

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

***Report for the National Co-ordinating Centre
for NHS Service Delivery and Organisation
R&D (NCCSDO)***

March 2005

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Acknowledgements

We have benefited from the help of a large number of people in completing this project and would like to express our thanks to them. Claudia Aradau, Thomas Diefenbach, Celia Robinson and Abhijit Sharma provided us with detailed abstracts of relevant material at an early stage, helping to create the database from which this report was largely compiled. Consultancy and the provision of expert commentary on different aspects of the study was provided by Rachael Addicott (Imperial College, London), Professor Mike Dent (University of Staffordshire), Professor Chris Brotherton (Heriot Watt University) and Professor Fiona Ross (King's College, London). Our stakeholder groups gave us food for thought at an early stage and stimulated us again at a later stage with their discussions and reactions. We would like to express our thanks to Julian Cohen, Dianne Conduit, Jan Filochowski, Jane Isaacs and Peter Williams. A peers' meeting gave us an opportunity to discuss the project with academic colleagues, who generously shared their own experience, both with SDO research and more broadly. We would like to thank Alan Wailoo, Chris Skelcher, Mark Exworthy, Nick Goodwin and Rod Sheaff (see Appendix B for more details of both groups). Critical reading of aspects of the report came from Chris Cornforth (The Open University), Jeremy Roche (The Open University) and Professor Peter Smith (University of York). David Hughes (University of Swansea) offered an insight into much work on contracting, pointing out ways in which Section 5 could be extended further. We had the benefit in the second half of the project of the services of Penny Wilkinson. She not only gave administrative and report-preparation help, but turned her mind to understanding Endnote and being an all important keeper of the database. In this she had the able support of Lidia Artigas, whose search, distil and digest skills and project-management ability underpinned the project as a whole. Last, but not least, Elizabeth Barnett gave sterling support in the final few weeks. Bringing new eyes to the project, she not only offered challenging intellectual questions, she also produced solutions. We are grateful to all these people but accept that the responsibility for the report and for errors and omissions must remain with the authors.

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.

The Report

Introduction

Hierarchies and markets are well-known ways of co-ordinating activities in the NHS. In recent years, network forms of organisation have also made an appearance. What are the consequences of organising in these different ways? Do they give rise to different kinds of incentive and hence to different outcomes? Political debates on such matters abound, but just what kind of an evidence base is there? Drawing from across the social sciences, where can it be found? And, having assessed the research that is available, what new research needs to be done in this field that would be of direct value to the NHS?

This report responds to a request from the National Co-ordinating Centre for NHS Service Delivery and Organisation R&D (NCCSDO; henceforth referred to as the SDO) programme – part of the wider research and development effort for the NHS – for a literature review, exploring the incentive effects of different forms of governance in health and social care. An initial exploration of literature, marking out the terrain for the programme as a whole, had already been completed (Ferlie and McGivern, 2003). Two more focused literature-review projects were at or near completion as this one began; one on managing across diverse networks (Goodwin *et al.*, 2004) and the other on organisational factors and performance (Sheaff *et al.*, 2004b). A project on centralisation, decentralisation and devolution by Peckham *et al.* was commissioned at around the same time as the one to be reported here. Together these projects were designed to map out a new territory for research on the form and function of health-care organisations, collating and synthesising understanding of what is known about different organisational arrangements and the contributions they might make to improvements in service delivery in the NHS, and identifying directions for future research which would make sense to the policy, practice and academic communities.

Drawing from its experience in commissioning substantive projects in a number of areas, the SDO programme had already invited authors from a range of relevant disciplines to outline what those academic areas could contribute and the challenges of theory and method that would be involved in each case (Fulop *et al.*, 2001). Some of the requirements for this project drew from this resource. Two elements deserve to be singled out. First there was a perceived need for research in this field to draw across a number of disciplines. The list as set out in the invitation to tender included organisational economics, political science, organisational studies, socio-legal studies,

organisational sociology and organisational psychology. Secondly, while the work to be carried out was to explore factors affecting organisational performance, it was to regard performance in a broad and multidimensional way. Eight areas were listed: outcomes for patients, process measures of quality, humanity, staff job satisfaction and morale, equity, efficiency, adherence to external performance targets and adherence to evidence-based protocols and guidelines.

The nature and shape of the research

The request to tender for this project began by defining forms of governance as 'ways in which organisations and the people working in them relate to each other'. It pointed out that markets, hierarchies and networks was the well-known typology in this field and that each of these modes of governance could be said to produce different incentive effects on the organisations and individuals subject to them. Incentives, it was stated, meant not only economic incentives (payments or opportunities to reduce costs) but also 'moral, professional and social inducements to behave in particular ways or constraints on behaviour'. While recognising that the three forms of governance could co-exist, a line of temporal development was outlined.

First, in the 1990s, an explicit attempt was made to introduce a degree of market-like structure into the NHS. Secondly, following the abolition of this experiment, the notion of formal networks of health-care professionals and others was introduced, in cancer services, for example. Moreover, the recent policy emphasis on partnerships between different health- and social-care organisations also raises the question of what forms of governance structure are appropriate to provide the individuals subject to them with incentives.

It was not the historical trajectory as such that was of central concern. The extent to which these three forms could be shown to produce different individual and organisational incentives, and the link between such incentives and outcomes, were intended to provide the main focus of the project. In terms of scope, material from sectors other than health and evidence from countries other than the UK were to be welcomed, where it was possible to show that it had some direct relevance. Differences between public, for-profit and voluntary sectors also needed to be highlighted. There was an expectation that there would be a detailed plan of proposed methods for selecting both published and grey literature that utilised electronic databases as well as expert knowledge and a clear account of how the literature was going to be synthesised and evaluated. Later discussions with the commissioning team put a further gloss on this. Could we make comment on how far research was theoretically driven, tested and cumulative? And was there, we were asked, research in the disciplines that could be usefully applied in the NHS?

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In response to the commissioning brief, we drew up a research plan that aimed to explore a range of disciplinary approaches to the topic area, to appraise relevant research and to recommend avenues for further exploration. The markets, hierarchies and networks framework would provide a starting point. The way in which these three mechanisms of co-ordination rely respectively on prices and competition, on rules and regulations, and on collegiality and trust needed to be examined. The prevalence of mixed methods and hybrid arrangements certainly had to be explored. Central to our interpretation of the project were three key points. First, while we expected to find a multitude of overlapping ideas across disciplines, we argued that concepts needed to be resituated in their specific traditions before successful transfers could occur. Second, we acknowledged that there would be a problem in satisfactorily establishing causal links in the contemporary fast-changing world of health and social care. Thirdly, we suggested that older and classic theoretical material might usefully come back into the frame. These three points, set out in the research proposal, have shaped our approach to the task and the strong disciplinary focus of Part 1 of the report.

We planned to draw on techniques from systematic review methodology and to make use of a wide range of electronic databases in compiling a bibliography. Keyword searches and other techniques would be employed. A proforma would be devised for data capture. All members of the team would comment on database trawls and contribute to the further identification of relevant materials. The work was to take place in three stages. A period of concentrated building of the database would be followed by a midpoint review, the commissioning of a series of reviews and detailed scheduling of the work. Emerging accounts would then be discussed by the academic team, a stakeholder group and a group of academic peers.

The team assembled for this project initially had seven members. Celia Davies would act as lead applicant working closely with Paul Anand as co-investigator. Lidia Artigas would provide full-time research assistance for the duration of the project. Four additional senior academics would serve as an advisory and support group for the project. Kevin McConway, Janet Newman, John Storey and Grahame Thomson brought considerable expertise on governance, networks, Human Resource Management (HRM) and organisational behaviour, and methodology. The team was further augmented when Jacky Holloway, whose specialist field is organisational performance, expressed her interest in joining the group and contributing to the project. The aim was to meet as a full team on at least four occasions, to convene two stakeholder meetings in order to gain a view both from those working in the NHS and from service users, and to involve academic peers for feedback. It was always clear that tight project management would be needed to complete the work in the specified period of 9 months.

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The initial research design was for the most part adhered to in the course of the project. While we did not quite meet our numerical targets for stakeholder and peer involvement, we nonetheless recruited a good range of advisors and held some highly productive meetings with them. With hindsight, it would have been wise to have planned rather more time for team-building meetings at the outset, particularly with a project with a somewhat indeterminate brief and that was subject to multiple possible interpretations, both within the team and among those whom we recruited as consultants. The core activity for the project, however, was the production of the database and of systematic summaries of entries to it. Appendix A sets out the procedures in detail, and gives an assessment of both this aspect and of the design as a whole, offering some ideas about alternative ways of proceeding in future. Our first rapid sweep of the literature produced over 70 items for the database and thereafter we went on to the systematic searches using keywords, both separately and in combination. By the midpoint of the project we had a list of 218 items for which detailed proformas had been completed, with another 500 candidates in the database. At the close of the project the total number of items in the database numbered over 1000. More details on how the database was handled can be found in the appendices. 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.

At project midpoint we produced a coding of the material and some quantitative analysis of topic areas and disciplines which served to provide the initial resource for writing the discipline sections in Part 1 of this report. While we had some success in recruiting consultants to review the material grouped in this way, in the end it fell to team members themselves to produce drafts for the discipline reports. Specific responsibilities for these sections were as follows: Section 1, PA; Section 2, JS; Section 3, JH; Section 4, JN and CD; Section 5, CD. Before outlining the structure of these and of the report as a whole, it is perhaps helpful to set out in a preliminary way some orienting ideas. These will be picked up again, particularly in the final sections of the report.

Themes and issues

The aim of exploring the incentive effects of markets, hierarchies and networks across a range of disciplines and of considering the relevance of this for research commissioning was distinctive in several respects. First, the topic itself was particularly broad and wide-ranging. It neither had a firm root in a discipline nor in a substantive area of practice or current policy-making. Its limits and focus were not immediately apparent. Puzzlement about what was required exactly was a repeated feature of our own team meetings and of our efforts to

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engage stakeholders, consultants and peer-reviewers. Secondly, the commissioning body had accepted a discipline focus. The onus was on us to make recommendations as to the value of disciplinary and perhaps interdisciplinary research on this broad theme. How to make such a task manageable, how to cluster overlapping disciplines and indeed how to talk to each other across disciplinary boundaries, and how then to write for an audience with very different levels of knowledge and perhaps tolerance of academic debate, were key issues.

Imposing a sharper focus on the research question at the outset would be the usual strategy in a project of this kind. What exactly did we propose to mean by the concepts of incentives and governance? Delimiting the field in advance, however, ran the risk of excluding the very variety of contributions that was sought. On the other hand, 'letting 1000 flowers bloom' risked producing disciplinary overviews that both became unsatisfactory surveys of a field and ultimately had little clear message in their own right and gave little added value when set alongside each other. Confronting this, several guiding principles emerged and were consolidated further as the project progressed.

We began with an assumption that understanding of governance, incentives and outcomes would be enhanced by being firmly situated inside a disciplinary problem. Rather than offering *a priori* definitions, it would be helpful to reflect on how each discipline would approach this set of issues, what lines of enquiry there were and what the so-called state of play was in each area or sub-area. Thus the report (as emphasised in the original proposal) needed to retain a sense of the disciplinary problem as a leading idea. The focus of a discipline, however, should not be expected always to be orderly and cumulative. Academic work is not cocooned; wider social pressures, factors such as availability of funding and publishing outlets, Research Assessment Exercise targets and so on shape theoretical and empirical outputs to a lesser or greater degree, and this deserved to be acknowledged. Thirdly, and to a varying extent, disciplinary boundaries are permeable. We needed to discuss overlaps and borrowings, complementarity and confusion. Fourthly, we needed to find ways of valuing contributions equally. The temptation strongly to valorise material that addressed incentive issues in a direct fashion and that fitted within a cumulative science model needed to be resisted. Paradigm wars and struggles to stretch concepts to catch up with and cast new light on fast-moving worlds of practice were also important. Finally, in the context of all the above, there would inevitably be a strong element of selectivity and judgement in what was produced. We wanted to make use of the project database, but we took the view that reflective accounts oriented to multiple possibilities for future research were more appropriate than any attempt at comprehensiveness. We needed to give the disciplines their head, but also make sure that they came back together in some way to address

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the question of research of relevance to today's challenges of health-care organisation.

Whatever the team's intentions to value all equally, would there, in the end, be a 'lead discipline' for this study? At first sight, the obvious lead candidate was economics. Rational-choice theorising in general and principal-agent theory in particular provides an immediately intelligible focus on incentives. As Hill and Lynn (2003: 67; quoting Miller, 1992: 2) put it, working within a principal-agent theory framework (discussed in Section 1):

Agents are perceived as having distinct tastes... The principal's job is to anticipate the rational response of agents and to design a set of incentives such that the agents find it in their own interests (given the incentive system) to take the best possible course of action (from the principal's perspective).

Certain areas of applied psychology similarly spring to mind as closely related to the theme of incentives – those, for example, relating to the efficacy of performance-related payment systems, enriched and enlarged, perhaps by the more classic corpus of work on human motivation. Compared with this, organisation theorists and political scientists seemed to listen to a different drummer. Readers will see distinct traces of this interpretation in what follows, but the match by no means a perfect one. What is important, however, is to acknowledge that the concept of incentives is 'not innocent'; it comes with a particular intellectual baggage attached. This was something we needed to find a way to engage with and explore. The messages of the discipline sections in practice laid the groundwork for us to reflect more fully on the robustness of the concept of incentives as a basis for a future research programme, something we do towards the end of the report.

It was not just incentives, but also governance and outcomes and the link between the three that needed analytical attention. Governance has become a notoriously slippery concept and is both overused and under-defined. The joking suggestion by Chris Skelcher, a prominent researcher in the field, at a seminar on the topic, that we declare a 2-year moratorium on the word, produced much wry laughter. We have focused on markets, hierarchies and networks as forms of governance, but have also considered broader meanings of the term governance and their implications for health-service research. What then of the proposition that governance (in the shape of markets, hierarchies and networks, or some variant of these) generates incentives (for the individual and the organisation) and that these in turn produce outcomes (in the shape of organisational performance)? We found ourselves continually returning to and criticising this Governance–Incentives–Outcomes (GIO) model as the project progressed. Presented with it, our NHS and service-user stakeholders certainly felt that it was an overly simple reflection of the complexity of factors they confronted. At the same time, the idea that there was a logic to markets, hierarchies and networks, that each of these did

predispose to certain outcomes, was entirely recognisable to them. A key question for us was thus just how much research there was in whatever academic field that addressed the causal chain implied in the GIO model.

The structure of the report

The report opens with four main sections designed to review and assess contributions from different disciplinary clusters to the understanding of governance incentives and outcomes and to relationships between these. We cover economics (Section 1), psychology and HRM (Section 2); we then group together work from organisational sociology, organisation studies and management (Section 3), before turning to political science, policy studies and New Public Management (NPM; Section 4). We consider rather more briefly the limited amount of material we were able to find from socio-legal studies and the significance of this (Section 5). Finding a way to present the material in these sections proved to be a challenge, as the remarks above have already indicated. Authors had access to and were encouraged to use the material that had emerged in the database. They were agreed on how important it was to go beyond the database, and to call on their own and others' expert knowledge of the field. Using a collection of material not entirely of their own making, and working with concepts with different and not necessarily stable meanings within and across discipline areas, was not straightforward; nor, as noted, were there ready models for finding a voice to give a discipline-based message to those outside the discourse. The core team offered suggestions, but these were in the main only to create some minimal stylistic consistency. Adjustments, not surprisingly, came as we were able to consider and compare drafts.

Once the content of these sections was largely established, we were able to turn as a team to the question of the next steps for research. Part 2 of the report brings together the different contributions set out in the first part of the report and provides an assessment. The first stage of this assessment is retrospective. Section 6 revisits the interpretations and conclusions of the preceding sections. It asks just what it is that together these discipline-based reviews have to tell us about the key concepts – incentives, forms of governance and outcomes – and what research agendas, severally and together, they could be said to support. Section 7, the final section of the report, makes the move from academia to practice and from retrospect to prospect. It locates the assessments of the previous section in the context of the contemporary NHS and asks how far the research themes that have emerged might justifiably translate into areas for research commissioning, given the challenges that the NHS faces today. We end this concluding section with a number of recommendations, both for work that takes forward quite directly the themes of the report and for work that widens the brief. Taking

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inspiration from the comments of our stakeholders as well as from published work, we also comment briefly on the gulf between the worlds of research and practice and how the distance between them might be narrowed.

Four specific questions were set out in the commissioning brief.

- 1 What are the different incentive effects of markets, hierarchies and networks respectively on organisations and individuals who plan, manage and deliver health and social care?
- 2 How do the different incentives of different forms of governance affect organisational performance and how can these questions be researched?
- 3 Do different forms of governance produce different incentive effects on users of health and social care and/or their carers?
- 4 What are the implications of the foregoing issues for the organisation of health and social care services in England?

To take these in turn as the organising frame for the concluding sections of the report would have been the most obvious way forward. Both the disciplinary approach, however, and more particularly the emerging critique for the GIO model suggested that it may be less than helpful to rely solely on this route. The risk was that it pointed us so far down the road of critique as to be unhelpful to a body commissioning research in an applied field. What we have done is as follows. We invited each of the authors of the disciplinary sections in Part 1 to give some consideration to these four questions, and to include their evaluations in the overall conclusions that are reached. We pick up the four questions again in Part 2. Revisiting and reframing them in ways that start to open up the research agenda rather more was the key task for Section 6.

For the convenience of the reader, we have provided an alphabetical list of all the references used in the main report in the usual way. Most of these are drawn from the database, but items used to provide context or make links beyond the governance and incentives theme are not. We have also, however, made available in a separate volume a complete list of all the entries in the database at the completion of the project; not all of which, of course, will have a mention in the report itself.

Part 1 Perspectives from the disciplines

Section 1 Organisations, incentives and outcomes: a view from economics

Within the health field, broadly construed, there has been a rapid growth in recent years of interest in potential contributions from economics. The expansion of health economics as a profession reflects this growth and has enabled, *inter alia*, the development and use of cost-benefit analysis in the regulation of new drug interventions, to an extent that will be widely familiar to many in the NHS.

Perhaps less well-known to non-economists working in the health and social fields are some of the potential contributions that a range of other economic theories, analyses and sub-fields could make to understanding issues associated with resource allocation and institutional design. This research often speaks directly to various aspects of the GIO relationship and a number of academics have begun to discuss and develop these ideas in the health-care context. In this, the first of the discipline-oriented sections, we highlight some aspects of the literature that illustrate the particular strengths, methods and potential of economic analyses. Compared with the coverage of GIO by other disciplines, economics gives particular weight to *incentives*, and it discusses these in terms that are increasingly broad and realistic. Furthermore, the modelling methods economists tend to use are especially valuable in helping to understand the *relationship* between outcomes and their causes.

Dixit (2002) reflects aspects of contemporary thinking on these matters. He acknowledges that public-sector agencies have distinctive features and that incentives theory may need to be applied in a selective and specific way. He accepts that traditional kinds of incentives may well be applicable only to agencies and tasks whose performance can be quantified. However, he argues strongly for the possibility of what he calls an 'expanded incentives theory' – that is, one capable of encompassing other forms of incentive such as career concerns, idealism and professionalism. Dixit's comments highlight the diverse nature of incentive systems that can be used to influence outcomes and they have been influential in shaping Le Grand's work on the implications of incentives for health-care reform, as we shall see below. The approach Dixit takes derives from game theory, which is just one of the four branches of economics that we identify below as potential contributors to an understanding of contemporary issues in health-care organisation.

The most traditional approach is probably the *neo-classical analysis* of market behaviour, together with its implications for welfare. The

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evaluation of welfare concentrates on allocative efficiency (consuming the most desirable mix of products and producing the right mix of outputs using a cost-effective combination of inputs), as well as technical efficiency (minimising waste at any given level of output). Compared with the markets, hierarchies and networks taxonomy, neo-classical analysis concentrates on the behaviour of organisations (profit-maximising or profit-seeking firms) under different market structures (competition, monopoly and intermediate cases of oligopoly and imperfect competition). The approach traces the impacts of different market structures through price incentives on final outcomes that are measured in terms of efficiency in a variety of senses. Welfare evaluations concentrate on the optimal mix of products for consumers, and the optimal mix of inputs and outputs for firms. All these forms of analysis are applicable to health and they inform, to a greater or lesser extent, research evaluating health reforms by a number of health-economics and health-policy researchers around the UK.

In more recent times, neo-classical work has been complemented by research that draws heavily on *game theory* to understand and evaluate the outcomes that follow from particular incentive structures. This literature might be thought of as effectively equating the *de facto* governance of an organisation or its organisational design with its incentive structure. Analysis tends to be conducted in terms of general payoffs (profits for firms and utilities for consumers) and sheds light on many problems that are common to both markets and hierarchies. The principal-agent problem has been used to evaluate governance reform by a number of economists (see, for instance, Propper, 1995; Gravelle and Smith, 2000) and tends to locate problems for performance in the different information sets and motivations of agents (those who do the work) compared with principals (those on whose behalf the agents act). Because there may be differences between agents and principals in both hierarchies and markets and because the analysis is not limited to price-based interactions, principal-agent analysis, and more generally game-theoretic work, is likely to pinpoint governance issues shared by different organisational forms.

A third approach derives from more qualitative, less mathematical treatments such as those found in *institutional economics* or *transaction-cost economics*. Due mainly to the 'low-tech' nature of these approaches, this work is only partially integrated into mainstream economic thinking, although it could be argued that some game-theoretic research represents a formal response to the issues raised by advocates of the institutional or transactions views. The merits of these views seem to lie in their realistic approach to the description of organisational design. However, a drawback is that without a certain amount of formal modelling it is often very difficult to attribute outcomes to particular institutional designs.

Finally, a fourth body of work that also speaks to the effectiveness of particular incentive systems in bringing about desired outcomes can

be found in fields like *experimental economics*, which are part of an interface between economics and psychology. This area has existed for nearly 50 years but recently has attracted the attention of more mainstream economists as it helps to develop economic theories of decision-making. The work is important for health-policy reform because it raises important questions about the limits of financial rewards as incentives.

These four approaches are not exhaustive but they are significant in terms of economic analysis and the contribution that it can make to understanding the GIO relationship. In the rest of this section, we examine the neo-classical approach, quasi-market and contract-tendering reforms inspired by it, and the evidence of impact on outcomes. Market reforms have generated problems of organisational control which are being understood using principal–agent analysis and game-theoretic techniques more generally. However, the use of game theory raises further questions about human motivation. It will become apparent that some general economic analysis tends to focus around mathematical models that abstract deliberately from detail; nonetheless, the section concludes by noting that some of the questions raised by these models have been addressed by psychologists and that a growing number of economists are interested in trying to incorporate psychological insights into their analyses.

1.1 Quasi-markets in health and the public sector

The much-commented-on NHS internal market experiment developed during the 1980s and implemented to varying degrees in the 1990s is, analytically, an offspring of neo-classical economics. Experience of this governance reform illustrates the fact that market institutions can be incorporated into large swathes of public-sector activity (so-called quasi-markets) but also that the impact of such reforms depends on the incentives that public-sector workers have for their uptake.

The welfare analysis that rationalises such reforms specifies general, ideal conditions (for example homogenous goods, free entry and exit of suppliers into the market and perfect information by consumers of product characteristics) under which competitive markets will produce allocatively efficient outcomes. It is recognised by welfare economists that some market outcomes might be efficient and yet distributively unfair: nonetheless, many emphasise the scope that competitive markets have for encouraging cost reduction and thereby promoting technical efficiency. Where the assumptions are not met, the justification for market-type operations can be less compelling. Furthermore, conventional analysis allows that, in some cases, for example involving goods where demand is low because a very small proportion of the population is affected (so-called orphan conditions), monopoly may be the only way in which a service can be provided at all.

Experience from NHS markets provides a mixed bag in terms of links between outcomes and governance reforms, although it does often seem to confirm that incentives are frequently implicated in the success, or otherwise, of reforms. Although the internal market no longer exists in name, various aspects of it continue to shape policy. In what follows, we report on the evaluative empirical research, particularly work that has a bearing on the welfare-analysis justifications of market institutions.

1.1.1 General practitioners and their response to financial incentives

There appears to be something of a consensus that a significant proportion of general practitioners (GPs) reacted like textbook entrepreneurs to the changed pattern of incentives presented to them by the internal market. Research focusing on this can be found in a number of papers including those by Glennerster *et al.* (1994), the Audit Commission (1996), Baines and Whyne (1996), Baines *et al.* (1997) and Gosden and Torgerson (1997). In essence, the reforms gave GP fundholders direct financial incentives to look for, and implement, cost savings and there was evidence of relative success, compared to non-fundholders, with respect to hospital access for patients as well as in the reduction of prescribing costs. Incentives were high-powered in the sense that fundholders had discretion over the use to which the significant financial savings were put, and the fact that GP practices tend to be small may also have helped.

Concerns about fundholding have also been expressed. In the first place, it has been argued that, compared to non-fundholding GP practices, fundholders received generous budgets, and in addition, they experienced few sanctions for overspending (the same was true of hospitals). There are statistical problems too in that fundholders were self-selecting and those in the early waves were probably more likely to be innovators. That said, GP fundholders provided perhaps the most responsive part of the reforms.

1.1.2 Some supply-side gains in hospitals

The internal market was associated with a number of apparent improvements in efficiency. Le Grand *et al.* (1998), for example, ascribe to it the increased use of day surgery (switched from overnight stays), reduced lengths of stay in hospital and reduced waiting times for some procedures. Although these are often thought of in terms of cost savings to the acute sector, there may also be benefits in terms of patient satisfaction – for example, many patients would prefer to recuperate at home and often do so more effectively. On the other hand, some researchers reviewing the evidence found it difficult to identify measurable improvements for trust hospitals in terms of equity, quality, choice and responsiveness or accountability (for example, Mays *et al.*, 2000). One reason for this mixed and/or

uncertain picture may be that certain effects were either small or statistically difficult to identify – a point reinforced in a number of papers by Carol Propper and colleagues.

Propper and Soderlund (1998), on the other hand, suggest that when it comes to costs, in a number of ways the changes in hospital behaviour that were observed are consistent with the neo-classical analysis of firm behaviour in different market structures. Perhaps most notable of all is the evidence that competition appeared to have a significant, 'if slightly delayed', effect on costs. They estimate that by 1994/5, the 25% of hospitals in the most-competitive markets had decreased costs by around 14%, whereas the least-competitive 25% had decreased costs by only 4%. The evidence of a cost change is interesting in itself, but by linking it to the theory of competitive behaviour Propper and Soderlund make it possible to de-emphasise some alternative explanations of these improvements (for example, that they solely reflect secular trends in technological change).

1.1.3 The value of well-informed health-care purchasing

One of the grounds on which economists argue against free markets in health concerns the informational asymmetries between the patient and the clinical professional (doctors and consultants especially). For competitive markets to work, the consumer has to be able to identify the quality of a service and in health care this is often (though not always) difficult. The theoretical literature tends to assume that, outside US-style systems, the buyer is the patient, although in the NHS internal market health districts were also buyers of health care for a substantial proportion of goods. In the cases of both health districts and patients, the evidence – such as it is – supports the idea that well-informed consumer choice is a necessary but not sufficient condition for the effective operation of markets. As Mays *et al.* (2000: 52) point out, 'much of the evidence [concerning health-authority purchasing] is either *indirect* (that is, theoretically informed commentary and prediction) or focuses on the process of purchasing...'.

Nevertheless a couple of studies are particularly revealing. One conducted by the Audit Commission (1997) concluded that in the purchasing of highly specialised services, health authorities lacked the expertise or resources to make significant changes in the pattern of service delivery. In addition, a study of purchasing in Welsh health authorities by Hughes *et al.* (1997b) showed that changes in purchasing were driven by external, politically set targets (for example, waiting-list initiatives and the Patient's Charter) rather than the internal dynamics of the market. A study by Propper and Soderlund (1998; see also Propper, 2001) relating to equity found that the health-care distribution remained relatively unchanged and slightly in favour of the poor, after allowing for need. Concerns about so-called

cream-skimming, which could have affected the poor unduly, did not materialise.

When one turns to patient behaviour, a rather similar point is made by Blom (2000), who examined the impact, through interviews, of an internal market for personal social services in Sweden. He concluded that responsiveness of the service was not sufficient to guarantee patient choice as many clients were not aware of all the providers and in any case needs were difficult to assess. The point that being well-informed is insufficient for buyers to play their role in making markets competitive is made in a study of the UK internal market by Appleby *et al.* (1994), which showed that despite there being relatively few situations where providers were monopolists, reluctance on the part of patients to travel substantially limited the degree to which hospitals were in competition.

1.1.4 Evidence from other quasi-markets: the case of education in the UK

A number of policy changes in the UK, especially the 1988 Education Reform Act, have led to the emergence of a quasi-market in education. This attracted less media attention than the NHS internal market but in some respects the arrangements are closer to those of a normal market. In addition, the simplicity of the basic product, a school place, helps to reduce some of the statistical difficulties associated with evaluation. The remit for this review includes relevant experience outside health and there appear to be a number of similarities and shared issues between the health internal market and the education quasi-market.

On the supply side, local-authority control was eroded by a variety of changes including the introduction of formula funding of schools based on age-weighted pupil numbers, the local management of schools by governors and head teachers, the opportunity to opt out of Local Education Authority control, and the introduction of open (unlimited) enrolment. On the demand side, parental choice was enhanced by the introduction of technology colleges, grant-maintained schools and the ability of schools to seek recognition for specialisms in particular areas of the curriculum. Governance is on site, which facilitates parental involvement in school decision-making, and national league tables of school performance give a salient snapshot of scholastic attainment. A number of studies have examined data on the performance of secondary schools in England during the 1990s: the following findings are particularly relevant to issues concerning the impact of markets on outcomes in the public sector.

- Effective competition raises scholastic outcomes (Bradley *et al.*, 2000). Schools achieve better exam results when they are in competition with schools that have a good examination performance, though the estimated impact is quantitatively small.

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- Capacity expansion follows performance (Bradley *et al.*, 2000). The evidence that school intake is positively related to past performance and negatively related to the performance of competing schools is statistically very significant.
- Parental choice leads to polarisation of schools (Bradley *et al.*, 2000). Following the introduction of the quasi-market, the best-performing schools have become more selective with respect to family background (as indicated by the proportion of pupils eligible for free school meals).
- League tables of school performance provide a key source of information on which the market works but unless they incorporate an element of value-added, schools do not have an incentive to take weaker pupils (West and Pennell, 2000), and this may give a misleading impression of a school's effectiveness.

Clearly there are significant differences between schools on the one hand and health-care providers on the other. However, these findings suggest some issues that seem to carry over to the evaluation of different governance structures in health.

For one thing, where there is genuine competition between suppliers, performance may well improve, although there might be a question about the size of any improvement. Furthermore, in cases where performance monitoring is to be used in health, it will be important to ensure that this does not give strong incentives for health-care providers to avoid difficult cases (cream-skimming). Concerns about polarisation may not have direct counterparts in health, although they are suggestive of closely related equity issues. For instance, the quality of health care might vary between institutions or regions because some institutions or regions are more attractive to the health-care labour force, or sections of it. Perhaps it is inevitable that a move from hierarchical to market-based governance will result in greater inequalities unless particular policies address those inequalities. In that case, we may be forced to consider explicit trade-offs between efficiency and equity.

1.1.5 Changes in quasi-markets

It is clear from the literature that quasi-markets, as governance structures, might evolve over time. Authors have examined the extent to which they change because implementation is not instantaneous, the degree to which they evolve as they are shaped by the actors responsible for implementation and the extent to which they are subject to frequent external shocks due mainly to political interventions. As Exworthy *et al.* (1999: 20) put it:

The notion that the NHS has passed through various paradigms or 'governing structures' has been discounted here because they co-existed; there was no linearity of transition between structures. Later periods have added to rather than replaced earlier landscapes, in the manner of geological sedimentation...

This overlaying of institutional structures need not lead to excessive scepticism about the possibility of evaluation if appropriate empirical techniques are combined with relevant economic theory, and if relevant data are accessible. What it does, we suggest, is to underline the need for theory-based approaches to organisational research in health.

