

# Who should we pay more? Exploring the influence of pay for elected officials and bureaucrats on organizational performance in South African local government

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## Abstract

Despite the recurrent focus on pay as an incentive and the myriad reforms of public sector compensation, researchers have generated surprisingly little evidence of the link between pay level and organizational performance. We propose a theoretical model of how pay leads to improvements in organizational performance by enhancing recruitment, motivation, and retention. Given scarce resources and constraints on the ability to financially reward public officials, we engage the top-down, bottom-up debate in policy implementation to theorize about whether pay for elected officials or bureaucrats matters more for performance. Our analysis of panel data from South African municipalities reveals increasing pay for bureaucrats—but not for elected officials—can improve delivery of labor-intensive public services. However, the results also suggest higher pay may embolden bureaucrats to break rules regarding public spending, thereby weakening accountability.

## 1 | INTRODUCTION

Organizations must offer attractive compensation to recruit, motivate, and retain competent employees (Gerhart et al., 2003; Newman et al., 2016). Pay, a key aspect of compensation, has been the focus of reforms to improve

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governmental performance (Perry, 2021). The most popular of these reforms has been performance-based pay, the practice of making pay contingent on achieving performance objectives to increase motivation and performance (Dunleavy & Hood, 1994; Perry et al., 2009). Pay banding, another important pay reform, entails granting managers more flexibility to establish pay within salary bands broader than traditional pay grades to incentivize and retain high-performing employees (Whalen & Guy, 2008). Policies have also been promulgated to reduce the gender wage gap (Bishu & Alkadry, 2017; Stritch & Villadsen, 2018) and other forms of pay disparity to avert inequity in compensation (Latham, 2012).

In less-developed countries and emerging economies, free market reforms spearheaded by the International Monetary Fund (IMF) and World Bank have sought to reduce public expenditures, cut public sector employment, and increase privatization (Birdsall & Fukuyama, 2011; Rodrik, 2006). The 1980s and 1990s witnessed declining trends in the size and cost of governmental bureaucracy, with many countries experiencing reductions in wages for public sector workers due to wage freezes and other measures (McCourt, 2008). Many experts now believe these reforms failed to produce economic growth as envisioned by policymakers because they overlooked the importance of developing a governmental bureaucracy capable of improving education, establishing property rights, managing deregulation, and providing an adequate safety net (Birdsall et al., 2010; Birdsall & Fukuyama, 2011; Rodrik, 2006). Lower public sector wages made it difficult for many governments to hire and retain skilled workers and damaged employee morale (McCourt, 2008). Indeed, some of the most impressive gains in economic growth and poverty reduction were realized in countries like China, Brazil, Singapore, and South Africa that made significant human capital investments in government (Birdsall et al., 2010; Birdsall & Fukuyama, 2011). Scholars realized that far from being obsolescent and cumbersome, a capable governmental bureaucracy, staffed by skilled and motivated employees, is as essential for development as free markets (Grindle & Hilderbrand, 1995; Olsen, 2006).

Despite mixed success with recent free market reforms, calls for reducing public sector wages persist. In various countries, public sector employees are paid a wage premium, one that is generally higher for lower-skilled jobs than higher-skilled ones (Christofides & Michael, 2013; Gindling et al., 2020; Giordano et al., 2015). Paying comparatively higher wages to public sector employees is believed to have distortional effects, including queuing for public sector jobs, higher reservation wages for jobs in the private sector, and labor scarcity in the private sector that stifles economic growth and productivity, prompting the World Bank (2020) to urge policymakers to pay lower wages to public employees who enjoy job security and higher benefits than to their private sector counterparts. Calls to reduce public sector wages have intensified since the advent of COVID-19. Policymakers have expressed a desire to reduce public sector wages to provide fiscal relief and help fund emergency measures, with countries in Latin America, Africa, and Europe considering or undertaking cuts of up to 20% in wages paid to public employees (IMF, 2022). This is occurring despite studies showing cutbacks can adversely affect employee attitudes by breaching the psychological contract (Conway et al., 2014), creating uncertainty and fear of loss (Esteve et al., 2017; Kiefer et al., 2015).

Against this backdrop, we seek to analyze the effects of pay for elected officials and bureaucrats on organizational performance. Beyond aforementioned research on performance-based pay, pay banding, and pay equity, there remains a paucity of research on the link between pay level and organizational performance (Gardner et al., 2004; Gerhart et al., 2003; Perry, 2021), with a few studies of pay level in private firms offering inconclusive evidence (Gardner et al., 2004; Gerhart, 2017; Gerhart & Milkovich, 1990). The ongoing push for governments to accomplish more with limited resources, especially as they continue to grapple with the COVID-19 pandemic, makes it imperative to know if increasing pay is an effective strategy for improving governmental performance. As we will argue, offering higher pay can improve performance by enabling organizations to attract talent (Connelly et al., 2011; Rynes, 1991). As a powerful incentive, pay can also increase effort and facilitate retention, both of which are consequential for performance (Griffeth et al., 2000; Rubenstein et al., 2018; Stajkovic & Luthans, 2001). Beyond understanding pay level's impact on performance, it is important to know whose pay level—that of elected officials or bureaucrats—is of greater consequence. We explore these issues using panel data from municipalities in South Africa, where governmental reforms have been driven by two countervailing forces, the impulse to create a robust developmental state capable of fostering social and economic development and New Public Management thinking to make bureaucracy more efficient and responsive (Cameron, 2009).

