

# EUROPEAN BEST PRACTICES IN PERFORMANCE RELATED PAY FOR PUBLIC SERVICE MANAGERS (SYNTHESIS PAPER)

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# 1. The aim of the study

The Istituto per la Ricerca Sociale (IRS Milano) was contracted by the Italian Dipartimento della Funzione Pubblica to realise a study on the European Best Practices in Performance Related Pay for Public Service Managers. In the terms of reference of the tender procedure explicit reference was made to the surveys carried out under the Luxembourg and Spain presidency (respectively in 1997 and 2002) and to the need to deepen the analysis through a collection of the successful cases of introduction of performance related pay (PRP) within the wider context of European public administration modernisation policy.

In particular it was stipulated that IRS should:

- prepare a template for the case studies
- help, if requested, the different Member States in selecting the cases to be investigated
- collect and analyse the answers from the members states
- prepare a synthesis report.

From the above sketched methodology as well as from the more general request from the Italian Government, it was clear that the aim of the study was not to make a comprehensive survey of the systems in use in the different countries and even less to make a full comparative exercise trying to explain the similarities and the differences between the MS, but rather to conduct an exercise in lesson drawing that, based upon the empirical evidence provided by the respondents, tried to highlight the most interesting aspects coming out of the analysis, the most original solutions provided to the common problem of rewarding performance, the obstacles found on the way of introducing PRP, as well as a more general assessment of the successes and failures experienced so far.

A “Comparative Survey of the Systems of Productivity-linked Remuneration that are Employed in the Civil Services of the Member States of the European Union (performance Related Pay)” was already prepared by the European Institute of Public Administration in the spring of 2002 and presented at the 38<sup>th</sup> Meeting of the Directors General of the Public Service in La Rioja. The existence of this report (and of a shorter one presented in 1997 again by EIPA in 1997, at the 29<sup>th</sup> meeting held in Luxembourg on the “basic Elements of the Remuneration System in Public Administration”) helped the preparation of the present study providing the background against which the new evidence could be evaluated.

The present report tries to concentrate on the major findings of the study, by this meaning not so much the common elements, but on the contrary, for instance, the solutions that seem particularly novel and the comments that appear to be original. In this sense it

presupposes the EIPA reports cited above and does not have the ambition to provide a comprehensive picture of the current situation.

This general goal is obviously a very ambitious one and cannot be reached fully, despite the fact that the boxes in the following pages provide ample excerpts of the material collected during the study. Given the fact that the response to the request of information by the Italian Presidency, was generally very good, and that some of the case studies provided by the different MS are truly excellent and well worth a careful reading, the present report can hardly do justice to the evidence collected. One can only congratulate the different authors, asking forgiveness for not being able to use more fully the material, and urge the commissioners of the present study and its readers to go back to the different answers that contain a wealth of experience able to provide inspiration well beyond what will be pointed out in the following pages.

## 2. The general situation

The general situation emerging from the answers is that the large majority of MS have some experience in PRP. This means that also in cases in which there is not a generalised provision that the remuneration of public service managers is linked to their performance, there are exceptions to the rule and there are public bodies that have developed special schemes in which performance is taken into consideration.

This is the case, for instance in Greece, where an interesting case concerning the National Telecommunications and Post Committee was reported. The same goes with Portugal (where the example provided is the remuneration system for the general practitioners in the Health Service) and in other countries as well.

This is very important because the same kind of problems tend to emerge everywhere and therefore to gain experience in a small, and even atypical, case can contribute to build the capacity to implement larger schemes.

In any case the majority of the 15 MS have a generalised provision of PRP. According to the norms and the practices reported this is true in Austria, Denmark, Finland, Germany, Italy, Ireland, Sweden and the UK. In some of the countries where such a provision does not exist, it is forecasted that it will be put in operation in the future: this is the case, for instance, of France and The Netherlands.

### **Box 1- The Netherlands: Reform of the payment system**

From a inquiry amongst managers and employees, held in 2001, it appeared that there is quite a lot of dissatisfaction with the existing pay policy. A conclusion from this inquiry is that the present pay system gives insufficient incentives to pay more in a conscious way (therefore more based upon performance). Considering the results of the inquiry .... by order of the minister of the Interior and Kingdom Relations a future study will take place about the modernisation of the pay system. Based upon this it is agreed in the agreement on terms of employment 2001-2002 to develop a new pay system for the central government. The core of the new system will be that on the basis of a uniform system there should be more payment based upon a proven development in competencies of employees and achieved result (output).

## **Box 2 - France: Conclusion générale sur les systèmes de rémunération à la performance dans l'Administration Française**

Ainsi, la performance est prise en compte dans les trois phases suivantes :

- ex ante, en sélectionnant les candidats à l'exercice de responsabilités supérieures qui semblent les plus aptes à les exercer ; ces emplois de responsabilité font, eux-mêmes, l'objet d'une "cotation" en fonction de leur importance,
- durant la période d'exercice de ces fonctions : une mauvaise performance entraînerait le retrait de ces fonctions, tandis que la prolongation au-delà de la première période de 3 ans est liée à des prestations suffisantes,
- ex post, la manière dont les responsabilités ont été exercées conditionnant l'attribution de responsabilités égales ou supérieures.