1.2 Contract tendering: markets embedded in hierarchies

Contract tendering has not been a particularly high-profile issue in health economics. However, as a form of outsourcing, the question touches on basic issues concerning the appropriate boundaries of the organisation (what is done within an organisation as opposed to being bought in from outside). Some of the theoretical issues will be further discussed in Section 1.3 but for present we confine ourselves to studies from the general economics literature that look at the effects of sub-contracting for work previously performed within the public sector. Sometimes this research is based on sub-contracting in the health field but often it includes non-health applications. Within the markets, hierarchies and networks framework, sub-contracting can be seen as a hybrid in which there are market-type operations at the bottom of an otherwise hierarchical structure. Compared with quasi-markets, contract tendering offers a more contained approach to marketisation of hierarchically organised activities.

Typically, tendering is introduced so as to yield reductions in cost or improvements in service quality and the evaluative literature attempts to address both aspects using one of two approaches as discussed below. There is also some work that goes beyond quantification of impacts, either by identifying the causes of impacts or by assessing consequences for equity. Some studies compare the performance of organisations with contract tendering to the performance of those without. Alternatively, before-and-after studies of organisations that introduce contract tendering are conducted. Neither approach is without drawbacks. In the first case, organisations that engage in contract tendering may have different characteristics from those that do not – a difficulty known as the problem of self-selection bias. In the second case, there may be other factors, correlated with time, that have a causal impact on outcomes. However, statistical techniques can be used to attenuate the effects of both difficulties. In either case, such research may help identify circumstances that make this approach more or less likely to succeed.

A couple of theoretical frameworks have been used to understand the issues associated with contract tendering. One is based on the public-choice school of managerial discretion developed in the 1950s and predicts, according to Niskanen (1971), that the public sector will be both allocatively and technically inefficient. Niskanen's model, for example, suggests that because public-sector bureaucrats are

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rewarded according to the size of their departments, in the absence of profitability measures they will produce twice as much as would be ideal from a welfare perspective. (The model predictions concerning allocative efficiency might be questioned from an empirical basis by comparing the predominantly public system of the UK with the more private-based system of the USA and noting that in fact the latter spends more of its national income on health than the former.) Nevertheless, the issue of allocative efficiency can, it is thought, be addressed by submitting bureau activities to competition. Occasional contract tendering may be susceptible to incumbent advantages but at least there are some periodic incentives for other firms to determine whether they might be able to deliver similar goods and services at lower cost.

A second approach to contract tendering stems from the new institutional economics, which includes a somewhat informal combination of insights from transaction-cost economics and game theory. Williamson (1985, 1993) develops a theme first explored by Coase (1937), who considered how the boundaries of the firm are drawn – that is, what determines whether economic activities are conducted within the firm (organisation) or are provided by the market. An important part of Williamson's insights is that where production requires investment in specific assets, there is potentially scope for opportunism. For example, if you invest in machinery for printing newspapers, there are few alternative uses for the capital (you are 'locked in'), so a newspaper company might, once the investment has been made, seek to renegotiate the terms of a contract under the threat of withdrawing its business. Long-term contracts might protect you to some extent but complexity and bounded rationality suggest that it will often not be possible to draw up a completely specified contract that covers all relevant eventualities. One solution to the problem, transaction-costs economists argue, is to change the governance structure by virtual integration, that is merging the printing press and the newspaper company. In the NHS much equipment and labour is of a specialist nature with few alternative uses outside the service, particularly given the small size of the private health sector, so the transaction-cost perspective is, on the face of it, relevant.

A number of empirical studies and a couple of reviews now exist in which authors attempt to quantify the outcomes that follow from contract tendering. Domberger *et al.* (1995), for example, find three things in a study of 61 cleaning contracts. First, controlling for contract and industry characteristics, competitive tendering generally lowered prices, while maintaining quality. Second, the effect on prices appeared larger than any benefit on quality. Third, the effect of ownership on both price and quality was very small compared to the impact of competition. This latter point is not particularly consistent with the Williamsonian emphasis on transaction costs but it is

consistent with the public-choice emphasis on the importance of competition for improved outcomes.

Nor is the finding unusual: similar studies are reviewed in Domberger and Rimmer (1994). A rather different contribution to the literature is made by McMaster (1996), who conducts a survey of finance officers in which he asks them to identify and rank the sources of savings due to contract tendering. In descending order of importance, his respondents cite productivity improvements, changes in the composition and size of the workforce, reductions in earnings, changes in the method of working and deterioration in non-remuneratory conditions of work. As McMaster observes, it is evident that whereas some of the advantages from contract tendering are derived from changes that economic forces are meant to engender, there may be undesirable distributive consequences if the taxpayer benefits at the expense of poorer conditions for those in already low-paid jobs.

1.3 Game theory, organisational economics and applications to health

Questions of organisational design and control have been the focus of considerable interest within game theory over the past 20 years or so and this work has been influential in shaping the way in which economists think about these issues. It is also accepted that the work has been driven by the development of mathematical models, that there is relatively little empirical evidence to test the analysis but that the empirical applications generally fit the theoretical analysis. As theory tends to make qualitative statements about relationships, this is unsurprising. Nevertheless, game theory and particularly the work on optimal contracting, developed substantially from the analysis of the principal-agent problem, provides a rich set of ideas and techniques for thinking about organisational design in ways that go far beyond the 'black-box' approach to the firm of neo-classical analysis. Here we review some of the theory before moving on to examine attempts to apply these approaches to health.

In essence, the principal-agent problem is very simple. The idea is that difficulties for efficient production arise when a principal and an agent have different *information* sets or different *motivations*. For example, taxpayers (principals) and medical staff (agents) may both want to maximise health gains but subject to different levels of government expenditure. Alternatively, a hospital manager (principal) may not be able to monitor directly, and all the time, the amount of effort exerted by each of her or his subordinates (agents). In the first case, health-care providers might want to see the government spend a different amount from what citizens would like, whereas in the second health-care workers might have an opportunity to do less work than they should. These are just two examples intended to convey the scope of the problem, a scope that is sufficiently wide that some writers regard this as *the* central idea in the economics of control in

recent years (for example, Gravelle and Smith, 2000: 270). As may be apparent, the approach is one that can apply equally in market settings or hierarchies, although it is less clear how it would apply in networks as the principal–agent relation is not directly mappable to relations between network members.

A number of responses to the difficulty have been proposed – we discuss the following in turn: incentivisation, risk and multiple tasks; repeated interaction; public-sector differences; and team incentives.

1.3.1 Incentivisation, risk and multiple tasks

The starting point for principal–agent analysis is the idea that where output is perfectly observable, output value provides a perfect indicator of effort and hence paying the agent the full value of her or his output will induce the (Pareto) optimal level of effort. If, however, output depends on factors other than the agent's effort (for example, chance), then it is not possible directly to observe, and on that basis to reward, the effort an agent makes. In fact, if the agent is risk averse, the optimal contract is one which gives her or him a fixed payment (salary) plus some bonus that depends on output. The more noise there is – that is, the less output reflects effort alone – the smaller the bonus element should be. As Burgess and Ratto (2003) note, this highlights the importance of accurate measurement – if it is not possible to measure effort accurately, then it may be best to offer 'low-powered incentives'.

This analysis deals explicitly only with the performance of a single task, whereas in reality agents may undertake a variety of tasks. For instance, nurses perform administrative tasks as well as caring for patients. This issue was highlighted by Holmström and Milgrom (1990, 1991), who concluded that the interaction between tasks played a vital role. If actions are substitutes (that is, spending time on one task takes time away from another), then the use of high-powered incentives may have undesirable effects on overall performance. One extension of their work is presented by MacDonald and Marx (2001) who consider activities that are substitutes from the point of the agent, but are complements from the perspective of the principal (the nurse can either do administration or care for patients but the taxpayer wants both activities). Under these assumptions, the agent would like to concentrate on tasks less costly to her or him whereas the principal would like all tasks to be performed properly. Typically the optimal incentive system, in multi-task situations, is one that rewards according to observed failure, partial success or full success on all tasks.

1.3.2 Repeated interaction

In traditional, non-cooperative game theory, repeated games without fixed endings often give players the opportunity to signal willingness to take actions that are, nonetheless, co-operative. In repeated

principal-agent problems, however, the principal is given the opportunity to observe the difficulty of the task and to readjust the incentive scheme in response. A sophisticated agent – one who can see that this might happen – has an incentive to lower her or his initial level of effort, an interaction that illustrates what is known as the ratchet effect.

1.3.3 Public-sector differences

Although much of the principal-agent problem applied to industrial organisation settings carries over to quasi-markets and hierarchies in the public sector, it has been suggested that some differences are particularly significant. In the public sector, for example, there is rarely a single bottom line, but rather a number of stakeholder objectives, suggesting that models with multiple principals are relevant. Such situations have been studied by Bernheim and Whinston (1986) and others subsequently. The models suggest, *inter alia*, that each principal will provide positive incentives for objectives of interest and negative incentives for objectives only of interest to other principals. The different principals are, in effect, in competition for agents' efforts – an insight that coincides with what one would expect intuitively. Dixit (1997) shows that these problems might be eradicated in one way by ensuring that each principal observes and rewards only the outcome with which they are positively concerned themselves. Alternatively, he suggests that principals whose interests are closely aligned might be grouped together: which solution is best depends on the details of the situation. However, as Dixit (2002) notes, this controlling of principals and the information they receive might be difficult to manage in situations where the principals are political actors.

A second source of difficulty concerns the importance of decision-making and the problem of outcome measurement in the public sector. Although a number of jobs are common to both sectors, some are regarded as particular to the public sector. In some cases, however, the problems of multiple objectives mentioned above might be exacerbated by the fact that agents have to use their own judgement in assessing the relative importance of tasks. This happens in the private sector too, but there judgement is, ultimately, linked to potential profitability and the absence of such a yardstick makes it difficult to provide adequate incentives. So where outcomes cannot be measured, the monitoring of performance becomes more important. Prendergast (2002) studies this issue and concludes that where neither effort nor output can be measured, the primary method of controlling behaviour is via the use of detailed audits of particular cases, often targeted at problem cases and usually expensive to conduct. Prendergast also demonstrates that complaints mechanisms work badly in bureaucratic situations: often standards of consumer quality are low and complaints rarely result in decisions being overturned.

Where outcomes are partially observable at the individual level, the requisite information systems may be too expensive for public-sector organisations, with the result that some performance data exist but only at an aggregated level. This raises questions about the use of team rewards and incentives, to which we now turn.

1.3.4 Team incentives and size

Holmström (1982) provides what is regarded as a seminal contribution to the analysis of incentives where the effort of a group of people is required. A basic finding is that where there are rewards for team efforts, there may be an incentive for individuals to 'free-ride'. The problem becomes more significant in larger organisations and the optimal incentive system depends on the measurability of output and the size of the team. As outcome becomes harder to measure, and the team size increases, so the design of the optimal incentive scheme becomes more complex and more direct monitoring of activity is required.

In their overview of work in this area, Burgess and Ratto (2003) note that despite widespread academic concerns about free-riding, team incentives are in fact used by firms and public-sector organisations, suggesting that they have some merit. One idea, examined by Kandel and Lazear (1992), is that team incentives act to foster monitoring within peer groups. In fact, they show that more effort can be encouraged by peer monitoring so long as the *detection* of free-riding is sufficiently high. Their analysis then suggests that large teams may find it harder to detect free-riding, which in turn favours team incentives in smaller contexts.

1.3.5 Applications to health

One of the earliest papers to focus on the principal-agent problem in the context of UK health-care governance reforms is by Whynes (1993). In it, he reviews theoretical resolutions to the principal-agent problem (particularly the use of output targets, performance norms, performance indicators and incentive payments) and asks whether these solutions are likely to carry over to services provided in the public sector. If all outcomes were measurable, then agents (health-care workers) could be rewarded on the basis of the outcomes they produced, but this is not in the case in health. Whynes suggests, following evidence from a study by Smith and Armstrong (1989), that people might be interested in how friendly or caring a medical practitioner is, although this may be difficult to measure. Conversely, the rise of patient surveys was cited by our service-user panel as a method of tracking these intangibles.

Whynes links his analysis to Farrell and Shapiro's (1989) lock-in problem – described above – in which the principal (government) is locked into a single agent (health service). When a principal has no choice, the agent may not behave as she or he would under

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competitive situations, with the result that outcomes are lower or of poorer quality. However, he shows that such problems may be mitigated if workers are conscientious rather than effort-minimising, and he cites an empirical study of health-care workers by Butler and Calnan (1987) which supports this 'conscientious' view. Nonetheless, he concludes by noting that even though incentives can move health-care workers to deliver certain targets, these need to be the right ones if the incentive gains are to be of any value.

Propper (1995) picks up the principal-agent theme by characterising the NHS as a set of 'overlapping pairs' of principal-agent problems. She used the framework to understand and evaluate governance reforms at a time when little evidence was available and argued that monitoring arrangements between government and the health service were such that allocative efficiency and consumer responsiveness were likely to remain somewhat unchanged. She also noted, as have others, that the absence of property rights for hospitals blunted incentives for them to become more efficient. However, she also argued that the development and provision of relevant information was to be encouraged.

An even more recent view from health economics, by Gravelle and Smith (2000), argues that, post-market governance, reforms exhibited a more comprehensive understanding of the various principal-agent problems that exist within the NHS than previously. However, they caution against awareness being taken as sufficient – citing examples of planning failure in Russia and Richard Titmuss's (1970) predictions about the negative consequences that would follow if blood donors were paid. In commenting on the replacement of contracting by even less-binding agreements, they note that this may nonetheless encourage repeated interaction which gives incentives for reputation building, and is one way in which the opportunism that lies at the heart of principal-agent problems might be avoided. On the other hand, their conclusions about information and trust are rather more sceptical. The Patient's Charter waiting-time data, for example, led to a number of unintended and undesirable consequences, including strategic manipulation of lists. There is also a question, they argue, about cost data and whether variations in reported cost do more than reflect different underlying accounting conventions. Finally, they question the extent to which co-operation, which seems to be a reaction to earlier quasi-markets, can use trust alone to overcome principal-agent difficulties.

Ways of applying principal-agent analysis to health policy have also been explored by Le Grand (2003), who focuses particularly on communicating key ideas to policy-makers. At the heart of his analysis is a plea for a more psychologically accurate account of public-sector motivation. He offers two extreme views – that all public-sector workers are knights (that is, altruistically motivated) or that they are knaves (maximisers of self-interest) – and argues that, in reality, organisations must work with people in whom both motivations are

present. In practice, this means that the introduction of financial incentives at the individual level may have little net impact on outcomes as non-financial motivation is 'driven out'. It also means, Le Grand suggests, that policy reforms need to be designed in such a way that they are 'robust' in the face of different kinds of motivation and he argues that GP funding had the impact that it did precisely because it was an example of such a robust mechanism. Some GPs might have been attracted by the emphasis on reduction of drug use whereas others might have been more motivated by the opportunity to make use of financial savings in their practices. Le Grand also makes the point that it would be wrong to underestimate the role that patients can play in improving outcomes, a point that is echoed by research on quasi-markets in education, discussed above. In summary, game-theoretic reasoning is on the rise both in general economics and in the sub-fields of health economics and health policy: as we shall see in the following section, it has also helped economists think about the appropriateness of the measurement and management of performance.

1.4 Performance indicators, measurement and incentives

The use of statistical indicators to measure and manage performance occurs in both public and private sectors where they serve the needs of internal control and accountability. Such measures are designed to shape outcomes by providing information concerning performance on which rewards and penalties depend and can be used within hierarchical or market settings. As Propper and Wilson (2003) acknowledge, there is evidence that performance management elicits response, although there is little evidence about the impact on outcomes, either in health or elsewhere. Much of the early literature and practice focused on what was conveniently measurable and often this related to processes rather than outcomes. There are now some discussions by economists that relate to incentives and outcomes and it is these which are the subject of this section. Here we consider discussions about desirable properties, potential difficulties and evidence concerning impacts.

Performance management came to prominence in the UK public sector in the mid-1980s and this naturally gave rise to research by economists which considered the properties that such indicators should possess, ideally. One such account, Anand (1988) proposed that performance indicators should be timely, comprehensive, decision-relevant, etc., and it is worth noting that many of these properties are widely accepted. For example, in a paper on the measurement of health-care quality, Giuffrida *et al.* (2000) emphasise the role of decision-relevance when they conclude that performance indicators should relate to those aspects of care that can be altered by the staff whose performance is being measured. In their analysis of

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indicators, Atkinson *et al.* (2002) develop an overlapping set of criteria that performance indicators might satisfy. These include relevance to a problem's essence, statistical robustness and validity, responsiveness to policy, ease of manipulation, timeliness, susceptibility to revision and not being overly burdensome on data providers. In addition, they propose that any portfolio of indicators should be balanced across different domains, that the indicators should be mutually consistent and of similar significance, and that they should be transparent and accessible to users.

An important part of the theoretical analysis of performance management concerns the potential drawbacks that might arise from a poorly designed system. A number of these difficulties were brought to prominence in a paper by Smith (1995; see Box 1.1), which continues to attract the attention of researchers in the area.

Box 1.1 Dangers associated with inappropriate use of performance indicators

Tunnel vision

focusing only on measured outcomes

Measure fixation

focusing on arbitrary targets that have weak relations to outcomes

Sub-optimisation

the pursuit of local objectives at the expense of aims central to the organisation as a whole

Myopia

concentration on short-term objectives at the expense of long-term goals

Complacency and demotivation

units may feel their position in a ranking cannot be improved

Misrepresentation

a risk if performance information is not audited

Gaming

the alteration of behaviour to obtain strategic advantage without organisational benefit

Ossification

limited ability to innovate due to rigidities in outcome measurement

Source: Adapted from Smith (1995)

There are, as Smith points out, a variety of unintended and/or perverse effects that performance management can cause. A number of commentators (for example, Kravchuk and Schack, 1996; Smith and Goddard, 2002) have suggested principles for the design of such indicators that are likely to mitigate these difficulties but it is important to recognise and take seriously the risks that attend the use of performance indicators.

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We have already noted the relative lack of empirical work by economists on the effects of performance management but one study which has attracted attention of economists concerns the US Job Training Partnership Act (JTPA), which focused unusually on programme outcomes, the use of budgetary incentives for managers and the linking of performance measures across federal, state and local government (Heckman *et al.*, 1997). Their evaluation of the programme highlighted a number significant findings that merit investigation in health and related settings. Firstly, they found that performance indicators tend to be cast in terms of levels rather than in terms of improvement compared with the *status quo* and that they were likely to be short- rather than long-term in nature. Second, they examined the extent to which JTPA managers engaged in cream-skimming by taking on those who were most employable anyway. They found, in contrast, that motivation to help those most disadvantaged tended to predominate, except where the performance-management system was exceptionally strong. Third, they found that short-term measures tended to drive out long-term goals. Two further studies of the programme add to the picture. Courty and Marschke (2004) found evidence of gaming (as described by Smith (1995) above) and show that this has a negative impact on goals of the training programme. Furthermore, a study by Barnow (2000) notes that sanctions for failure were not always applied but rather that performance measures have been redefined – a finding that seems to echo the reluctance to make service-provision agreements within the UK NHS legally binding.

In their discussion of performance management, Propper and Wilson (2003) note the relative dearth of empirical evidence relating to health, although there is some research in this area. For instance, Schneider and Epstein (1998) find that while consumers claim to want performance information, in practice they make little use of it when they have it. Similarly a study by Hibbard *et al.* (1997) suggests that employers make little use of performance information when choosing health-care plans to offer workers. There is, however, evidence that mortality rates in New York have declined significantly following publication of these rates (Hannan *et al.*, 1994), and there is no evidence that access to cardiac surgery has been reduced. However, more recent work on the New York experience is likely to contradict these conclusions (P. Smith, personal communication).

It has to be said that the economics literature seems rather critical of performance management. However, it would be premature to suggest that economists conclude that performance management should be abandoned: what the literature does is identify some pitfalls associated with applications of performance management that fail to assess suitability.

1.5 Economics, psychological motivation and organisational design

We have seen that game-theoretic reasoning applies to a range of issues in organisational design and that individual motivation plays a key role, though we have said little explicitly about this thus far. In fact, over the past 20–30 years a research literature has emerged that examines the interface between economics and psychology and some of it has a bearing on approaches to motivation. One issue in that literature particularly relevant to this review concerns the extent to which intrinsic motivation (as opposed to extrinsic factors like pay) is important in determining outcomes, and hence the degree to which intrinsic motivation might be ‘crowded out’ by the introduction of extrinsic rewards and explicit control systems.

The point that has begun to concern economists is that, notwithstanding evidence showing that explicit incentives can promote effort and performance (for example, Lazear, 2000), such rewards can impair performance in the long run by undermining intrinsic motives and their operation. A classic early experiment in psychology was that conducted by Festinger (1951), who asked subjects to perform a boring task and then to rate the task in terms of its tedium. Subjects paid a low amount actually rated the task as being more interesting than those paid a higher amount, suggesting that the high payment had encouraged subjects to devalue the task itself. This phenomenon has been replicated in numerous studies and in various ways: Deci (1975) found that of college students recruited to work on an interesting puzzle, those who were not paid anything worked longest on it. Indeed, Deci *et al.* (1995) provide a meta-analysis of over 100 experiments which examine the issue and conclude that the so-called crowding-out effect is indeed an important one.

The literature on the economic consequences of intrinsic motivation is still in the early stages of development, as Murdock (2002) acknowledges. Nonetheless, it is of some importance to any debate that includes discussions of incentive–outcome relations and the economic theory paper by Benabou and Tirole (2003) provides a good indication of the kinds of results that are beginning to emerge. In their model, the authors analyse principal–agent interactions in which explicit rewards are only weak reinforcers in the short term and may have hidden costs and negative impacts in the long term. A significant conclusion of the model is that by offering low-powered incentives, the principal signals to the agent that she or he is trusted and valued and the agent responds to trust by working harder or more effectively.

It must be stressed that this is only a model but it suggests that crowding out is a possibility that depends on two conditions. First, the principal, say a hospital manager, must have information about the task (or agent – for example, a doctor) that the agent does not. In general, the nature of jobs is well known so both the principal and the agent might have similar amounts of information: on the other hand,

specific details that affect quality of working life might not be so widely known, in which case the principal might know more than the agent. Second, for explicit incentives to signal that a task is of low intrinsic value to the agent, the principal (manager) must be tempted to offer performance incentives under such circumstances. And as Benabou and Tirole (2003) note, often the opposite happens: managers tend to be promoted from a fixed-salary post to jobs with a bonus element despite the fact that the promotion usually also involves shifting to work that is more intrinsically rewarding.

Bruno Frey's (1993) complementary work, also theoretical but more closely linked to evidence from the social psychology literature, examines the issue of crowding out in the context of increasing monitoring of work activity. He derives similar conclusions to those noted above and adds, drawing on work by Deci and Ryan (1985), that intrinsic motivation is more likely to be crowded out when increased levels of monitoring reduce workers' sense of self-determination or self-worth. Psychological insights of this kind, and their implications for the economics analysis of health-care reform, play a central role in Le Grand's recent book (Le Grand 2003), as we have already noted.

One final issue worth mentioning concerns the extent to which, given the existence of a public-sector ethos, agent objectives are aligned with those of the principal or organisation. This is the subject of another recent economic theory paper by Besley and Ghatak (2003), whose main finding was that delivery is effective where the goals of the agents are closely aligned to the mission of the principal and that financial incentives are only required where there is a mismatch. One might think of their model as applying to the issue of waiting-list reduction: because of the disparity between priorities in this area, political actors have felt obliged to offer financial incentives to encourage list reduction activity by service providers. In any case, the model of Besley and Ghatak shares with others mentioned in the section the theme that the use of financial incentives within public-sector organisations should be used with caution in situations where they are counter-productive.

1.6 Conclusions

The economics literature assumes in theory, and shows in practice (Prendergast, 1999: 55), that 'incentives matter'; that is, that they shape outcomes. However, incentive need not be high-powered or financial, and optimally depends on the structure of the interaction between relevant parties. The literature bears on the core questions set for this project in a number of ways.

What are the different incentive effects of markets, hierarchies and networks respectively on organisations and individuals who plan, manage and deliver health and social care? The traditional theoretical

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models in economics concentrate mainly on markets and hierarchies, while the analysis of networks is relatively underdeveloped in comparison. The incentive impacts of markets, quasi-markets in the public sector included, depend on the structure of those markets as well as the conduct of actors (producers and 'consumers') in those markets. Evidence from health and education indicates that the degree of competition plays a key role in determining both organisational and individual responses to incentives.

The incentive effects of hierarchies depend on the benefits and costs of compliance with organisational goals faced by those whose actions deliver organisational goals. Evidence is less direct and comprehensive than for quasi-markets whereas theoretical models – in economics – have tended to emphasise problems of hierarchies to do with over-supply and lack of responsiveness. Three points can be highlighted; first, that while the measure of outcomes and performance is essential, the manner in which performance indicators are introduced and developed can, if done inappropriately, set up perverse incentives. Second, the introduction of financial incentives at the individual level may crowd out more altruistic forms of motivation. A further reason that makes generalisation difficult concerns the existence of hybrid or combination forms. Contract tendering can be seen as an example of one such form and one that appears capable of reducing cost as desired, though possibly at the expense of fairness (terms and conditions of workers who are low paid).

How do the different incentives of different forms of governance affect organisational performance and how can these questions be researched? The key issue here seems to be the strength of the incentives involved. Incentives do not have to be large and financial for individuals to react to them, although both organisations and individuals can be expected to respond to large financial incentives when they have the freedom to do so and when the (transactions) costs of co-ordinating a response are not too large. Where incentives are sufficient to drive performance, there is a risk that in a multi-output environment these incentives will degrade outcomes where incentives are weakest or non-existent.

Turning to research methods, it seems that econometric and statistical modelling are the main methods available for tracking empirically the relations between incentives on the one hand, and performance and output on the other. These methods require the development of quantitative data which are usually secured via surveys that may be recurrent, occasional or one-offs. More theoretical approaches, like game theory, can feed into the construction of such models but purely theoretical approaches are often deliberately devoid of crucial institutional detail and take a long time to develop. Economic theory is perhaps most useful here when it provides a warrant for the selection of variables which then enter into an (empirical) econometric model.

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Do different forms of governance produce different incentive effects on users of health and social care and/or their carers? It seems inappropriate to generalise about the incentive effects on users because the details of any system, particularly its financing, which lies beyond our brief, are crucial. However, it is worth highlighting here Le Grand's argument about the incentive effects that users could have on the operation and development of a health-care system. For competition to work, informed choice needs to be possible which means, in turn, for example, that patients possibly working in conjunction with their GPs need to have some element of choice between hospitals.

Implications for the organisation of health and social care services in England. Whether market or hierarchical forms of organisation prevail, the promotion and regulation of effective and appropriate forms of competition is capable of playing a key role in the enhancement of performance with respect to a number of areas. It should be noted that competition can vary from positions in a ranking or league table through to allocation of rewards like financial resources or enhanced autonomy and that these variations may all have a role to play. However, where competition between organisations is to be promoted, it must be done in a way that recognises that there is a strong co-operative ethos at the individual level within the NHS. The more cautionary implication of this literature is that particular care needs to be given to the design of financial incentives as they apply to individuals. They may just crowd out more altruistic behaviour and encourage health providers to focus on a subset of what is important to patients.

Finally, it is evident that apparently small departures from theoretical ideals can completely change the incentive impacts of governance reforms. If, for example, contracts are not legally binding, the pressure to avoid undesirable outcomes is reduced and the point of their use is undermined. Alternatively, if network membership is made compulsory, the normal logic of network activity is undercut. Perhaps the best that one can hope for is that policy-makers are ready to act quickly when such practical difficulties emerge following a change in the pattern of incentives.

Section 2 What do the disciplines of psychology and Human Resource Management contribute to the Governance–Incentives–Outcomes model?

Psychology and its related discipline of HRM can be seen as addressing the two respective spaces within the GIO model. Motivation rather than incentives is the vocabulary of psychology, but incentivisation is certainly part of the thinking of HRM. What psychology explores are the factors that predispose and facilitate behaviours, and in this way it offers a way of understanding the possible effects of incentives on individual or group motivation. An incentive seeks to elicit motivated behaviour of a certain kind. In terms of the GIO model therefore, psychology illuminates the space between incentives and outcomes, helping to uncover something of the mechanisms by which incentives may work (or why they may not), and to explain some of the complexity of apparent effects. Thus, psychology brings to the subject its focus on the individual and group levels. Its related disciplines and domains, such as HRM and organisational behaviour, focus on the organisational as well as the individual and group levels. To some extent they explore the indirect connections between governance and outcomes in so far as management is seen as a key intermediate variable. Few studies have even attempted to trace a continual thread from one end of the GIO framework's chain to the other. The psychological literature has much to say about incentives and motivation, although very little to say about overall organisational outcomes or forms of governance. The HRM literature has much to say about management policies and practices and their links with performance outcomes, although rather less to say about markets and networks. There are also some hybrid articles that explore the interconnections between different organisational forms and human resource practices and policies.

In this section we seek to present a broad overview of these literatures. It is organised into two main sub-sections: the individual level of analysis (mainly psychology), and management and outcomes (mainly HRM).

2.1 Psychology

Research drawing upon a psychological perspective tends to focus on aspects of individual behaviour. Individual differences are explored using concepts such as personality, attitudes, intelligence, perception and learning. An especially relevant concept in relation to the GIO problem is the notion of motivation. In this review we include within

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the broad label of psychology the sub-fields of organisational and occupational psychology and the individual and group aspects of organisational behaviour.

In the SDO programme's analysis of the contribution of the different social sciences, John Arnold makes a broad assessment of the kind of contribution that organisational psychology has made and could make to the health-services domain (Arnold, 2001). Summarising the salient features of psychology and its relationship and applicability to health services, he observes: 'Psychology as a discipline concerns the description, explanation and prediction of behaviour, thoughts and emotions' (Arnold, 2001: 73). He also notes the generally interchangeable nature of sub-discipline labels – organisational and occupational psychology among others – though each with subtle nuances. In the context of the GIO project, it is relevant to note that the emphasis is mainly on the individual rather than the organisation or any other governing mechanism:

On the whole, organisational psychologists do not expect to calculate the monetary value or cost of behavioural variables or management interventions such as the adoption of team working.

Arnold (2001: 87)

Nor is organisational psychology 'as well geared as organisational sociology to the identification of macro-social influences on individual behaviour' (Arnold, 2001: 87).

The history and development of what used to be called 'industrial psychology' reveals a number of attempts, at least *partially*, to address aspects of the GIO problem. During the First World War, studies concerned with improving productivity in the munitions industries focused on how working conditions might affect accidents, absenteeism and productivity. As a result of perceived success in improving conditions related to heating, ventilation and similar conditions, research was further developed into aspects of the physical conditions of work, as well as topics such as rest periods, time-and-motion studies and so on. This kind of work continued in the 1920s and 1930s with research into job analysis, selection interviewing, testing and vocational guidance. The tradition of researching the connections between work design (in its broadest sense) and organisational outcomes was continued in the USA through the human relations (HR) movement and the famous Hawthorne Experiments, which demonstrated the importance of the social as well as the physical dimensions of work.

In terms of the GIO agenda, the aspects of psychological research (including here organisational and occupational psychology) that are most relevant are those which attend to six main themes:

- values, culture and climate,
- attitudes,
- job satisfaction,

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- psychological contract,
- motivation and commitment,
- job design.

The concept of incentives, which is central to the GIO model, is relevant in each of these, though it is perhaps most explicitly evident in relation to motivation and commitment.

2.1.1 Values, culture and climate

Organisational values, culture and climate have been particularly to the fore in recent business practice and research. The term values suggests a normative engagement and thus implies some moral judgement – that is, concerning how things *ought* to be, and which practices are judged as right and wrong. This invites examination of convictions and morally based preferences. A relevant construct is that of a value system – that is, some interconnected set of values. Such values will affect responses to management and organisational interventions – for example, approval of, or distaste for, performance-related pay. In turn, attitudes and behaviours can be expected to be shaped by values. Motivation and commitment have been seen as related to values; this is revealed, for example, in a study of hospital consultants (Miron *et al.*, 2004). The extent to which values also contribute to innovativeness has also been investigated (Humphrey and Russell, 2004). It is often assumed, for example, that people working in the public services – most especially perhaps those working in the NHS – may have distinctive values that influence their orientations to work. This aspect of public-sector management, organisational culture and values has for example been explored by Parker and Bradley (2000), whose findings are summarised in Box 3.2.

