the authors note, an inherent challenge in such schemes is that measureable performance indicators for reduced corruption are difficult to construct.<sup>6</sup> Rose-Ackerman (1999) posits that “individualized incentive pay systems can be a tool to break up circles of corruption” (p. 80). This reasoning is further developed by Skladany (2009) in an article titled “Buying our Way out of Corruption.” The argument contends that PRP-programs targeting bureaucrats in developing countries could be a cost-efficient tool to reduce corruption. Accordingly, these schemes would “financially substitute for the money that corrupt public servants usually steal from the government ... performance-based incentive programs ... can, over the long run, create a culture of clean governance” (7). This reasoning is again underpinned by principal-agent theory: “to motivate an agent to not shirk, the principal can also offer inducements or incentives to the agent that are linked to her performance ... These performance-based incentives are meant to reinforce the existing incentive that an agent has to act in the best interests of the principal—keeping her job” (23). Although acknowledging the risk of capture of such reforms in developing countries, the article defends the merit of PRP reforms in such countries and argues that these programs are quite difficult to manipulate.<sup>7</sup> According to the article, the big challenge to such schemes is not

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<sup>6</sup> A caution has also been that such a system may skew incentives for employees to *only* perform in the dimension that is measured (Holmstrom and Milgrom 1991). While acknowledging several challenges of PRP reforms, the focus is here on the possibilities of such reforms to reduce incentives for bureaucratic corruption.

<sup>7</sup> It should be noted that the article defends a PRP scheme where “outsiders” evaluate bureaucrats’ performance.

the line of thinking behind these reforms, but rather that the size of the rewards may need to be quite substantive.

Although such reforms do not lack proponents, remarkably few studies have examined the PRP-corruption relationship empirically. Some scholars have investigated the effect of PRP reforms on outcomes that are close to, or may be said to be indirect measures of, bureaucrats' corrupt behavior.<sup>8</sup> An observational study found that an incentive program in Brazil increased tax collection (thus an indication of decreased bribe taking among collectors) (Kahn et al. 2001). Relatedly, Duflo and colleagues (2012) studied a randomized implementation of an incentive program for teachers in Indian schools. They found that when teachers are paid according to their attendance, absenteeism among teachers was reduced. Only one study has tested such claims empirically in a comparative perspective. Dahlström and Lapuente (2012) examine a measure of the degree of PRP in public administrations across a large number of countries. When investigating this relationship in a multivariate regression model with statistical controls for potential explanations for levels of corruption they do not find any association between the degree of PRP-reforms and corruption levels. Illustrative, a review article concludes: "It is striking that few studies directly examine the impact of improved incentives [among bureaucrats in developing countries] on corruption outcomes" (Olken and Pande 2012, 501).

### Why PRP Reforms May Be Captured in High-Corrupt Contexts

More generally, there are examples suggesting that the success of administrative reforms is partially dependent on the institutional quality in the context where they are implemented. For instance, some scholars have argued that performance-based management practices for organi-

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<sup>8</sup> Ades and Di Tella (1997) mention briefly occasions where PRP reforms supposedly led to reduced corruption and increased performance, such as the Bolivian customs revenues and the collection of social security in Italy.

zations (i.e., not individual employees) may be less suitable in transitioning countries with weak bureaucracies (Anderson et al. 2003). In line with such reasoning, Sundell (2014) proposes that the suitable type of administrative reforms—focusing specifically on meritocratic recruitment—may depend on the context of patronage risk.<sup>9</sup> As the section below will discuss, there are reasons to suspect that the difference in national levels of corruption is crucial to understand also why PRP reforms may be captured.

When corruption is widespread, conventional policy thinking tends to meet resistance because public agencies cannot simply use exogenous policies to improve the situation (Andvig and Fjeldstad 2008, 27). In a context of widespread bribery in the public sector, it has been said that corruption resembles a collective action problem where it becomes individually rational for bureaucrats to engage in such behavior. If corruption is endemic, the bureaucrat that does not engage in bribery becomes the “sucker” in this social-dilemma-like situation, and actors will therefore tend to act corruptly since most others in the organization are perceived as doing it as well (Karklins 2005; Miller 2006; Rothstein 2011). In such circumstances the underlying foundations behind PRP schemes—the reasoning of principal-agent models—are altered substantially.

