

# **Links between Governance, Incentives and Outcomes: a Review of the Literature**

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***Report for the National Co-ordinating Centre  
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## **Executive Summary**

This report explores the incentive effects of different forms of governance of health-care organisations. Building on a multidisciplinary literature review, it seeks to map a new terrain of research and to suggest an agenda for the future that will make sense to stakeholders in health and research communities. The report addresses the Governance–Incentives–Outcomes (GIO) model. Taking markets, hierarchies and networks as contrasting forms of governance, it asks what evidence there is that these give rise to different incentives and hence to different outcomes. We examine the state of play in five disciplinary areas (Sections 1–5), before bringing these together and setting them in the context of the NHS (Sections 6 and 7). The following gives a brief overview of each section.

*Section 1.* Economics has gained ascendancy in health-services research in recent years and is the discipline that argues most strongly that ‘incentives matter’. It has built theoretical models of how incentives work and its conceptualisations are increasingly broad and realistic. We emphasise

- that outcomes of market forms of governance in the public sector are a ‘mixed bag’; policies must address inequalities and policy-makers may be forced to make an explicit trade-off between efficiency and equity;
- that contract tendering, a case of markets within hierarchies, is a more contained form of market governance; while there are some evaluations of quantifiable outcomes by economists, this evidence base remains limited;
- that game theory offers relevant mathematical models of incentivisation, using a principal–agent approach; this field is expanding to encompass the complexities of the public sector – of multiple tasks, team incentives, information-handling and so on;
- that attention to the field of experimental economics and its links with psychology should be encouraged, particularly for its potential in dealing with the so-called crowding-out problem, where there is a risk of damaging intrinsic motivation through the use of financial incentives.

*Section 2.* Psychology has been taken together for this report with the related area of Human Resource Management (HRM). A body of work on performance-related pay relates to incentives and has recently been re-assessed in the UK public-sector context. Taking the field as a whole, however:

- motivation rather than incentive is a lead concept; and motivation is what an incentive seeks to elicit;

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- employee perceptions and behaviours are shaped by an array of factors including job attitudes, value systems and organisational culture; the link to performance is not necessarily straightforward and cognitive theories have important contributions to offer;
- management matters: the quintessential problem of HRM is how management-led policies might influence employee perceptions and behaviours; despite controversy, evidence of significant effects on organisational outcomes is growing;
- most research in this disciplinary cluster focuses on the link between work-related variables (job design, team leadership, managerial practices, etc.) and outcomes; few studies trace a continuing thread through the GIO causal chain.

*Section 3.* The term organisational studies denotes a loose cluster of work, where classic traditions of contingency, bureaucracy and systems approaches remain strong. When governance is interpreted as organisational structure or form, contingency theory addresses the governance–outcome link. We also find

- that treatments of organisational structure as the sole driver of outcomes are rare; most work identifies multiple determinants and intervening variables and proposes complex causal pathways;
- that studies of bureaucracy and of professional organisation are re-emerging and are beginning to offer a new focus on the old problem of the effective integration of professionals;
- that our review echoes the conclusions of earlier commentators on networks, finding inflated claims for the unity and coherence of the network form and no strong evidence base concerning outcomes;
- that the social construction of performance and performance indicators needs more study and that scope remains to extend comparisons not only to the private sector but also to social enterprises and the voluntary sector.

*Section 4.* Political science, public administration and policy analysis were grouped together and set the GIO model in the wider context of New Public Management (NPM). We argue

- that while work exploring the logic of markets hierarchies and network continues, there are important cautions about the importance of mixed modes of governance and complex historical overlays;
- that key writers would appear to take issue with the language of incentives and stress the importance of building solidarity and acknowledging commitment, especially in 'joined-up' community governance contexts;
- that much recent work now goes beyond markets, hierarchies and networks as such to discuss co-governance, multilevel governance and regulation;

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- that up-to-date work on governance and performance suggests weak empirical links between these variables.

*Section 5.* Socio-legal studies offered a more limited amount of material, given the search procedures we employed. Nonetheless, it was striking

- that there were potential complementarities in the theoretical work in this field with that of students of governance in political science;
- that contracts, corporate law and regulation were three areas with a distinct potential for expanding current understanding of governance;
- that there was clear potential for more two-way traffic with other disciplines.

*Section 6.* Looking across the five disciplinary sections (Sections 1–5), we concluded that there were now possibilities

- both for a major programme of research developing an expanded framework of thinking around incentives and for work critiquing the underlying assumptions of the concept of incentives and developing alternatives;
- both for work at a 'lower' level of generality than that indicated by markets, hierarchies and networks, classifying today's organisational forms in new ways, and for work at a 'higher' level, capable of addressing the key issues of co-governance, multilevel governance and regulatory reform;
- both for large-scale, multivariate research designs capable of manipulating structure, culture and managerial practice as variables affecting outcomes of various kinds, and for qualitative research exploring intended and unintended consequences of measures designed to shape stakeholder behaviour;
- for research that brings customers, clients and service users more centrally into the frame, deepening understanding of their world views and priorities.

*Section 7.* The final section sets these conclusions in the context of current developments in the NHS. It

- confirms the importance at the present time of a programme of study on incentives and also of work that provides a critique of the concept of incentives;
- calls for more work on specific organisational forms and mixes of organisational forms, including research that revisits both professional organisation and bureaucracy;
- identifies multilevel governance, participatory governance and regulatory governance as candidates for new programmes of research;
- notes emerging opportunities for comparative research both within the NHS and across public private and voluntary sectors.

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An account and critique of the methodology is given in Appendix A, with a further comment on stakeholder involvement in the project in Appendix B. Appendix C, providing a full listing of the database, numbering over 1000 items, is available separately.

## **Disclaimer**

This report presents independent research commissioned by the National Institute for Health Research (NIHR). The views and opinions expressed therein are those of the authors and do not necessarily reflect those of the NHS, the NIHR, the SDO programme or the Department of Health

## **Addendum**

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