Organisational culture and climate are closely related concepts. The former denotes shared norms and beliefs, whereas the latter tends to emphasise rather more aspects of employee evaluations of organisational context. Many authors have hypothesised that organisational culture and climate play a crucial part in organisational performance. Empirical evidence that employee perceptions of a positive culture and climate – one that is challenging, constructive and engaging – results in good performance, at least as interpreted by supervisors' evaluations, has been offered by a number of studies (see, for example, Brown and Leigh, 1996).

Noteworthy here is the work of Mannion *et al.* (2003) in the UK's NHS. This was a UK-wide survey (plus case studies) of NHS managers which sought to examine links between their interpretations of their Trusts and independently collected performance data of these Trusts. The conclusion was that culture was an important variable with regard to performance outcomes. Different Trusts had different dominant cultures – such as clan, hierarchical and developmental – and these differences seemed to correlate with performance outcomes. The high-

and low-performance Trusts (measured in terms of the star ratings) were also patterned in terms of their cultural emphases. Studies such as these indicate that organisational cultures and climate do indeed seem to matter. On the other hand, many other studies also indicate that it is naïve to imagine that it is easy to 'manage' a culture change. There is more on the work of Mannion and his colleagues in Section 3 (Box 3.6).

2.1.2 Attitudes

A significant tradition of research has been the exploration of how attitude change comes about through the process of socialisation into a profession. Professionalisation involves the modification of previously held attitudes and the adoption of new attitudes. Part of the process seems to be the adoption of, and conformity to, group norms. Attitude change is a key theme relevant to the GIO agenda. For example, the study of changes in beliefs and the potential for associated changes in behaviours is explored by Carlisle and Baden-Fuller (2004). They identify three sources of attitude change: 'compliance' (attitudes and behaviours adopted for ulterior motives), 'identification' (adopted to maintain a satisfying relationship with work colleagues) and 'internalisation' (fully accepted as part of self identity).

Kelman (1958) suggests that the main forces leading to attitude change are: communication, persuasion, rewards and new membership of social groups. According to Festinger (1957), people try to achieve consistency and balance in their attitudes, values and knowledge. Thus the theory of cognitive dissonance relates closely to the changes in attitudes noted in these other studies (Festinger, 1957). Festinger's theory would predict that changes of attitude can sometimes be expected in order to bring about a match with outward behaviour. In effect, this could be called a cognitive consistency theory.

2.1.3 Job satisfaction

Job satisfaction is one of the outcomes identified for exploration in this project. The sources of job satisfaction have been researched extensively. The main variables identified and explored have been: pay and benefits – including perceived fairness and equity of rewards; promotion; leadership; work group; job design and opportunity to exercise skill and discretion; and the quality of working conditions.

There is often an assumption that satisfied workers will also be productive workers. In fact, the impacts of job satisfaction have been found to be more problematical than might be expected. Research reveals that the connection between job satisfaction and behaviour such as turnover, productivity and so on is far from straightforward. Numerous studies suggest that the demonstrable link between job satisfaction and performance is weak. This has been confirmed through a meta-analysis (Huseman and Goodman, 1998).

However, Ostroff (1992) argues that if data are collected and analysed using the *organisation* as the unit of analysis rather than the *individual*, then organisations with the more-satisfied employees can be found to have superior performance outcomes. There is of course a possible reverse causation effect at play here – the more-productive workers could be the more satisfied (Petty et al., 1984).

Although the incentive effects of different forms of governance have been explored in a partial manner by various segments of these literatures, characteristically far more attention has been paid in the psychology literature to the interrelated concepts of motivation and incentives. In the vast bulk of the organisational psychology literature that deals with satisfaction, motivation and incentives – and disincentives – most of it addresses aspects of *management* as the causal variable. For example, a major analysis seeking the sources of dissatisfaction among nurses in the USA drew upon a large survey. It found that nurses' dissatisfaction derived mainly from inadequate support from management and inadequate levels of nurse staffing (Aiken et al., 2002).

The connection between health-sector reform and public-sector health-worker motivation has been studied by Franco et al. (2002). The aim was to help policy-makers view worker motivation in a more 'holistic' manner. To do that, they examined the layers of influences upon health-worker motivation: the internal individual-level determinants, determinants that operate at the organisational (work-context) level and determinants stemming from interactions with the broader societal culture. Franco et al. draw primarily upon the existing literature. However, they additionally use a series of specially commissioned case studies. They suggest that worker motivation will be affected not only by specific incentive schemes, but also by the whole range of health-sector reforms that potentially affect organisational culture, reporting structures, channels of accountability and so on.

2.1.4 Psychological contract

The concept of the psychological contract became prominent and influential in the 1990s as so-called new deals at work (for example, more temporary and part-time work, and less-secure work generally) began to be talked about and to some degree enacted. The implications for the implicit as well as the explicit contract of employment were explored by a number of researchers (Rousseau, 1995; Guest and Conway, 1997). In other words, as the nature and security of the formal employment contract was altered (for example, rendering it more contingent on the vicissitudes of the market), so too were there repercussions for the way in which employees interpreted their attachment to their work organisation.

Psychological contracts develop on an individual basis and through the interaction of individuals with their organisational environment, taking

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their individual goals into account. A psychological contract is also shaped by how an organisation treats individuals and the signals it sends. Violations of the psychological contract can come from employers, employees or both. These violations will be assessed on the basis of several aspects – for example, the understanding of fairness and the discrepancy between expectation and actual event. For employees, there might be five potential responses to violation: voice, silence, retreat, destruction and exit. According to one study, 'organizations may make strategic business decisions which result in serious contract violations often without an awareness of the implications for organizational viability' (Shore and Tetrick, 1994: 106). For example, under conditions where work force reductions take place, then 'even when an employee is not directly affected, the reductions can do serious damage to the psychological contract' (Shore and Tetrick, 1994: 106). In such cases, employees tend to become 'poorer organisational citizens' and move to a more transactional contract – in the sense of a short-term-oriented balance of give and take – rather than subscribing to an organisational attachment which offers additional discretionary effort and loyalty.

This amounts to a degradation in the level and quality of incentives. A related distinction is between 'task performance' and 'contextual performance' (Van Scotter and Motowidlo, 1996). The former denotes a narrow focus on immediate task requirements whereas the latter includes a wider engagement with the organisation and the expenditure of discretionary effort.

The psychological contract has been explored in relation to public-service settings in Australia (O'Donnell and Shields, 2002). Employee responses to individual performance-management practices were studied in two culturally dissimilar agencies: the Department of Finance and Administration and the Australian Defence Force. The focus was on employee perceptions of four key elements of performance management: (i) setting performance criteria; (ii) assessment of individual performance against these criteria and associated appeal procedures; (iii) provision of performance feedback; (iv) the links between evaluated performance and reward outcomes (pay and promotion). In the Defence Force, the move to a transactional psychological contract (focused on short-term and monetised exchange) was reported to have been accompanied by an erosion of employee trust in system fairness. The perception was that the combination of behavioural appraisal and performance-contingent pay was flawed, unfair and disingenuous. Neither system processes nor outcomes lived up to the employee expectations built up by management about a 'new culture' of high rewards for performance excellence. In the Department of Finance and Administration, expectations were less inflated and the gap between rhetoric and reality was less obvious. The system of officer appraisal for developmental purposes provided solid reinforcement for the prevailing hierarchical culture with its characteristic emphasis on a

relational psychological contract (long-term, entailing considerable investment by both parties in training and development, and a high degree of mutual interdependence).

2.1.5 Motivation

The psychological research tradition contains a number of interconnected constructs related to the link between volition and outcome, where motivation is arguably the key term. However, there are a number of related terms, each with their own associated theoretical bases; for example, needs, drives, goals and incentives. To review these is virtually to review much of the history of occupational and organisational psychology. In broad terms, a progression can be traced from need theories of motivation to cognitive theories and potentially on to a number of attempted integrative theories. Need theory includes such classics as Maslow's famous 'hierarchy of needs' (Maslow, 1954), Herzberg's dual-factor theory (Herzberg, 1966) and McGregor's Theory X and Theory Y (McGregor, 1960). Each of these in their different ways works from the premise that humans respond to innate drives or needs. More recently, Locke and Latham (2004) have sought to develop an integrated theory of work motivation that is more valid, broader in scope and useful to practitioners.

A study of motivation among ancillary workers set out to investigate 'the most effective means of motivating low waged workers' in the UK's private and public sectors (Smith, 1999: 264). Levels of job satisfaction, as an indicator of work motivation, were compared between ancillary staff in the NHS and the hotel and leisure industry, and correlated with the staff-centred programmes introduced in organisations for addressing the issue of staff motivation. The empirical research base was a benchmarking study across 20 NHS Trusts and two hotels using questionnaires. Smith found no association between financial incentives and job satisfaction or staff motivation, but a positive correlation was found between staff-centred programmes and staff satisfaction and staff motivation. Although 'a good rate of pay' was rated second in importance, Smith does not make a correlation between it and overall job satisfaction and motivation. Concerning both, the results seem to indicate that staff-centred schemes and other methods, aiming at aspects at higher levels of Maslow's hierarchy, can have an higher impact on job satisfaction and motivation (of low-paid workers). Managers, allegedly, harboured 'incorrect assumptions' about what really motivates their workers.

The role of incentives in the public sector generally (with some small reference to the NHS) was investigated by Burgess and Ratto (2003). The aim of this study, also discussed briefly in Section 1, was to investigate how performance pay intended as an incentive might improve efficiency in the public sector (when compared with the private sector). Payment in direct accord with an employee's performance is difficult to achieve because of multiple tasks,

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methodological and practical difficulties in measurement, and multiple outcomes. In addition, in the public sector, there are multiple principals (stakeholders). Measurement and monitoring are even more difficult since the outcome is often not only sales or similar other aspects of performance in the monetary sphere, but also other outcomes such as the level of team satisfaction.

On the basis of a research project investigating management consultants, Ritchie and Martin (1999) suggest that individuals vary in the strength of their needs across a number of motivating factors – for example, the saliency of their needs for intrinsic interest, achievement, recognition, self-development, variety and change, creativity, power and influence, social contact, money and tangible rewards, structure, relationships and physical conditions. The hypothesis was that people have high or low ‘needs’ in relation to each of these 12 factors and that their needs can vary between the factors – that is, they are not dependent on each other. A questionnaire was completed by 1355 managers and professionals from several nationalities. The motivation profile offers a useful diagnostic tool and draws on recent data from managers and professionals. However, one limitation is that the sample is drawn from managers on training programmes.

Cognitive theories

Cognitive theories of motivation embrace three sub-theories:

- expectancy theory (Vroom, 1964; Porter and Lawler, 1968),
- equity theory (Adams, 1965) and
- goal-setting theory (Locke, 1968; Latham and Locke, 1979; Locke and Latham, 1990).

Expectancy theory

Kren (1990) uses expectancy theory to assess performance outcomes of a budget-based control system. He constructs an ‘extended expectancy model’ to provide a framework with which to study the effects of performance incentives and participation on individual performance. On a traditional expectancy model (that is, that expectancy and valence explains the level of motivation which in turn explains behavioural performance) the link between motivation and performance was not empirically supported. But Kren adds goal theory to the model. This extended expectancy model suggests that incentives and participation explain the level of motivation (expectancy/valence), which in turn explains commitment to the goal, which in its turn explains performance. The hypotheses were that: (i) goal commitment is positively related to performance; (ii) motivation is positively related to budget goal commitment; (iii) the presence of performance incentives is positively related to performance and (iv) the presence of participation is positively related to motivation. The hypotheses were supported by the findings of this experiment (Kren, 1990: 109).

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Equity theory

Equity theory starts from a shared premise with expectancy theory that there are cognitive processes that shape behaviour, but more emphasis is placed by equity theory on social comparison and notions of perceived fair return. Feelings of inequity impel attempts to reduce discomfort through a number of ways such as reduced effort in order to balance the equation, a demand for higher reward, modification of perception of self, substitute comparison groups or exit (Adams, 1965). Analyses of fairness and social equity are related to research on aspects of distributive and procedural justice.

Drawing upon theories of motivation taken from managerial psychology and organisational theory, Bresnen and Marshall (2000) seek to understand the operation of incentive mechanisms under partnering conditions and where alliancing projects operated. The aim was to demonstrate 'that the use of incentives in partnerships or alliances is grounded in simplistic assumptions about the nature of motivation in organisations and thus does not necessarily provide an appropriate and effective basis for improving collaboration between organizations' (Bresnen and Marshall, 2000: 588). They used six case studies of construction projects and found that incentive systems do not necessarily create trust; if anything 'they tend to symbolize the lack of trust and long-term commitment underpinning the relationship' (Bresnen and Marshall, 2000: 595). It was clear that other sources of motivation, particularly the prospect of further work, were much more important to the companies and individuals concerned. The conclusion drawn is that

there are important limitations to the use of incentives as means of reinforcing collaboration and developing commitment and trust, and that this raises questions more generally about the assumptions that underlie many of the practical tools and techniques commonly associated with partnering and alliancing.

Bresnen and Marshall (2000: 587)

Goal-setting theory

Goal-setting theory has practical management applications. It suggests that a goal should be set which will stretch employees but is not beyond ability or attainment levels; that goals should be specific (that is, expressed in precise language, be unambiguous and preferably be at least partially quantifiable); that they should allow participation in goal-setting; that goals should be acceptable in a number of ways (including the idea that they are understood) and that feedback should be given (Locke and Latham, 1990, 2002, 2004). Notably, studies of appraisal also indicate that goal-setting is the most effective element in this process (Murphy and Cleveland, 1995).

Incentive pay

From the perspective of occupational psychology, the most basic form of incentivising is the use of contingent or performance-related pay.

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Such schemes mean that a proportion of pay is dependent on performance achieved. This form of pay became especially widespread in the 1990s.

A number of criticisms have been levelled at this form of motivation: for example, that money is not in fact an overriding concern to many people when it comes to work effort; that pay being dependent on performance can have a perverse effect (it can be perceived as manipulative and heighten a sense of being controlled); that competition for rewards can be divisive and damage working relationships; that it can distort effort so that energy is directed almost entirely towards specific measured targets and away from the wider objectives which an organisation has; and finally that it can undermine intrinsic interest (Kohn, 1993).

The role of performance-related pay has been extensively researched by Marsden (2004). He has examined the introduction of performance-related pay in Britain's public services during the 1990s. Previous research, he notes, 'indicates that [performance-related pay] failed to motivate many of the staff and that its operation was divisive. Nevertheless, other information suggests that productivity rose.' His article seeks to resolve the paradox using contract theory to show that performance pay was the instrument of a major renegotiation of performance norms, and that this, rather than motivation was the principal dynamic. Goal-setting and appraisal by line managers played a key role in this process. Marsden finds that although previous reports had concluded that performance pay had not motivated public employees in Britain, an alternative explanation can be advanced – namely that the use of performance pay, and of performance management more widely, could provide a more general framework for renegotiating performance standards – that is, it could alter the overall "effort bargain" –with public employees'. This is consistent both with rising organisational performance, 'which would explain top management's perseverance, and with the repeated evidence that [performance-related pay] has failed to motivate many public employees' (Marsden, 2004: 351).

He found that the performance pay and appraisal schemes 'were actively influencing employee motivation, and that they did so in the manner predicted by the mainstream theories' (Marsden, 2004: 360). The influence was in part positive – that is, individuals could be incentivised to work beyond the norm – and also in part negative – that is, the schemes were found to be divisive and not conducive to team working. Both effects were strongly statistically significant. He comments that even when a scheme is well-designed and managers are well prepared to operate it

there will very frequently be not only employees who respond favorably, and agree to the new norms, but also others who resent the norms and consider themselves worse off. Whereas the former are positively motivated to improve or adapt their performance, the latter

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are not, and managers hold them to the new performance norms by means of goal setting and appraisal.

Marsden (2004: 365)

He also points out that the language of policy debate remains 'motivation' and 'incentive', despite the public-service performance language of 'negotiation':

Line managers are the strategic link in the chain translating the abstract objectives of change into the everyday tasks that individual public servants undertake; hence the importance of goal-setting and appraisal. But they are also potentially a weak link, as they come under pressure from their staff to be lenient with work assignments and over-generous with performance rewards. The widely observed upward 'drift' in performance appraisal and pay awards stems from just such pressures...

Marsden (2004: 351)

2.1.6 Job design

Research on job design is usually underpinned by aspects of motivation theory. The problem is normally how to reduce dissatisfaction, boredom and lack of variety and to substitute variety, challenge and achievement in work. Job design is seen as one of the potential interventions to secure these advantages along with job enlargement, job rotation and job redesign. Analysis of the elements that might constitute a satisfying and motivating job has led to research into the Job Characteristics Model (Hackman and Odham, 1974; Hackman *et al.*, 1975; Hackman, 1987). Key characteristics that deliver motivational potential are jobs which offer the opportunity for skill variety, task identity, task significance, autonomy and feedback.

Attempts to improve job satisfaction and performance and to implement organisational change concentrate on three levels: on the individual (extrinsic rewards, realistic and challenging goals, evaluation of performance, promotion and skills development), group (organizing work around groups, group culture, distribution of resources to groups and competition between them) or organisational (job rotation, training, job security, decentralisation and fewer status distinctions) level. One key argument is that one cannot mix or combine these systems since that they have (some) contradicting implications and outcomes.

Thus, the major point is that each motivational system has its relative strengths and weaknesses – that despite the claims of many of our theories of management, there is no simple or conflict-free road to the happy/productive worker.

Staw (1986: 52)

2.1.7 Summary

So what conclusions can be drawn from the psychology literature about the GIO model? Four conclusions emerge.

First, it is notable that the literature reviewed in the above sub-section has focused largely, as expected, on the individual level. There are some studies that also include 'teams' and to some extent even touch on the organisational level of analysis in so far as they address issues of the psychological contract which is seen as influenced by organisation-wide policies and practices. However, the connections between organisational policies and practices are not studied systematically in this segment of the literature.

Second, the psychological research literature has relatively little to say about managerial interventions and even less about governance. There is some approximation to the wider contextual link and individual behaviour (and to some extent outcomes) in that segment of the literature concerned with constructs such as organisational climate and culture. The theme, from a psychological perspective, is of employee *perceptions*.

However, sound, compelling, evidence of a direct causal connection between organisational climate/organisational cultural variables on the one hand and employee behavioural responses on the other is lacking. This is the third conclusion. It is indeed one which has also been noted in other reviews. For example, Michie and West (2004: 95) judge that 'methodological and conceptual weaknesses mean that good evidence to support a link between organisational culture and performance is surprisingly sparse'.

Fourth, studies in the psychology domain tend to focus on specific elements such as group behaviour, job design or incentive pay schemes rather than on the interplay between major variables such as governance, management policies, organisational practices, employee behaviour and organisational outcomes. However, in recent years, the HRM literature has begun to address at least some of this wider agenda. It is to this literature that we now turn.

2.2 Human Resource Management and organisational performance

Although one segment of the HRM literature is of a prescriptive nature, during the past decade the systematic study of the link between HRM policies, practices and organisational performance has constituted the main focal point of the subject. There has been a growing body of research seeking to assess the *impact* of HRM policies and practices on organisational outcomes. An overview of these studies observed that 'The most notable studies have been those which use large data sets and which interrogate the data using sophisticated statistical techniques. In general, the available studies appear to reveal

impressive evidence of robust impacts and outcomes' (Storey, 2001: 13). Classic studies in the USA include those by Huselid (1995), MacDuffie (1995), Becker and Gerhart (1996), Becker *et al.* (1997), Huselid *et al.* (1997), Ichniowski *et al.* (1997) and Ichniowski and Shaw (1999). In Britain, the major studies include those by Patterson *et al.* (1997) and Guest (1997).

Within the health-service context perhaps the most direct association drawn between HRM practices and health outcomes is that found in the study by West *et al.* (2002), which traces links between HRM and patient mortality in acute hospitals. On a wider front, there have been a number of attempts to explore how HRM interventions can improve health care through contributing to positive employee attitudes and behaviours and so improving performance. The Department of Health's *HR in the NHS Plan* (2002a) is one significant attempt to set out an agenda for action to leverage human resources in health care. There are associated programmes – for example, the Changing Workforce Programme and the new Ways of Working Programme, the Improving Working Lives standard and the Skills Escalator and Lifelong Learning initiatives, the new consultant contracts and the Agenda for Change Reforms, and the introduction of new nursing roles – all of which attest to a series of attempts to use HR as a way to improve performance (Department of Health, 2002a, 2002b, 2003). Taken together, they are key aspects of what is described as a modernisation programme.

Beyond health services, recent studies of HRM and performance have shown the impact of management on the financial success of a number of firms. For example, in a study for the Chartered Institute of Personnel and Development, researchers at Bath University show how, even within a context of highly standardised central HR policy, individual Tesco stores vary in its implementation because of the behaviour of store managers. Organisations 'that support their employees by developing effective policies based on ability, motivation and opportunity will create higher levels of organisational commitment, motivation and job satisfaction' (Purcell *et al.*, 2003a, 2003b). The key according to this research is the implementation not the policies – it is better to ensure that HR policies are effectively implemented than to try to develop new ones.

2.2.1 Models of Human Resource Management

Debate has polarised between the competing models of best practice. On the one hand, there are the universalistic prescriptions which suggest that a known set of practices are almost always beneficial, and on the other are the best-fit (contingency) models which argue that HR policies have to be appropriate to specific strategies and contexts. But a third hypothesised relationship has been added by Delery and Doty (1996) who argue that, in addition, there is the 'configurational' perspective. This suggests that what matters is to find the 'themed' collection of HR practices which interact meaningfully

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together in order to meet the needs of particular situations. The proposition is that there are different 'bundles' which, for example, give varying emphases to, say, human capital formation through training and development. Thus, in total, it is possible to say that there are in fact three theories of the linkage between HRM and performance. The extent to which these three are compatible or incompatible is, as we shall see, somewhat open to question.

The studies testing the *universalistic thesis* (that is, the hypothesis of a set of best practices in HRM) have been the most popular and are the most well-supported. Empirical studies confirming this association include those reported by Huselid (1995), Delaney and Huselid (1996) and Huselid *et al.* (1997). In the UK, researchers at the University of Sheffield's Institute of Work Psychology have reported interim results from a 10-year study examining the influences upon company performance (Patterson *et al.*, 1997). They find that when compared with a range of other factors (such as investment in research and development, or a focus on quality or on business strategy), which one might expect to impact upon company performance, a concentration on people-management practices has by far the most powerful impact. In addition, it should be noted that the team found that 'workplaces with a high number of "new" management practices and employee involvement schemes were substantially more likely to report high productivity growth' (Cully *et al.*, 1998: 25).

The *contingency/best fit thesis* has also found some support – for example Delery and Doty (1996) reveal a link between Miles and Snow's three types of business strategy and different approaches to HRM. The *configurational thesis* has also been supported (Delery and Doty, 1996). The early work by Schuler and Jackson (1987), while primarily conceptual in nature, has found some support in more recent empirical work that has set out to test the theory (Schuler *et al.*, 1989).

Overall, however, there have been relatively more studies of the universal best-practice model of HRM and the results of such studies have tended to be more consistently positive. We would seem to have come a long way since Lengnick-Hall and Legnick-Hall (1988: 671) observed that 'there is little empirical evidence to suggest that strategic HR directly influences organizational performance or competitive advantage'. As a consequence of the new studies and the relative consistency in positive associations, Guest (1997: 263) argues that these more recent studies provide 'encouragement to those who have always advocated the case for a distinctive approach to the management of human resources'. He has also stated that 'We can now say with increasing confidence that HRM works. But this is a skeletal finding and we need to put a lot of flesh on the bones' (Guest, 1997: 274). Similar points have been made by others for example Huselid *et al.* (1997: 186) and we pick this up again below, because the important point is that simply because a survey-based approach does not reveal the whole picture (for example, in providing little

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understanding of the actual processes involved), this is hardly a reason to dismiss the approach entirely.

Another kind of outcome apart from profit and productivity is the impact of HRM policies and practices on workers' responses. Using data from an annual survey conducted by the Chartered Institute of Personnel and Development (Guest, 1999: 22–3) points to the 'surprisingly positive' nature of the workers' verdict on HRM:

A large proportion of the UK workforce have been on the receiving end of the kind of practices commonly associated with HRM. Furthermore, they like them...the more HR practices they are currently experiencing in their employment, the more satisfied they seem to be.

Guest (1999: 22–3)

Hesitations and reservations about the reliability and validity of such large-scale studies have of course been expressed. For example, it has been argued that 'the claim that the bundle of best practice HRM is universally applicable leads us into a utopian cul-de-sac' (Purcell, 1999: 36). In other words, the search for an ideal HRM package suitable for all circumstances is unhelpful.

In addition, questions can be asked about the precise content and comparability of the 'bundles' being evaluated. Different studies, to a certain extent, use different ingredients in their lists. There are also concerns about the reliability of single-respondent box-tickers who report on behalf of whole organisations. Moreover, the meaningfulness of 'mere' correlations and other statistically derived data in the absence of adequate theory is open to question.

However, even this list of problems is perhaps an insufficient basis to justify the dismissal of such forms of research. Similar statistical approaches are common practice in a whole range of sciences including, for example, epidemiology. The associations found in large-scale surveys, while certainly not providing the whole answer or the whole picture, are useful additions to the research effort.

But in what sense is it being suggested that HRM 'works'? Bottom-line financial performance is but one measure; progress in evaluating HRM outcomes might also look more widely across the 'scorecard'. Associated with this last point is the argument about sustainability. It may well be that a quick profit or rise in a company's share price can be achieved by short-term cost-cutting measures – including headcount reductions – which have often been found to gain a favourable response from institutional investors. But this form of accountancy-led management may not deliver long-term growth or innovation. Investigations into longevity have also indicated the importance of human-resource policies (Collins and Porras, 1998).

We return now to the question as to whether the universalistic, contingency and configurational approaches are necessarily incompatible. It would seem from the evidence, and from a number of contributions to the literature, that any one of these could hold

simultaneously with another. It is in one sense at least misleading to cast them in opposition to each other. The much-vaunted universalistic *versus* best-fit distinction misses the point that *both* could obtain. Thus, it may be that, more or less across the board, there is a tendency for organisations that practice people-focused policies (for example, taking recruitment and selection seriously, taking care to communicate objectives, targets and outcomes effectively, ensuring adequate training and development and so on) to gain some advantage from this. In so far as this is the case, the results from the universalistic studies would reflect this. At the same time, it may also be that some particular groups of organisations, because of their distinctive competitive positions, could benefit disproportionately from such practices. Such instances would be picked up by the contingency and configurational studies. It is not surprising under these circumstances that some contributors defy classification under the universalist versus contingency/configurational labels. Thus Schuler's work at times appears to endorse the universalist position (for example, Huselid *et al.*, 1997); at other times his work is strongly geared to the contingency/configurational one (for example, Schuler and Jackson, 1987). The same could be said for Guest's various studies (Guest, 1997, 1999). And Arthur's (1994) study of the effects of HRM/commitment policies versus control policies on manufacturing performance has notoriously been claimed by various camps. His conclusions seem, in the main, to endorse the best-practice hypothesis, as he says 'these results support observations made by Walton (1985) and others concerning the effectiveness of commitment-type human resource systems' (Arthur, 1994: 683) – at least within the context of the type of technological environment that he studied.

The impact of HRM on organisational performance was investigated by Becker and Gerhart (1996). They suggest that an 'HR system can be a unique source of sustained competitive advantage' (Becker and Gerhart, 1996: 81). HR strategies are difficult to imitate because they are complex, embedded deeply in an organisation's structures and routines and path-dependent. A system of HR practices may be more (or less) than the sum of its parts.

2.2.2 The impact of Human Resource Management compared to other interventions

Crucially, HRM practices have been found in systematic studies to have a more profound impact on performance outcomes than other standard interventions such as research and development and strategic management (Patterson *et al.*, 1997). In a further study, Huselid *et al.* (1997) evaluate the impact of HR managers' capabilities on HR effectiveness and they assess the latter's impact on financial performance for 293 firms. Effectiveness was found to have some association with the capabilities of HR staff. Moreover, HR effectiveness had effects on a range of output variables such as

productivity, cash flow and market value. Various other US studies contend that there are a number of dimensions contributing to 'profits through people'; these include, most notably and consistently, employment security, selective hiring and extensive training. Collectively, this interplay of HR variables is known as the 'bundles' approach (see, for example, Pfeffer, 1998).

2.2.3 Human Resource Management in the public sector

The effects of so-called high-commitment HRM practices on employee attitudes in the public sector have been studied by Gould-Williams (2004). The research was conducted through questionnaires sent to 320 employees and managers working in seven service departments of a local authority in Wales. The findings are consistent with previous research demonstrating a link between high-commitment HRM practices, enhanced worker commitment and satisfaction, and relate inversely with 'intention to quit'. Team working 'had a consistent positive effect on employee attitude, with training, empowerment, involvement in decision-making, communication (inverse) and performance-related pay schemes effecting some, but not all outcomes' (Gould-Williams 2004: 77).

Zairi, in a series of three articles attempts to translate best practice in HRM from other sectors into the health-care context. (Zairi, 1998). He draws on data from winners of the quality awards such as the European Quality Awards Model and the American Malcolm Baldrige Quality Award winners. Areas covered the standard aspects of good-practice people management; how people resources were planned, how capabilities were developed, how targets were set and performance reviewed and the extent to which people were involved in continuous improvement. The method was thus based around an attempt at benchmarking with best practice. In order to help 'translate' best practice into a health-care context, the author provides a series of structured prompts for use in this context – a checklist of practices. The most prescriptive part is found in the third article in the series (Zairi, 1998). This suggests that high-performing organisations plan and intend to build sustainable capability through a systematic consideration of human assets and through a continuous process of training, developing, empowering and engaging people in all aspects of organisational excellence. The articles offer a road map for effective HRM in health care based on world-class standards. The starting point according to Zairi is leadership. Leaders need to work with three pillars that emerge from the world-class quality excellence sample of winners – work process design, employee development focus, and employee motivation and satisfaction. In other words, task design, capability development and motivational development. The analysis suggests that there is nothing specifically different about the health-care context; the implied lessons are said to be universal.

2.2.4 Summary

During the past decade, the predominant focus of research in HRM has been upon its measured impacts on a whole array of organisational outcomes – although with a major emphasis on financial performance measures. In the main, the influential studies have been characterised by large data sets drawn from massive surveys of organisations in the USA – the work by Huselid and colleagues, as discussed above, being typical. These studies have tended to find a clear association between bundles of HR practices in firms and positive organisational outcomes. Similar studies in the UK have in the main tended to echo these findings. However, more recently, critics have begun to question the reliability and validity of survey methodology in relation to such variables. Often reports of firms' practices rely on single-source informants – usually the firm's HR executive – and the measure of outcomes is often also somewhat subjective (Storey, 2001).

Case-study work – much of it funded by the Chartered Institute of Personnel and Development in the UK – has tended to support the idea that sophisticated HR practices do have a positive impact on outcomes. But this case-based work also tends to be more sceptical about simply summing HR practices; instead it tends to emphasise that the value lies not in the number of progressive policies adopted but in diligent implementation by line managers (Hutchinson and Purcell, 2003; Purcell *et al.*, 2003b).

2.3 Conclusions

This section has reviewed the literature in two broad sub-domains: psychology and HRM. Despite some evident differences in prime focus, these domains overlap. They both address aspects of employee behaviour and they both have interests in understanding the causes of difference in behaviour on the one hand and performance consequences on the other.

A number of general conclusions can be made with regard to the four questions posed for the project as a whole: (i) the different incentive effects on organisations and individuals; (ii) how different incentives of different forms of governance affect organisational performance and how these questions can be researched; (iii) whether different forms of governance produce different incentive effects on users and carers and (iv) the implications for the organisation of health- and social-care services.