In the following section, we begin by offering a theoretical rationale for why pay can improve organizational performance. Conceiving of public sector performance broadly to include stakeholder expectations of both competence and responsiveness (Rainey et al., 2021), we explore the effects of pay on access to basic public services, a measure of competence, and responsible use of public funds, an aspect of responsiveness or accountability. Next, we engage the policy implementation literature, particularly the top-down, bottom-up debate over whether policymakers or implementers have the greatest impact on program outcomes, to theorize about whose pay matters more for performance (Hill & Hupe, 2014). After deriving our hypotheses and describing the South African local government landscape, we describe our data and methods. The findings reveal an increase in pay for bureaucrats—but not for elected officials—can improve delivery of public services that are labor intensive. However, they also suggest higher paid bureaucrats may be emboldened to break rules regarding public spending, as paying bureaucrats more increases irregular spending in circumvention of national laws. We conclude by discussing the implications and limitations of our study.

## 2 | HOW PAY LEVEL INFLUENCES ORGANIZATIONAL PERFORMANCE

Wages and other forms of employee compensation make up a sizeable portion of the operating budget of most organizations. In return for higher wages, organizations can realize gains in performance (Gerhart et al., 2003; Newman et al., 2016; Riedel et al., 1988). To be sure, intrinsic motivation, or the reward or satisfaction one gets from work itself, is an important determinant of employee behavior and performance. Enriched jobs experienced as meaningful and affording autonomy and feedback can spur effort and performance (Fried & Ferris, 1987). Research on self-determination theory reveals work that allows people to satisfy their need for autonomy, competence, and relatedness foster internal motivation (Ryan & Deci, 2000). And a growing body of research on public service motivation (PSM) shows the opportunity to do work that satisfies people's desire to serve the public and promote the public interest can increase employee performance (Ritz et al., 2016). However, contingent and especially noncontingent pay can crowd out intrinsic motivation and PSM (Deci et al., 1999; Frey & Jegen, 2001; Georgellis et al., 2011).

Specifically, we argue paying higher wages can lead to higher organizational performance by enabling organizations to attract and hire talented employees, motivating employees to exert greater effort and perform their jobs more effectively, and helping organizations retain competent workers. We describe these causal pathways linking pay to organizational performance in turn.

### 2.1 | Attraction and selection

In a dynamic environment where public organizations must compete not only with each other but also with nonprofit organizations and private firms for scarce human capital, offering good pay and benefits becomes a way to attract and hire skilled employees. Human capital is a strategic asset, with research showing public organizations that can hire a highly educated and skilled workforce generally perform better (Carmeli, 2004; Rainey & Steinbauer, 1999; Selden, 2008). Pay and benefits are tangible and observable organizational attributes employees use to compare employers and choose the most desirable one (Gerhart et al., 2003).

According to signaling theory, organizations convey positive information to prospective employees about qualities and attributes that make them attractive places to work (Connelly et al., 2011). When faced with imperfect information about employers, employees use signals, and cues transmitted by organizations during recruitment activities—like pay and benefits, advancement opportunities, and image or brand—to draw conclusions about their capabilities and motives (Rynes, 1991). An employer's ability to offer higher pay, in addition to the prospect of higher utility, signals to job seekers that it is an especially capable and successful organization, giving it an advantage over others (Cable & Judge, 1994; Rynes, 1991). Higher pay also conveys a sense organizations value and invest in their employees and appreciate their contributions (Cable & Judge, 1994). Employees who see themselves as highly capable and committed are more likely to consider high pay a salient attribute of organizations, make positive attributions

of them, and identify with them (Celani & Singh, 2011). They are also more likely to perceive a fit between their values and those of organizations, making them seem more attractive places to work (Cable & Judge, 1994). Moreover, signals about pay, benefits, and other organizational attributes that are transmitted during the recruitment process help shape the psychological contract between employee and employer, an implicit agreement of reciprocity that can foster commitment and positive extra-role behavior (Suazo et al., 2009).

Experts largely agree pay level is positively related to the quality and quantity of job applicants and to the likelihood job offers are accepted (Gerhart et al., 2003). Barber and Roehling (1993) found pay level and benefits were among the most important factors people noticed in job announcements. Aiman-Smith et al. (2001) found a strong positive link between pay and a person's active intention to pursue a job with an organization, including searching for additional information about the organization, contacting it, and securing an interview. Cable and Judge's (1994) analysis revealed pay to be the strongest predictor of both the attractiveness of an organization and pursuit by employees. It is important to note that while high pay appears to be attractive to most individuals, research suggests it is especially attractive to people who are extrinsically motivated (Clugston et al., 2000) and materialistic (Cable & Judge, 1994).

## 2.2 | Work motivation

Pay has figured prominently in work motivation theory. Organizational behavior modification (OB Mod), which is based on operant conditioning principles, emphasizes using reinforcements instead of punishments to change employee behavior. Proponents of OB Mod point to empirical findings of its efficacy at improving performance and efficiency, reducing absenteeism, and discouraging deviant workplace behavior (Stajkovic & Luthans, 1997). While there are many positive outcomes of behavior that can act as effective reinforcements, including recognition and feedback, research points to pay as a powerful reinforcement. As Stajkovic and Luthans (2001) explain, money can motivate people by increasing their utility, conveying information about desirable behavior and anticipated performance, and facilitating social comparisons for self-regulation of behavior. Their own research revealed that as an incentive to improve performance, pay had about twice the impact of recognition and feedback.