Des réflexions sont en cours pour aller plus loin dans le sens de la rémunération à la performance, et concernent essentiellement les emplois de directeur d'administration centrale. Un rapport récent d'un conseiller d'État préconise pour ces derniers emplois la mise en place de contrats de performance qui auraient pour corollaires la mise en œuvre d'un système de rémunérations modulées en fonction des résultats.

Au-delà du cercle des cadres supérieurs et dirigeants, le système de rémunération de l'ensemble des fonctionnaires est appelé à évoluer à brève échéance sous l'effet de deux séries de facteurs:

- le nouveau cadre juridique permettant d'évaluer les prestations fournies par les fonctionnaires, défini en avril 2002, verra sa mise en place achevée au 1<sup>er</sup> janvier 2005. Il se traduira par une procédure d'évaluation des résultats individuels plus objective et transparente ;
- l'entrée en vigueur de la nouvelle loi organique relative aux lois de finances (LOLF) au 1<sup>er</sup> janvier 2006 requiert la construction d'indicateurs de résultats qui exprimeront, de manière également plus objective et transparente, la performance des services. Dans ce contexte, l'architecture des rémunérations, et notamment celle des régimes indemnitaires, sera reconsidérée pour généraliser les pratiques de reconnaissance de la performance individuelle et prendre en compte la performance collective des services ou parties de services.

Cette orientation doit être mise en œuvre avec le souci d'assurer son rendement optimal (créer un instrument de motivation durable sans engendrer de lourdeurs excessives dans sa gestion ; éviter de dégrader l'ambiance au travail et le climat social dans des proportions telles que les effets bénéfiques du système en seraient diminués voire annulés).

However the fact that there is a generalised provision does not mean that in all the parts of central government the same system is necessarily in use. One of the findings of the study is that there is a wide variation in the real implementation of the schemes as well as in the norms actually applicable. This is certainly true, for instance, in Austria and Italy and it might also depend from the fact that the collective bargaining, also for managers, is often decentralised at the level of the individual agency.

Furthermore some of the experiences reported are fairly recent, and were implemented for the first time one or two years ago. This means, on the one hand, that it is difficult to provide a true assessment of their effectiveness, and, on the other hand, that it seems that there is a currently ongoing trend towards PRP, in the larger context of administrative modernisation.

In any case one should remember that PRP is not by all means the only way of considering performance, nor the only way to differentiate salaries in the public services.

In the first place performance can be assessed irrespective of the fact that there is a payment attached to it: this is the case, for instance of “fixed term” managerial appointments in Belgium.

### **Box 3 - Belgium: Management for the Federal Public Services**

In the system of fixed term appointments system for management and staff functions (“mandates”) it is compulsory to produce a personal **management and operational plan** (“business plan”) in which the managers establish the expectations and the means (finance, personnel and material). There is a final evaluation and there are 2 intermediate evaluations after 2 and 4 years; the criteria and the basis of evaluation are the management and operational plan’s results.

In the second place as a quite widespread way of rewarding performance one should certainly remember promotion and advancement.

### **Box 4 - Portugal**

The merit is rewarded by progression (change of echelon/increment in the same category) or promotion (access, by open competition, to a category immediately higher) as the system does not allow for the pay of additional remuneration linked to productivity or performance. The system only provides for a number of incentives to individual or team productivity provided they are of a non pecuniary nature (traineeships, scholarships, promotion irrespective of holding open competition).

Of particular interest, from this point of view, is Germany where a very detailed general norm regulates the possibility of promotion on the basis of merit, establishing, for instance, the maximum number of employees that can profit from this possibility (the 15% of the total yearly).

### **Box 5 - Germany: Section 27 BBesG**

In case of consistently outstanding performance it shall be possible for civil servants and military personnel of remuneration scheme A to advance to the next step as their basic salary (performance step). The number of performance steps awarded by the employer within one calendar year shall not exceed 15% of the civil servants and military personnel in employment with this employer under remuneration scheme A, who have not yet reached the final basic salary. If the performance of a civil servant or a member of the military does not comply with the general requirements of his/her position, he or she shall not move on to the next step in the basic salary until performance justifies such a move. The civil servant or member of the military may advance to this step after one year at the earliest given an appropriate level of performance during this period. The Federal and *Land* Governments shall be entitled to adopt by means of legal ordinances detailed provisions for their areas governing the awarding of performance steps and the delay of promotion. The legal ordinance may stipulate that an employer with fewer than seven civil servants in the meaning of sentence 2 may award the performance step to one civil servant in each calendar year. The legal ordinance of the Federal Government shall not require the consent of the *Bundesrat* (the chamber of the *Länder*).