Principal-agent theory has come in different forms. For instance, it has described two different situations: one where rulers are the principal and the bureaucracy is the agent, and another situation where rulers are modeled as agents and citizens are modeled as principals. However, as Persson and colleagues (2013) argue, no matter how these relationships are modeled, the important thing to note is that when this perspective is applied, “analysts assume that

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<sup>9</sup> The study argues that when the risk for patronage is high, the amount of discretion in the recruitment process needs to be low in order to prevent abuse. Conversely, when the risk for patronage instead is low, more discretion can be allowed. Therefore, while flexible recruitment may be the suitable way to recruit public servants in the former category of countries, formal exams is the better option for the latter.

the problem of corruption lies exclusively with the agent. The principal–agent model thus always rests on the assumption that the principal will take on the role of controlling corruption” (542). One idea that supposedly does not hold in situations of high corruption is particularly the one of the honest principal: “A drawback of the principal-agent approach is that to some extent it assumes away the problem, especially in [a low developing country] context, because the political will to engage in vigorous monitoring and implement appropriate strategies is lacking, or worse yet the principal is himself corrupt” (Rauch and Evans 2000, 529). The postulation of an honest principal—for instance, a senior manager in a public administration—is not necessarily true under widespread corruption. And if this assumption is no longer valid, it has consequences: “If the supposed principal is also corrupt and does not act in the interest of the public good, the principal–agent framework becomes useless as an analytical tool since there will simply be no actors willing to monitor and punish corrupt behavior” (Persson et al. 2013, 542). Moreover, they argue that this may lead to a breakdown of any anticorruption reform that builds on the principal–agent framework.

As discussed, the thinking behind the PRP reforms has explicitly assumed that a principal monitors and evaluates the performance of the bureaucratic agents. With the insights in mind that such principals may also become corrupted, this reasoning may be questionable in a context of widespread bribery. In particular, PRP reforms have certain inherent features that possibly make them particularly ill-suited for corrupt contexts. It has been noted that the evaluation of performance is much more complicated than the process of simply raising the fixed part of the salary to all employees (Dahlström and Lapuente 2010, 581). Moreover, a recent report from the OECD states: “Performance-based pay requires clear rules and transparency to avoid abuses. In [transition] countries, there are no clear and transparent criteria for the allocation of the variable part. This part provides a very broad, sometimes full, discretion to head of public

institutions in allocating bonuses and other additional payments to his or her subordinates” (OECD 2014a, 110).<sup>10</sup> This point is important as the evaluation part of PRP programs inherently results in managers having discretion and room to maneuver. And intuitively, a large amount of discretion in a high-corrupt context raise the concern that opportunities for misbehavior may be created.

Following this notion it therefore seem to exist rather convincing reasons to believe that (1) the line of thinking that underpins PRP schemes may be less suitable when imposed in corrupt contexts and (2) that such schemes may become captured due to their large share of discretion to managers. However, current research does not provide a detailed understanding of such processes. It is here hypothesized that PRP programs’ suppressing effect on corruption incentives is questionable in highly corrupt settings. The purpose of this article is hence to explore the potential of PRP-reforms to curb incentives for bribery among civil servants in a context of high corruption. The article investigates this issue empirically through an in-depth study of reforms in the South African civil service. South Africa is a medium to highly corrupt country and may indicate the problems of such reforms in other administrations in corrupt societies. By analyzing a PRP scheme in a certain government department, the study explores in detail how such a reform may affect incentives for bribery and fleshes out the theoretical insights from this process through confidential interviews with bureaucrats and key informants.

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<sup>10</sup> Another OECD report states that PRP policies may be counterproductive in the “inadequate management frameworks” of developing countries and may increase problems linked to corruption (2005, 72), yet provides no further exploration of this process.

## The investigation

### A corrupt context

One of South Africa's current developmental challenges is widespread corruption (OECD 2014b). While the country places in the middle tier of global rankings (number 72 of 177 in Transparency International's 2013 classification), corruption is definitely prevalent. In fact, 47 percent of South Africans say they have paid a bribe in the last year to secure an essential service, a figure far higher than the global average of 27 percent (Corruption Watch 2013). Although public officials are legally prohibited to "favor relatives and friends in work-related activities," to take "decisions which may result in improper personal gain," or "abuse her or his authority" (Republic of South Africa 1999), such behavior is not eradicated.