Like OB Mod, expectancy theory rests on the notion people are utility maximizers motivated to accomplish a task if they expect to receive a desirable reward for their effort. The theory, which has received substantial empirical support (Latham, 2012), posits anticipated work motivation is the product of three factors: expectancy, instrumentality, and valence (Vroom, 1964). Expectancy is the strength of the expectation effort will result in accomplishment of a task. Instrumentality refers to the probability accomplishment of the task will lead to a desired outcome like a reward. And valence is the expected value of an outcome or reward for accomplishing a task. Offering more desirable rewards raises the expected value gained from task performance, thereby increasing motivation. Among the various preferences people have for outcomes of task accomplishment, pay stands out as particularly important. Pay is a highly desirable reward and important work motive, more desirable than what people often report on surveys, although its influence varies according to various factors like personality, occupation, and when there is variability in pay in an organization (Rynes et al., 2004).

Pay also plays an interesting role in goal setting theory, one of the most successful and well-confirmed theories of work motivation (Latham, 2012). Studies offer compelling evidence specific and challenging goals increase performance when people are committed to the goals and find them significant (Latham, 2012; Locke & Latham, 1990). Pay enters into goal setting theory through its influence on characteristics of goals and goal commitment (Locke et al., 1988). Research indicates financial rewards encourage people to set more specific and difficult goals and raises goal commitment, particularly when the attractiveness of financial incentives increases (Riedel et al., 1988).

## 2.3 | Retention

So far, the discussion has focused on the need to motivate employees to join and exert effort. Barnard (1938) and Simon's (1947) notion of organizational equilibrium, or the need to strike a balance between employee contributions

and inducements, alludes to the importance of also motivating employees to stay and continue contributing to the organization. Voluntary turnover can be costly and disruptive to organizations, impairing their performance. The costs of recruiting, selecting, and training a successor can run upwards of 200% of an employee's annual pay (Allen et al., 2010). Voluntary turnover can also lead to loss of institutional knowledge and memory and declining productivity and morale among those who choose to stay. Indeed, studies show a negative relationship between turnover rate and organizational performance (Park & Shaw, 2013). Higher pay allows organizations to remain competitive by retaining skilled and experienced employees in whose development they have invested and who would be difficult to replace.

Researchers have identified a range of antecedents of voluntary turnover, including pay level and pay satisfaction (Griffeth et al., 2000; Rubenstein et al., 2018). While the evidence points to a modest negative relationship between pay and turnover that is moderated by various factors such as social identity, occupation, and industry, it suggests offering higher pay is an effective approach to retaining employees. In addition, pay is positively related to both job satisfaction (Judge et al., 2010) and organizational commitment (Meyer et al., 2002), both of which are important mediating factors in the voluntary turnover process and are negatively related to turnover (Griffeth et al., 2000; Rubenstein et al., 2018). Thus, pay level can impact turnover both directly and indirectly through its influence on these two work-related attitudes.

The foregoing discussion would seem to apply more to public sector employees, but those who study pay for elected officials offer similar reasoning for why higher pay would improve governmental performance. Gagliarducci and Nannicini (2013) note that according to efficiency wage theory, higher pay for politicians should improve performance by attracting higher quality candidates and making elected officials more motivated and responsive to voters by increasing the costs of being voted out of office. Studies reveal pay for politicians is positively linked to education levels of candidates (Gagliarducci & Nannicini, 2013; Kotakorpi & Poutvaara, 2011), participation of female candidates running for office, and performance of elected officials while in office (Di Tella & Fisman, 2004; Gagliarducci & Nannicini, 2013). Increasing wages for elected officials may also encourage retention among politicians, although the evidence suggests the effect of pay on the likelihood of running for re-election is modest (Diermeier et al., 2005). It should be noted, however, researchers have also developed counterarguments for the link between politician pay and performance. Caselli and Morelli (2004) argue low-quality citizens may be more motivated to seek elected office because of their lower market wages, thereby crowding out higher-quality citizens from electoral politics. Besley (2004) raises further doubt about the link between pay for politicians and performance, noting pressure from multiple political principals results in mixed and ultimately flat incentives; many politicians also show a willingness to exert effort without the need for financial rewards.

In our empirical analysis, we explore the possibility the relationship between pay and performance is curvilinear. Different strands of motivation theory shed light on this matter. According to Motivation Crowding Theory, pay can improve performance through its disciplinary effect, as well as hinder performance by crowding out intrinsic motivation (Frey & Jegen, 2001). Pay may have to rise significantly to the point where intrinsic motivation is completely crowded out before the disciplinary effect takes hold and performance begins to increase, suggesting a convex relationship. On the other hand, self-determination theory posits pay can have both a positive confidence-building effect enabling employees to satisfy their need for competence and a controlling effect hindering satisfaction of the need for autonomy (Deci et al., 1999). The controlling effect may be weaker when pay is low but become stronger at higher levels of pay. We might expect, therefore, a concave relationship between pay and performance, with salary increases up to a certain amount promoting confidence and self-esteem more than undermining autonomy; as pay rises beyond a moderate level, however, it is increasingly experienced as controlling and begins to negatively affect performance.

### 3 | WHO SHOULD GET PAID MORE?

To develop theory and offer sound policy advice, it is not enough to know higher pay can improve organizational performance. Due to budget constraints, we also need to know whose pay to increase since it may not be possible

or even necessary to raise wages for every governmental actor. For several decades, policy implementation scholars have engaged in a lively debate over who contributes more to the success of public programs, elected officials and political appointees or street-level bureaucrats (Hill & Hupe, 2014). This debate, often referred to as the top-down, bottom-up debate, provides a window into whose pay should be raised to improve organizational performance.