The most notable general point is that neither the psychological studies nor the HRM studies have sought *directly* to address an agenda as wide-ranging as that implied by GIO framework. On the contrary, the problems have been conceptualised rather differently. From within psychology a whole series of potential cause-and-effect relationships between work-related variables have been explored. But almost invariably these variables are examined in a piecemeal way

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with studies, *inter alia*, of physical conditions and employee behaviour, team leadership and group behaviour, workload and stress, job autonomy and job satisfaction and so on. From within HRM, the problems are somewhat wider and they address issues rather closer to the GIO framework. But even within this subject area the essential issues explored have been cast generally in a rather different way than is suggested by the GIO agenda.

The quintessential problem from an HRM perspective has been how *management-led policies* might influence employee perceptions and behaviours. A related dimension has been how such policies are implemented in practice. And, perhaps most pertinent of all, there have been many studies which seek to reveal connections between HRM policies and organisational performance. These studies have interpreted outcomes and impacts as both impacts on employees (for example, as measured by labour turnover, employee attitudes) and on organisations (for example, as measured by productivity and financial metrics).

In each of these instances, the independent to dependent variable model is primarily based on management-inspired policies (for example, cultural and values-based initiatives and change programmes, new reward schemes, performance-management systems, and training and development initiatives) and their impact on employee behaviour and organisational performance. In the hospital context, West *et al.*'s (2002) link between HRM policies and patient mortality rates in different acute hospitals is a clear example of the classic HRM model from private-sector organisations being applied to a health-care environment.

This section also noted how there have been a number of attempts to examine how HRM interventions can improve health care through contributing to positive employee attitudes and behaviours through this route, perhaps improving performance. The Department of Health's *HR in the NHS Plan* (Department of Health, 2002a) was noted as one significant attempt to construct an agenda for action to leverage human resources in health care. Associated programmes, for example the Changing Workforce Programme and the New Ways of Working Programme, the Improving Working Lives standard, the Skills Escalator and lifelong learning initiatives, the new consultant contracts, the Agenda for Change reforms and the introduction of new nursing roles, all indicate a series of attempts to use HR as a way to improve performance. Similar initiatives involving changes to HR can be found across most government departments.

There have been a few studies deriving from within psychology or HRM which have tried to explore markets, hierarchies and networks in terms of their impacts on incentives. But even where this has been the case, the research design has not normally been premised in terms of governance, incentives and outcomes, but rather in other terms such as how trends and developments in organisational form (including

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extra-organisational aspects such as supply chains, alliances and inter-organisational relations) imply changes to HRM policies and practices. The more explicitly organisationally focused studies are examined in the following section.

Section 3 Focusing on form? Contributions from organisational studies

Organisational studies take as the unit of analysis the formally established organisation, be that an organisation in the public, the private or the voluntary sector. In doing so, these studies sit somewhere between the micro-level concerns of psychology with individuals and teams (see Section 2), and the macro-level concerns of total systems, states and regimes of governance, which will be discussed in Section 4. Ferlie (2001) suggests that this field grows in the main out of organisational sociology. As we shall see, the theoretical debates of that discipline – its paradigm wars even – have certainly left their mark on the corpus of material that is available. This section will thus be concerned with multiple approaches, old and new, and with what they can be said to contribute to the relations between governance, incentives and outcomes. While these three terms rarely figure as such, concerns with organisational forms, structures and designs, with the best way to organise, with efficiency and performance, are all highly relevant to the overall subject matter of this report. In particular, there is a continuing growth of interest across all industry sectors in ‘new’ organisational forms and a sustained interest in how to improve the ways in which business and management are carried out.

Despite its roots in organisational sociology, ‘organisational studies’ are not clearly owned by a single academic discipline. Our search for evidence of their contribution to understanding of relationships between governance, incentives and outcomes has thus ranged widely. It has incorporated classical sociological studies of hierarchy and bureaucracy, and covered aspects of management accounting, systems thinking and operational research. Inevitably, we have had to be very selective, given the wide range of theoretical tendencies that characterise this disciplinary cluster (see Dent and Ezzamel, 1987; Pfeffer, 1997; Bovaird *et al.*, 2004; Holloway, 2002; Micheli *et al.*, 2004; Goodwin *et al.*, 2004). We have judged it as important also to make comments on a range of management disciplines and business functions; while these latter were not picked up by our initial search strategy, we have included some discussion of their implications.

The section falls into six sub-sections, the first three dealing with what might be seen as classical approaches in organisational studies, the second three focusing on key themes – networks, professions and performance. We have been conscious throughout, however, of the need not to duplicate the work of several recent SDO-funded studies, but have made reference to these as appropriate.

3.1 Contingency theory

Burrell and Morgan (1979: 167) view contingency approaches as 'a loosely organised set of propositions...which are committed to some form of multivariate analysis of the relationship between key organisational variables as a basis of organisational analysis, and which endorse the view that there are no universally valid rules of organisation and management.' Contingency theory is particularly relevant to the study of governance and outcomes, given its interest in different structural forms and the 'fit' between these and the nature of organisational tasks. Contingency approaches are generally seen as taking a modernist view; one, that is, that assumes a real world out there that can be studied using positivist, usually quantitative, methods. Contingency-based research, however, has broadened in style and purpose between the 1950s and the present day.

The Aston Studies of the 1960s and 1970s (Pugh, 1998; Pugh and Hickson, 2000) identified five dimensions of organisation structure: specialisation of functions and roles, standardisation of procedures, formalisation of documentation, centralisation of authority and configuration of role structure. By developing scales to measure these dimensions, organisations could be compared and their relative performance explored. The Aston Group also studied various contextual factors and structure, finding that ownership (public or private) and technology had relatively little impact. Findings held across countries; the Aston Studies explained why a bureaucratic, rule-governed and – in practice – decentralised structure is more effective for large organisations, while smaller ones are suited to a simple, more centralised structure and fewer rules. They also found that dependence on other organisations was an influential variable, which is particularly pertinent to our interest in network forms of governance: 'the more [the organisation] is dependent on only a few owning, supplier or customer units, ...the less autonomy it will have in its own decision-making, and even those decisions that are left to it are likely to be centralized within itself rather than decentralized' (Pugh and Hickson, 2000: 16).

Contingency studies have attracted criticisms as deterministic and apparently precluding managerial influence. Pfeffer (1997: 162–3) saw a decline in popularity as inevitable, because the theory was too abstract and 'too disconnected from decision variables actually controlled in organizations'. Work on 'strategic choice' (Child, 1972, 1997) established that management does make choices, although such choices are also constrained because, for example, the degree of bureaucratisation of structure and concentration of authority are negatively related. Donaldson (2001) objects that although strategic choice introduces power, political interest and other 'subjective' variables, it has simply replaced one set of determinants with another. However, the general tenets that have come to be associated with strategic choice – that organisational success depends on the fit

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between organisational strengths and weaknesses – have provided a framework for many important research programmes and a counterbalance to simple and over-general ‘recipes for success’ in some parts of the management literature.

Information systems are an increasingly critical component of the link between strategy and structure. Working within the contingency tradition, Williams and Seaman (2002) found that where organisations were faced with high levels of task uncertainty, this enhanced the relevance to managers of their information systems and departmental performance improved. This quantitative study raises issues concerning the influence of national culture (it was undertaken in Singapore), but does illustrate the potential for including management information and information systems as part of ‘structure’ when exploring the relationship between performance, incentives and outcomes. Other management-accounting studies adopting a contingency approach to the use of management information take the case of hospital managers/clinicians (Pettersen, 2004) and local government managers (Budding, 2004), and point to the importance of organisational behaviour, climate and top-management attitudes as mediating variables between structure and performance.

Although contingency-theoretical explanations have used case studies and qualitative approaches (Greenwood and Devine, 1997), traditional contingency studies are limited by their focus on variables that stand up to statistical rather than interpretive scrutiny. Clegg and Hardy (1999) emphasise the one-sidedness of accounts that do not draw the organisational actors into the debate, and that implicitly accept the *status quo* in terms of power and dominant interests. Beersma *et al.* (2003) are relatively unusual in their combination of experimental statistical method, human-resource policies and quality of team and individual performance of tasks. They find that teams with co-operative reward structures outperform those with competitive reward structures in terms of accuracy, and vice versa with regard to speed. Thus managers may need to tailor their incentive systems to reflect the priority aspect of the task. However, personality characteristics were important moderating variables.

Haines’ (2003) study of computerisation in a US government agency identified the importance of aligning management and employment policies in order to gain employee acceptance of, and performance improvements through, new technologies. There are messages here for UK public services seeking further computerisation of core processes simultaneously with increasing levels of performance assessment. Box 3.1 summarises a further quantitative/qualitative study demonstrating how the contingency approach handles explanations of performance. Such studies highlight the subjective nature of many performance measures, something we shall return to in Section 3.6.

Box 3.1 Benchmarking of best practice

In a study of factors influencing the impact of best-practice benchmarking within a wide cross-section of firms and public services, quantitative survey data were cross-tabulated. This revealed three key contingency factors associated with the presence of benchmarking activity, namely size, sector and experience with other performance-management systems. Commonly cited outcomes were:

- improvements in efficiency,
- more-effective processes,
- increased customer satisfaction.

Qualitative case studies of successful benchmarkers were then carried out to help understand how these gains were achieved, revealing 'success factors' such as the importance of prior experience with benchmarking, multidisciplinary team-working skills and top-management commitment.

Source: Holloway et al. (1999)

The examples in this section indicate some of the diversity within current contingency approaches to studying organisations, and suggest that in spite of their many limitations they can also be the source of important insights and new research questions. In the context of improving our understanding of the relationships between forms of governance, incentives and organisational outcomes, it is clear that for many scholars a general contingency approach still retains its appeal.

3.2 Bureaucratic control

Organisational sociology and the study of organisations have been influenced profoundly by Weber's 'ideal type' of bureaucracy (Weber, 1924/1947). Weber saw the early 20th century's growth of capitalist markets and the demand for administration in firms to be fast and accurate as the most important reason for the rise in bureaucratisation (Weber, 1924/1947). Bureaucracy offered a means of reliable and efficient execution of political decisions through a division of labour that separated the office from the person, spelled out rules for each office, clarifying reporting relations and requiring strict adherence to detailed rules for behaviour. Loyal rule-following was secured by reliable rewards, security of position and the hope of advancement up the bureaucratic ladder. Merton's well-known essay (1957) on the bureaucratic personality spelled out the downside – the positive incentive to loyalty and reliability could also result in a bureaucrat who was a rigid and inflexible rule-follower, with a 'trained incapacity' to think beyond compliance, thus stifling initiative and preventing adaptation to change.

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Studies of bureaucracy proliferated through a wealth of empirical work in mid-20th century industrial organisations and public services and led in two directions. The first gave vivid demonstrations that bureaucratic organisations were much more complex than the Weberian ideal type, that rules were not applied uniformly, that different orientations to work and patterns of social exchange prevailed, that goals were multiple and that the informal organisation was as important as the formal (see, for example, Gouldner, 1954; Crozier, 1964). The second line of research began to classify organisational forms in terms of their responses to environmental conditions, prevailing technology, size, strategy, etc., as reflected in the work of the contingency theorists discussed in the previous section. Alongside bureaucratic or mechanistic organisations emerged organic forms, particularly suited to more uncertain and dynamic environments (Burns and Stalker, 1961). Predating modern discussions of hierarchies, markets and networks was work by Etzioni (1961), classifying organisations as coercive, utilitarian and normative and seeing participants respectively as alienated or calculatively or morally involved. In an interesting reflection on incentives (though not using the word), he comments that remuneration is at least partially wasted both when actors are highly alienated and when they are strongly committed (Etzioni, 1961: 13).

In terms of what bureaucracy and hierarchical organisational forms might have to offer to an understanding of the relationships between incentives and outcomes, our literature search highlighted several suggestions that bureaucracy largely survives but in adapted form. Heydebrand (1989: 323) used the term post-bureaucracy to cover a range of new, flexible organisational forms. More recent material (Adler and Borys, 1996; Hales, 2002; Farrell and Morris, 2003; Maravelias, 2003) refers to various ways in which bureaucratic-style control is maintained, while work processes themselves often allow workers more autonomy (or allow professionals to maintain their work autonomy). 'Soft bureaucracy' (Courpasson, 2000) is a concept that points in this direction. Courpasson describes two empirical case studies of French organisations and asks to what extent the domination found at the core of the managerial strategies in these modern organisations (flat structure, individualistic, flexible) is 'bureaucratic'. He concludes that this domination is sustained, both by fear of external threats and by actors 'choosing' to obey, as an effective survival tactic. Soft bureaucracy thus ensures political centralisation, providing coherence, while decentralising jobs and responsibilities to enhance efficiency. Courpasson and Dany (2003) develop a concept of 'moral obedience' to explain how leaders in soft bureaucracies develop in their staff a sense of both duty and individual competitiveness. Courpasson's work has also found application in studies of English primary health care (Sheaff *et al.*, 2004a, 2004b) as well as in broader -based discussions (Reed, 2003).

Bureaucratic culture and bureaucratic values provide a further theme. Du Gay (1999, 2004) suggests that bureaucracy not only survives in public services but is necessary if entrepreneurial and enterprise arrangements are not to do damage. Others provide empirical data on the extent to which such values persist, notwithstanding the imposition of NPM. Box 3.2 summarises the results of one such study. Section 4, in a discussion of policy implementation, refers to further work in similar vein – suggesting at the very least that governance structures or organisational forms travel via values and beliefs before they can be expected to affect outcomes.

Box 3.2 Changing structure without changing culture?

A study of 191 executive-level public-service employees across six departments in Queensland, Australia, was undertaken (Parker and Bradley, 2000). Using a competing-values framework, the researchers measured adherence to a traditional, hierarchical, rule-following culture, versus developmental, group-oriented and rational cultures. They found, despite the policy emphasis on NPM and its associated structures:

- that four of the six departments studied were dominated by a hierarchical model;
- that demographic variables (age, years in the public sector, years in the current post) were not significant.

They concluded that the culture of public organisations remains different from private organisations and they locate such a difference in dimensions that include diversity of goals, different access to resources and the contrasting nature of economic and political constraints. They add:

Public sector activities form part of a broader government strategy of economic management and social development. They are, therefore, affected by prevailing political ideologies and so are not performed in an equivalent manner to the production of goods or delivery of services in the private sector.

(Parker and Bradley, 2000: 137).

Heirs and successor theories of bureaucracy thus see hierarchy as alive and well, even if also 'soft' and socially constructed. Below in this section we will examine network-organisational forms that co-exist with bureaucratic-style organisations, but it is worth noting that we did not locate examples of contexts in which control, efficiency and effectiveness are necessary, but where alternatives to bureaucratisation and hierarchical structures are often consciously sought. Such examples do exist within literature on feminist organisations, common-ownership companies and non-profit and social enterprises (see Iannello, 1992; Letts *et al.*, 1999; Oakeshott, 2002; Paton, 2003). Future researchers on organisation structures and outcomes would be well advised to broaden their search strategies to seek out this literature, even if it is not well represented in databases of refereed academic journals.

3.3 Systems approaches and applications

Systems theories have at their core a concern with 'organised wholes', with boundaries that separate them from their environment and internal divisions into sub-systems and elements. The nature and behaviour of the system is unlikely to be predictable from an examination of the parts and systems exhibit emergent properties that it may not be possible to predict. Beyond such generalities, the various schools of thought sometimes have little in common. Early use of systems ideas can be found in biology, engineering and organisation studies (general systems theory, cybernetics and socio-technical systems theory).

Systems thinking has long been associated with functionalism (Scott, 1974; Burrell and Morgan, 1979). Critically oriented systems writers would argue that this is an unnecessary conjunction and Jackson (1999) has helpfully teased out functionalist, interpretive and emancipatory categories of systems methodologies. Recent, relatively popular works by writers such as Luhmann (1995) and Senge (1990) may be familiar to managers and the strong emphasis on methodologies (Checkland, 1981; Beer, 1979; Flood and Jackson, 1991) at least in part reflects a growth of problem-solving consultancy work.

Closely related disciplines such as operational research and management science now also contain 'soft' and 'critical' wings, although their potential roles in areas such as performance measurement are relatively under-exploited. Many operational research applications are directed towards relatively specialised improvements in operational performance. Rosenhead (2001), however, illustrates well the wider contributions of operational research to health-service development, management and control, and he has drawn on inputs from people closely involved in central government policy as well as technical practice. A detailed account of the 'success story' of operational research's contribution to NHS Direct can be found in Royston *et al.* (2003). As this report was being finalised, an early 2005 special issue of the *Journal of the Operational Research Society* was in preparation, devoted to 'Meeting health challenges with [operational research]'. *Healthcare Management Science* offers a good source of examples from the private as well as public sector.

Interestingly, our literature search did not identify many items directly from systems or operational research journals. Perhaps in this instance the 'problem' was the key words. Governance is less likely to be used than, for example, co-ordination or control, and performance rather than outcomes. Examples of explicit systems applications are noted in Box 3.3 below, demonstrating potential relevance to issues of incentives and outcomes in this field. Further public-sector applications of systems ideas are included in the 2002 Special Conference Edition of the journal *Systemist*, including process improvement in an NHS

hospital trust (Davison *et al.*, 2002), information systems design in primary care (Hearne, 2002), and heart disease prevention (Stewart and Roberts, 2002). Yet more of a flavour of trends in systems thinking can be gained from the proceedings of biennial conferences of the UK Systems Society (for example, Ellis *et al.*, 1995; Ison *et al.*, 1997).

Box 3.3 System dynamics and system failures

Systems dynamics uses computer simulation to map multiple and indirect causal relationships. One recent study focused on improving current performance-management practices in a major UK cancer treatment centre, involving staff in the modelling process (Santos *et al.*, 2004). Benefits included the systemic nature of the approach, new insights into interdependencies and trade-offs, 'what if' modelling, better prediction and proactive performance management. There were also considerable costs: difficult and time-consuming modelling, subjective choices of performance measures and restrictive assumptions about decision-makers' preferences. However, on balance the benefits of the approach were felt to outweigh the costs.

Much can be learned through studying *systems failures* with a view to seeking understanding rather than apportioning blame. The systems failures method involves identifying what constitutes a real-world failure (taking different actors' viewpoints into account), and then utilising systems thinking in order to represent and analyse the situation. Comparisons are then made between the model and the real world in order to draw lessons. Fortune and Peters (1995) applied the approach retrospectively, identifying the Bhopal chemical plant disaster in 1984 as 'an accident waiting to happen'. They also used it as part of a project for the Department of Health in the early 1990s to develop and pilot an electronic patient-records system, drawing on accounts of failures in similar systems elsewhere as well as analysis of the sources of potential risk in a new system.

Both approaches described in Box 3.3 can support the design, implementation and evaluation of structures and processes involving multiple stakeholders and complex, dynamic interactions. However, they do require commitment and time from a range of participants as well as considerable amounts of information about inputs, processes and outcomes – rare luxuries when developing public services and even more scarce when things go wrong.

The following sections take a different approach, exploring contemporary organisational studies of network organisation, of professions and of performance. The three classic approaches in organisational analysis that have been outlined are still visible in recent work, but the field has become more fragmented in theoretical terms. We make reference to neo-institutionalism and to social constructionism, both of which have had an impact across many of the social science disciplines. We also take note of developments such as actor–network theory, archetype theory and population ecology, as they bear on our theme of structures, incentives and outcomes. We begin with the profusion of work of late on networks. Does the

network represent a new organisational form? Is it useful at the level of organisational analysis to set it alongside markets and hierarchies?

3.4 Governance through networks

The concept of a 'network' is used in many different ways in the organisational studies literature. Goodwin *et al.* (2004: 12) offer a definition that encompasses this diversity, arguing that a network is:

any moderately stable pattern of ties or links between organisations or between organisations and individuals, where those ties represent some form of recognisable accountability (however weak and however often overridden), whether formal or informal in character, whether weak or strong, loose or tight, bounded or unbounded.

Goodwin and colleagues' major study of management within networks, management of networks and governance of networks drew on literature from the public and private sectors and then focused in depth on four sectors already rich in network forms of activity. These were defence procurement; biotechnology; crime, disorder and drugs; and health- and social-care partnerships. They were able to make international as well as inter-industry comparisons, and to apply key theories about management and governance in interpreting their findings and producing recommendations for policy-makers and practitioners in health and social care. As well as the theoretical perspectives introduced in previous sections of this section, Goodwin *et al.* (2004) have drawn on economic and sociological theories, some of which are applied elsewhere in this report.

Box 3.4 illustrates just some of the terms we found being used to identify organisational arrangements resulting from the sorts of ties defined by Goodwin *et al.* (2004).

Box 3.4 Terms for networks and networking found in the literature

diversified corporations...divisionalised corporations...common-ownership companies...holding companies...keiretsu...

supply chains...strategic alliances...mergers...acquisitions...consortia...value chains...partnerships...collaboratives...managed clinical networks...

competitive tendering...joint care planning...outsourcing...

Organisations affected by such structural arrangements come in all sizes, span continents and produce a myriad of goods and services. Many academic journals and management texts about organisational structures and strategies written since the mid-1990s feature networks as an ascendant organisational form, essential to the survival of whole industries in the face of rapidly growing global competition and an escalating need for innovation. They are also presented as the way forward for public services striving to share knowledge and reduce risk, and to balance efficiency with

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responsiveness and flexibility. In fact, many of the arrangements in the box are neither new nor emergent, although, for example, it is only relatively recently that 'supply-chain management' has been recognised as potentially critical to customer or user satisfaction, more than mere 'purchasing'. This section concentrates on outlining some problems arising from the nature of the literature, and identifying which theories from organisational studies have already been of help in explaining elements of the GIO problem.

Interest in network forms appears equally high in the public, private and voluntary sectors, and equally problematic in management terms. A collection of papers by Mandell (2001) provides many valuable examples of community-based networks seeking to change public policy (touching on motivation to participate), and it serves to reinforce a sense of diversity and complexity. Indeed, in many cases, the form under investigation is either not defined or is so all-embracing as to make assessment of its implications for performance virtually impossible (Thompson, 2004).

Many papers identified characteristics of hierarchy or market forms alongside networks (for example, Thorelli, 1986; Exworthy *et al.*, 1999). Indeed Goodwin *et al.* (2004) identify three main types of structure, including hierarchical networks, and most of the arrangements in Box 3.4 generally operate under market or contractual arrangements. More importantly, very few writers actually address *how* the performance, impact or outcomes of network forms could be defined, analysed, measured or managed. Where outcomes or performance measurement are mentioned, this is generally either regarded as unproblematic (and usually expressed in economic terms) or problematic and under-researched (especially in policy terms) because of multiple stakeholder concerns, dispersed or uneven distribution of power and information, and complex interconnected causal relationships (Powell *et al.*, 1996; Robinson and Casalino, 1996; Uzzi, 1997; Bazzoli, 1999; Kickert *et al.*, 1999; Kooiman, 2000).

There is also a tendency for the level of focus, regardless of sector, to be on *strategic* rather than *operational* issues (for example, Bailey and Koney, 2000; Nooteboom, 2004). As in the organisational studies literature in general, the core management functions (operations and information management, accounting and finance, HRM and marketing) have been rather poorly represented, but we did find a few examples. Brown and Cousins (2004) provide evidence from the computing and automobile industries that plant performance is improved by integration of supply-chain management with strategic operations management; and Lamming *et al.* (2004) emphasise the importance of transparency in supply-chain relationships to enable tacit knowledge to be transferred. Research from management accounting spanning the public and private sectors and the strategy/operations interface (Ezzamel *et al.*, 2004) found evidence of the evolution of a *range* of 'new organisational forms' rather than

revolutionary or transformational change. The resulting growth in importance of supply-chain management, the focus of their research, has affected the role of management accounting in several ways including participation in multi-function project teams.

In common with Goodwin *et al.* (2004), we found clusters of literature about industry sectors that have long operated via networks of independent contractors; for example, the creative industries (Davis and Scase, 2000) and the construction industry (Barlow and Jashapara, 1998; Barlow, 2000; Bresnen and Marshall, 2000; Scott, 2001). Bresnen and Marshall, and Scott take the unusual step of discussing the nature of incentives and the role of trust in their industry. However, most of the literature we found focused on structural aspects of networks, or basic processes of networking, without links to incentives or outcomes.

In the NHS context, one could be forgiven for equating network structures with managed clinical networks because of their prominent position in literature on networks in UK health care; yet these are a very specific form of arrangement designed principally to deliver better clinical practice (NHS Confederation, 2001; Bate and Robert, 2002; Goodwin *et al.*, 2004). In their evaluation study of London Cancer Networks, Addicott *et al.* (2004) found a lack of consensus over what constitutes 'success' between clinicians, Trusts and government, and some conflicting interests regarding targets, data collection and allocation of funds. At this stage the contribution of managed clinical networks to our understanding of network forms may be less significant than their impact on the management of professional health-care staff and on the knowledge they possess.

Turning to private US health-care organisations, Scott *et al.* (2000) provide an influential contribution to understanding change from a neo-institutionalist perspective which, while only loosely related to networks through its focus on health-maintenance organisations, does also explore the effects on professional practice of changing payment systems and incentives. Albert and McGuire (2002) also consider the (limited) role of financial incentives in influencing physician behaviour and reducing activity levels in managed care plans in the USA.

At a rather different level, more theory-led contributions to the debate about the prevalence, nature and novelty of network (or 'N-form') organisations can be found in Thompson (2003), 6 *et al.* (2004), Jones *et al.* (1997), Bazzoli (1999) and Ferlie and Pettigrew (1996). In the remainder of this section we will briefly introduce a few examples from recent studies that are particularly pertinent to GIO relationships.

Evaluation of long-term community care is always challenging. A widely cited evaluation study of inter-organisational networks delivering community mental health care in the USA (Provan and Milward, 1995; Milward and Provan, 1998) showed that improved system-level outcomes depend on centralised network integration, direct and non-fragmented external control, system stability and

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adequate resources. Incentive and monitoring structures need to support these features. Milward and Provan (1998) demonstrate, using social network analysis (see Wasserman and Faust, 1994; Thompson, 2003; Berry *et al.*, 2004), how views of 'effectiveness in achieving client outcomes' differ among stakeholder groups. If institutional norms support co-operation and collaboration among participants, dense and centralised networks can be most effective. These findings resonate very clearly with points raised in our discussions with stakeholders about their experiences working in and with health- and social-care networks. Social network analysis is also useful in analysing the success of strategic alliances (Gulati, 1998) and the effectiveness of HRM in network building (Collins and Clark, 2003). Both of these studies could be highly relevant to public-service partnerships in future.

Bloomfield *et al.* (1997) used actor-network theory (see Hassard *et al.* 1999; Thompson, 2003) to explore the impact of the 'social' and 'technical' nature of hospitals on the emergence of 'doctors as managers' within clinical directorates; and Dent (2003) also found this theory valuable in identifying the complexities of the changing perceptions and relationships between managers and NHS hospital doctors which accompany decentralisation.

Finally, in the light of current and projected levels of investment in information technology in the NHS, two studies provide food for thought. Fahey *et al.* (2003a, 2003b, 2004) used soft systems methodology to evaluate uses of information and communications technologies in emerging NHS public-health networks, including implications for continuing professional development. And Singh's (1997) study of alliances in the US hospital software industry, drawing on population ecology (Hannan and Freeman, 1977, 1989) showed that as technological complexity increased, alliances could only provide partial protection from failure.

So what can we conclude about the importance of network forms of governance in terms of incentives and outcomes, based on the organisational studies literature? In short, not a great deal with any strong degree of conviction. Miles and Snow's influential 1992 paper on the causes of failure in network organisations points the finger firmly at managers who fail to understand the logic of the network form, and so do not make appropriate incremental changes in response to environmental developments. They call for further study of networks to inform understanding of the causes of success and failure in all organisational forms.

From a sociological perspective, in 1998 Podolny and Page reviewed the benefits claimed for network forms of organisation: '[they] foster learning, represent a mechanism for the attainment of status or legitimacy, provide a variety of economic benefits, facilitate the management of resource dependencies, and provide considerable autonomy for employees' (Podolny and Page, 1998: 57). However, in

the face of growing levels of failure among joint ventures and alliances, they called for research on the weaknesses and dysfunctional aspects of networks.

One response has come from O'Toole and Meier (2004), working in the neo-institutional tradition. They distinguish between structural networks (for example, inter-governmental programmes) and behavioural networks (created by managers) and demonstrate how both the structural and behavioural aspects of networks help shape performance. Few others seem to have answered these calls, which have now been joined by exhortations for more comparative inter-industry studies, 'large N' (multivariate quantitative-analysis-based) studies as well as or instead of small case studies, and greater attention to the subject of power in and around networks. Although publications about networks now abound, many still take small steps and then call for more research; or stumble on the dual methodological challenges of researching 'failure' within increasingly complex settings. Thus we can conclude this section by sympathising with Goodwin and colleagues (6 *et al.*, 2004) who, reflecting on their major review of the networks literature, conclude:

The hyperbole about 'networks' which became so marked in the 1990s was doubly misplaced. The assumption that networks formed a unitary and distinct kind was misguided, the claim that they represented something wholly novel was unsound, and the claim that they were superior in promoting all the important aspects of performance to markets and hierarchies [was] both conceptually flawed and empirically inaccurate.

6 *et al.* (2004: 12)

3.5 Professional organisations or professionals in organisations?

The effective integration of professional specialists into formal organisations has been a topic of recurrent concern over the years. Whether the talk is of scientists and engineers, lawyers, doctors, social workers or others, the issue is the same. The long years of training through which professionals acquire their knowledge generate strong loyalties to the profession as a whole. Professionals seek autonomy in the application of their expertise and their professional identity, and their interaction with peers and clients confirms them in a view that they are the best arbiters of quality and standards and that they should be granted respect and power in this regard. Both in manufacturing and the public services, professionals create quasi-organisations within organisations (Ackroyd, 1996). It is widely recognised today that the NHS, for its first 30 years, failed to integrate the medical profession into its bureaucratic structures and in practice allocated substantial clinical discretion (Exworthy *et al.*, 1999). It is also accepted that market reforms and more recent changes have been attempts in large measure to control the professions in education, welfare and health.

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Notwithstanding all this, it is difficult to point to a steadily cumulative literature addressing different organisational designs and their value in integrating professional work. A specialised sociology of occupations and professions concerns itself with the self-organisation of the professions, with state-level regulation, and with the nature of professional power and its impact on its clientele. A stream of policy analysis regularly asks how far the professions have been under attack from the state and have been losing ground in recent years. Interest in the potential decline of medical autonomy has been intense. Empirical work from researchers in health policy in the 1990s onwards has given insight into professional/managerial conflict and into successive managerial techniques (through quality frameworks, clinical governance, appraisal and so on) to bring doctors more directly to account (Harrison and Pollitt, 1994; Ferlie *et al.*, 1996; Exworthy and Halford, 1999). The uneasy experience of doctor-managers as clinical directors is also provoking study (see for example, McKee *et al.*, 1999). Yet there are few organisational analysts who have continued to address the broad question of professionals and organisations down the years (Scott, 1998), and a specifically organisational literature has been notable by its absence.

All this may be changing. Box 3.5 reports on a recently published study in a management journal, taking a fresh look at whether to group job-holders according to their specialist expertise (a functional structure) or according to the task to be done (what they term a product-line structure). Notwithstanding the popularity of organising along product lines, these authors argue that theirs is the first systematically conducted study that has addressed the issue of the appropriateness of this form. The study has limitations, taking only a convenience sample and relying on respondents' perceptions for measurement of the dependent variables. However, the findings are suggestive – particularly in the context of today's health care in the UK, where professionals are being accused of thinking and working in 'silos' and being encouraged to create more interdisciplinary teams and patient-centred care.

Box 3.5 Organising apart or organising together?

Using a convenience sample of 11 hospitals in the USA, all of which organised at least one clinical area on a product-line structure, the researchers surveyed nurses, social workers, pharmacists and therapists (doctors – not being direct employees – were excluded). Organisation structures were classified according to a pre-set schema following site visits and questions on reporting relations and responsibilities. A contingency-theory perspective suggested that for professional organisations a product-line structure should be associated with:

- higher-quality services,
- greater innovation,
- more professional development and

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- greater job satisfaction,

whereas a more traditional view of professionals would suggest the reverse.

The findings suggested that professional development and job satisfaction were negatively related to product-line structure, and service quality and innovation were unaffected by organisational form.

