

Performance Pay, Merit Recruitment, and Corruption: Cross-country Evidence of a Conditional Effect

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Purpose: Public sector corruption undermines the effectiveness of government. Because corruption is theorized in part to be a function of need, studies have looked at how public sector compensation levels are linked to corrupt behavior. This study takes a different approach by examining how performance pay affects corruption. Unlike universal compensation levels, performance pay is theorized to reduce corruption by linking rewards with genuine public service effort in a more profound way, reducing the relative attractiveness of corrupt behavior.

Design: The study uses data from 109 countries and multivariate regression to test the theory empirically. Several alternative specifications of the dependent variable are used to probe the robustness of the results.

Findings: The findings indicate that performance pay has no statistically significant effect on corruption after controlling for merit-based recruitment. However, the results also show that the use of performance pay can be an effective anti-corruption tool in countries where public sector recruitment is merit based. In countries where recruitment is patronage-oriented, performance pay may increase corruption. These results are discussed in detail and questions for future studies are proposed.

Contribution: The implementation of performance pay has been an international reform trend in public sectors across the world. However, little empirical research has examined its effects from a cross-national perspective. This study provides evidence that the effects of performance pay may not be universal but depend rather on features of the national administrative context in which it is used.

Keywords: corruption; performance pay; merit-based recruitment; compensation; public sector reform