Top-down writers, who treat policy implementation as rational planning and control, see policymakers playing the dominant role by way of their authority to design policies, structure implementation processes, and ensure compliance with formal policy objectives. Success is viewed in terms of fidelity on the part of implementing officials and consistency between actions on the ground and the intent of those who formulated the policy (Mazmanian & Sabatier, 1983; Van Meter & Van Horn, 1975). To achieve this, elected officials can set clear and consistent goals; develop a sound plan of action; establish decisions rules and responsibilities; assign implementation to sympathetic agencies; monitor the behavior of implementing officials; and marshal financial, material, and human resources (Mazmanian & Sabatier, 1983; Van Meter & Van Horn, 1975). Sitting atop of government, elected officials also enjoy a strategic vantage point that enables them to identify and respond to unforeseen obstacles and orchestrate coordinated responses (Van Meter & Van Horn, 1975; Mazmanian & Sabatier, 1983). It would seem, therefore, paying higher salaries to elected officials would be critical to improving organizational performance.

In contrast to the top-down perspective, bottom-up scholars see policy implementation as largely problem solving and mutual adjustment between the policy and conditions on the ground, requiring considerable effort, skill, and flexibility on the part of bureaucrats (Hjern & Hull, 1982). For even the most smartly conceived policies, successful implementation depends not so much on design and control as on the ability of implementers to make adjustments and improvements to a policy so that it fits the local setting (Berman, 1978; Lipsky, 1980). Policies are often vague, requiring implementers to engage in trial-and-error to learn what can be achieved and how (Browne & Wildavsky, 1984). Moreover, much of the action depends on continuing negotiations and comprise among implementers representing interdependent organizations playing complementary roles. Hence, if the success of programs depends largely on the abilities and discretion of bureaucrats most knowledgeable about the functioning of policies, conditions on the ground, and needs of citizens, dedicating scarce resources to increase their pay would have the most significant impact on organizational performance.

Some policy implementation scholars have sought to find a middle ground in this debate by reconciling competing claims and recognizing policymakers as well as implementers contribute significantly to success. Goggin et al. (1990) posit implementation success rests largely on a combination of inducements and constraints by policymakers and the capacity and will to act among implementing officials. Stoker (1991) notes the diffuse distribution of resources, knowledge, and authority in governance and the need for ongoing collaboration between actors at all levels to accomplish shared goals. Those studying the role of networks in implementation, while recognizing the authority policymakers have to establish goals, proscribe structures and behavior, and fund initiatives, note they are but one in a web of interdependent actors who come to rely on others to do much of the difficult work of implementing programs (Kickert et al., 1997). In a similar vein, a complementary view of the relationship between politics and administration sees politicians and public administrators playing overlapping policymaking and managerial roles, sharing responsibilities, and engaging in a process of reciprocal influence leading to good governance (Svara, 1999). Based on the foregoing logic, therefore, there is reason to believe increasing the pay of both elected officials and bureaucrats is needed to improve organizational performance.

## 4 | SOUTH AFRICAN LOCAL GOVERNMENT

South Africa, our research setting, has a quasi-federal system of government comprised of national, provincial, and local spheres of government. The system entrenches certain functions and powers in local governments and grants them authority to make their own policies, levy taxes, and appoint personnel (Madumo, 2015; Palmer et al., 2017). Local governments, with the support of national departments, are responsible for providing electricity, water, solid

waste, and sanitation services to residents and engage in a variety of activities toward that end, including developing and maintaining infrastructure; consulting with communities; metering and billing for services; disposing of waste; and mitigating environmental effects (Palmer et al., 2017).

In the local sphere of government, the civil service is guided by merit principles in appointment, evaluation, remuneration, and removal of bureaucrats. The Constitution calls for a public service that is accountable, efficient, effective, impartial, fair, and equitable in the provision of services (Republic of South Africa 1996). According to the Local Government: Municipal Systems Act, high-level political appointees must have the skills and abilities to perform their duties efficiently and effectively. A 2022 amendment to this act seeks to strengthen merit principles and depoliticize the civil service by barring high-level managers from holding office in political parties and preventing reappointment of managers dismissed for misconduct. Nevertheless, evidence points to human resource management in local government becoming politicized. Surveys of local government employees reveal disturbing levels of political interference in personnel decisions, including selection, compensation, and promotion (Dzansi et al., 2016). And, cadre deployment, the practice of appointing party loyalists to high-level management positions, is believed to have eroded merit and fostered mismanagement and corruption (Habib, 2013).

Since the end of apartheid, the three spheres of government have worked together to achieve dramatic gains in access to electricity, water, solid waste, and sanitation (Fernandez, 2020). However, many municipalities struggle to repair and maintain infrastructure and meet rising demand for basic public services due to rapid urbanization (Habib, 2013; Palmer et al., 2017). Provision of electricity, water, solid waste, and sanitation pose different challenges to local governments in South Africa. Electricity is unique in that municipalities rely extensively on partial or complete outsourcing to deliver the service. Just over 60% of municipalities outsource electricity while 6% or fewer outsource provision of the other three services. Provision of water and sewage are especially capital-intensive, requiring large investments in materials, land, equipment, and technology to develop and maintain infrastructure connecting customers to natural resources (Palmer et al., 2017). These two services require fewer frontline employees and place a premium on the highly specialized skills of managers, planners, engineers, and architects. Importantly, solid waste stands out as being the most labor-intensive service, requiring large numbers of frontline employees to exert considerable physical effort to perform the painstaking work of collecting, sorting, disposing, and recycling waste (Dlamini et al., 2019). Our empirical analysis will explore if these differences in the nature of the work involved in delivering a service have a bearing on the relationship between pay for bureaucrats and organizational performance. For instance, pay for bureaucrats may matter least in the case of electricity since municipalities depend on contractors to a large extent to provide this service. Conversely, increasing pay for bureaucrats could have the greatest impact when large numbers of frontline employees are engaged in strenuous work to provide solid waste collection and disposal.