Source: Young *et al.* (2004)

Our database search revealed several further areas of development as far as professionals in service-delivery organisations are concerned. First, interest has been gathering in how professional firms and partnerships (in areas such as law and accountancy) are responding to a changing external environment. One line of argument, for example, suggests shifts from a so-called P2 structure to a managed professional business. The former reflects the traditionally understood values of professionals, with partnership, representative democracy and peer-group evaluation as the basis for co-ordination and legitimate action. The Managed Professional Business, on the other hand, stresses the importance of 'efficiency, client-centredness and more managed, corporate modes of governance' (Kirkpatrick and Ackroyd, 2003: 736). This work can be traced back to the mid- and late 1990s where a themed issue of the journal *Organization Studies* in 1996 was particularly influential (see also Brock *et al.*, 1999). It is situated theoretically in neo-institutionalism and in debates about archetype theory and has extended in its reach to hospital settings. Kirkpatrick and Ackroyd (2003) provide an excellent recent account and critique.

Neo-institutional theory is proving fruitful in this area. Its concept of organisational fields gives an opportunity for researchers to map linked clusters of organisations and to trace mutual influences. Well-known work on institutional isomorphism and symbol and ritual draws attention to persistence of organisational practices and to isomorphic mimicry that might be particularly helpful in understanding the dynamics of professional organisations (see for example, Di Maggio and Powell, 1991; Meyer and Rowan, 1991; and for a recent discussion, Dent and Barry, 2004).

The power of mutual influence among professionals in networks is another growing field of study. Thought-proving work by Bate and Robert (2002) sets new NHS network forms in the context of a literature on knowledge management in the private sector (Little *et al.*, 2002), as well as raising challenges about the potential inadequacy of NHS-style 'collaboratives' when set in comparative context.

The distinction between deliberately created networks as *a means of knowledge management* and exchange – a familiar practice among professions – and networks as *a means of care delivery* needs further exploration. How different professions fare in networked care delivery

(especially when this replaces a hierarchical division of labour, as in health), also deserves to come into sharper focus.

Linking these themes with soft bureaucracy (discussed above as a way of looking again at constrained autonomy among high-commitment workers), what is needed here perhaps is a new conceptual language for examining the question of the successful integration of professionals, which is neither the older notion of control nor necessarily the more recent concept of incentives. Exworthy *et al.* (2003) vividly show the way in which performance management in the current context can turn into a battle of strength with the medical profession. The search for strategies to engage professionals and to provide both support and challenge is a key problem of our time. Frameworks that can encompass different levels of analysis, to incorporate the encoding of knowledge represented by national-level guidance and standards will be important. This is something that Foucauldian approaches capture (Flynn, 2002) but which does not easily translate into positivist research designs (see Section 4.4).

3.6 Understanding organisational performance

Thus far in this section, the aim has been to highlight studies of organisations that can be shown to be especially relevant to understanding the relationship between organisational structures and performance. We have drawn from the database and also ranged more widely. This section will now focus more directly on the topic of performance outcomes. First, taking the database itself, what sorts of contributions did we find? Second, inevitably being selective, what are some of the key papers, empirical and theoretical, that address and illuminate these relationships? Thirdly, what conclusions can be drawn about the vexed question of improving organisational performance that might be helpful in the health sector?

A simple count of the references for organisational studies initially prioritised for further evaluation revealed the results shown in Table 3.1.

Table 3.1 Dominant theory in performance-related papers

Theory	No. of papers
Contingency approaches	15
Systems theories	6
Neo-institutional theory	6
Social network analysis	4
Bureaucracy	3
Management control	2
Population ecology	2
Actor–network theory	1
No dominant theory	16

We have treated performance and outcomes as interchangeable for this analysis. As with any league table there are caveats to be given: the population of papers from which the sample was drawn was selected for potential relevance to governance, incentives, outcomes and many variant terms; then a subset was classified as representing organisational studies on the basis of limited information; and further selection occurred to reject unpromising references. We also omitted many potentially relevant theories on the grounds that so far they had not been used widely in this domain. Nonetheless, we may conclude that some theoretical approaches are more relevant and appealing to researchers with an interest in organisational performance (always assuming, of course, that the reported research had some clear and positive findings).

A crude numerical analysis also has severe limitations. As we have already noted, many of the papers reviewed have indeterminate findings and call for more research. Logically too, we could have predicted the popularity stakes in Table 3.1 because of the sorts of research problems and underlying assumptions characterising the theories. Also, if all we were interested in was performance then we would probably have drawn different boundaries in order to bring in bodies of work that have this as their core concern. For example, our search identified quite a lot of literature on strategic management or strategy, which generally has some link to performance and was classified under organisation studies as the nearest relevant category. Management disciplines such as operations management, information management and marketing were barely present in our database, yet they also play key parts in delivering organisational outcomes.

However, even if more management functions had been represented it might have proved difficult to utilise them, since work in this field tends to be empirically driven and to have its own specialised concepts and models (see, for example, Zairi and Jarrar, 2001). Theory building is in its infancy in some management fields, and much of the literature is concerned with practice or is of relatively transient value. (HRM and

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accounting and finance did feature in our database more substantially, and have been discussed in Section 2 and to some extent also in Section 1.)

Grouped under no dominant theory in Table 3.1 are some of what are the most significant contributions to understanding performance from an organisational perspective. For example, Aiken *et al.*'s (2000, 2002) large-scale multi-method studies of changing nursing-practice environments found that restructuring and re-engineering were followed by increases in workload, staff turnover and job dissatisfaction, with concomitant adverse effects on patient outcomes.

This example illustrates a fundamental point: that although organisational structures, governance arrangements or forms are inextricably linked to performance outcomes by virtue of being part of the whole organisational system, evidence of structure as the sole driver of performance is rare. Intuitively, many people feel that the climate or culture where they work affects how committed they are to doing their job well, and is related to willingness of managers and staff to act on feedback and learn from mistakes. Evidence is emerging slowly to support this view, as Box 3.6 illustrates. Section 2 also supports this line of interpretation.

Box 3.6 The relationship between outcomes and culture

Newly emerging work, using a range of theoretical perspectives and providing related empirical data to tackle the question, does organisational culture affect performance, and if so, how?, is being supplied by Mannion and colleagues (Scott *et al.*, 2003; Mannion *et al.*, 2005). They first faced up to the major challenge of 'how to measure organisational culture', undertaking an extremely thorough review of available 'culture-assessment' tools as well as a systematic survey of literature about organisational culture. Drawing on health-care and wider literatures, evidence of a direct or indirect association between some definable culture types and relatively unambiguous measured performance such as staff satisfaction was found. But a mixture of complex contextual factors remains far stronger than any small association identified so far; bringing no consolation to those seeking a formula for the 'best culture' in order to create it in their organisation.

Nonetheless, culture is seen as extremely important as a mediator of organisational outcomes in health services and beyond. Performance outcomes remain highly contingent, and the later work identifies roles for various stakeholders to contribute to new research, building on existing knowledge. These works provide an important research agenda based on key theoretical, methodological and empirical issues for policy-makers and researchers across the social sciences.

One important reason for citing the work of Mannion and colleagues here is that it clearly highlights some of the limitations of trying to find links between governance (co-ordination, control and structure) and a specified set of performance measures, with or without incentives as an intervening variable. March and Sutton (1997: 700) also emphasise

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the risk of overlooking causal relations involving mutual effects among the variables. They diagnose three further common problems with performance studies:

- 'selective' recall of performance results;
- 'instabilities' of performance advantage or disadvantage (an isomorphic effect, as organisations change their performance based on the behaviour and experiences of others) and
- that 'normal procedures for recording organizational practices for research purposes tend...to accept the formal policies without assessing their implementation...'

Our database did contain some material on performance measures and indicators stemming from the broad field of organisation studies, which complements the discussion of material from economics in Section 1. Linking debates about viable and acceptable performance measures with professional practice is a key issue for health-sector organisations. Exworthy *et al.* (2003), as noted earlier, outline the development of performance indicators in the NHS leading up to their current extension into general practice. Their focus is on the impact on GPs' professional identity and autonomy, a theme we will pick up again in the final sections of this report. They also succinctly capture

...the organisational dimension; viz. the role that the managers have in ensuring that quality assurance mechanisms (second-order activities) are effective (as opposed to service delivery by clinicians (first-order activities). ... Managerial control is exerted over second (not first) order activities.

Exworthy *et al.* (2003: 1494)

One way of looking at the explosion of work on networks and the popularity of the theme of managed clinical networks in the NHS at present is that it addresses once again the issue of effectively integrating professionals (see Section 3.5). However, received wisdom among researchers studying organisational networks is that defining their objectives and managing their performance is particularly challenging, which probably accounts for particular paucity of references to performance or outcomes in the literature coded to networks.

Box 3.7 takes another pattern-searching look at the material on organisations that emerged in the database for this project, this time taking the list of outcomes specified in the SDO programme (adding the capacity to innovate), asking to what extent the studies that were found address each outcome and what theoretical tradition is involved. What this does not convey, however, is the overall amount of attention paid to each measure from our five disciplinary areas.

Box 3.7 Potential impact of organisational studies on SDO performance measures

- *Outcomes for patients*: process mapping (operations management), systems dynamics, culture and change, professional autonomy
- *Process measures of quality*: neo-institutionalism (isomorphism), social-network analysis, control models
- *Humanity*: depending on definition, stakeholder analysis, collaborative advantage
- *Staff job satisfaction and morale*: culture, professionalisation
- *Equity*: soft systems thinking, social-network analysis
- *Efficiency (both allocative and technical)*: control models, management accounting, supply-chain management
- *Adherence to external performance targets*: soft bureaucracy, information management, feedback-control models
- *Adherence to evidence-based protocols and guidelines*: information management, social-network analysis, neo-institutionalism
- *Capacity to innovate*: knowledge management, professional networks, organisational learning

What, in summary, can be concluded on performance from the point of view of organisational studies? While none of the dimensions set out in the above box can be fully appreciated through the concepts and theories of organisational studies alone, work in this field does offer a rich understanding of both intra- and inter-organisational processes that affect arrays of performance outcomes in anticipated and unanticipated ways. We can perhaps give the last word on performance to Paton (2003). In the context of managing social enterprises – itself a concept that might prove a fruitful way of bringing the health sector out of its research ghetto – he comments, *contra* the contingency theorists perhaps, that bringing a social constructivist perspective

highlights the ways in which performance is a multifaceted, fluid, problematic, ambiguous and contested concept. Performance may sound like some unitary, stable and objectively real attribute...but it is far more elusive than that.

Paton (2003: 6)

3.7 Conclusions

This section has concentrated on a number of broad theoretical groupings in organisational analysis, focusing on three areas of application – networks, professionals and performance. While the review has necessarily been selective it is striking that work in what we have here delineated as organisation studies is in the main only

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indirectly connected to governance incentives and outcomes. This is starkly illustrated in responding to the first question from the commissioning brief.

What are the different incentive effects of markets, hierarchies and networks respectively on organisations and individuals who plan, manage and deliver health and social care? Core theories in organisation studies are concerned particularly to explain the derivation of organisational structures and sub-structures; very few examples of links between incentives and market, hierarchical or network configurations were found. Where they do address outcomes, theories in this field tend to link them to structure or process but rarely both.

Given a primary focus on the organisation as the unit of analysis, the emphasis in this section has been on hierarchical and network forms of governance (although interest in the influence of markets can be found where organisation studies meet management studies; for example, strategic management and marketing). Links between governance form, incentives and outcomes can be found in one of the most long-standing concepts in organisation studies: the Weberian 'ideal-type' bureaucracy. This, according to neo-institutionalists, inhibits motivation to innovate and drives organisations to be more like each other, thus constraining possibilities for real improvement. We argue that hierarchical and bureaucratic organisational forms are still with us, and that the concept of soft bureaucracy is worthy of greater attention as a route to understanding incentives and outcomes.

Studies of networks have tended to concentrate on impacts on members and on production or service delivery. The underlying assumption is that networks that work as intended should have a benign impact at the individual, intra-organisational and inter-organisational levels. This assumption is slowly beginning to be challenged but there is a particularly large gap in knowledge, already noted by Ferlie and McGivern (2003) concerning the possibility of performance-managing a network.

How do the different incentives of different forms of governance affect organisational performance and how can these questions be researched? Where performance features explicitly in organisation studies the most commonly cited dimensions are efficiency, adherence to external performance targets, staff satisfaction and outcomes for service users. Organisational performance is attracting growing interest, but in most cases intervening variables such as culture, beliefs and values, management style, process design, organisational behaviour or leadership are brought into play to explain outcomes – moving the research into other disciplines in the process, as noted in Section 3.6.

Turning to research approaches, we have noted useful contributions from organisation studies spanning several decades and divergent

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epistemological paradigms. Methodologies are diverse, although either large-scale quantitative methods or small numbers of in-depth qualitative case studies are most frequent. There is scope both for more mixed-mode studies and for wider use of collaborative approaches involving practitioners, as a counter-balance to the influence of management consultants, particularly in the public sector. Section 3.5 illustrated some promising directions for research into professionals and their networks that could link individual and organisational performance.

Do different forms of governance produce different incentive effects on users of health and social care and/or their carers? The fairest answer, in terms of the organisation-studies contribution is that we don't yet know. However, there are a number of promising avenues for investigation, particularly through interdisciplinary projects. There is often an implicit assumption that users or beneficiaries of services are motivated to behave in ways that will maximise the benefits they receive, but there is as yet little work in the organisation-studies field designed to explore such an assumption. Social-network analysis (for example, Provan and Milward, 1995) and some systems approaches are starting to contribute to understanding how to incentivise or motivate stakeholders such as users and carers to participate more actively in improving their own health status. The effects on outcomes of information asymmetries and power imbalances at intra- and inter-organisational levels merit research, particularly from the perspectives of less-powerful stakeholders.

What are the implications of these issues for the organisation of health- and social-care services in England? The breadth of the organisational studies field provides both opportunities and constraints for future research. It is a theoretically diverse domain, with almost all available ontological paradigms being represented. The classical traditions continue to metamorphose and reinvent themselves, as well as being joined by small colonies arriving from other disciplines and offering fresh insights. Interdisciplinary research involving organisational studies holds much promise, but different interpretations of common language also pose challenges. The rapid growth of multiple providers working in partnership to deliver health and social care makes organisational studies in the voluntary sector and social economy strategically important. Comparative studies would help to inform appreciation of incentives and outcomes as they apply in particular to service users and partners in care provision. Literature from the private sector is often valuable, but the values of the public sector as well as closeness to policy can sometimes make comparisons unhelpful.

Section 4 Governance: policy analysis, public management and political-science perspectives

The last 15 years have seen a transformation in the state, accompanied by changes in the scope, organisation and significance of public-sector organisations. We have witnessed not only the arrival of different techniques of management and the disappearance of monopoly providers, but experimentation with new forms of governmental control and the emergence of new kinds of agency engaged in regulatory activity. Longstanding and monolithic public bureaucracies in health, as in other areas of the public sector, have become discredited. The value not just of hierarchies, but of markets and networks, has become part of a discussion of NPM that has attracted attention among scholars and practitioners nationally and internationally. At the same time, in a field that is growing rapidly, governance as a concept has moved to centre stage and served to expand thinking from structures of government to more complex processes of governing.

Delineating clear boundaries for the area to be covered by this section proved to be particularly challenging. We have taken it to encompass analyses of public policies and programmes and to cover the much-discussed notion of NPM. While not going deeply into what are fields in their own right, we have touched on changes in central and local government. We have included reference to the governance of sectors such as environmental planning and education and given hints about the way that debates on governance forms extend to developing as well as the conventionally developed countries of western Europe, New Zealand, Australia, Canada and the USA. Political science provides the disciplinary home for much of the material to be assessed. Whereas its journals feature strongly in the database, contributors come from a variety of places; from social and health policy, from sociology and from organisation studies. This last boundary was one we found particularly hard to draw; that is, coming to a working decision that papers in public-sector and public-management journals or papers with these terms in the title should be considered here, even though some were likely to draw more on organisation theory than on political science or policy analysis as such.

Ferlie *et al.* (2003), introducing a special issue of the *British Journal of Management* on the theme of changing public-service organisations, carried out an analysis of papers on the theme published in that journal in the last decade. The typical article, they found, was set in the health-care sector, used case-study methods and dealt with changing roles and relationships and was influenced by the discipline of organisational behaviour. The wider literature considered here also

displays similar biases, although theoretical as well as empirical contributions figure strongly. The range of literature, however, is amorphous. Commissioned at any earlier stage to review policy studies for this research programme, Harrison (2001: 91) took the view that it was simply not possible to offer a 'consensual account'.

This section is divided into five main sub-sections. Following this introduction, Sections 4.1 and 4.2 deal with the theme of regime change and explore current work on the logic of markets, hierarchies and networks. Section 4.3 explores some newer directions of research and theorising, whereas Section 4.4 focuses briefly on cultural governance. We were fortunate in being able to assemble new thinking for Section 4.5 on the issue of performance and this leads us into the concluding assessment.

4.1 Governance regimes and incentive effects

It was always clear that the move to markets and managerialism in health, education and other areas of public policy on the part of successive neo-liberal governments in the UK and elsewhere from the 1980s onwards had a significance that went beyond technique to the reconfiguring and re-imagining of public services, the public sector and the role of the state itself. The much-cited articles by Hood (1991) in the UK, Aucoin (1990) in Canada and the earlier full-length monograph of Ostrom (1973) in the USA (cited in Toonen, 1998) are among works that began to demarcate and assess the changes which together have come to be known as NPM. They include a strong emphasis on efficiency savings, meeting performance targets, private-sector-style freedom to manage, regulation, and restructurings to introduce quasi-markets and to create more autonomous agencies. Study of these phenomena have been fostered by successive Economic and Social Research Council (ESRC) research programmes in the UK, but the theme also has a strong international resonance. Case studies in different countries now abound (for example, Pusey, 1991; Aucoin, 1995; Schick, 1996) and have been accompanied by a stream of important comparative work (see, for example, Kooiman, 1993; Olsen and Peters, 1996; Geddes and Benington, 2001; Jones *et al.*, 2001; Pollitt and Bouckaert, 2004). There is a clear sense in all this work of a break with the past – a new way of organising in the public sector.

Governance helps to capture these shifts, reinforcing the sense of an historical break. Despite repeated attempts to clarify sets of meanings (Rhodes, 1997; Stoker, 1998), the concept remains both contested and confused (Newman, 2001; Pierre and Peters, 2000; Daly, 2003). Nonetheless, it serves an important function in going beyond the straightforward notion that only governments govern. It recognises a capacity for getting things done which is not captured in any simple way by the power of government to command, encouraging analysts

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to study political mobilisation across diverse networks and to probe beneath the surface of the formal relations of co-ordination and rule (Stoker, 1998).

Much work discusses what we might call regime change. It tells a story of a shift from one configuration to another; it seeks to clarify the linked dimensions of governance change and to provide a critical commentary on their implications. Wettenhall (2001), for example, drawing on a lengthy scholarly experience in public administration in Australia and on much international contact over the years, asks how the era of NPM has reframed the organisational forms of the state and with what effects. His answer is to draw attention to a 'huge no man's land' between pure government and pure public enterprise as an urgent area for research focus. New public/private mixes are replacing the old public bureaucracies – the public corporation in Britain, for example, and the crown corporation in Canada. The Australian government-owned company, regulated by a generic corporation law, on his argument, is a 'retreat from public values'; the long-term public interest requires a return to a clear public-sector corporation form. Thynne and Wettenhall (2003), introducing a special issue of the recently established journal *Public Organization Review* go on to develop a taxonomy of public-sector organisational forms, regretting that such work to date has not guided the choice of structures for particular purposes (see also Thynne, 2003). In a wide-ranging paper in similar vein, Zifcak (1999: 237) argues that NPM measures have resulted in 'market governance', which in essence is 'a displacement of a political and legal understanding of bureaucracy by an economic and fiscal one'. He draws from a series of 50 interviews with civil servants and other officials in Victoria, Australia, and teases out a number of ways in which this form of governance can diminish public accountability. In Box 4.1 we re-present some of his arguments as propositions about aspects of the incentive structure of market governance.

Box 4.1 Incentives and outcomes of market governance – some critical propositions

- Replacement of civil-servant neutrality by a requirement for greater loyalties to political masters.
- Resultant resignations where disagreements with ministers become public.
- Less room for policy and administrative manoeuvre.
- Professional judgement replaced by audit.
- Less possibility for independent scrutineers to have a place.
- And overall: a decline in institutionalised scepticism.

Source: adapted from Zifcak (1999)

Whether one would want to unpack summary concepts such as market governance and to tease out relations between their constituent elements and incentives or outcomes is a moot point. Toonen (1998) seems to push in this direction in his call for integration and his proposal for a meta-theoretical framework for exploring the consequences of change. For him, studies of public administration need to proceed at three levels. There is the constitutional level where questions are to do with the reliability and robustness of the overall system; the policy or joint decision-making level, where the questions include system legitimacy and integrity; and the level of operational choice, to do with the degree of responsiveness that can be achieved. Barzelay (2001) criticises the whole NPM field calling for more codification and testing. On the other hand, one could well argue that the power of this body of work on NPM stems precisely from its ability to bring disparate features together, remaining at the level of a complex system-as-a-whole and examining its pros and cons on a more abstract level. The lead variable certainly varies. Whereas Wettenhall (2001) has singled out the power of market oriented organisational forms, others have a different emphasis. Saltman (2002), considering health reform across a number of countries of northern Europe, argues that in each instance the key factor resides in the shift the state has made from a command-and-control bureaucracy to a more regulatory mode. He adds:

The loosening of governmental control over public providers has created a more complicated set of institutional incentives that, in turn, has required a concomitant ratcheting up of the state regulatory oversight and supervision.

Saltman (2002: 1681)

The complexity of insights such as these and their implications for research are continuing themes in this section.

4.2 Markets, hierarchies and networks – typologies

Shifts between markets, networks and hierarchies as modes of co-ordination are frequently alluded to in these discussions of regime change. Arguments positing a move from bureaucracy to markets and thence to networks abound and are a source of much debate (for example, see Blatter, 2003). A particularly strong focus on the move to networks is evident (Thompson, 2003). Writers have repeatedly set out characteristics of these three (for example, see Bradach and Eccles, 1989; Powell, 1991; and especially Lowndes and Skelcher, 1998: 319). Newman (2001), however, offers an analysis (a) that encompasses markets, hierarchies and networks, placing these at the centre of a novel theoretical framework; (b) that turns critical attention to shifts, ostensibly beyond market governance, made by New Labour in the UK; (c) that begins to foreground the cultural constructions through which means of governing are imagined and (d)

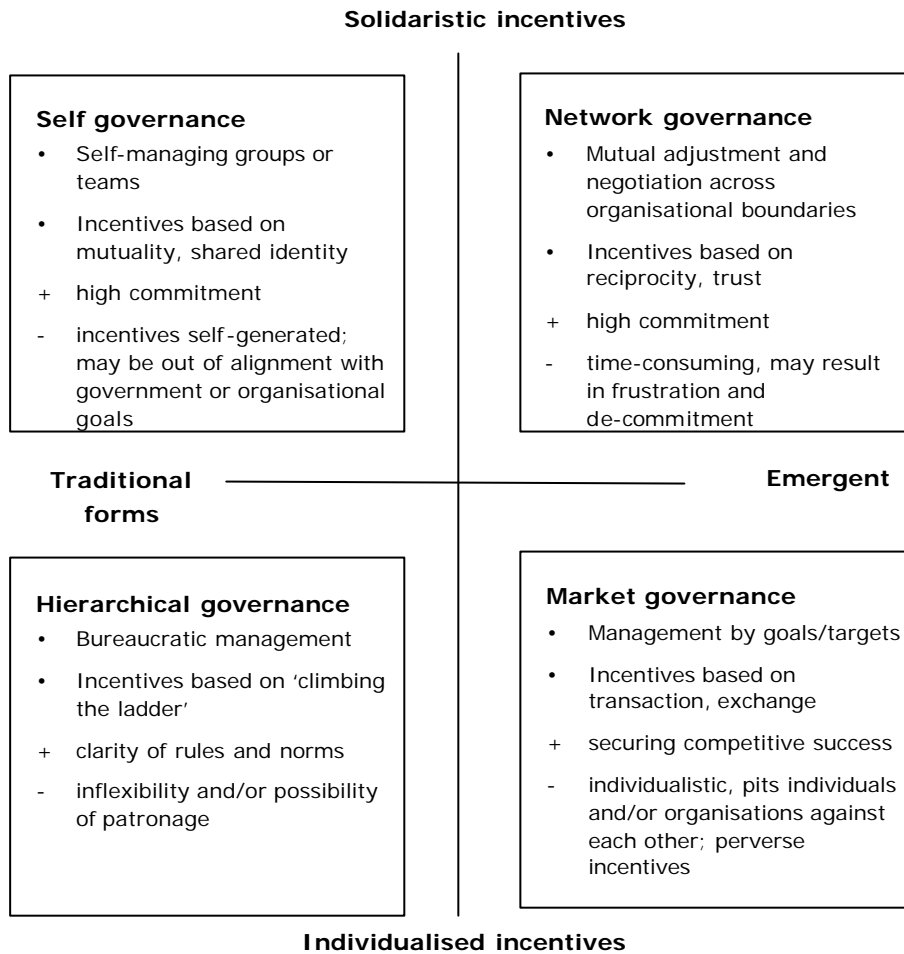
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that yields an account acknowledging that continuing tension and contradiction must be part of any model in use.

Newman sets out not three but four different models of governance. The *hierarchical model* is oriented towards predictability, control and accountability and corresponds to a now much-criticised 'command and control' form, high on probity, yet castigated for inflexibility, slowness and reluctance to change. The *rational goal model* reflects a focus on shorter time lines and attempts to maximise outputs. Here, government exerts power through managerial means – attempting to create direct incentives to deliver on its goals and targets in a context where local managers are held accountable through contractual or quasi-contractual means. The *open systems model* is oriented towards networks, where power is dispersed and relationships adapt constantly to meet changed demands. It draws from a substantial body of recent work in systems theory to depict a form that is 'fluid, fast and highly responsive' and 'accountability is low but sustainability is high' (Newman, 2001: 35). Government steers but does not control in a direct way; self-organisation predominates. Finally, the *self-governance model* is oriented inwards, focusing on peer accountability among a company of equals and on fostering relationships of interdependence and reciprocity. Newman uses it to characterise government moves to build sustainable communities, drawing in local citizens. She also uses it to depict self-regulation of the professions (Newman, 2001: 86ff). Figure 4.1 represents a further development of this, focusing on incentives.

In Newman's original presentation, the four modes of governance depicted above are mapped on to two dimensions, a vertical axis concerned with centralisation and decentralisation, and a horizontal one, labelled continuity and innovation. For the purposes of this discussion, however, Newman has redrawn the axes to highlight incentive effects and thence to propose the strengths and weaknesses of each form in a slightly different way, as Figure 4.1 demonstrates. The top half of the diagram can be associated with 'solidaristic' incentives: those based on mutuality, a common identity, responsibility to one's peers or colleagues, reciprocity and trust. They are essentially relational incentives. The bottom half of the diagram, in contrast, is more strongly associated with individualised incentives: those of 'climbing the ladder' in a hierarchy, or of securing resources in a market-place. In both hierarchy and markets we can also transpose these patterns of incentive on to organisations. The incentives in a bureaucratic organisation may be organisational continuity or growth – as in the bureau-shaping thesis, where bureaucrats are assumed to be motivated by maximising organisational expansion (Dunleavy, 1991; see also Section 1).

Figure 4.1 Modes of governance and incentives



Error!

In markets, incentives serve to pit organisations against each other, struggling for competitive advantage: and markets have often been viewed as producing perverse incentives, such as the incentive to engage in cream-skimming by offloading customers with high costs on to other organisations (Le Grand and Bartlett, 1993), thus reducing overall system effectiveness. The horizontal axis refers to what have been labelled traditional to emergent (or perhaps modern) forms of co-ordination in which new modes (networks, partnership, targets, competition and regulation) are being introduced.

Newman avoids neat narratives of directional change and stresses the complex overlay of these types on each other. Hierarchical governance remains crucial in securing appropriate forms of accountability, while

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the idea of self-governance is seeing something of a renaissance, albeit in rather different forms from the older and now somewhat discredited idea of the self-governing profession. Self-governance also, is perhaps emerging in a rather different guise in the increased significance of ideas of delegation to self-governing trusts or even to community-based or self-help organisations. While such organisations may be in market- or network-based relationships with each other and may be held to account through hierarchical modes of governance, delegation endows them with considerable autonomy coupled with new forms of responsibility for delivering outcomes in line with government priorities. Arguments for the co-existence of markets, hierarchies and networks have been advanced in the health context, both in the longer term (Powell, 2003) and in the context of more recent NHS developments (Exworthy *et al.*, 1999).

6 and Peck (2004) offer a somewhat different way of mapping institutional forms. Drawing from classic sociological theorising on the nature of social integration advanced by Durkheim, they highlight four forms of solidarity with associated clusters of institutionalised interests and preferences. There is the familiar *hierarchy*, highly regulated and structured by rules, where actors are well integrated and pursue status within the system. There is the *enclave*, internally egalitarian but weakly regulated and sometimes in hostile confrontation with the outside. Weak regulation and weak integration yield *individualism* with participants pursuing individually rational strategies and becoming stratified according to their success in this. Finally there is 'the social world of the isolate', which is 'hardly able to sustain collective action' and where bonds to others are particularly weak and sparse. While this typology maps less readily on to forms of formal organisational arrangement than does that of Newman, the authors go on to tease out a series of propositions about the dynamics of these forms, suggesting that initial reinforcing factors for each type are replaced by disintegrative ones. They explain:

gradually more hierarchy undermines trust and clarity, more individualism leads to mistrust and even corruption, more enclave leads to sectarian paranoia, and more isolation erodes collective action. Political and management reform projects...can readily set such dynamics in train. In this way, what is in the first instance functional becomes dysfunctional.

6 and Peck (2004: 88)

This is a crucial point that highlights the dangers of reform projects producing what Bovens *et al.* (2001) term 'governance failure' by intensifying the reliance on a preferred model. The possibility that 'the functional becomes dysfunctional' is also particularly important in the context of this section in that it suggests that any fixed notion of a best practice in terms of governance arrangements may produce efficiencies and improved outcomes in the short term, but may militate against an organisation's or service's capacity to innovate or to address new problems or issues.

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How stable are mixed modes of governance? Newman argues that the co-existence of competing governance forms within a single service or organisation is likely to produce tensions that have to be resolved on the ground by practitioners, and traces some of the stresses, strains and sometimes de-motivational effects that result. 6 and Peck talk a dynamic of change and also suggest the existence of 'hybrids' as a more settled combination. They argue that:

the greatest chance of stability...arises from certain kinds of four-way settlement, which articulate all four solidarities in ways that each provides some services to the others. These four-way settlements are sometimes called 'clumsy institutions' (Thompson, 1997) because they accept high transaction costs for the robustness that comes from requisite variety.

6 and Peck (2004: 89)

If the boundaries imposed by theoretical distinctions between hierarchies, markets and networks are inadequate to the task of describing organisational realities on the ground, just how far does the concept of a hybrid offer a way forward? At least one group of authors now claims that 'hybridity may be a defining feature of modern society' (Brandsen *et al.*, 2003). But there is a sense in which researchers take refuge in hybridity without there being a clear agreement as to what the term means. For some, it describes adhocracies of two or more organisations united by a common interest (Borys and Jemison, 1989). For others, it refers more specifically to the breaking down of the public/private divide and the rise of the government-owned company (Wettenhall, 2001) or other new organisational entities. Rather different is a usage that sees hybridity as a way of characterising the not-for-profit sector (Brandsen *et al.*, 2003). Different yet again is the amalgam envisaged in the notion of legacy ideas and practices, persisting in the face of change (Kirkpatrick and Ackroyd, 2003). This has been hypothesised as giving rise to tension, as we have just seen in the work of Newman (2001). Alternatively, in evolutionary theory, it is a source of friction that preserves diversity. Here, the argument goes, while inhibiting harmony in the short run, it might later yield opportunities for positive readjustments (Grabher and Stark, 1997). Lowndes and Skelcher (1998) offer a different idea; they propose a life-cycle model of partnerships in which early-stage fluidity is followed by mid-stage formality and closure, with a later return to networking as organisations negotiate ways of maintaining commitments.