South Africa has been the target for numerous anticorruption policy programs.<sup>11</sup> In order to increase the efficiency of public servants and to reduce their propensity to take bribes, programs of PRP were installed in the 1990s. When the Public Service Regulation was enacted in 1999, one of its features was to link rewards to performance (Public Service Commission 2007, 2). The legislation spells out that "in determining an employee's salary, an executing authority shall take into account ... the employee's performance" and that "an employee shall be eligible for salary range progression only if ... she or he has received consistently satisfactory performance assessment ratings" (Republic of South Africa 1999). As stated by van der Vyver and Bussin (2013) in their description of the South African PRP system, there are three important actors in this assessment process: the public employee, a senior supervisor and a review committee. This committee "receives all provisional ratings of employees, to review, compare and validate ratings. Managers and supervisors should be asked to explain and defend ratings

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<sup>11</sup> See OECD (2014b) and Public Service Commission (2001) for overviews.

that do not appear to be justified” (16). The outcome of this process may result in rewards for employees on a biannual basis.<sup>12</sup>

The administration in the DAFF has for decades had challenges of corruption among its staff in the Compliance Directorate (Hauck and Sweijd 1999; Raemaekers et al. 2011; Hauck and Fernandez-Gallardo 2013). This section of the department is responsible for ensuring that fishermen abide by the national fisheries legislation and its staff of land-based officials in local substations along the coast is employed to enforce these regulations. In practice, this work means that such officials inspect that fishermen have not violated regulations, such as fishing in protected areas or fishing without a license at all. The opportunities for bribery occur when these inspectors control fishermen, often at local harbors. According to the few existing studies on this topic (e.g., Sundström 2012, 2013), these inspectors are known to establish corrupt relationships over time with local fishermen. Sundström (2014) has described this as an exchange where the enforcement officers from DAFF receive monetary as well as nonmonetary gifts from fishermen. In return, they become “blind” to rule violations and benefit certain fishermen by granting noncompliance, sharing information about enforcement operations, or even becoming complicit in illegal fishing. The type of bribes this refers to is hence small-scale collusive corruption, where officers overlook law violations.

While the extent of bribe taking among inspectors is difficult to estimate, it is evident that actors within government have perceived this as a large problem. In 2001, this issue got attention in the media when a court case that sentenced a fishing company for poaching showed that public inspectors had granted this actor noncompliance: “One of the company directors was fined a R1 million fine on 301 charges of corruption relating to the bribing of fishery inspectors.

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<sup>12</sup> Important to note is that there is some flexibility on how these schemes are designed across departments (UNPAN 2003) and that bonuses generally target qualified staff (Hoffman and Groeneveldt 2009).

Eighteen fishery officers were also found guilty and fined (also having to pay back their bribes)” (Hauck and Kroese 2006, 76).<sup>13</sup>

As a result of growing publicity toward such practices, a number of reforms were instated during the early 2000s to reduce corruption. The department increased salaries for enforcement officers and introduced randomized “lifestyle audits” for officers in order to monitor possible illegal payments. They also started working with informants and installed a telephone hotline for reporting on corruption (Hauck and Kroese 2006, 79). Some of these reforms, such as the audits, were soon dismantled as this reform was met with internal resistance (personal communication with a former general director of the directorate). Importantly, one other reform was the introduction of a PRP scheme, covering the enforcement inspectors. The department now grants rewards to “encourage good performance” (DAFF 2012, 175) aimed at increasing inspectors’ propensity to report violations and thus become less inclined to take bribes. This reward is generally ten percent of the salary and paid on a biannual basis. While figures on these payments are hard to come by—for instance, to whom the bonuses are paid—an annual report from the department states: “During the 2011/12 performance cycle, 44.7 percent of employees qualified for performance rewards” (DAFF 2012, 158).

Choosing the case of the Compliance Directorate of DAFF as the focus of this study has several benefits. As described, the administration has documented problems of bureaucratic corruption and the PRP reform has been introduced with the ambition to reduce bribe taking. Moreover, the presence of substation managers in each station along the coast offers the potential to give insights in the assessment process of the PRP bonuses. These factors make this case ideal to examine the research question of this paper.

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<sup>13</sup> For a comparative perspective on enforcement capacity of the fisheries administration in South Africa and among the neighboring countries, see Sjöstedt and Sundström (2013, 2014).

## Methods

The study reports insights gained from an original data collection in this context, where the author conducted 43 interviews from January to April 2014. In total, 34 respondents were inspectors working at substations along the Western and Southern coast. They were sampled in order to maximize a range of important individual features such as the years of work experience, whether or not respondents are senior managers, their education, if they are black, colored or white, and their gender. Also recently retired inspectors were sampled as they face less risk when speaking about these sensitive issues. Apart from the inspectors, carefully selected key informants were interviewed: four former senior managers of DAFF (including a former general director), two leaders of fishermen associations, two journalists and a scholar who focus on enforcement of fisheries policy.