## 5 | METHODOLOGY

We analyze the relationship between pay and organizational performance using 5 years of panel data from South African municipalities (2011–2015). Organizational performance is conceived of broadly to capture stakeholder expectations of both *competence* and *responsiveness* or accountability on the part of public organizations. While there are a variety of ways to conceptualize the performance of public organizations, Rainey et al. (2021) argue these can be organized under two general performance criteria: competence, meaning the expectation public organizations perform in an efficient, effective, timely, reliable, and reasonable manner, and responsiveness, referring to the expectation public managers are accountable to political principals, adhere to the rule of law and ethical standards, and take fair and impartial action. In our analysis, we measure *competence* using four indicators of how effective South Africa municipalities are at providing four basic public services: electricity, water, solid waste, and sanitation. Effectiveness appears to be the most widely considered performance criteria in public management research (Walker & Andrews, 2015), with previous studies using measures of service delivery effectiveness like ours



**TABLE 1** Descriptive statistics

Variables	N	Mean	Std. dev.
Electricity access	891	213.02	73.87
Water access	812	231.51	78.09
Solid waste access	1095	151.79	101.40
Sewage access	812	211.83	79.52
Unauthorized expenditures (R'000)	843	68,026.86	156,777.10
Irregular expenditures (R'000)	1081	60,155.86	168,965.70
Fruitless & wasteful expenditures (R'000)	991	4933.39	21,637.55
Pay for elected officials (R'000)	1372	310.24	120.38
Pay for bureaucrats (R'000)	1312	261.53	136.81
Electricity outsourced	896	0.61	0.49
Water outsourced	812	0.06	0.24
Solid waste outsources	1100	0.04	0.19
Sewage outsourced	812	0.04	0.20
Population	1372	435,000,000,000.00	2,100,000,000,000.00
Percent population black	1372	0.91	0.08
Per capita income (R'000)	1372	4.73	0.79
Anc control	1372	0.66	0.47
Total employees	1372	984.68	3334.02
Vacancy rate	1372	0.17	0.23
Total revenues (R'000)	1372	1,078,817	4,339,249
Budget balance (R'000)	1327	76,571.89	437,009.90
Clean audit	1372	0.14	0.35

(e.g., Avellaneda, 2016; Wightman et al., 2022). Access to these public services is a right granted by the South African Constitution (Palmer et al., 2017). Specifically, we calculated the number of access points per 1000 municipal residents for each of these services (see Table 1). Access points consist of both domestic and non-domestic (business) customers, including single-family homes, communal homes, public facilities in which neighborhood residents share access, and business establishments. South African local governments track and report these access points to Statistics South Africa for its annual nonfinancial census of municipalities, the source of data for these dependent variables.

We also examine the impact of pay on organizational performance conceived of as responsiveness or accountability. We measure *responsiveness* using three indicators of unauthorized, irregular, and wasteful and fruitless expenditures. According to the Municipal Finance Management Act (MFMA), unauthorized expenditures constitute spending on items not authorized by the local council or spending on items beyond the amounts authorized by the local council (e.g., procuring goods and services that are not budgeted for by the local council or filling positions not authorized by the local council). This measure captures Romzek and Dubnick's (1987) notion of legal accountability, or the form of accountability by which political principals control bureaucratic agents through means such as legislation and oversight. In the case of unauthorized expenditures, the political principal is the local government council, a proximate actor that authorizes spending and works closely with the municipal bureaucracy, actively overseeing its actions. In contrast, irregular expenditures are defined in the MFMA as spending not in accordance with applicable national legislation pertaining to financial management, procurement, and related functions (e.g., using non-competitive and unfair procedures to procure goods and services or granting employees unmerited rewards for



performance). This is another form of legal accountability, but in this case, to the national parliament, a more distal actor that passes laws pertaining to financial management and procurement, but one that does not regularly interact with municipal bureaucrats. Finally, fruitless and wasteful expenditures are those made in vain or without achieving the desired aim and that would have been avoided had reasonable care been exercised (e.g., purchased goods or services not needed by the municipality or that prove to be ineffective). These expenditures relate to Romzek and Dubnick's (1987) idea of professional accountability, or public managers holding subordinates accountable for doing what is expected. For all three of these measures of responsiveness, an increase in expenditures signifies a loss of accountability.

The MFMA requires the municipality's accounting officer to record every unauthorized, irregular, and wasteful and fruitless expenditure and its amount; provide a reason for why it was made; identify the person responsible for making it; investigate to determine if fraud, corruption, or a criminal act was committed; explain any steps taken to recover assets; and explain if disciplinary actions were taken against the responsible party. Financial records and statements, control systems, and compliance with legislative requirements are audited by each municipality's internal auditor and audit committee throughout the year before the South African Auditor-General conducts its own external audit of these and other aspects of financial management once the fiscal year has concluded. Unauthorized, irregular, and fruitless and wasteful expenditure amounts are subsequently reported in the Auditor-General's annual consolidated general report on the local government audit outcomes, which states the audit process is designed to assess compliance or accountability and not service delivery effectiveness (see Auditor-General of South Africa, 2016).