4.3 New directions for studies of governance

Three related clusters of work are discernible that focus not so much on the markets, hierarchies and networks trio or the Newman quartet as such, but on a broader concept of network governance and variants of this. All three draw attention to the range of agencies that are now engaged in public activities, given the 'hollowing out' of the state (Rhodes, 1994) or the contemporary 'unbundling' of its forms (Pollitt

and Talbot, 2004) and the quest for more 'joined-upness' (Rowe, 1999). Such a move 'from hierarchical to heterarchical' modes of governance (Pulzl and Rametsteiner, 2002) requires new kinds of vertical integration and horizontal integration (Hayden and Benington, 2000). For the purposes of this review, we discuss governance with the governed, multilevel and multi-partner governance, and regulatory governance.

4.3.1 Governance with the governed

A former president of the Paris-based International Institute for Administrative Sciences notes, 'participation, consultation, negotiation, contract and social dialogue have...become the key words of modern governments' (Braibant, 2002). Finding efficient and effective ways of meeting this political imperative is now a major preoccupation of practitioners. 'Accountable governance', 'participatory governance', 'deliberative governance', 'collaborative governance' and 'co-governance' are some of the more prominent concepts describing this move to a more 'citizen-oriented culture' in public services (Claver *et al.*, 1999).

Bringing service users, and to a lesser extent citizens, into the care-delivery process has been subject of a very considerable amount of research, which frequently turns out to be disappointingly descriptive, local and case-study-based (Crawford *et al.*, 2002). The identification of forms of democratic innovation pioneered in the UK in the local-authority context (Stewart, 1996) has been followed by theoretical critique and empirical research across the public sector, for example on citizen's juries (see, for example, Pickard, 1998). Newer work is exploring contradictory dynamics (Barnes, 2002; Thompson and Hoggett, 2001), although in-depth studies of public engagement at national level are rarer (see Davies *et al.*, 2005). Although some regard involvement largely as a matter of devising better management techniques (Bryson, 2004), it is highly likely that questions of participatory mechanisms, the conflicting expectations that they engender and the confused accountabilities that can ensue, will figure strongly on research and practice agendas in future (Newman, 2001; Considine, 2002).

Taking officials out is a less familiar and more controversial notion. Here theorists have begun to engage critically with long-accepted thinking that separates the legislature from the executive and cloaks the public servant in anonymity, proposing instead an organisational form that seeks to create what traditionally would have been unthinkable – the responsive bureaucrat. Brugue and Gallego (2003) in Spain argue for dismantling the politics/administration dichotomy en route to new 'community governance'. Hunold (2001), drawing on theories of deliberative democracy, envisages each administrative unit as having its own political sphere with well-designed networks, compulsory policy impact statements and an array of opportunities for

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dialogue and discussion whereby administrators are made accountable to their publics. He adds:

This idea goes beyond the dog-and-pony shows of carefully stage managed "town meetings" in which citizens express their concerns to administrators who are not actually obliged to be responsive to what the citizens tell them. A truly public administration requires maximising publicity, equality, and inclusiveness in discussion and decision-making.

Hunold (2001: 157)

One potential incentives hypothesis here might be that more direct forms of accountability generate greater responsiveness from officials to relevant publics (see Sowa and Selden, 2003). In the main, however, the debates in this field centre more on the danger of confused accountability in this form. Du Gay (2004) provides a sympathetic explication of the position of American constitutional theorist John Rohr, raising serious doubts about the accountability logic in a push to make civil servants both innovative and entrepreneurial.

Hunold (2001) identifies Swedish environmental policy as the field in which developments have gone furthest. There is a long history of empirical research in the field of environmental planning in the countries of Europe and the USA as well as in the UK (Renn *et al.*, 1995; Smith and Wales, 2000; Smith, 2001). Another place to look, however, is in relation to issues of Third World development where the theme of 'co-governance' and participatory institutions at present is particularly strong (Ackerman, 2004). The introduction to a recent issue of the *International Review of Administrative Science* makes three important points about sharing governance in these ways: that no one actor working alone has the power to deliver the complex outcomes represented by our aspirations for the reduction of inequality and the elimination poverty; that single-sector technical solutions will always be incomplete; and that public policy measures must be based on the participation of those affected by them (Bourgon, 2004). A notable number of papers emerged in our database based on experience in different countries including, for example, Namibia (Forrest, 2000), Sri Lanka, Kenya and the Philippines (Thompson, 1995), Brazil, Mexico and India, as well as the USA (Ackerman, 2004; Fung and Olin Wright, 2003). Whether there is yet firm evidence for the claims that participatory governance is associated with an incentive to innovate – as suggested in discussions of a 'generative politics' (Giddens, 1994) and 'creative democracy' (Burns and Ueberhorst, 1988) – remains to be examined. With its focus on themes of solidarity, citizen engagement and capacity building, such work is not easily assimilable to a language of incentives.

4.3.2 Governance as multilevel and multi-partner

Multilevel governance is governance shared between a variety of organisations across public, private and voluntary sectors, creating complex patterns of dependency and requiring co-ordination and multi-network management (see, for example, Agranoff and McGuire, 1998; Pierre and Peters, 2000; Peters and Pierre, 2001; Bache and Flinders, 2004). While much enquiry has been in the context of European Union studies, there are now important theoretical and empirical applications at the national, regional and local levels, where new patterns of negotiation and non-hierarchical exchanges between institutions are apparent. Some would now say that there are sufficient data to examine 'causes, mechanisms and consequences of such emerging relations between institutions at different levels and to learn from national variation' (Peters and Pierre, 2001: 131).

Empirical work often focuses on power. Meier *et al.* (2004) explore the 'political-bureaucratic labyrinth' in public-school districts in Texas, noting strong and continued top-down influence. Eising (2004), in an European Union-centred study, highlights the power of those who are able to take part at more than one level. Taylor (2000: 1033), working on community governance, has cautions about social exclusion. The preoccupation with formal structure alone may have gone, she says, but this work 'does not yet address the dynamic between the formal and the informal'. She adds that building new institutional capacity will require both new skills of mediation and conflict resolution and 'structures which can live with the complexity of communities and communicate across boundaries'. Most visible in health and social care is a considerable volume of work identifying barriers (organisational, cultural, financial and so on) to inter-agency working and questioning how equal so-called 'partnerships' are (for example, see Glendinning *et al.*, 2002). Work that centres rather more explicitly on the concept of multilevel governance has been commissioned recently by the Office of the Deputy Prime Minister in the UK in the context of a sustainable communities programme (www.odpm.gov.uk). It may be timely to encourage shared thinking across the public sector and more comparative research to underpin this.

The work of Hill and Lynn (2003) is particularly interesting in the context of this review, responding as it does to the question of why agencies collaborate, and asking specifically what the *incentives* might be. On the one hand, these authors set out a framework from rational choice theory that will be familiar from Section 1, emphasising that governance through incentives rests on the notion that transactions/exchanges with the self-interested and calculating actor can induce required behaviours. On the other hand, they point to relational/socialised choice theory, where behaviour is governed by pre-existing habits, norms and values. Arguing that the key to collaboration is appropriate selection of governance mechanisms, they develop the typology shown in Figure 4.2. The basis for collaboration can be either rational choice or socialised choice (vertical axis). The

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governance mechanism may be designed by an external agency (government or other sponsor) or by an internal one (an organisation or partnership board). Although the governance mechanisms here operate at a different level from the market, hierarchy and network forms, there are some fairly close affinities of thinking.

Figure 4.2 Optimal combinations of bases for collaboration and governance mechanisms

		Governance mechanisms	
		Used by an internal governing authority	Used by an external governing authority
Basis for collaboration	Socialized choice	Alliances or partnerships based on shared values	Selection, training, empowerment, leadership, negotiation
	Rational choice	Relational contracts or enforcement	Delegated co-ordination, performance management, altering reward structures

Source: Hill and Lynn (2003)

This framework is interesting (a) for its potential recasting of markets, hierarchies and networks, (b) for its embrace of approaches from both economics and sociology and (c) for its ability to cover modes of co-ordination within and beyond service providers. It is notable for locating network organisation firmly in the socialised-choice cell. Whether it has the potential, for example, to address the extent of the gulf in incentive structures between the public and private sectors (and indeed between these and the voluntary sector) remains open. This is an area of political sensitivity, where empirical work is emerging (see, for example, IPPR, 2001; Ruane, 2002; Humphrey and Russell, 2004; Pollock, 2004), but more deserves to be done to understand the mindsets of participants and their attributions of motive to others. Wettenhall (2003), however, warns that the ‘British lead’ on public/private by no means captures the range of issues that deserve study. Hill and Lynn’s (2003) own comments on the research agenda include raising questions about how in practice provider incentives can be identified, how the concerns of all stakeholders can be accounted for and how an adequate set of performance dimensions for a network can be established.

4.3.3 Regulatory governance

As is already clear, the landscape in which public service-delivery organisations are situated has changed dramatically in recent years. The long hierarchical chain reaching up through the Department of Health ultimately to a minister of state has been severed and a multitude of standard-setting, monitoring and regulatory agencies has grown up (Walshe, 2002). Policy development and policy

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implementation are also dissolving into each other. Practitioners, service users, employers and other stakeholders are drawn into a policy-making arena alongside civil servants. They are then deployed on the one hand to work as ambassadors for and implementers of a policy, and on the other as creative adapters and reverse-direction message carriers, in a classic 'advise and warn' mode. The state of the literature at present indicates that we are still searching for effective ways to characterise how the state is currently seeking to shape the performance of public service-delivery organisations and to generate the incentives that will lead to preferred outcomes.

Theoretical and empirical work on regulation fits here. This is a growing but unsettled and fragmented field at present with contributions, for example, from economics and sociology as well as from political science (Davies, 2004). More than a decade ago, the power of principal-agent theories from economics was explored together with broader socio-legal perspectives in a monograph on responsive regulation (Ayers and Braithwaite, 1992); this interdisciplinary work has been extended and developed further in the output from the Centre for the Analysis of Risk and Regulation at the London School of Economics. Baggott (2002), writing in the context of a review of the self-regulation of health professions (Newman's fourth and under-explored mode of governance) but ranging much more broadly, begins to draw attention to material on the impact and outcomes of different regulatory forms in the fields of health and safety and environmental regulation. Potoski and Prakash (2004), in a study of US businesses, demonstrated that compliance with state regulations increased where regulatory relief was offered for undisclosed violations – giving some evidence for the power of what we might perhaps call an amnesty incentive. A Bolivian forestry-sector study suggested three powerful incentives to do with central government funding, central government coercion and pressure from external non-governmental organisations (Andersson, 2003). This kind of work has a bearing on issues of effective inspection and regulation in the health field where soft consultancy and hard (policing) models have been identified (Day *et al.*, 1996; see also Benson *et al.*, 2004). Health-care organisations operate in an ever-more-complex environment and frequently complain of the amount and form of regulation with which they have to engage. It may well be that an interdisciplinary and intersectoral review in this field at this time would be capable of generating specific hypotheses about the incentives and disincentive effects of different modes of regulation, which would contribute to effective governance.

Equally relevant to regulatory governance is the material represented in the database to do with re-conceptualising the role and responsibilities of state agents and public-sector delivery organisations in the context of much more fragmented and decentralised patterns of service delivery. Health and social-care organisations may need to be evaluated not only for their own internal governance structures and

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the way in which these do or do not incentivise, but also for how they perform as brokers in the creation of added value and in dealing with 'wicked problems' and with market failure (Jackson, 2001). Agranoff and Mcguire (1998), as noted above, argue that those who represent government agencies (whom we would take to include health- and social-care commissioners and service deliverers) need to focus on building collaborative arrangements – in effect on creating incentives for others within complex networks. Bramson and Buss (2002) make a similar point and one that would be echoed among writers on new community governance referred to earlier, notably Taylor (2000), when they suggest that public leaders are learning that they must 'build commitment, alignment and ownership' across a diverse group in order to be effective. This suggests that there should be some research at least that does not so much look for the incentive properties of networks *per se*, but instead pays attention to building skills and leadership capacities. Such skill building must be capable of creating not just robust incentives (Le Grand, 2003), but more 'system' incentives – in order to bring together diversely motivated participants and create solidarity between them. Fung and Olin Wright (2003) argue here that sustaining empowered citizen participation requires radical rethinking of the role of the state in ways that go beyond much of the central/local debate. They propose a four part role at the centre:

co-ordinating and distributing resources, solving problems that local units cannot address by themselves, rectifying pathological or incompetent decision making in failing groups and diffusing innovation and learning across boundaries

Fung and Olin Wright (2003: 21)

Once again, the work is presented in terms of creating solidarity and a sense of capacity for citizens to control their own lives, rather than in the language of incentives as such.

What can be said in summary about these new directions of work on governance? Neither hierarchy nor market easily encompasses this new work, and where all combine is in emphasising the complexity of networked governance. We have located only one study concerned directly with governance and the concept of incentives (Hill and Lynn, 2003), although there is an issue of how far other work can usefully be translated into incentive terms. One further point stands out – incentives for whom? Notable by its absence in the database is a stream of political science work on self-regulation taking up aspects of Newman's fourth mode of governance and capable of integrating the theme of professionals and professionalism into the debates in this section. While classic work on 'the flaw of self-sustaining institutions' in medicine (Freidson, 1970: 368ff) would be relevant here, work from the sociology of professions tends not to carry over into other fields. Incentives for service users appear in work on co-governance and community governance, but service-user incentives are, as such, nowhere spelled out in full.

4.4 A note on cultural governance

Increasingly interwoven with the kinds of work outlined above, yet to an important degree also separate from it, is material to do with analysing governance as a social and cultural as well as an institutional phenomenon. This body of work finds its theoretical roots in post-structuralism and particularly in the theories of Michel Foucault. It can be seen as part of the 'cultural turn' affecting a wide range of disciplines and evident also in recent work in organisational studies and organisational sociology as exemplified in Section 3. Theorising in this tradition concentrates on the kinds of knowledge and power through which social activity as a whole is regulated. It draws on the Foucauldian notion that power constructs phenomena and renders them normal and taken for granted. Writers refer to the 'ensemble of practices and the technologies of power' that characterise the contemporary state – stressing the changing cultural dimensions of political authority and asking, for example, about new constructions of citizens as 'consumers' with 'choice' (see Rose, 1999; Bevir, 2004).

The notion of power as 'productive of a discourse' presents a sharp challenge to ideas of participatory governance. On this model, such ideas are seen as new strategies of control, constructing the citizen as the active, discerning and choosing consumer of public services and rendering communities 'responsibilised' in the push to solve problems locally (Newman, 2005b). Governmental strategies are not seen as necessarily coherent; their internal tensions and the spaces for resistance that they contain provide the stuff of analysis and debate. Another example perhaps is the approach to expertise. A familiar analysis would portray the post-war welfare state in the UK as the height of professional dominance or as a moment of bureau-professional alliance with the medical profession in particular in the ascendant. A post-structuralist analysis would stress that a new space for legitimate state action was created through notions of professional expertise; that professionalism is constructed in and through the state. To pursue such an approach means to reject the idea of state and profession as separate actors, respectively deploying and responding to incentives (Johnson, 1995), and to focus instead on the meanings and interpretations and strategies that their interdependence creates (Bang, 2004). Fieldwork-based empirical work is starting to be present in this tradition (see Box 4.2; see also Light, 2001). In the main, however, whereas some of the terminology has entered and infused into the mainstream, much work located in these traditions takes a form not readily assimilated to discussions cast in terms of relations between governance and outcomes. Bevir and Rhodes (2003b), Bevir (2004) and Bang (2003) provide helpful discussions.

Box 4.2 Cultural understandings of governance

- What forms of subject position for public-service actors are called into being by the discursive practices of 'modernising' governments?
- How do such actors inhabit the shifting policy/practice landscape? How are new and more traditional attachments and identifications overlaid on each other, and with what consequences for social practice?
- In what ways do they deploy political and policy discourses, and how can this process of deployment be understood in terms of theories of cultural production and reproduction?

Source: Newman (2005a)

4.5 Governance and performance

In the last 5 years there has been a growing emphasis on studying the links between governance and performance. The papers from an international colloquium bringing together leading experts on governance and performance that took place around the start of this study point to the complexity of such a project. While rarely mentioning incentives in a direct way, these papers (along with others in the database) do identify a number of ways in which the incentive effects of different governance forms can be understood.

One theme problematises the outcomes to which incentives should be directed (Baggott, 1997). Much of the literature, it has been pointed out, 'takes the side of elected government' (Considine and Lewis, 1999), running the risk of being in effect only about compliance (Schofield and Sausman, 2004). Skelcher and Mauther (2004) importantly broaden the idea of performance to encompass a notion of 'democratic anchorage', arguing that it is this that provides the means of linking organisational activity and performance to collectively determined goals. A second theme turns to outcomes in the context of networked governance. Based on studies across Organization for Economic Cooperation and Development (OECD) countries, Considine (2004: 10) notes the potentially innovative capacity of partnerships. He embeds this, however, in a rich theoretical analysis and critique of networked governance, arguing *inter alia* that partnerships must help service-sector professionals and their counterparts 'to "imagine" a different form of community enterprise' (Considine, 2004: 10).

This raises questions of context and of intervening variables that might mediate the links between governance and outcomes. Ingraham (2004), in a 6-year comparison of 'high-capacity' and 'low-capacity' cities in the US, offers two important conclusions. First, management matters; the ability to provide leadership stood out (Taylor, 2000; Meier and O'Toole, 2003; see also Section 2). Second, external structural and political constraints exerted a significant influence on

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overall performance across both low- and high-capacity cities. The importance of political constraints was a strong theme in Pollitt's (2004) review of the application of a model of governance, shared across a number of European countries, that separates agencies from ministries, gives enhanced managerial freedoms and at the same time performance-manages them (see also Pollitt and Talbot, 2004). His analysis suggests that there is little evidence that this model is implemented in a straightforward way or leads to significant performance improvements and he concludes that:

reformers should direct their attention to a more fine grained analysis of the nature of each task, of its likely political salience, and of what can realistically be done about the motivation and skills of the staff concerned... effective reforms need to take more account of the specifics of tasks, politics and people.

Pollitt (2004: 17)

If the chain of cause and effect from governance through incentives to outcomes is problematic in these ways, dynamics *over time* may also need to be the focus for research. We have already noted the warning that the development of more complex regulatory roles by states has created a more complicated set of institutional incentives that, in turn, generates further regulatory activity (Saltman, 2002). Drawing on their model discussed earlier, 6 *et al.* (2004) have now compared defence procurement and health care in terms of patterns of inter-organisational relations, institutional constraints and incentive effects. Their colloquium paper concludes that:

the governance strategies adopted have not invariably been successful not least because of a tendency to reinforce hierarchical network forms to a degree that may not always be appropriate and which may then produce unintended effects, including the recrudescence of other forms.

6 *et al.* (2004: 10)

Also relevant to performance and equally challenging of a simple model of determination of outcomes is the recently renewed interest in the theme of policy implementation. Classic work by Lipsky (1980) gives attention to dilemmas of discretion faced by the frontline welfare bureaucrat in a hierarchy and links with a well-known stream of work in public policy analysis highlighting weaknesses in a 'perfect implementation' model (Hogwood and Gunn, 1984). More direct study of the local 'decision space' for officials (Bossert, 1998) has been proposed recently, and Considine and Lewis (1999) give a strongly empirically based demonstration of variations in interpretations of new governance regimes at ground level. Martin (2000) examines the transitions involved in implementing 'best value' in local government. A recent symposium collects together and reviews papers on this theme (Schofield and Sausman, 2004). These editors indicate that a return to 'Lipskian discretion' in contexts beyond hierarchy is now an important item for the research agenda and suggest that implementation in collaborative forms of governance may be more unpredictable than in the hierarchical settings studied by Lipsky.

Bringing frontline professionals into this frame is important. The complex ways in which professionals in the probation field assimilate and also transform policy has been explored (Newman and Nutley, 2003). The work of Sheaff *et al.* (2004a), examining the effects of (network-based) clinical governance on the self-governance regime of GPs is relevant here. A Foucauldian perspective enables these authors to highlight new forms of discipline and regulation that accompany the apparent freedoms of network governance, while also suggesting ways in which compliance was achieved through appeals to the legitimacy of clinical governance as consistent with the self image of clinicians. Both papers can be viewed as examples of a shift to the more constructivist and post-structural perspectives discussed in Section 4.4, offering ways of understanding incentives as socially constructed and focusing on the meanings which actors bring to their encounters and how these meanings are linked to broader cultural and social processes. Study after study in the organisational and HRM literature has highlighted the critical importance of such factors in shaping outcomes. We return to this theme in a discussion of governance structures in Section 7, suggesting that a link with research on identity may be profitable.

4.6 Conclusions

Political science provides a wealth of scholarship on national and international scales, exploring changes in the scope and reach of the state as it shapes and reshapes understandings of its task of providing or regulating the provision of public services. In doing so, it offers both important contextual understandings of the changes with which health-care-delivery organisations must grapple and warnings about overly simple modelling of the incentive effects of governance forms. How then, does this material look when set against the questions of the commissioning brief?

What are the different incentive effects of markets, hierarchies and networks respectively on organisations and individuals who plan, manage and deliver health and social care? The typology devised by Newman offers a distinction between individualised incentives in markets and hierarchies and solidaristic/relational incentives in different kinds of networks organisation. There is an important degree of convergence here with the work of Hill and Lynn, working at the level of interagency collaboration. Such typologies identify, at a broad and societal level, coherent forms of governance, showing how these can be derived from a positioning on axes relating for example to centralised control, stability and change or integration. The logical types that emerge are capable of generating a series of testable propositions about incentive effects, although it has not been the focus of work in this field to take this route. However, authors draw attention to the reality of mixed and hybrid forms where different governance forms may be overlaid on each other and produce complex effects. This work also identifies added complexities in that

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an outcome in one context may not be the same as an outcome in another; and an outcome at time *a* may not be the same outcome at time *b*.

How do the different incentives of different forms of governance affect organisational performance and how can these questions be researched? Political science has done more than other disciplines to put the concept of governance on the map, recognising the multiplicity of actors and agencies involved in getting things done and seeking to capture historical shifts and to make societal comparisons. It offers critiques of market-oriented governance that can be cast in terms of negative incentives (see Box 4.1). Current work says less about hierarchy, giving attention instead to network governance. There are moves to name new forms - co-governance, multilevel governance and regulatory governance being some of these. Much of this work seeks to delineate new forms rather than to test hypotheses about their impact. An emerging area, however, does address performance effects. Key points here (see Section 4.5) include the importance of expanding notions of performance to encompass democratic performance and innovative capacity, the crucial need to explore both contextual and intervening variables which are capable of constraining performance, and the likely instability of chains of cause and effect over time. The rather small amount of work at present concerned with frontline professionals and the mindsets they bring when faced with policy levers with inbuilt assumptions about incentives suggests that there is scope here for more study.

Do different forms of governance produce different incentive effects on users of health and social care and/or their carers? Much political-science scholarship takes for granted a critique of both hierarchy and markets from the point of view of the service user of public services. It focuses attention on new forms of networked governance that have the potential to include service users, carers and members of the public in various ways. Within this way of thinking, analysts tend to focus not so much on incentive effects of governance forms but on leadership styles and practices that are capable of sustaining participation of service users and carers with a view to creating shared forms of governance and joint decision-making. Coming at this issue from a different tradition of scholarship, post-structuralist theory emphasises how discourse constructs the user as passive in relation to bureaucratic governance and as active, discerning and capable of choice in relation to markets. Work on cultural governance questions the adequacy of both of these formulations. Incorporation of this thinking into mainstream research is still at an early stage.

What are the implications of the foregoing issues for the organisation of health and social care services in England? This section offers several messages. First, it insists on the importance of studying governance in a holistic way, paying attention to ways in which the state itself is being reshaped through the rise, for example, of regulatory agencies and the shift away from direct service provision.

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Second, it warns of the potential loss of public values in the reorganisations that have occurred. Thirdly, it firmly puts non-economic and non-individual incentives into the frame, asking questions about performance in terms of legitimacy, 'democratic anchorage', solidarity, integration and inclusion - implicitly offering the message that building individualised incentives into organisational design runs the risk of damaging social integration and dismantling notions of the public good.

For some readers, the answers to these questions will seem frustratingly indirect. There are those who would locate this in the quality of work in the field and in its lack of a cumulative character. One author, for example, concludes that 'shifting the emphasis of NPM from trend spotting to policy research is long overdue' (Barzelay, 2001: 10). Equally, however, there is an argument for looking to work in this area not for tested hypotheses, but for insight - for expanding imaginative horizons about what is possible and what is wanted in the public sphere. This is a theme we pick up again in the concluding discussions.

Section 5 Socio-legal studies: a brief note

The field of socio-legal studies was earlier identified as being of potential relevance for a programme of SDO research in three distinct respects. In a brief sketch, Ferlie and McGivern (2003: 8) indicated (a) that it has the potential to open up new understandings of the operation of contracts, (b) that it introduces the notion of 'juridification' as a move away from classic law, which has questionable effects in the public sector and (c) that there are also further shifts to be studied, for example, in the legal role of the Board. To what extent were we able in this project to extend, develop or supplement these themes?

Contributions from the field of socio-legal studies were not represented at all in items initially nominated by members of the team for the database, and only a handful of references emerged from the keyword searches that could potentially be classified in this area. With so little material, we took a decision to augment the search. Further references were gleaned from the items already to hand. A list was also compiled of the law journals and other journals covering socio-legal material that had emerged from searches so far, and a hand search of these over the last 3 years was conducted. Once again, results were disappointing, but the list now numbered around a dozen items and several lines of enquiry were apparent which proved capable of adding a little more flesh to the bones of the available account. The overarching theme that emerges in this area is that forms of law in the public sector are shifting from the familiar and 'classical' to new forms and approaches. The attention at present lies both with finding satisfactory ways of naming and describing the changes that are taking place and with developing propositions about effects on organisational and individual performance and on welfare outcomes. There are some clear parallels here with the efforts, set out in the previous section, on the part of policy analysts and political scientists to name and comment on regime change – and indeed there are striking similarities in the conclusions of both sections, although the language and the precise concepts differ. Also similar is the sense that although the term incentives is used rarely, the idea of incentives is often not far below the surface. The headings we have used for what follows – a tentative and exploratory account – are broadly similar to those of Ferlie and McGivern, but we have logged some additional areas and also begun to make some recommendations about how a fuller account for a non-specialist audience might start to be produced.

5.1 *Forms of contract and contracting*

In principle, one might expect that the body of case law and academic commentary in the field of contract law would illuminate developments

in a health service which, from the 1980s onward, has sought to move from the direct provision of services by the state to a quasi-market system. This was indeed the case. Ferlie and McGivern (2003) have already pointed to work among socio-legal scholars deriving from the theoretical distinctions first made by Macneil between classical contracts and relational ones. The idea of a relational contract represents a significant move away from an emphasis on contracts as closely specified arrangements between self-interested actors that constrain opportunistic action through the sanction of legal enforcement. In practice, contracts operate differently. Relations of dependency, obligation and trust grow up and the maintenance of the relation becomes more important than the potential for contract enforcement (Macneil, 1974, 1978, 1980, 1981). Theoretical work in this vein continued to develop in the 1990s (see, for example, Campbell and Harris, 1993; Campbell, 1996) and began to attract attention from economists and others interested in understanding the significance of the kinds of contracting emerging in the NHS following the introduction of quasi-markets. Early applications of some of these ideas in an NHS context (Hughes and Dingwall, 1990; Hughes, 1991) were followed by empirical work by Allen (Allen, 1995, 2002; Allen *et al.*, 2002) and Hughes *et al.* (1996, 1997a, 1997b). An ESRC research programme on contracts and competition produced an important stream of work. Some of this was reflected, for example, in several edited collections from the late 1990s (Vincent-Jones and Campbell, 1996; Deakin and Mitchie, 1997; Flynn and Williams, 1997) as well as in journal articles on specific aspects such as dispute resolution (for example, McHale *et al.*, 1996) and the operation of penalty clauses (see, for example, Hughes and Griffiths, 1999). The empirical study of contracts and commissioning continues to develop, with work from economists, and from policy analysts engaged especially with public/private contracting. This latter group generates high-profile, controversial impact analyses as well as smaller-scale empirically based work. These strands of work have already been discussed in Section 1 and to some extent in Section 4. It is interesting to observe that an official enquiry into the early contracting and commissioning of education for the NHS from the higher-education sector – arguing as it did for longer-term contracts and additional budget lines for capital and research – was in effect recommending that classic contracts had to be replaced by relational ones if the education sector was to survive (National Audit Office, 2001).

Looking cross-nationally, there is a body of work on contracts in the USA that might be said to be located quite directly in the area of socio-legal studies. This deals with the tension in public-services contracting between the value of freedom of choice for the service user in selecting who provides services under a health plan from 'any willing provider' and a *de facto* reliance in such a system of the use of a more restricted list of preferred providers (see Marsteller *et al.*, 1997). These debates do broaden (Guttman, 2003), but at present they are strongly situated in the context of state and federal

arrangements for health provision in the USA. Without considerable background knowledge of American health-care systems and legislative arrangements, it would be difficult to draw out lessons. It may well be, however, with the growing diversity of providers in the UK, and with the increasing policy emphasis on consumer choice in public services, that this material will become more directly relevant in future. There is already some published material drawing some comparisons with the USA (Hughes *et al.*, 1995; Jost *et al.*, 1995).

5.2 Contractual governance – a new regulatory law regime?

A second strand of work moves to a more societal level of analysis. It is concerned with theorising the context of socio-political and economic change in which contracting, particularly public-services contracting, is to be located, and the way in which the legal apparatus is being reshaped to accommodate and reflect this. The agenda thus shifts from contracting as such to forms of regulation that encompass and utilise contracts. In a wide-ranging, integrative essay covering material from economics and management studies as well as law, Vincent-Jones (2000) gives expression to this. We need to engage with a situation, as he sees it, where private contract law is increasingly looking outmoded, where:

the role of contract as an instrument of authority within hierarchies through the contract of employment is giving way increasingly to contract as an instrument of market and quasi-market exchange.

Vincent-Jones (2000: 2)

Vincent-Jones is less concerned here with contracting in the sense described above than with what he calls *contractual governance* to denote a new style of law, where state authority shifts towards 'positive policy-driven regulation'. New kinds of state-initiated requirement emerge and there is an expectation of compliance with detailed mechanisms of policy guidance deriving from statute (Vincent-Jones, 2000: 14). His lengthy essay, not confined to law, but reviewing empirical work across social science disciplines, concludes on a pessimistic note about how far we have come in understanding this new regime and its use of contracts. There is much still to be learned, he argues, before we can 'use the productive potential of markets and competition in a manner leading to outcomes that are welfare-enhancing' (Vincent-Jones, 2000: 20). While his key message is a normative one – the power of contract must 'be harnessed to publicly accountable goals' – the clear implication is that we do not yet know enough about how to specify the legal arrangements for contracts in such a way that they will generate preferred outcomes. This seems to suggest that alongside the behavioural studies of principal-agent theory (Section 1), there is perhaps room for a different kind of research to be done, in terms of analysis of the terminology of the contract and the nature of the sanctions it

generates. On the other hand, the significance of the concept of relational contracting suggests that there is no simple causal pathway between the form of law and the outcome, and that intervening variables – the obligations, norms, understandings, etc. that form the social context in which the contract is embedded – cannot be cast in the form of legally propelled incentives to act in a particular way.

Broadbent and Laughlin (1997), writing a little earlier, were also concerned with what Vincent-Jones has called the nature of 'policy-driven regulation', the specific form of law that it introduces and the impact it has. Their work offers an empirical examination of the way that legislation of the 1980s in education and health (including the NHS and Community Care Act 1990) directly enshrines in law the economic and accountancy principles underpinning NPM. This, they argue, must be seen as a new form of regulatory law – law that is designed quite directly to produce social effects. Such law gives politicians considerable delegated power to issue not the familiar old-style formal guidance, but directives backed by the force of law, specifying what outcomes are to be achieved. There are several suggestions as to consequences: that this creates fundamental value conflict in welfare organisations; that they at first absorb directives by creating a small cadre of buffering staff; that when this solution cannot be sustained, the organisation and its values start to be undermined. The analysis is set in a complex and sophisticated theoretical framework which draws on Teubner's theory of juridification, extended by reference to other major social theorists.