The interviews with inspectors were sanctioned from top management of the department, who sent out a general message to encourage local inspectors to speak with the author on the topic of problems associated with enforcing regulations (though management did not know to whom the author then spoke). The respondents were promised anonymity and the interviews were conducted in English with no third party present. During these interviews the respondents spoke on the theme of bribery among inspectors and especially the PRP system. Since aspects of social desirability very well could render respondents unwilling to disclose sensitive practices such as corruption it should be noted that the general impression is that the respondents spoke openly during these interviews. They discussed their own and colleagues' practices of taking bribes in the sessions and discussed vivid details of the problems in current management.

## Results

To put the next section in its context, the respondents describe a relatively uniform situation of a widespread practice among inspectors to take bribes and become “blind” to rule violations.<sup>14</sup> These enforcement officials, often having grown up among fishermen or living in the same community and therefore facing the social pressure to commit to such behavior, receive money or boxes of fish in exchange for enabling fishermen to violate rules. Importantly, these transactions may involve large sums of money and if such behavior were to be hindered it would affect the involved parties financially. Any anticorruption reform should therefore be seen in this light. The following quote illustrates the temptation facing inspectors in this situation:

*[A captain that was arrested last week] called someone who arrived to the harbor with a wad of money. It is quite common ... Imagine these boats, how much money they carry. And we earn so little ... We can make resources of half a million rand disappear from the books. So the temptation is always there. (I:13)*

Moreover, the accounts from respondents outline a situation in which this takes place in a setting of an administrative organization where top managers are themselves perceived by key informants as being involved in corrupt practices. A former director of the department develop this notion:

*Corruption is rampant in the department. How can you start to eradicate this from the bottom? We know that it's going on in the top. And we need to start from there. But it is so difficult ... It is the buddy-buddy system. So this just goes on. (K:4)*

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<sup>14</sup> After each quote, “I” refers to inspectors and “K” to key informants. The number denotes different respondents.

Following such descriptions several accounts suggest that the incidence of corruption in the higher echelons of this department may send signals to the lower administrative tiers that such behavior is not punished:

*It must get to them. The inspectors know what's going on in top management. I can imagine that this provides an enabling factor to say “[curse] the system” and then think “why not” and then start acting corrupt yourself. (K:6)*

### The Presence of Corrupt Managers

A key feature in the respondents' narratives is that a senior station manager (often referred to as "the supervisor") runs each substation. These senior managers are generally thought to be the most involved in established networks in the coastal communities and are perceived as being more corrupt than subordinates and newcomers:

*When I came here the supervisor had worked here for 20–30 years. He lived by the harbor. He didn't perform well. He knew people. And they knew him well. I noted that when I started you want to perform. But the supervisor said “you should only have given this guy [a violator] a warning.” (I:4)*

*My supervisor fought for this inspector doing this [i.e. taking bribes and being blind to fishermen's law violations]. And I told management what I was witnessing. But no one did anything. They asked me “do you have witnesses?” So there is not really anything you can do. Each station is run by the substation manager. They are the bosses of their own station. (I:5)*

Several accounts suggest that having a substation manager that is involved in local corrupt practices will affect the work of the subordinate inspectors. A previous general director of the department explain this reasoning:

*Fishery control officers know that their bosses are corrupt ... They know there are no consequences. If you're trying to do anything right you will lose your job. And then it is easier to put your head under the bed cover and pretend you did not see it. Or, better, be in it yourself ... The implication of having corrupt bosses at a station is that you know you can get away with anything. Because you will actually be able to. (K:5)*

#### Relations to Managers Influence Performance Evaluations

Regarding the PRP system in particular—most often called the “merit-system” or the “merit-bonus” by respondents—the accounts describe in different ways how the introduction of this system was implemented in the department with what is generally perceived as being a distorted outcome. Importantly, a widespread belief seems to be that these bonuses are not based on merits or professional accomplishments. Rather, they are seen as rewards from managers that are given on contrastingly different grounds. A general notion is that the third party in this assessment process, the review committee, seldom or never has a real say in which employees will receive these bonuses. Instead, this decision is taken earlier in the process by the senior manager at his or her own preference. This senior manager evaluates the performance of a subordinate bureaucrat before the assessment is handed on to a third party—the committee—for verification. This process often contains discretion and therefore constitutes the possibility for the manager to influence who is (not) rewarded. Importantly, a fundamental aspect of this decision seems to be that personal relationships influence which inspector gets this reward:

*Even when you meet your targets I never get a bonus. And a colleague who didn't meet his target got it ... So the previous managers used favoritism. Then, the same person would get the merit every year and year. They were buddies. (I:17)*

*There are only a few persons who get it [the biannual merit bonus]. So I ask myself "why is this so?" Something like a favorite of top managers. (I:20)*

#### **Colluding Employees are Rewarded**

Moreover, besides numerous accounts of how friendship relations distort this process, the accounts highlight *whom* these managers reward. If these managers themselves are involved in corrupt practices, they will not benefit from rewarding subordinate agents in the administration that act honestly. Rather, they will seek to assist colluding bureaucrats. The rationale for such behavior is that managers involved in corruption will have an incentive to promote rewards to colleagues that (1) are interested to continue the practice of illicit payments from citizens and (2) will not blow the whistle to outsiders of such practices. Therefore, the personal relations described above, in turn, have corrupt connotations as they are used selectively to reward inspectors that have been colluding with senior managers:

*The wrong person gets the merit. It is on an agreement with the supervisor. So he must like you, agree when he represent you. Otherwise he will talk badly about you [in front of the review committee]. Now, the system is not based on how much compliance you have ensured [i.e., reported violations]. (I:12)*

*For instance, [some inspectors at my station] were taken for misbehavior in this sense [i.e., bribery in exchange for blindness]. Their salary was held in for two or three months for disciplinary causes. But at the same time, at the end of the same year, they received a merit bonus in their salary. This is ten percent extra to your salary. So it sends the signal that crooked behavior is in this sense rewarded. (I:1)*

*Our management, they base an assessment on favors. Some people are underestimated, others are overestimated. They want to promote people who always say “yes, yes.” But these persons are not hard on poaching. Many of them even had disciplinary cases against them, for corrupt behavior. But these just disappear. And the persons assessing these corrupt guys, of course they get something back. (I:29)*

### Incentive Structure Demotivates

It is evident from the interviews that the presence of colleagues involved in this practice—taking bribes and being blind to violations—seem to create frustration among honest inspectors:

*I do like the idea of the merit system. In the best of worlds it triggers performance. But it has its flaws. If someone does not like you, the supervisor or someone in the reviewing panel, then you won’t get it. And this opens up for giving and taking. So if you don’t have a good relation [i.e., did not pay a bribe to the manager] they will just say “this was all part of your job.” So it is demotivating in fact. (I:18)*

*In the end of the year your supervisor is supposed to recommend you for a merit. He decides who gets a merit. And then you realize it is not conviction rates that give merit. It’s favoritism. This is what creates the feeling of “I’m not going to run around anymore.” So*

*the merit system is trickled down from the top. And influence decides who gets merits. So this system of merits becomes the real demotivator. It makes it apparent that it is not the number of cases that matter for promotion. (I:5)*

#### PRP-bonuses are Traded for Favors

Furthermore, these bonuses may also turn in to an informal exchange between subordinate inspectors and senior managers. Accounts from the interviews illustrate three different outcomes of this relationship. First, a situation of mutual collusion where both the inspector and supervisor are involved in bribery and use the rewards to reinforce this relationship:

*If the station's supervisor is corrupt, then why wouldn't you yourself be? And no one will report. Because then they will report on each other. So people are quiet. This is how so many substations work along the coast. And the merit system actually boosts this. (I:13)*

A second and different situation is that officers that are involved in corruption can “buy” such rewards from the senior manager:

*The supervisor will say “give me a bucket of fish and I make sure you get the bonus.” (I:13)*

Third, this exchange can also be a path for inspectors to influence or blackmail corrupt senior managers:

*It's demoralizing. A merit is a large sum of money. So there are people getting the merit year after year. You don't understand why they got it ... Then you realized it ... The per-*

*son getting the merit had information of bribery that the supervisor had been involved in. He used this as leverage. I understood that this person had something on the supervisor. He would spill the beans about this corrupt supervisor. So he used this as a way to get merits, a higher salary. (I:6)*

#### **Non-corrupt Employees are Isolated**

Furthermore, these relationships also determine who is *not* given such rewards. Contrary to the blind and corrupt inspectors that benefit from this practice, bureaucrats that do not take bribes become isolated and perceive that this has professional costs:

*Some people get boosted, others don't. And if the supervisor does not like you, then you are stuck. And you know how you have to act to become a favorite: you have to play along. And the guys getting the bonus are the guys doing nothing, looking to the other side. (I:21)*