Our theoretical argument for why pay increases performance should hold for expectations of both competence and responsiveness. Higher pay can attract competent and experienced employees with technical skills and expertise as well as those who possess knowledge of laws, regulations, and political actors with influence over public organizations. As a powerful incentive, pay can also motivate employees to act competently and responsively because of the potentially costly consequences of poor performance and noncompliance, including demotion and separation. That being said, we will explore the possibility suggested by motivation crowding theory and self-determination theory that the relationship between pay and measures of both competence and performance is curvilinear.

The independent variables are the average annual salary paid to bureaucrats employed by the municipality and average annual salary paid to elected members of the municipal council, in South African Rand. The variables were created using data from Statistics South Africa's annual Financial Census of Municipalities.

We control for various factors that may be related to both performance and pay, starting with characteristics of the municipal government: number of employees (logged), total revenues, budgetary balance at end of year, and the employee vacancy rate. These variables are measured using data from Statistics South Africa's nonfinancial census of municipalities and financial census of municipalities. Because a local government's responsibility for delivering a service does not preclude it from outsourcing it, dichotomous measures for whether each service is outsourced are included in the models. These variables were created using data from Statistics South Africa's nonfinancial census of municipalities. We also control for whether the municipality received a clean audit using data from the Auditor-General's annual Municipal Management Finance Act consolidated general reports. A dichotomous measure for whether the ANC party makes up a majority of the municipal council helps to account for political factors that may shape personnel processes and policy outcomes. The data for this variable was obtained from the Electoral Commission of South Africa. Using data from Statistics South Africa on the demographic characteristics of municipalities, we control for population, percent of the population that is black, and per capita income. Finally, dummy variables for years are included in the models.

To estimate the impact of pay on access to public services, we use an unbalanced panel consisting of all South African local governments (metropolitan municipalities, local municipalities, and district municipalities) responsible for providing electricity, water, solid waste, and sanitation services from 2011 to 2015. Not every local government in South Africa is responsible for providing these services. Since there are overlapping jurisdictions in the local sphere in South Africa, officials from local municipalities and the corresponding district municipality work together to

determine responsibility for providing each of these services. From 2011 to 2015, there were 891, 812, 1095, and 812 municipalities responsible for providing electricity, water, solid waste, and sanitation, respectively. To estimate the effectiveness of pay on unauthorized, irregular, and fruitless and wasteful expenditures, we use an unbalanced panel consisting of South African local governments with an official audit outcome from 2011 to 2015. During that period of time, there were 843, 1081, and 991 municipalities for which the Auditor-General reported unauthorized, irregular, and fruitless and wasteful expenditures, respectively.

All regression models are estimated using two-way fixed effects for local government and year, along with robust clustered standard errors, in Stata 16. The use of local government fixed effects enables us to control for all time-invariant characteristics of local governments related to both the independent and dependent variables, thereby reducing omitting variable bias.

## 6 | FINDINGS

We begin by examining the relationship between pay for politicians and access to electricity, water, solid waste, and sewage, four competence measures of organizational performance. In no instance did we find the level of pay for members of the municipal council was related to access to these public services, as the coefficient for *pay for elected officials* failed to achieve statistical significance in Models 1–4 (see Table 2). We also explored the possibility pay for elected officials has a nonlinear relationship with service provision by performing a quadratic transforming of *pay for elected officials* and inserting the new term in Models 1–4 (regression results not shown but available from authors). In all four models, however, the quadratic term failed to achieve statistical significance.

Shifting the focus to bureaucrats, we find some evidence paying them more can improve organizational performance defined in terms of competence. Pay for bureaucrats is not related to access to electricity, water, or sewage. However, the coefficient for *pay for bureaucrats* is 0.02 and statistically significant at  $p < 0.05$  in Model 3 predicting solid waste, indicating paying bureaucrats more increases access points to solid waste per 1000 residents. The range in *pay for bureaucrats* is from R31,000 to R1,860,000, with a number of smaller and less urbanized local municipalities having the lowest pay and larger and more urbanized municipalities, particular metropolitan municipalities, paying higher wages. Moving across the full range of *pay for bureaucrats*, from lowest to highest pay, results in an increase in the number of access points per 1000 residents to solid waste by roughly 37. When one considers families living together in one dwelling share one access point (e.g., garbage produced by everyone living in a house is collected at one location) and the average family size in South Africa is 3.2 (Population Reference Bureau, 2022), moving across the full range of *pay for bureaucrats* can mean more than 100 out of 1000 residents gaining access to solid waste. Using the same logic but the standard deviation instead of the range (which includes outliers), an increase from minus three to plus three standard deviations results in more than 50 out of 1000 residents in many municipalities gaining access to solid waste. Either way, these estimates show paying bureaucrats more can have a meaningful impact on access to this important service.

In short, increasing pay for bureaucrats appears to be an effective strategy for improving service delivery only in the case of solid waste, the most labor-intensive of the four services examined. When public organizations rely heavily on outsourcing, as is the case with electricity, specialized contract management skills and abilities probably have a greater bearing on outcomes than what gets paid to frontline bureaucrats who comprise the overwhelming majority of the South African municipal workforce. The provision of capital-intensive services like water and sanitation also does not appear to improve as a result of across-the-board increases in pay, much of which is received by frontline employees. When it comes to such services, more targeted pay increases for highly-skilled managers and those with engineering and technical expertise may be a more effective strategy. Provision of capital-intensive services also necessitates sufficient funds for materials, equipment, and technology along with the capacity to effectively and efficiently procure them. In contrast, higher wages overall may improve provision of solid waste and other labor-intensive services like street cleaning, landscaping, and building maintenance by enabling organizations to