The idea that a new kind of legal order is emerging to replace the liberal model of law that underpinned the 20th century welfare state is also being examined in various other ways by other scholars in the socio-legal field. Scott (2004), for example, in a recent book review, assesses the claims of Edgeworth (2003) about the displacement of the sovereign state arising (a) from the new contractual mechanisms for delivery of public services and – a point not so far noted, but certainly impacting in the health field – (b) from the development of institutions of global legal governance. A key point of debate here, echoing that in other disciplinary areas, concerns 'hybrids' and the extent to which the new sits alongside the old rather than fully displacing it.

Of particular interest in the present context, Broadbent and Laughlin (1997) offer a five-point research agenda for the future (see Box 5.1). This agenda is shaped by their position as critical theorists, and consequently, as they acknowledge, represents a politically sensitive agenda that some might see as outside the remit of academia. In its focus on analysing change in the scope and reach of the law and the mechanisms it deploys, it certainly addresses questions about the incentive effects of markets and the possible losses of positive incentives embedded in the more hierarchical predecessor forms. In the context of the present review it is disappointing, however, that there is not a clearer indication of the specific socio-legal research that

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might be undertaken. Testing out the theories in the context of the raft of legislative intervention which has come since 1997 is an obvious addition. An objection may well also be raised that some of the list in Box 5.1 (notably the third and fourth bullet points) overlaps with and perhaps runs the risk repeating work already undertaken in the policy sciences.

Box 5.1 A research agenda on regulatory law

- A wide-ranging, *ex post* evaluation by the Audit Office of the extent to which the radical programme of 1980s legal change was justified.
- A direct examination of how far the legislation colonised or was absorbed by health and education institutions.
- A debate about what NPM is trying to achieve in these welfare fields.
- A wider exploration of the growing significance of an 'accounting logic' in legal thinking and enactments.
- Cross-cultural comparative research.

Source: Broadbent and Laughlin (1997)

A more distinctive route for research development would seem to be offered through the theoretical positioning of the work in this field in terms of Teubner's contrast between juridification, which is seen as now replacing classic/formal law, and a further possibility of 'reflexive law'. Juridification refers to forms of law driven by a political process and dominated by a logic of economics and accounting that overturns the *status quo* in the field of statutory welfare provision. Broadbent and Laughlin (1997), as we have already seen, suggest that negative outcomes flow where this approach becomes dominant in terms of (a) the costs of absorption and (b) the possibility of disintegration. They take the position that 'there should be no attempt to destroy the interpretive schemes of established organisations without a full and democratic debate' (Broadbent and Laughlin, 1997: 221). The alternative, outlined briefly by them, is reflexive law. Such law will:

neither authoritatively determine the functions of other subsystems nor regulate their input and output performances, but will foster mechanisms that systematically further the development of reflexion structures within social subsystems.

Teubner (1983: 275), quoted in Broadbent and Laughlin (1997: 224)

There is a lot to unpack in this quotation. One potential area of application and site for empirical study in the health- and social-care context, however, might well lie in the contrasting approaches taken in the devolved administrations of the UK to league tables and star ratings in the health field. The strong emphasis in England on performance accounting has not been repeated in the same way in the devolved administrations of Wales and Scotland and the potential impact on commitment and motivation of different approaches deserves scrutiny. One small-scale study of the NHS Scotland

Performance Assessment Framework, for example, suggests that it was getting results precisely because it did not use league tables or rely on strong financial incentives (www.scotland.gov.uk/library5/health/pafr-00.asp). McEldowney's (2004) work on the detail of change in administrative law in local government is relevant here, with his concern with targets and with the decentralisation debate; this is the focus, however, of another SDO-commissioned literature review. The material under discussion here also suggests a rather larger point – that in future a research focus on public-sector organisations as shaped by their internal features may be much less important than concentration on the regulatory interface between state and organisations. This we will need to take up in the concluding sections of this report.

5.3 Corporate law, corporate governance

A third area of work signalled by our initial search strategies focuses on the contribution that might be expected from socio-legal scholars to debates about new kinds of corporate entity – those charged with responsibility to deliver services, those working in alliance and partnership to this end and those created to monitor, oversee and regulate the work of service providers of all kinds. We discuss these in turn.

First, the legal framework for statutory service-delivery agencies has developed and changed. Over its lifetime, the NHS has witnessed shifts from management committees to authorities to more self-governing trusts, with the different statutory obligations and freedoms and different strategic-management arrangements that each form has entailed (Ashburner, 2003). It has also seen shifting boundaries with local authorities where services and staff groups have moved back and forth as a result of successive NHS reorganisations. The quest is once more today not just to find ways of decentralising powers, but to devise new kinds of legal entity, be they the political compromise that is the newly established foundation trusts, or the ideas that are being floated in various quarters about mutuals, and public/community interest companies (Lea and Mayo, 2002; Maltby, 2003) that might give a new and more appropriate mix of freedoms and accountability in the form of a 'social enterprise' (Paton, 2003) that will deliver more modern and responsive public services. Some of the challenges encountered by the creation of trusts with a board structure that drew heavily on experience with private-sector corporate governance reforms were documented in earlier empirical work in the NHS (Ferlie *et al.*, 1996). While there are some further studies, no strong corpus of work as yet has followed up on this (Ashburner, 2003). Wettenhall (2001), as we saw in Section 4, roundly condemns the Australian government for its single and overarching corporate law, arguing that something different is needed for public-sector organisations. Thynne (2003) offers a classification of

organisational forms starting with the legal instruments that govern them. There would seem to be scope here for more work that brings political scientists and legal scholars together to understand and classify the legal constitution of organisations forms and to study their impact in practice; for an example, focusing on the impact of different forms of constitution on Board member 'pre-commitments and incentives' (see Kahan and Rock, 2003). All these approaches chime with new strategic policy advice in the NHS around the need for integrated governance, a theme we pick up again in Section 7.

Secondly, as is clear from other sections, partnership working is currently the order of the day. Agencies with different constitutions, different bases in law and different powers are increasingly coming together to commission and deliver services in temporary and more permanent alliances with each other. The NHS has long faced this issue in the uneasy join it has experienced with independent contractor GPs – Primary Care Trusts offering the most recent organisational resolution. Today's more complex partnerships – between local authorities and NHS, and between both and voluntary-sector providers – have been discussed in earlier sections. Vincent-Jones (2000), in the essay referred to above, suggested that we now urgently need some progress on understanding the complexity of regulatory arrangements in 'hybrid organisational forms combining public and private institutional features and involving quasi-market relations'.

Thirdly, looking beyond service delivery, what can socio-legal studies offer in understanding the standard-setters, the monitoring, inspecting and modernising regulatory agencies that need to remain on the radar of all care-delivery organisations? The period of Labour governments has been immensely prolific in terms of legislative change and alterations to the boundaries and powers of many new agencies. If juridification and reflexive law are helpful concepts, these agencies are the means through which such contrasting kinds of law can find expression. Thus far, arms-length agencies have been studied in terms of the changing nature of the state or of their organisational form. A closer look at the legal arrangements which underpin such agencies may usefully complement the work, for example, of Pollitt (2004), as discussed in Section 4. It may however, be *premature* to ask questions about specific governance forms, be they legal or organisational, and their outcomes. We are in unsettled times, where the powers of new regulatory agencies are still being questioned; see, for example, the seeking of legal opinions on the powers of the relevant legislation and the resort to judicial review which at present surround the work of the Council for Healthcare Regulatory Excellence.

Finally, with a sense that perhaps the literature we had found for this section did not adequately capture the potential of the field, we discussed the question of the power of the law to shape how health-care organisations were structured and their performance with the research team, with some of our peers and with our NHS

stakeholders. These discussions tended to confirm the importance, for example, of a better understanding of the legal basis of partnerships and the potential tensions likely to arise given the way in which foundation trusts had responsibilities to both government and the communities they served. Debates about more positive forms of contracting with the private and voluntary sectors and the potential impact of the new statutory duty on local authorities and NHS to improve local health were also cited. The way in which the Human Rights Act 1998 is impacting on issues of confidentiality, transparency of decision-making and data protection, and hence on new regulatory regimes, was also mentioned. For most academics working in the fields covered by the previous sections of this report, however, the literature gathered in this section, at present at least, remains unfamiliar.

5.4 Conclusions

Despite a more limited exercise than in other sections, this review confirms the value and potential relevance of the socio-legal field. Legal scholars are active in attempting to characterise changes in governance, in work that is eclectic and synthetic, reaching out towards other disciplines and drawing from social theory. Three particular areas can be identified in relation to contracts, corporate law and regulation.

What are the different incentive effects of markets, hierarchies and networks respectively on organisations and individuals who plan, manage and deliver health and social care? Socio-legal scholarship has much to say about markets. In the first place, it offers important theoretical and analytical tools to examine the nature of the contracts and their impact. The concept of relational contracting has been particularly influential and has important resonances with other work in its claim that relations of dependency and trust and historical patterns of obligation are better predictors of behaviour than the formal incentives written into the contract. This thinking has permeated to some extent to other fields and it may be helpful to bring together all work on contracting that is located in other subject areas covered in this report, particularly economics. Secondly, as Vincent-Jones' notion of 'contractual governance' demonstrates, socio-legal scholars offer a critique of market forms, suggesting that these forms and their legal underpinning are not at present capable of yielding 'welfare-enhancing outcomes' or delivering a 'goal of public accountability'. There is an echo in these points of some of the conclusions of the previous section. Socio-legal studies are also beginning to offer work dealing with some of the complexities of network governance, drawing attention to the multiple and conflicting legal obligations of partners and to the new corporate entities as legal hybrids.

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How do the different incentives of different forms of governance affect organisational performance and how can these questions be researched? Also, do different forms of governance produce different incentive effects on users of health and social care and/or their carers? Legal studies offer the potential to get inside the understanding of the variety of new corporate forms that are emerging through arms-length agencies, foundation trusts, etc. They have the capacity to assess the room for manoeuvre of these organisational forms in a way that is not at present reflected strongly in health-services research. There is little detailed empirical work to cite at this stage, however, and this is not a field where it is possible to point to a body of studies that engage with detailed effects of governance forms on planners, producers of services or users in direct response to the questions set for this review. Broadbent and Laughlin perhaps come closest with a demonstration and agenda for future research (Box 5.1). Their intellectual roots in critical theory give a normative flavour to this work, which, like some of the material cited in Section 4, once again offers cautions as to the directions of contemporary change.

What are the implications of the foregoing issues for the organisation of health- and social-care services in England? Socio-legal studies share with a number of the governance theorists discussed in Section 4 a recommendation to set understanding of governance in a broad context of regulatory change, a caution about inferring simple causal pathways and a concern about the potential consequences of market-based developments. Those working to identify changes in an overall legal order echo concern over the preservation of public values and opportunities for contributing to the reshaping of services. It might be helpful to host one or more seminars or workshops bringing scholars from this field together with policy-makers and practitioners and with colleagues from economics and political science to explore possible directions. Work on contracting and commissioning, somewhat dispersed as a result of the design of this study, provides one obvious focus.

Part 2 Implications and applications

Section 6 Studying governance, incentives and outcomes – what next?

Taken together, what do the five discipline-based reviews of Part 1 of this report have to tell us about the key concepts of incentives, forms of governance and outcomes, and what are the implications of this for further research in and across the disciplines? The conclusions to each of the preceding sections have each returned to and addressed the four questions as originally set in the commissioning brief for this project. In doing so, they have already begun to indicate where the different disciplinary areas have contributed to date and where they might contribute in future.

Economics, working with rational choice theory and principal–agent models, has much to say about incentives. It handles financial and other incentives, asymmetries of information and the multiple character of outputs. It explores market and hierarchical governance. It is increasingly sensitive to the possibility at the individual level that financial rewards will ‘crowd out’ more altruistic motivations. As the previous sections make plain, however, there is something of a gulf between economics and other disciplines, where the agendas link less directly to governance incentives and outcomes and where authors tend to contest the notion of any simple causal chain by which these phenomena may be connected. This is not altogether surprising. The starting assumptions that disciplines make will differ, and as a consequence alternative ways of framing issues are likely to follow. Thus, as well as asking how disciplines might complement each other in future research, we need to direct attention also to the potential for some distinctive and not always cumulative programmes of work.

To progress this further, we now pose the original research questions in somewhat starker terms:

- just how robust is the concept of incentives as a driver for future research?
- just how useful is the model of markets, hierarchies and networks for describing differences in governance and for predicting outcomes?
- just how helpful is a conceptualisation that assumes that governance gives rise to incentives and thence to outcomes?

In the process of addressing each of these questions, we shall begin to set out an agenda for new research on the respective themes of incentives, governance and outcomes. The final section will take the

themes that have emerged and consider their relevance in the specific context of health and social care.

6.1 Working with incentives

How robust is the concept of incentives as a driver of research and understanding in the future? Reviewing the various discipline-based literatures, a rather uneven picture emerges. In Sections 1 and 2, the concept of incentives in economics, and of motivation in psychology, play key roles, and can be seen in important ways as complementary. The economic approach uses incentives in analytical models to predict and evaluate outcomes whereas psychological theories help to specify the content of what those incentives might be. The concepts that psychology provides, particularly those to do with value, culture and climate, job satisfaction, psychological contracts, commitment and job design, provide the building blocks on which motivation and behaviour depend. And whereas neo-classical economics in the past might well have come close to taking the stereotypical approach to high-powered financial incentives that some critics think unworkable, current approaches, particularly from the areas of game theory and economic psychology, are increasingly sensitive to a diverse range of incentive-outcome problems, acknowledging, for example, the importance of addressing intrinsic motivation within the incentives frame.

For other disciplines, however, the concept of incentives is rather more problematic. The term arises infrequently and is not a routine part of the conceptual and theoretical frameworks that are in use. On the one hand, it seems possible to 'read incentives across'. In Section 4, for example, we suggested that some regime-change theorists were, in effect, proposing negative incentives of market governance (Box 4.1). We also indicated that Newman's typology could be re-specified, highlighting the familiar economic incentives of markets, the link between hierarchies and status as an incentive, and solidaristic incentives associated with networks and self-governance – appealing to the motivational power of a cluster of values to do with mutuality, common identity, responsibility to one's peers, reciprocity and trust. The psychological literature covered in Section 2 offers support for the view that these latter values serve as important motivational variables. On the other hand, one could object that to take a step such as this undermines the fundamentals of the markets, hierarchies and networks trio, with its respective reliance on price, authority and trust (Bradach and Eccles, 1989). Are authority (in a bureaucratic hierarchy) and trust (in a network) not so much different incentives but different *order-coordinating* mechanisms, indicating forms of social relations where the notion of the bounded, rational and calculating actor with known and pre-established preferences simply does not apply? The calculating individual actor, as one member of the team put it, entails 'too thin a concept of agency'.

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Box 6.1 suggests two ways forward. First, there is now room, demonstrated amply by the material in Sections 1 and 2, for a major programme of new empirical research founded on developments in incentives theory. Such a programme would address the questions of (a) what types of incentive are available to policy-makers and those who design organisations? (b) when should particular types of incentive be used? (c) how strong should incentives be? and (d) are there risks that incentives will be linked to undesirable outcomes? Secondly, however, it is important to assemble and to clarify the precise nature of objections to this approach. Thus, there is also room for academic work of critique. Such a study is likely to be located in the critical theory tradition and will tend to reflect the questioning of the value of market approaches set out in Sections 4 and 5. This proposal risks criticism in some quarters for 'ideological bias', in the same way as does a socio-legal research agenda on regulatory law (Box 5.1). We would nonetheless wish to see it as part of a balanced programme of work in this area.

Box 6.1 Two directions for research on incentives

Arising from the literature review for this report:

- 1 There is scope for projects that develop a broad-based framework for studying incentives, which emphasises
 - individual, team and organisational/systemic incentives,
 - direct versus indirect incentives,
 - intended, unintended and perverse incentives,
 - financial versus non-financial incentives,
 - incentives as rewards to the individual versus resources for the service.

This work which might cover some or all of the following:

- individual, group and system effects,
- effects on different staff groups,
- effects on end users of services,
- effects in different types of organisation,
- effects in organisations with different cultures and traditions,
- effects in contexts where provision is public, private and voluntary.

Such work is likely to develop from economic theory, particularly principal-agent theory, and to be multidisciplinary work, bringing together economics and psychology.

- 2 There is scope for work that develops a critique of the concept of incentives which
 - explores the extent to which incentives thinking rests on an assumption of an individual calculating actor,

- considers contexts in which such an assumption may give rise to difficulty (for example, in the public sector and in other value-led organisations),
- examines the utility of a concept of relational incentives,
- discusses alternative conceptualisations of motivators of behaviour in organisations and their relative merits.

6.2 Re-examining markets, hierarchies and networks

How useful is the model of markets, hierarchies and networks for describing key variations in governance form and for predicting outcomes? The idea of a sharp contrast between hierarchies and markets and their portrayal as alternative ways of organising activity has been a leading idea in the social sciences for many years, and this literature review has demonstrated the continuing importance of research and scholarship on markets, networks and hierarchies (and variants of these) across many of the disciplines represented in the report. A cynic, however, might be tempted to conclude that *markets have been over-modified* (that is, that the form has been so hedged about by qualifications that the 'quasi' in the quasi-markets argument is in danger of eclipsing the 'market'; see Exworthy *et al.*, 1999: 17); that *hierarchies have been abandoned* (in face perhaps of a common wisdom that discredits bureaucracy as costly, inflexible and lacking in innovative capacity) and that the concept of *networks has been overextended* (see Section 3).

Our proposals here are both to *descend a level of analysis* in order to carry out more fine-grained work on the specificities of organisational forms and combinations of forms, and to *ascend a level of analysis* to attend to the complex relationships that are captured in the concept not so much of networks *per se*, but certainly in discussions of networked governance as the term is used in Section 4.

Taking descent first: blanket assessments of market reforms in the public sector remain unconvincing and Section 1 points to a mixed bag of results. Encouraging research which now focuses on some of the more specific institutional practices that are encompassed by the notion of market and building a better understanding of the way that these work in practice in the private sector may now be more productive. Contracting is a case in point. The literature that we have assessed suggests that it would be timely to bring together work reviewed in economics (Section 1), the theorising on relational contracting (Section 5) and a stream of small-scale empirical studies present in our database but not 'owned' by any particular disciplinary and theoretical perspective, with a view to devising new comparative research. Such research, focusing both on the construction and the day-to-day operation of contracts in a series of different industries and sectors, should advance real-world understanding and result in some

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clearer pointers on how to devise and operate contracts that are more capable of delivering the health-sector outcomes that are required. The related area of supply-chain management (Section 3) may offer another example for comparative study, as might a study of the thinking that underpins different decisions about decentralisation and divisional structures in large companies.

There is now also a detectable call for a return to studying the operation of bureaucracy. From political science, Bevir and Rhodes (2003a) argue that notwithstanding markets, hierarchy is still a major way of delivering services; from sociology too, there are indications that a return to a consideration of the value of bureaucracy is relevant (Du Gay, 1999, 2004; Kirkpatrick, 1999). Our review thus suggests that it is now timely to revisit the classic positive outcomes of bureaucracy – its reliability, probity and formal accountability with an empirical study – and to ask whether modern bureaucratic forms can deliver these. Such a proposal perhaps links with the widespread calls we have noted for more study on the ground of the way that markets, hierarchies combine. It is time to recognise that markets, hierarchies and networks are merely building blocks and to 'meet complexity with complexity' (Bang, 2004: 160). New analytical schemes for classifying organisational forms are overdue (see Lowndes and Skelcher, 1998; Thynne, 2003). There are signs also that a closer look at ways of organising and integrating professionals is going to happen soon, as the discussion, for example, of P2 structures and managed professional businesses (Section 3) indicated. Revisiting professional organisation thus suggests a way forward. We did not find that the concept of hybrids at present, however, serves to advance understanding much further.

The case for moving up a level of analysis stems in large part from the material in Section 4, where it is clear that political-science understandings of governance go beyond the markets, hierarchies and networks trio to capture the multiple parties and the many sites where forms of service delivery are devised and implemented. We singled out governance with the governed, multilevel governance and regulatory governance as three key areas where new work is gathering pace. Box 6.2 serves as a summary of the points in this section, capturing them in the form of a series of recommendations for directions of research.

Box 6.2 Some directions for research on governance

- 1 Looking *below* markets, networks and hierarchies, research attention might now be paid to:
 - specific facets of practices in the market sector, building on work on contracting, for example, and examining the relevance of supply-chain thinking,
 - mixed modes of governance as these occur in actually existing organisational forms,

- the possibilities for devising new classifications of organisational forms, particularly to encompass emerging organisations and alliances between organisations,
 - in-depth empirical studies of (a) the continuing operation of bureaucratic structures and (b) modes of professional organisation and of integration of professionals into organisations.
- 2 Moving *above* markets, hierarchies and networks, newly commissioned work on governance forms could usefully focus on:
- the forms and impact of multilevel governance that goes beyond the state,
 - the dynamics of co-governance, public accountability and public participation,
 - state-sponsored regulatory frameworks which shape health-care organisation behaviour.

6.3 Outcomes and the determinants of outcomes

Finally, underpinning the whole of this literature review has been the GIO model – the notion that forms of governance (in the shape of markets, hierarchies and networks) give rise to incentives and hence affect organisational outcomes. What conclusions can now be drawn? Each of the sections, in their different ways, has addressed aspects of the GIO model and most, in one way or another, have taken issue with it. Section 2 addresses the matter most directly. Psychology, as argued in Section 2, illuminates the space between incentives and outcomes, helping to uncover something of the mechanisms by which incentives may work (or why they may not), and to explain some of the complexity of apparent effects.

In this sense, it can be said to contribute to part but not all of the GIO chain. At the same time, both psychology and HRM offer a more challenging message, namely that a key variable or set of variables affecting performance/outcome in organisations is not 'governance', however defined, but managerial practice. Considerable evidence is amassed to suggest that management, including HRM practices, and leadership styles, together also with cultural factors, act as key intervening variables and that it would be wrong concentrate on structural variables of governance alone. Section 4 is more resolutely critical of GIO. We have already seen unease about the concept of incentives that is expressed strongly in work from the political-science/policy-studies field. The messages of a series of very recent studies on governance and performance summarised in that section concern: the multiplicity of outcomes that need to be considered; the importance (again) of variables that intervene between structure and outcome; the possibility of a changing dynamic over time that is not captured easily by the statistical approaches usually employed in quantitative studies; and the place of the discretion in implementation

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at the frontline of service delivery. There is a plea too for research concentrating more on the meanings that actors bring to their encounters in organisations and the different narratives they construct. In the opinion, indeed, of at least one reviewer, the interpretive turn in political science will set the agenda for the next decade (Hay, 2004). There are parallels perhaps with the re-emergence of interest in 'sense-making' in organisational sociology (Weick, 1995) and with recent influential work on the power of narrative as a technique in the study of organisations (Czarniawska, 1997).

Questioning of GIO can also be found in the literatures of economics and organisational studies, although both disciplinary areas also exhibit work that fits more squarely within the model. Section 1, largely concerned to demonstrate a powerful link between incentives and outcomes, nonetheless concludes with observations about the markets, hierarchies and networks framework as providing only a starting point and cautions that different types of market structure may be significant in altering the impact of theoretical models. Section 3 makes plain that whereas contingency thinking lends itself most to the GIO model, other perspectives do not. Interestingly, Section 3 also took the step, working from the material in the database that had been coded to organisational studies, of attempting to identify which theoretical approaches contributed material on which outcomes. The move could be criticised on a number of grounds (arbitrariness in the database and subjectivity in assigning categories being two), but it does suggest at least that even within one of the disciplinary clusters, there are ideas and insights about outcomes of different kinds that can be culled from examination of contrasting theoretical perspectives.

These findings point to the continued importance of pursuing multiple pathways to understanding how organisations produce outcomes and hence improve their performance. Box 6.3 reflects this in suggesting the need for multivariate studies of the kinds still developing in the organisation studies field of contingency theory, but also suggesting more qualitative explorations outside the positivist tradition. The final recommendation reflects more of an absence than a presence. Although there are references to research on and with customers, clients and service users in the different sections, they do not figure at all prominently. 'Understand the customer' has long been an injunction for market-based organisations but has to date figured much less in public-service settings. Research on governance is catching up with changing cultural pressures and with political imperatives here but there is likely to be pressure for it to move faster in this regard.

Box 6.3 Some directions for research on outcomes

- Large-scale multivariate designs that encompass structural and cultural variables and include managerial action.
- Small-scale qualitative studies of actors' understandings of the policy discourses that surround organisational practice, the narratives they produce and the ways in which these are deployed in day-to-day practice to affect organisational outcomes.
- Work that brings service users more fully into the frame, deepening understanding of their world views and priorities and the mechanisms through which organisations might accommodate to these.

6.4 Conclusions

This section has reviewed contributions from across a range of disciplines as they apply to the question of the potential impact of different governance forms on incentives and thence on outcomes.

While the different disciplines considered in Part 1 of this report offer relevant insights, the body of work directly testing relationships between variables remains rather small. We have concluded that there is room at present for a diversity of research initiatives in this field and suggestions are set out in the boxes that accompany the text of this section. In Section 7 we will move towards a conclusion by placing this thinking more directly in the context of today's NHS.

Section 7 Towards a research agenda for the NHS

Research on the NHS has figured to a varying extent in the sections of Part 1 of this report, but thus far, the health service itself has provided a largely unacknowledged backdrop for the reviews and assessments that have been offered. The brief that we were given deliberately encouraged us to step back and to look at the various academic disciplines in their own right. It is now time to put the research overviews in context and to acknowledge the changing character of the health service and the demands that are currently being made on it. Doing so both underlines the importance of some of the recommendations for research set out in Section 6 and raises questions about priorities. This section is in three sections. Section 1 reviews some key issues in NHS policy at present, highlighting the often unacknowledged way in which the idea of incentives pervades these. Section 2 picks up on the themes both of governance and outcomes. Ten areas were identified for research under these headings in Boxes 6.2 and 6.3 in the previous section, and we assess how useful it might be to pursue these in terms of the challenges likely to be faced by the NHS in the years ahead. The final remarks turn briefly to the question of achieving more of a dialogue in setting a research agenda in NHS research and development. What we might call process recommendations were strictly beyond the brief of the project as such, but its design and its reach and in particular the involvement of our stakeholder group pointed us in this direction.

7.1 The relevance of incentives to current NHS policy

The key ideas in the current round of NHS reforms were outlined in considerable detail in the NHS Plan (Department of Health, 2000). While it is clear in retrospect that the big idea of moving beyond both market and hierarchy as mechanisms of co-ordination that had been announced when Labour first came to power had been premature, the current reform agenda remains far-reaching. The government's aim is to create a visibly modern NHS – centred around the needs of the patient, offering timely, responsive and accessible services, using up-to-date equipment, delivered in bright, welcoming premises, with staff signed up to an evidence-based quality agenda and to a continuing quest for both efficiency and effectiveness.

What is of particular interest about this in the present context is the mechanisms that are being used to achieve this result, what they reveal about the 'fault' with the NHS (and public-sector services in general) and how this fault is to be fixed. New in this round of reform

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was an acceptance that there has been continuing underinvestment in the Service and a commitment to the provision of substantial additional funding. Less new, but very significant, was the diagnosis that clinicians, notably but not exclusively doctors, were at fault through paternalist attitudes, variable standards and old-fashioned and inefficient demarcations between occupations. 'A lack of clear incentives' was the heading of a key section in the NHS Plan. At the heart of many of the reforms that have followed is *a set of variable and often implicit ideas about the incentives that might induce those working in the service and those using it to change.*

It is worth dwelling briefly on this point. The Modernisation Agency, to take one example, was established to foster change in service design and other topics in the NHS by setting up demonstration projects and conferences, using clinicians to persuade clinicians, winning hearts and minds by acknowledging professional sensitivities and potential resistance. This is a high-cost strategy, but may well widen the pool of committed change agents and enhance possibility of sustainable change. Interestingly, the Modernisation Agency sponsored a review of the social movements' literature as a resource for thinking about how to connect with core values and mobilise internal drivers – that is, its thinking was about *intrinsic incentives* and it appealed to values and commitment as triggers of change (Bate *et al.*). *Changing GP and consultant contracts*, on the other hand, targets the same group but through much more of a direct financial incentive.

We held discussions with our service-user stakeholders about the likely incentive effects of several recent initiatives. We took the recently announced *financial penalties for delayed hospital discharge* that enabled health trusts to penalise local authorities when bed-blocking threatened to occur. Our two service users observed that this did little to foster partnership working. They were particularly concerned about local authorities responding by providing residential places many miles away from a patient's family. *Information on clinicians' success rates in surgery* provoked a long discussion which moved to different plane – about when, why and how people now searched out information for themselves. With service commissioner and provider stakeholders, we had some discussions about *general practice commissioning, treatment centres and waiting list targets*. We did not necessarily agree on how incentives had worked or were likely to work in these and other circumstances they could name, but we could agree that the incentive effects of any such initiatives in the NHS were likely to be complex, to affect different stakeholders differently and to have both anticipated and unanticipated consequences. These discussions provided at least some initial confirmation of the relevance of a wide-ranging programme of research on incentives such as that set out in Section 6 (Box 6.1).

There are signs too that in the current climate the critique of the concept of incentives outlined in Section 6 might attract more than academic interest. There would be affinities in it with growing critical

thinking on policies of patient choice, on an argument that both of these stem from a market-oriented, rational calculative actor model. Links might be developed on the one hand with those who have built on Government recognition in the NHS plan of the dedication and commitment of staff to call for an 'asset-based' NHS, with a stronger emphasis on staff development and learning opportunities (Boyle *et al.*, 2004), and on the other with efforts to establish co-governance, with new forms of participation, solidarity and mutual community ownership of health services. Views may well polarise politically on whether incentives thinking threatens to undermine a historical legacy of pride in the NHS and a public-service ethos or whether it reflects the way in which society is now moving on from that legacy. A project of critique can help to clarify the terms of this debate. Interestingly in this context, a recently published evaluation of NHS achievements on quality improvement reviewed five incentive techniques in use in the USA that involved financial recognition. Noting that the two of these had generated controversy in the USA, the authors advised against consideration in the UK, judging that such incentives would command less 'cultural acceptability' (Leatherman and Sunderland, 2003: 54). New empirical research on different incentive regimes, including payment by results and fee for service, was also emerging as we completed this study. Hunter and Marks (2005) interviewed NHS staff to explore how they felt incentives worked both individually and in combination in the field of health promotion. Serco issued an evaluation of 32 pilot fee-for-service schemes, designed in different ways to 'incentivise' consultants and other NHS staff (O'Connor, 2004).

7.2 Markets, hierarchies and networks in the health-care organisational context

Section 6 argued for research that focused attention more on the complexities of contemporary organisational forms than on abstract notions of markets, hierarchies and networks. Examining the array of recommendations in the first part of Box 6.2, the case for *new empirical research on different forms of professional organisation* is the one that is perhaps the most obvious candidate in the context of a programme of research on health-care organisation. The SDO programme is already in the midst of commissioning at least one round of work in this area; the sheer amount of activity at present in changing role boundaries, new roles and service redesign provides a wealth of opportunities where, at least in principle, the service offers the possibility for comparative research designs in a way that was not possible in the past. (The current ESRC research programme on identities may help to illuminate further the key question of changing professional identities and a link to this may prove helpful.)

New studies of bureaucracy may seem less obvious, particularly when conventional wisdom concerning the NHS regards bureaucracy as part

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of the problem and something to be cut. However, research provides an important opportunity to take a long view and challenge conventional thinking and as Section 6 indicated, there are distinct moves towards a reassessment of bureaucracy. Now may also be a good point to consider redressing a balance of research oriented thus far very much towards the clinical and *to take a fresh look at how management functions are organised* across public, private and voluntary sectors and what the alternative models of organising might be. Commissioning a focused literature review to pull together interdisciplinary knowledge on *contracting* in a more detailed way than has been possible here is also a possibility. The need to acknowledge and reflect in new research the point that the reality is *mixed modes of governance* has emerged strongly. Directing attention to these mixes is likely to be more fruitful than continuing to pursue blanket solutions associated with markets or networks. There has been considerable debate in NHS circles accompanying the emergence of Foundation Trusts, which has centred on *new organisational forms*, including *mutuals* and *public-interest companies*. Section 5 makes some suggestions as to how to develop thinking on this front.