*You have to be “one of the boys” to get a merit bonus. Like my supervisor, he will never make me get a bonus. He does not like [inspectors who catch violators]. And he is not an honest inspector. So I am on my own. (I:27)*

#### **Disincentivizing Honesty**

Following the reasoning that honest behavior is associated with an economic cost, this reward structure becomes a disincentive for inspectors to apply themselves to catch violators and refrain from taking bribes. Furthermore, this seems to increase shirking behavior:

*We have a very poor record of arrests. I had three [colleagues] that did not catch a single guy for two–three years. But it did not cost them anything! ... The feeling is that “why should I catch someone? This will not give me merits”. (I:1)*

*Instead [the merit bonus] will make people to work less. We will think “why should I work if I’m not rewarded.” (I:20)*

Therefore, regarding the behavior of subordinate civil servants, the accounts suggest that these selective returns may lead to (1) that honest bureaucrats find that their performance is not rewarded and (2) that they therefore tend to consider engaging in behavior that is more individually beneficial. In this context, collusion with corrupt colleagues is clearly more advantageous.

## **Discussion**

The accounts from the interviews provide in-depth insights into how a PRP reform may become captured in an administrative structure permeated with corruption. The exploration outlines the mechanisms in which the bonuses from this specific scheme are handed out selectively by senior managers to benefit agents who collude and thus can be trusted to maintain status quo. This has implications on the aggregate. First, the system reinforces the conduct of bribe taking among inspectors and their blindness to citizen’s law violations. Therefore this will hamper the implementation of the legislations that public officials are meant to enforce. Second, it increases the costs associated with honest behavior as these inspectors will earn less money.

More generally, this investigation points to a problem discussed by Persson and colleagues (2013), that many “anticorruption efforts seem to ultimately have become entangled in

the very corrupt networks that they were meant to fight” (454). As seen in the context of the reforms studied in this article, PRP reforms may face grim challenges in highly corrupt societies. It appears that such reforms may easily become captured and instead used to benefit the interests of corrupt senior managers who have an interest in keeping status quo.

## Conclusions

Reforms of PRP have been said to reduce civil servants’ incentives for corrupt behavior. While the literature has examined the relationship between competitive salaries for civil servants and corruption (e.g., van Rijckeghem and Weder 2001; Treisman 2007; Dahlström et al. 2012), there are currently few empirical studies on corruption outcomes from PRP reforms. Focusing on this link, this article is one of the first to answer recent calls for studying the relationship between PRP programs and corruption (Olken and Pande 2012).

This article has explored the potential of PRP schemes to reduce civil servants’ incentives to engage in bribery in high-corrupt settings. The in-depth study of a certain department in the South African civil service provide a nuanced understanding of the process in which managers in a public organization—where bribery is known to be widespread—tend to reward colluding bureaucrats by using the bonuses from a PRP program. These selective rewards increase the costs of honest behavior and the article therefore suggests that such reforms—when implemented in high-corrupt contexts—may lead to incentives that preserve corrupt affairs. This indicate that “buying our way out of corruption” through PRP reforms, may be a problematic recipe for policy makers in corrupt countries to follow. The discussion on administrative reform and the implementation of anticorruption policy has much to gain by analyzing this relationship further.

These findings invoke the insights from the discussion over whether or not institutions may be transplanted across cultures (see Rustow 1970; Pritchett and Woolcock 2004). On the one hand, one could see the challenges of PRP reforms in corrupt context as supporting the notion that when importing institutions “one size does not fit all” (Persson and Sjöstedt 2013). To copy and import institutions from a low-corrupt context may be a recipe for failure when bribery is rather common. On the other hand, however, one could take on a more optimistic approach. It is possible, for instance, that by reducing the amount of discretion of managers in the design of such programs the prospect of such institutions in high corrupt settings may be improved. Therefore one might propose that researchers need to focus more on complementary monitoring mechanisms when studying the potential of PRP schemes to curb corruption incentives. A key challenge of the PRP reform in the case of DAFF was specifically that the review committees could seldom hinder substation managers and assess subordinates selectively. Future research should have much to gain by specifically studying such mechanisms of monitoring further. For instance, are there certain conditions or design features that make some types of PRP reforms more resistant to capture in corrupt contexts? This field of research is currently in need of more studies and would, for instance, benefit from experimental studies, measuring attitudinal or behavioral aspects of bribery among civil servants before and after such policies are implemented.

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