**TABLE 2** Two-way fixed effects (municipality and year) regression results

Independent variables	Dependent variables						
	Model 1 Access to electricity Coef.	Model 2 Access to water Coef.	Model 3 Access to solid waste Coef.	Model 4 Access to sewage Coef.	Model 5 Unauthorized expenditures Coef.	Model 6 Irregular expenditures Coef.	Model 7 Fruitless and wasteful expenditures Coef.
Pay for elected officials	0.04	-0.00	0.03	0.08	-107.52	156.72	8.96
Pay for bureaucrats	0.01	-0.00	0.02**	0.01	-152.21*	140.51**	-17.60
Electricity outsourced	1.94						
Water outsourced		4.66					
Solid waste outsourced			0.98				
Sanitation outsourced				-5.32			
Population	-255.34***	-195.37***	-151.24**	-173.58***	-80,397.15	148,288.40	5247.86
Percent population black	2139.93***	2096.83**	1599.32**	1865.90**	1,060,810.00	2,820,654.00*	-425,880.10
Per capita income	16.15**	13.68	15.80**	10.98	-14,505.98	28,912.05**	-840.28
Anc control	21.28**	50.90*	24.99***	37.20*	-18,362.07	63,955.13	29.91
Total employees	-0.00	0.00	0.02***	0.00	-47.00	127.04***	-3.47
Vacancy rate	9.12	2.51	1.41	7.24	43,127.88	33,770.85	3981.46
Total revenues	-0.00	-0.00*	-0.00	-0.00***	0.12*	-0.02	0.00
Budget balance	0.00	0.00	-0.00	0.00**	-0.19***	0.03	-0.01*
Clean audit	10.71	4.03	6.50	11.54	8954.29	-26,779.17***	-1879.30
Constant	1166.87	582.20	337.16	503.63	160,164.10	-4,670,154.00**	343,201.90
N	702	640	868	640	825	1052	963
Within R-squared	0.13	0.18	0.14	0.19	0.15	0.06	0.03
F (sig.)	4.88 (0.000)	4.09 (0.000)	3.78 (0.000)	3.08 (0.001)	3.38 (0.000)	2.50 (0.001)	2.33 (0.003)

Note: Year dummy variable coefficients not shown.

\* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ .

attract and retain large numbers of lower-skilled employees and motivate them to perform physically demanding work, particularly outdoors.

Like with pay for elected officials, we performed a quadratic transformation of *pay for bureaucrats* and inserted the new term in Models 1–4 to determine if there is a nonlinear relationship between pay and performance (regression results not shown but available from authors). In no case did the quadratic term achieved statistical significance. Hence, we found no indication municipalities may have to offer a certain level of pay to elected officials or bureaucrats before realizing improvements in access to public services or that paying too much may be inefficient and hinder service provision, possibilities suggested by crowding out theory and self-determination theory. In addition, we tested an interaction between *pay for elected officials* and *pay for bureaucrats* (regression results not shown but available from authors) in Models 1–4. However, none of the interactive terms was significant.

Next, we estimated the impact of pay for elected officials and bureaucrats on unauthorized, irregular, and fruitless and wasteful expenditures, three responsiveness measures of organizational performance. Pay for members of the municipal council is unrelated to unauthorized, irregular, and fruitless and wasteful expenditures, as the coefficient for *pay for elected officials* failed to achieve statistical significance in Models 5–7. The coefficient for *pay for bureaucrats* is not statistically significant in Model 7. However, *pay for bureaucrats* has a negative coefficient in Model 5 (–152.21) that is statistically significant at  $p < 0.10$  and a positive coefficient in Model 6 (140.51) that is statistically significant at  $p < 0.05$ . That is, an increase in pay reduces unauthorized expenditures while increasing irregular expenditures. Using the same method described above, moving across the range of *pay for bureaucrats* reduces unauthorized expenditures by around R278,000,000 and increases irregular expenditures by about R257,000,000. These results indicate higher pay can make bureaucrats more responsive to the local council by reducing expenditures not authorized by this body, a principal who directly and regularly oversees the decisions and the actions of bureaucrats. However, the evidence is stronger in regard to statistical significance that higher pay makes bureaucrats less responsive to the national parliament. Parliamentarians in Cape Town make laws pertaining to public spending and procurement but interact with local officials at a distance and infrequently, increasing asymmetry of information and making it harder for them to monitor and influence the behavior of agents spread out throughout the country.

Our study appears to have uncovered evidence of an unintended consequence of higher pay for bureaucrats, namely, that it can encourage unwarranted risky behavior and circumvention of statutory and regulatory controls, especially when principals seek to control agents from afar. One possible explanation is paying bureaucrats more, by enhancing their status within local governments, encourages deviant behavior since employees with higher status are more likely to escape sanctions (Wahrman, 2010). The psychology of money suggests another possibility. Higher pay may incentivize employees to break or evade rules that impede innovative improvements in service delivery in order to gain additional financial rewards and increase their salary even further. This bears a resemblance to the impulse to accumulate or hoard money (Bouissac, 2006). From an evolutionary perspective, the behavioral predisposition to hoard or accumulate copious amounts of potentially useful objects becomes advantageous by increasing the odds of survival during times of scarcity (Bouissac, 2006). Lea and Webley (2006), offering a different take, propose a drug theory of money to explain how money can become a strong motivator even though its acquisition does not produce fitness gains from a biological perspective. Because of the affective response it engenders resulting from gratification, money develops an incentive power that mimics the neural, psychological, and behavioral action of natural incentives similar to chemical drugs (McClure et al., 2004).