A focus on markets, hierarchies and networks, Section 6 also argued, does not reflect much of the most recent work on governance. The concept of *multilevel governance* may provide a framework to take further what are still largely descriptive studies of the partnerships and alliances in which health-care organisations are increasingly involved. *Regulation and regulatory governance* are gaining attention. Concerns about regulatory overload have been prevalent in NHS organisations in recent years and are being addressed through simplified standards and a new inspection regime. Research capable of stepping back from the detail of this volatile and changing landscape, of reflecting on the why and how of regulation, and perhaps exploring cross-national comparisons, would be likely to attract interest from within the Service. Themes of *co-governance*, *participatory governance* and *community governance* are now also much discussed. The development of a research programme in this area would also be likely to gain support from a Service under pressure to bring both citizens and service users into the heart of its functioning.

What prospects are there in the health-service context for viable new research on the determinants of outcomes? There has been much criticism that health-services research has been over-reliant on the single case study and on description, and that possibilities for generalisation thus remain limited. It is recognised, however, that the potential for convincing hypothesis-testing designs in a fast-changing and politically driven health service is restricted. With devolution and decentralisation, the NHS offers much more scope than it has done in the past for comparative research designs building on natural experiment potential – always provided that researchers are in a position to capitalise on opportunities (a point taken up in the final section).

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One further issue bears a mention. Threaded through this report have been references to the public-service ethos and to claims about the distinctive loyalty and commitment of workers in the public sector. The crowding-out hypothesis in incentives theory relates to this, as does the continuing criticism and questioning of the value of a business model in relation to public services. Whether it is within the scope of a SDO programme to find ways of addressing this – for example, through expansion and further analysis of the NHS Survey - bears discussion.

In sum, we would argue that there is a close alignment between the recommendations for developing the fields of study in Section 6 and the proposals here for an agenda for research in the NHS. To recap, we would single out the following proposals:

- 1 a programme of work on incentives drawing both from economics and psychology,
- 2 the further development of a critique of the concept of incentives and its relation to criticisms concerning current directions of development for the health service,
- 3 new studies of professional organisation and of bureaucracy and attention to mixed modes of governance,
- 4 exploration of the importance of multilevel governance, participatory governance and regulation as lead themes for new work in the overall programme,
- 5 encouragement of multi-method approaches to outcomes, acknowledging the complexity of public-service performance.

Time pressures prevented us from discussing this list in any depth with our stakeholder colleagues. How the NHS and service-user groups would see priorities thus remains in question and brings us to some final remarks.

7.3 Better practice/research dialogue?

This has been an unusual project for an applied research programme, in its invitation to researchers to return to their disciplines and to examine developments for potential relevance to SDO. What are the barriers to establishing research programmes that call on the full range of work in the academic world? Is it feasible to expect to bring academics, who perhaps have not seen themselves as relating to applied work or to the NHS, into the potential orbit of the SDO programme? Allowing that such research will not be to the taste of all, one key consideration here has been pointed out already in connection with the SDO programme. Researchers are 'usually unable to manipulate the policy or its implementation in a way that would allow the use of experimental research designs' (Harrison, 2001: 93). Also, expanding the research community is not easy. Potential researchers can find it prohibitive to become informed about a fast-changing and intricate policy world. They will hence be unaware of the opportunities

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that decentralisation and devolution present for the move towards more comparative research designs that many are now recognising is needed in the field of public sector research more generally and health service research in particular. Certainly it is rare that there is a research presence when discussions take place as to how to roll out change and thus there is little potential to point to options that would make a rigorous comparison and evaluation possible. In all, the worlds of practice and of research remain very different ones.

SDO already does much to narrow the research/practice gap – building its research agenda through a ‘listening exercise’ with the NHS and with advisory groups, setting out the background to a particular call for research in a detailed tender document and allocating considerable resources to research dissemination. Could more be done to bring the different stakeholders together in a dialogue about research potential? Alongside the usual competitive tendering, might there be a place for brokering stakeholder partnerships and offering some form of multi-partner developmental contracts to bring service providers, service users and researchers into a closer relation on which research can then be built? A recent Kings Fund report (Coote *et al.*, 2004), drawn up in the context of research evaluating complex social policy initiatives in the UK and USA, highlights the complexity of the different interests that are involved. It concludes with a series of recommendations designed to build a learning culture and a greater capacity to work effectively together among researchers, practitioners and government (although its specific recommendations, would seem to be rather less clear on service users).

It is fitting perhaps, to give our stakeholder group the last word. None of them – as researchers sometimes fear – expected that research would provide the answer on ‘how to do it’, or even that it would be able to be definitive about ‘what works’. As service providers and service users, they were all too aware of the importance of context, the unexpected, the multiple factors that could interact in any one particular situation. They valued research for the stimulus to thinking that it provided, and for the insights it offered. ‘Really useful research’ said one, ‘gives you the ingredients, but not the recipe’. He had examples of research that had opened up an issue, helped him to focus and to come to a decision on what his own approach would be. This report has aimed to contribute to the dialogue about just which issues of health-care organisation are now ripe for treatment in this way.

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Appendices

Appendix A The project methodology: an account and a critique

The purpose of this appendix is twofold. We begin by describing the research design as originally devised and the modifications adopted as the project progressed. We then step back and evaluate the process and methodology, making some suggestions for how further literature reviews of a similar nature might be conducted.

Methodological process

The project aimed to assemble a database of relevant literature, both theoretical and empirical, and to review this literature and assess it using various appropriate methods. The first stage consisted mainly of creating a database of detailed abstracts of relevant literature. This stage took us somewhat beyond the midpoint of the project period. In the second stage meetings of the project team with health-service stakeholders and with academic peers (see Appendix B) were held to review progress, to consider tentative findings from the review to that date and to plan in detail our work on the rest of the project (including further collaborations with academic colleagues). At this stage, as well as continuing to gather more references, we started analysing the database by classifying/coding the literature it contained. Following this, the team moved on to a third and final stage, producing the narrative disciplinary reports in Part 1 of the report, and, after a further round of team meetings and further interactions with academic peers and stakeholders, the final sections of the report were drafted. Details of these project stages are now described in the sections below. Broadly speaking, the project was conducted according to the plan as outlined in the project proposal. Certain changes of detail and of emphasis were made, in the light of the project team's experience of the materials being reviewed and of appropriate ways of handling and analysing them, and in view of resource restrictions.

Stage 1: gathering material

After a first rapid collation of material cited by the team, a series of initial searches was carried out. These used the keywords market, hierarchy, network, governance, incentives and outcomes (and variations of these), restricted attention to the period 1994–2004, and searched the databases Medline, CINAHL (Cumulative Index to

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Nursing & Allied Health), OCLC, PapersFirst, SSCI (Social Science Citation Index), JEL (Journal of Economic Literature) and Emerald Management Reviews (formerly Anbar). (EMBASE, mentioned in the project proposal, was not used, because Medline and CINAHL together cover its relevant content.) The main purpose of this preliminary search was to get a sense of the extent that the keywords appear in the literature. Following that, further keyword searches were carried out using a more refined search strategy and more convenient databases, in the light of advice from library staff with expertise in literature database searching. Some keyword searches were carried out to develop a general list of references from which the team could select appropriate material for the project database, and others to provide more specific lists to support specific aspects of the review. Examples of some of the searches as carried out by the full-time researcher, are shown in Table A1.

The material identified was supplemented by 'explosion' of references from key sources, citation searches and contacts with experts in the fields covered. Towards the end of this process of assembling candidate articles for the database, the core team developed working methods for deciding which of the candidate articles would be selected for detailed further study and evaluation, and began the process of drafting a proforma for coding relevant characteristics of the selected articles. To ensure that those summarising the literature extracted data in a systematic way, a literature proforma was designed containing bibliographic information, summaries of findings and conclusions, together with a preliminary allocation to subject area and an assessment of relevance. The proformas were then entered on to a bibliographic database (Endnote, Microsoft Windows version 7) in order to assist sorting and cross-referencing.

Table A1 Keyword searches

Purpose of the search	Keywords	Databases	
Create large general list of suggested references	a Governance AND Incentive* AND Outcome*	Academic Search Premier (EBSCO)	
		Business Source Premier (EBSC)	
		Science Direct	
	- AND Public Sector		
	b Governance AND (Incentive* OR Outcome*)	Academic Search Premier (EBSCO)	
		Business Source Premier (EBSC)	
	- AND Public Sector		
	c (Market* OR Hierarch* OR Network) AND (Incentive* OR Outcome*)	Academic Search Premier (EBSCO)	
		Business Source Premier (EBSC)	
	- AND Public Sector		
	d (Market* OR Hierarch* OR Network) AND (Incentive*) AND (Outcome*)	Academic Search Premier (EBSCO)	
		Business Source Premier (EBSC)	
	e (Market* OR Hierarch* OR Network) AND (Incentive*) OR (Outcome*)	Academic Search Premier (EBSCO)	
	Motivation/psychology	(Motivation OR commitment OR satisfaction OR ASSIA)	

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	morale OR innovation) AND (Market* OR Hierarch* OR Network*)	ISI Business Source Premier (EBSC Business Source Premier but selecting the following journals: <i>Journal of Occupational Health Psychology, Journal of Occupational and Organizational Psychology, Journal of Occupational Psychology, Journal of Organizational Behavior, Journal of Occupational Behavior International Journal of Human Resource Management, Personnel Review, Personnel Psychology, Journal of Applied Psychology</i>
Markets and hierarchies	(Market* OR Hierarch*) AND (Governance) AND (Outcome)	ASSIA ISI (SCI -EXPANDED, SSCI, A&HCI) Academic Search Premier (EBSCO) Blackwell Synergy
	(Market* OR Hierarch*) AND (Governance) AND (Outcome) AND (Health OR NHS OR Public Sector)	ASSIA ISI (SCI -EXPANDED, SSCI, A&HCI) Academic Search Premier (EBSCO) Blackwell Synergy
Bureaucracy and hierarchy	bureaucracy OR bureaucratic organisation*	ISI (SCI -EXPANDED, SSCI,

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		A&HCI)
	hierarchy OR hierarchical organisation*	ISI (SCI -EXPANDED, SSCI)
	(hierarchy OR hierarchical organisation*) AND governance	
	(hierarchy OR hierarchical organisation*) AND (bureaucracy OR bureaucratic organisation*)	
NHS reforms	internal market AND NHS	ISI (SCI -EXPANDED and SSCI)

The question of allocating references to subject areas proved particularly challenging. One obvious route was to investigate contributions by discipline. We used the SDO list of six disciplinary areas that are likely to be of relevance to projects. These include organisational economics, political science, organisation studies, socio-legal studies, organisational sociology and organisational psychology. We added management studies, economics and public administration and an 'other' heading. Although the SDO has published work indicating the scope of several of these disciplines, on any particular project, overlaps are likely to remain considerable and it was clear at the outset that we would have trouble coming to a firm agreement, for example, about what should be treated as organisation theory or organisational sociology. This problem was exacerbated by the nature of the topic area for this particular literature review. While markets and incentives might seem to point in the clear direction of contributions from economics, and bureaucracy has strong theoretical roots in the work of sociologist Max Weber, networks denoted a subject of interest across almost all the disciplines on the list; governance has been taken up across disciplinary areas, and outcomes can reasonably be seen as of interest to each and every social science discipline. The emergence of an array of new interdisciplinary journals in recent years, and the pressure in the context of the Research Assessment Exercise for academic publications, add further layers of complexity. As expected, those carrying out the abstracting task found it difficult to decide between the given list of disciplines and they often suggested multiple codes.

Stage 2: starting to make sense of the data gathered

At the midpoint of the project (using listings dated 29 July 2004) we had amassed 718 items; a short list of 218 items that had been through the standard proforma procedure, together with a long list of a further 500 items. At this time, wanting to begin the task of synthesis, we turned attention once again to the problem of classification and grouping. We had three objectives in mind. The coding exercise (shown in Box A1) would:

- 1 demonstrate the broad balance of material collected and indicate key areas for further search,
- 2 give priorities for further proforma work,
- 3 enable us to subdivide the work of assessment and review, allocating it both among the team and to external consultants.

Box A1 Coding rules

Coding by discipline

The assessment was made largely by inspection by title, supplemented by journal with reference at times also to author.

D1 Economics. Journal provided a stronger guide here than in other areas and was used as the main criterion. Included in this category at this stage were the majority of items mentioning incentives, markets and contracts. However, where there was no clear dependence on concepts and theories from economics but more of a policy discussion, items were assigned to political science.

D2 Psychology and HRM. Again journals provided a strong guide but also included were titles to do with motivation, HRM and (following a further inspection) most of those that made reference to industrial relations. Where organisational variables were explored and the dependent variable was at the level of the individual, they were included here. Knowing that the database at this point was not generating a large amount of material, HRM was assigned at this point together with psychology and also coders took a generous interpretation of material that appeared to use the individual as the unit of analysis.

D3 Political science. Titles with reference to public management, public administration, and local and central government were included. Policy topics were included here, apart from health policy, which went into the other category (which would subsequently be searched for 'context' material). Networks literature was mainly coded in this category but in some cases was allocated to organisation studies or elsewhere. The interface with organisations was hard to establish and we anticipated a fair amount of later reclassification. Where items referred to the organisation of the state/government without reference to service delivery issues they were deemed irrelevant. Cross-cultural comparative material was also mostly coded here.

D4 Organisation studies. This included material in organisation journals and in management journals, although in some cases this material was allocated as political science. All titles to do with organisational-level variables, especially organisational structure/form, were included. Hierarchies and bureaucracy were grouped here as were new organisational forms and hybrid organisations. Knowledge management and professional organisations titles were included. Health-care- and NHS -related organisational arrangements – clinical networks and clinical governance – were assigned here.

D5 Socio-legal studies. Almost nothing emerged for this category. Where contracting had a legal angle it was included here.

D6 Other. Broader contextual material on the NHS and on the organisation of health care in other countries that could not be classified elsewhere; relevant methodology literature; reviews of disciplines and their contributions in general.

D7 Irrelevant

D8 Unclassifiable. This category included ambiguous titles and titles that come from other disciplines – for example accounting, finance and computing – and also titles in clinical and some health journals.

Coding by topic

This classification was achieved in the main simply by examining terms in the title line but, after inspection, some titles not using terms explicitly were also included. (Note that there is likely to be some degree of match between topic classifications and disciplines although it will not be a perfect one.)

T1 Incentives. At this stage this was a deliberately inclusive category, incorporating all references to performance and performance measures, motivation, commitment and outcomes of any kind. (Note that this will tend to include theoretical/conceptual material. Much empirical testing will be coded as T6.)

T2 Governance. Where governance is clearly being used loosely and other terms are included and clearly take precedence they were coded in the alternative category; for example, governance of networks=networks.

T3 Markets. This includes competition, contracts and purchaser/provider.

T4 Hierarchies. Includes reference to bureaucracy.

T5 Networks. Includes N-form, communities of practice, partnership alliances, co-operative relations and titles referring to 'after networks'.

T6 Combinations. To include any combinations of markets, hierarchies and networks but also any of these together with incentives/performance/outcomes.

T7 Unclassifiable. In terms of the categories listed above, but likely to be helpful background or methodology.

T8 Irrelevant. As well as items that did not seem to be relevant to any of the topics we have included one-page editorials or news comments and also introductions to special issues of journals and brief reviews.

T9 Other

All the references were classified according to this agreed set of rules. First, each item was coded into one of five broad disciplinary areas: economics, political science, psychology, organisation studies and other. Second, each item was classified by major topic as identified in the title line of the project: incentives, governance, markets, hierarchies, networks and also combinations and others. Two team members classified the references independently according to these rules, classifying first the short list with the references from the proforma procedure and then the long list. Levels of initial agreement proved high in relation to the disciplinary allocation, where fewer than 10 per cent of items on the short list generated disagreement. Disagreements led to inspection of the proforma for the case of the short list, and also prompted valuable clarifications of the coding rules before moving to the long list. Without the proforma and not surprisingly, the proportion of items judged at this stage unclassifiable was much higher on the long list.

We took the view that any groupings, while coded according to clear criteria, would need to be treated as provisional. Those working with the lists that emerged were thus encouraged to reallocate materials

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and to suggest new items on the basis of their knowledge of the field. The exercise met the objectives of giving coherence to the main database and allowing us to allocate material for review. Experience on working with the database to this stage indicated that the production of further tabulations would not be sufficiently informative as to justify the resource required to produce them.

From this point, all further candidates for the database were classified by the database manager and in case of any queries the two original coders were consulted. The midpoint database, which in all had included 718 items in the short and long lists taken together, eventually grew to include more than 1000 items. The results of this exercise in purely numerical terms are shown in Table A2.

Bibliographical details of all items in the final database are given in Appendix C (available separately).

Table A2 Collection of materials classified by broad disciplinary area (vertical axis) and topic (horizontal axis) as of 29 July 2004

	Incent	Gov er	Mark et	Hier ar	Net w	Comb in	Uncl as	Irrel ev	Oth er	Tot al
Economics	34	5	28	5	2	28	23	2	0	127
Psychology	32	2	0	1	0	24	8	0	0	67
Political science	12	81	12	18	26	27	12	1	2	191
Organisation	26	1	4	30	45	23	38	0	3	170
Socio-legal	1	1	2	0	0	1	1	0	0	6
Other	7	2	4	1	2	2	38	0	18	74
Irrelevant	1	2	1	1	2	0	11	21	2	41
Unclassifiable	8	1	2	3	13	6	6	1	2	42
Total	121	95	53	59	90	111	137	25	27	718

Stage 3: final analysis and synthesis, and production of the report

By this stage it had become clear to the project team, in view of the wide diversity of material available and the very wide range of methodological and theoretical approaches used within it, that the most appropriate and efficient way to synthesise the available material would be to review it on a disciplinary basis, and then to draw together material from the disciplinary reviews to bring out common threads and produce an overall review of the area relevant to the needs of the commissioners of the research.

Disciplinary reviews were drafted by members of the project team with the appropriate disciplinary expertise. Material for these reviews came

from several sources, the project database being supplemented by reviewers' own expertise and knowledge of relevant literatures (together with some 'exploding' of references from available articles) and attendance at relevant conferences. The tightness of the timetable meant that we did not in the end use external consultants for the drafting of these reviews. We were able, however, to commission overviews (in relation to organisational studies and psychology), a specialised report on networks in the NHS and an exploratory commentary on potential service relevance from experts in these areas. The formal meetings between the project team and a group of health-service stakeholders and between the project team and a group of academic peers (see Appendix B) fed into the process in a helpful way. Less formal discussions with other academic colleagues (including researchers from the University of York, working for the EU IMPACT Programme, as mentioned in the project proposal) were conducted and there was also a stage of critical reading by some external reviewers as well as by the team for drafts of the sections of Part 1. At a late stage in the project, the current contents lists of a number of relevant journals were inspected in order to pick up any very recent relevant work.

Broadly speaking, the methods used by the discipline reviewers were the traditional methods for literature review in their disciplinary areas. The database, as noted above, provided an important starting point, but was by no means the only resource. The more broadly synthetic parts of the report (the Introduction, Sections 6 and 7 and this appendix) were drafted by project team members in the light of the disciplinary reviews, of further team meetings and discussions, and of further meetings and interactions involving the groups of stakeholders and academic peers.

Finally, it must be understood that the project database was far from uniform in character, because the norms of working and publishing practices of different disciplines had to a certain extent affected the choice of items. Because the items that informed the disciplinary reviews and were not originally part of the project database were later added, the 'hybrid' character of the database became even more marked in the final version, as noted in the remarks that preface the full database as it appears in Appendix C.

Assessment of review methodology in the context of this project

The process of searching literature databases undoubtedly gave us a helpful start for the synthetic parts of the work for this report. Overall, however, we have emerged with a number of doubts about the value of the systematic search methodology, at least for a project of the nature carried out here, and this section offers a brief discussion of this.

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The initial searches produced a very high volume of material, much of which proved to be irrelevant, and even with our later, more refined, searches we found too much irrelevant or only tangentially relevant material. The searches also failed to come up with quantities of material that emerged later on the basis of expert advice from discipline experts. (That we would need to rely heavily on discipline experts is foreshadowed by Mays *et al.*, 2001.) Further, the process of assembling the database, though it was always planned to take a considerable proportion of the project time and resource, in fact took longer than had been envisaged, leaving rather less time and resources available for the arguably much more important stages of coming to grips with and synthesising the information we had found. In the end, the disciplinary reviewers found that they had to be very selective in their use of the database and only around half of the references used in the discipline reviews were sourced from the database itself.

Nor did it prove possible to come up with measures of the quality of studies that were anything like uniform across the different discipline areas. There is, of course, a standard hierarchy of the quality of evidence in biomedical studies, which applies to a great extent to many other quantitative studies in other fields. Considerable progress has been made on establishing analogous criteria for qualitative studies in health-services research (see for instance Popay *et al.*, 1998; Mays *et al.*, 2001). However, even these criteria are not easy to carry over to some related areas. For instance, Popay *et al.* propose three broad interrelated criteria for good, qualitative health research: interpretation of subjective meaning, description of social context and attention to lay knowledge. In attempting to apply these to qualitative research about organisations that may be relevant to health services but not directly *about* health services, there are immediate issues; for example, what one should construe as 'lay knowledge' in this context. Moving further, for instance, into theoretical work in economics, criteria of quality are different again and are on the whole neither formulated clearly nor ranked easily in an objective way.

It is worth considering briefly why the standard systematic review methodology was not very successful in the context of this particular project. This methodology emerged principally from biomedical science, and has had particular successes in investigating specific interventions and treatments, where the question of interest is much narrower and more tightly specified than is the case in the present study. For instance, in an essay on systematic review in a biomedical context, Davies and Crombie (2001) write that systematic reviews are needed 'whenever there is a substantive therapeutic question, several primary studies – perhaps with disparate findings – and substantial uncertainty'. Even broadening the context, in our project there is no equivalent of a 'substantive therapeutic question' of this sort.

Furthermore, in such areas, the usual form of publication of results and empirically based theories is the 'standard' scientific paper, which will typically present, in one package, the study design, the data and

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resulting developments of theory. In most of the disciplines contributing to this review, this is simply not the way that knowledge and theory are developed and presented. Theoretical development *is* grounded empirically, but very often theoretical advances and developments are published separately from the data on which they are based. It is thus not possible, for instance, to reject a paper from the reviewing process simply because it does not present any new data; to do so would miss too much important theory. Further, a publication that does present data but analyses it poorly may still be very relevant to the review, if others have used the data to develop theory. Not only this but much relevant work in the area of this review is published in the form of books or individual book sections rather than formally published research articles, and such items are far less well represented in keyword-indexed databases than are articles. For all these reasons, a uniform approach to assessment of study quality may simply be impossible. This may or may not change in the future (Fitz-Gibbon, 2004).

In one sense, the difference between the context of the present project and the context of a project where the entire methodology of systematic review would be appropriate and effective is analogous to the difference between broadly quantitative and broadly qualitative methodology in the social sciences. In quantitative studies, one works with tightly defined questions and obtains data from samples of informants who are chosen to be representative of a wider population, and inferences are made to that wider population. In qualitative studies, the aim is to explore an area of interest which may not be defined clearly, and which may be construed in very different ways by different people, and the choice of respondents is guided by the aim of developing interesting and enlightening theoretical insights rather than by considerations of representativeness (see Popay *et al.*, 1998). In a systematic review of a health-care intervention, the aim is to produce advice on the use of the intervention in a wider population, so the review must be based on a representative and unbiased database of evidence, and the best way to achieve this is to base the review on *all* the available and relevant studies. In a review of broader and 'messier' literatures, such as in the present case, the aim cannot be to include all possible evidence (because boundaries to relevant evidence cannot be defined); instead it must be to review the evidence that will provide enlightening insights. Judgement and elements of selection are unavoidable.

A related and more practical issue concerns the question of providing standard summaries of material. It quickly became apparent that this was a time-consuming task and one that involved elements of judgment that did not arise in the more usual systematic review. Recruiting additional help was tried, but the impossibility of tight relevance criteria limited the usefulness of this strategy and ate into budget and time. Once again, therefore, we were faced with

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questioning the value of the methodology as applied in this particular instance.

All this said, we must examine the extent to which the formal process of bibliographic database searches and the construction of a project database did advance and facilitate the review in a positive way. There were positive aspects of the formal literature-searching process. Our database *did* provide important evidence sources that would very likely otherwise have been missed. There were considerable process benefits: for instance, discussions on such issues as appropriate search terms and on the coding rules for the proformas helped the review team to come to grips with the whole breadth of the area under review, and helped us to develop a common language for communication across disciplinary boundaries. Without this development of this broad overview and of a firm basis for effective communication, the team would have been unable to produce a good synthesis of the disciplinary reviews.

This raises the question of whether the review process could have obtained these benefits derived from systematic literature search without incurring the costs of having to put major resources in the first part of the project, producing a literature database that was only partially effective. One possibility would have been to begin with rather more separated discipline-based literature reviews, possibly including electronic literature searches that were more focused, and only later, in the light of these preliminary reviews, to move on to broader searches across disciplinary boundaries. Doing these broader searches in the light of focused work within disciplines may well have helped them to be more specific (and hence less time-consuming). These later searches would also probably make more use of citation indices and less use of straight keyword search methods, though use of citation indices can itself be very time-consuming.

It is now well understood that systematic reviews work well in many biomedical and quantitative fields, and there is also emerging evidence of their effectiveness in dealing with qualitative work on reasonably tightly defined questions. We speculate that, even in a very broad review area such as ours, a review process that began with the production of an overall project database of relevant items could also work well if an interdisciplinary review team had already spent considerable time working *together* in the area under review, so that the necessary shared understanding had already developed. Our team was not like that. Although the database-production process did help us to work together, we feel that in future, a different approach, *starting* with narrower disciplinary reviews and working outwards, might offer a more efficient way of reaching common understandings.

Appendix B Stakeholder and peer-group participation

The proposal for this project aimed to introduce an element of stakeholder dialogue into the research and also to provide the opportunity for peer-group comment on the evolving programme of work. This appendix provides a brief record of the degree to which it was possible to meet these requirements and the extent of their impact.

Stakeholder involvement

We had indicated in the research design an intention to recruit a six-strong stakeholder group, comprised of two commissioners of health services, two service providers and two service users. Once it became clear that the grant was to be awarded, we took two courses of action to create this group. As far as service providers and commissioners were concerned, both the School of Health and Social Welfare in the Open University and the Open University Business School had extensive networks of contacts within the NHS whom we called upon in producing case studies for distance-learning teaching materials. The University also has the advantage of having ex-students at all levels in the NHS, and clinical practitioners and managerial staff who work with the University to deliver its teaching programmes. The research team was thus able to suggest a number of people from this network who might be prepared to take part. Eight people were approached with a view to finding the required four participants. We were asking for participation in two meetings and a willingness in principle to comment on a draft of the final report. A recently established Service User Panel in the School of Health and Social Welfare (involved to this point largely in teaching initiatives) offered a route for recruitment of the two service users and a 'plain-language' version of the project proposal was devised and sent to all panel members and used also as a resource for the whole stakeholder group.

As a result of these moves, it seemed at the outset that we would have three commissioners, two providers and two service users. In the event, it proved impossible for two of the commissioners to work with us at the first meeting and the group ultimately reduced in number to five. Box B1 gives further details.

Box B1 Stakeholder involvement

Service planners/commissioners

Dianne Conduit

Director of Development and Commissioning, Chesterfield Primary Care Trust

Service users

Julian Cohen

involved in safer sex promotion in drug services, and communication training for junior doctors (Manchester)

Peter Williams

Director, Personal Assistance Limited, Manchester, Director of TOPSS (England), involved in developing a new health and social services user network

Service providers

Jan Filochowski

Former Chief Executive, Medway Trust and Royal United Hospital Bath Trust

Jane Isaacs

a Regional Appointments Commissioner and Former Chair, Wolverhampton Community Trust

These stakeholder colleagues attended a highly successful, day-long meeting 3 months into the project. Five sets of ideas, cautions and suggestions emerged. These were summarised on our interim progress report as follows.

- Pay attention to the fine detail of governance change in the NHS – markets ‘mark one’ under the Thatcher government were followed by a later softening of interpretations – thus it is important to pay attention to exactly when the empirical work was done.
- Think even more broadly about outcomes – innovation is important (we had already added it); also communication and accountability.
- Ask whether this research is actually more important to the managing-services community or to the policy community.
- Models of governance resulting in incentives are too simple – partly because of mixed models but also because the political climate of governance change is important – so is the level of understanding on the ground of what this change is and the ‘fads and fashions’ effect.
- Where does choice fit as a new kind of governance structure?

It was very clear that stakeholders could readily identify and agree upon positive and negative incentives associated with markets, hierarchies and networks. It was also striking that some of the issues emerging here, though phrased in different ways, were echoing those being raised by the academic team and the concordance between the two was particularly encouraging.

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Following this, the plan was that we would hold a late-stage meeting introducing the draft final report, discussing key findings and asking for volunteers to comment on all or part of the draft. It did not prove possible, however, to produce a draft of the report early enough for the scheduled meeting and busy timetables precluded the possibility of a full meeting at a later date. On an amended plan, we invited the service users to a half-day meeting at a late stage. Working with them to explore relevance for service users proved to be very helpful. Telephone interviews were set up with the three NHS stakeholders. Again busy timetables intervened but two of the three interviews were completed and aided us, especially in considering the relevance of the findings to contemporary developments the NHS as discussed in Section 7.

We were not entirely confident at the outset that stakeholder involvement would work easily with an academic literature review of this kind. In the event, however, it proved helpful to gain a real-world perspective early in the project and the report would probably have been improved had we been able to work with our stakeholders rather more towards the end. The service users highlighted points in the draft report where findings chimed with their expertise. They pointed out, however, that a 'plain-language' version would certainly be necessary if service users were to be involved more fully in projects like this. Had we been able to offer them more time, however, all our stakeholders would have been more than willing to comment on drafts.

Peer-group meetings

Given the tight timetable for this work and its wide-ranging brief, the team felt that it would be helpful if possible to call on the expertise of a somewhat wider range of academics in the field as the project developed. The initial plan was for two meetings which brought both stakeholders and academic peers together. We hoped that some of those we had commissioned to write resource and background documents would also be available to meet and discuss with the full team in this way. This plan did not prove realistic but we did hold a full day meeting attended by five academic peers. This was particularly valuable. It not only enabled us to air emerging lines of interpretation for the different disciplinary areas but also – since some of the participants were closely involved with the SDO programme and had themselves completed projects – to discuss practicalities and garner some confidence that we were largely 'on target'. We are particularly grateful to the five colleagues who gave up a day to join us and who so willingly and constructively shared their knowledge and experience (see Box B2).

Box B2 Peer academic involvement

Dr Mark Exworthy

Senior Research Fellow, Oxford Brookes University

Dr Nick Goodwin

Senior Lecturer, London School of Hygiene and Tropical Medicine

Dr Rod Sheaff

Senior Research Fellow, National Primary Care Research and Development Centre, Manchester University

Prof. Chris Skelcher

Professor of Local Government Studies and Director of Research at Institute of Local Government Studies, Birmingham University

Dr. Allan Wailoo

Research Fellow in Health Economics, Sheffield University

In all, our judgement would be that the plan to involve both stakeholders and a peer group was sound and is worth pursuing in further work. The amount of academic project management time and the personal approaches that are necessary to make a success of it, however, should not be underestimated.

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Addendum

This document was published by the National Coordinating Centre for the Service Delivery and Organisation (NCCSDO) research programme, managed by the London School of Hygiene & Tropical Medicine.

The management of the Service Delivery and Organisation (SDO) programme has now transferred to the National Institute for Health Research Evaluations, Trials and Studies Coordinating Centre (NETSCC) based at the University of Southampton. Prior to April 2009, NETSCC had no involvement in the commissioning or production of this document and therefore we may not be able to comment on the background or technical detail of this document. Should you have any queries please contact sdo@southampton.ac.uk.