As with models predicting access to public services, we explored if *pay for elected officials* and *pay for bureaucrats* had nonlinear relationships with unauthorized, irregular, and fruitless and wasteful expenditures. The results (not shown but available from the authors) show none of quadratic terms achieve statistical significance. We also tested for an interaction between *pay for politicians* and *pay for bureaucrats*. All of the interaction terms failed to achieve statistical significance except in Model 5 for predicting unauthorized expenditures (coefficient of –1.60,  $p < 0.01$ ). However, since neither the linear term *pay for politicians* or *pay for bureaucrats* achieves statistical significance at  $p < 0.05$  in this model, we find no convincing evidence of an interaction.

Finally, turning to the control variables, a change in party control of the municipal council from an opposition party to the ANC increases access to electricity and solid waste. An increase in population reduces access to all four services, suggesting it is harder to reach all residents in sprawling municipalities. An increase in per capita income is positively related to greater access to electricity and solid waste. And having a larger budget balance at the end of the fiscal reduces unauthorized expenditure and fruitless and wasteful expenditures.

## 7 | CONCLUSION

Despite the recurrent focus on pay as an incentive and the myriad reforms of public sector compensation, it is surprising how little research has been done on the effect of pay level on organizational performance (Gardner et al., 2004; Gerhart et al., 2003; Perry, 2021). It seems intuitive that increasing pay for public officials can improve governmental performance, especially since research indicates offering higher wages enables organizations to attract, motivate, and retain capable employees (Connelly et al., 2011; Griffeth et al., 2000; Rubenstein et al., 2018; Rynes, 1991; Stajkovic & Luthans, 2001). However, the limited evidence that is available on the impact of pay level on performance, nearly all of it obtained from studies of private firms, is inconclusive (Gardner et al., 2004; Gerhart, 2017; Newman et al., 2016). Our findings reveal that in certain instances, increasing the pay of bureaucrats can indeed improve organizational performance. Specifically, increasing the average salary of bureaucrats appears to be an effective strategy for improving delivery of labor-intensive services like solid waste collection that depend on large numbers of frontline employees engaged in strenuous work. However, for more capital-intensive services, across-the-board pay increases seem to contribute less to success than would more targeted increases in pay for those with high-level managerial and technical knowledge and skills. Even in the case of solid waste collection where we find pay for bureaucrats matters, the influence of pay is modest as one would expect, considering how many other factors like organizational structure, external support, and resources also influence performance.

The analysis offers no evidence that pay for elected officials is linked to organizational performance. This stands in contrast to claims paying politicians more can improve governmental performance by attracting more qualified candidates, improving their performance while in office, and keeping them involved in politics (Di Tella & Fisman, 2004; Diermeier et al., 2005; Gagliarducci & Nannicini, 2013; Kotakorpi & Poutvaara, 2011). This finding should be interpreted with caution, however, as the importance of pay for elected officials likely depends on context. In the case of well-established basic public services like water, electricity, and sanitation benefiting the entire population and for which there is significant demand, elected officials play a lesser role in implementation than bureaucrats, especially in countries like South Africa where the constitution entitles residents to receive these services. When it comes to launching new policy initiatives and implementing more complex programs, however, pay for elected officials may be more critical. Under such circumstances, paying elected officials more could attract more competent and innovative citizens to politics and motivate them once elected to undertake the difficult job of designing and launching new programs, building enduring political support for them, and breaking through implementation barriers.

Since employee wages comprise a considerable share of public expenditures, it is tempting to want to cut the pay of public employees during severe economic downturns or emergencies like the COVID-19 pandemic to provide fiscal relief. Compared to reductions in force, wage cuts can be implemented with relative ease and are less likely to elicit political opposition from employees and unions (IMF, 2022). The findings suggest, however, such cuts would be unwise when it comes to delivering labor-intensive public services (see also Jugl, *Forthcoming*). If borrowing or other measures are not sufficient and a reduction in wages becomes necessary, the World Bank (2020) recommends delaying cuts until a country enters a recovery and avoiding across the board cuts to protect the wages of employees providing essential services. Also, wage cuts can be made temporary, delayed, or avoided altogether by taking measures that would have less of an impact on organizational performance, such as by relying more on outsourcing, introducing hiring freezes, and offering voluntary severance packages (World Bank, 2020).

Importantly, the findings reveal paying bureaucrats higher wages can have unintended consequences in regard to accountability, particularly when political principals are far removed from bureaucratic agents, exacerbating the problem of asymmetry of information. Higher pay appears to motivate bureaucrats to improve service delivery outcomes, but one way they may do this is by abusing their delegated authority to spend public money, evading legislative restrictions on how financial resources are allocated to achieve results. South African local governments are under tremendous pressure to provide public services like water and sanitation that help meet the most basic physiological needs of the citizenry. Higher pay may enable bureaucrats to become more effective at meeting these needs, but with higher pay should also come greater accountability, not just for achieving results but for ensuring bureaucrats are responsible stewards of public funds through routine supervision and oversight.

One limitation of this study that future research should address is the inability to observe the manner in which an increase in pay improves organizational performance. Additional work is needed to explore how employee attraction, motivation, and retention mediate the relationship between pay and organizational performance. The public workforce is comprised of various occupations, specialties, and levels of authority. It would be fruitful, for instance, to analyze whose pay among bureaucrats at different echelons is most critical to organizational performance. Finally, we examined the effectiveness of local governments at delivering basic public services. Future work should study the impact of pay level on effectiveness of more complex public services and functions like health and human services and regulation.

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## CONFLICT OF INTEREST

The authors have no conflicts of interest to declare.

## DATA AVAILABILITY STATEMENT

Authors' data file is not shared, but all sources of data are publicly available and data can be obtained electronically from sources identified in the study's methodology section.

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