Finally one should also remember that variability of pay in almost all the countries, at the managerial level, tends to depend more from job evaluation than from PRP. Some sort of differentiation of pay according to the different importance of the post exists everywhere, and it seems also a necessary precondition for the operation of a full fledged PRP system. As we will see, furthermore, in some systems the two dimensions of job evaluation and performance measurement tend to mix in a quite inextricable way, as in the case of individual pay in the Nordic countries. Also the creation of the *Nouvelle Bonification Indiciaire (NBI)* in France shows some links between performance assessment and job evaluation and in any case is considered a step towards PRP.

### **Box 6 – France: la NBI dans l’encadrement superieur**

Le principe de la NBI de l’encadrement supérieur lie la rémunération à l’emploi occupé. Il s’agit d’une réforme ambitieuse dans le dispositif actuel de rémunération des hauts fonctionnaires français puisqu’elle permet de mieux rémunérer les agents à qui l’on confie des tâches de responsabilité et de faire, ainsi, une différence entre des agents appartenant à un même corps et ayant la même ancienneté mais occupant des fonctions plus ou moins importantes. Cependant, le mérite étant apprécié, en amont, au moment de la nomination sur l’emploi, **on peut qualifier la NBI de l’encadrement supérieur de rémunération au mérite.**

The EIPA report cited above, contains a more detailed and comprehensive survey of the different systems in operation in the MS.

### 3. The PRP systems in use

By and large one can say that from the answers received one can detect the existence of two alternative PRP systems, as well as a third one that, being a combination of the two, represents a very interesting solution.

The first is the bonus system of which a very clear example can be seen in the following box concerning Finland.

#### **Box 7 - Finland: The Finnish Road Administration**

The Finnish Road Administration has an incentive pay system which is used as an incentive for the management and for management by result, and a reward model. This incentive pay is a bonus separate from other forms of pay, paid for compliance with result management agreements or attainment of the result targets set. In 2003, the bonuses of directors and regional directors are based 50% on the results of their profit unit and 50% on their personal result targets, while the bonuses of process directors are based 50% on the results of profit units and 50% on process development targets. The incentive pay system applies to the entire staff. Bonuses received under this system by an individual employee can come to a maximum of 5% of the annual wage. There is also a 'rapid results award', a separate bonus payable for outstanding results. This bonus can be a maximum of EUR 200. It can only be awarded to the same person twice in one year.

There are lot of possible variations between the countries, and sometimes within each of them, but one can safely say that the main bonus system characteristics are the fact that:

- it is periodic (usually yearly)
- it is linked to objectives and goals previously defined
- it is normally calculated as a maximum percentage of the current pay

Most of the countries that have a general provision about PRP have adopted the bonus: we find instances of this system, for instance, in Austria, Denmark, Finland, Germany, Ireland, Italy and the UK.

A very special case is represented by Greece where the National Telecommunications and Post Committee (EETT) employees have a sort of permanent bonus provided that their performance is not bad. In this case one could speak of a transitional system between the bonus and the individual pay system that seems to be justified mainly for the need to recruit very skilled people and therefore to offer competitive reward packages.

### **Box 8 - Greece: EETT**

The personnel of EETT, apart from the regular allowances and benefits are being granted monthly with an extra pay for its productivity and effectiveness.

This extra pay is distributed individually by decision of the EETT and can reach the 50% of the regular salary for the employees who don't hold managerial positions. For the employees in managerial posts it can reach the 80% of their salary. Especially, scientific personnel in leading positions have an additional increase in salary that reaches the 90% of its regular salary.

If the total salary is less than 1.500 € for the heads of departments or 2.300 € for the heads of Directions, then they are granted the sums in question.

It is marked that this extra bonus for productivity and effectiveness:

- does not have any relation with the regular payments and allowances given by the government budget.
- is granted every month.
- is given to the employee after three months from his appointment in the EETT.
- is a performance related pay so, the Committee takes into consideration the employee's qualitative and quantitative performance of duties, as well as the effective responsiveness to citizen's demands and needs.
- is reduced in half for two months for reasons involving the inefficient performance of the official duties. If the reduction of performance continues for more than two months then the extra payment completely stops.

But a more comprehensive system of individual pay is quite different as the following example, drawn from the Swedish answer, shows.

### **Box 9 - Sweden**

The system of performance related pay in Swedish government administration is integrated in our Individual and Differentiated Pay system. Generally it is more a system to evaluate and reward each employee's contribution to the agency mission and tasks than a traditional Pay for Performance System. It also contains a substantial flexibility to market demands on pay, not the least in recruitment situations. Nevertheless the system contains significant elements of evaluating the performance of employees.

The general principle is that pay should be individually determined and differentiated. The individual pay is set on the basis of:

- the difficulties and responsibilities inherent in the post,
- the performance of the employee (skill and results related to agency objectives),
- the market situation.

The social partners at central level have agreed upon that pay determination should support agency objectives, effective and rational operations. The agencies must also be able to recruit and retain the skills needed.

Basic factors for pay determination are the level of responsibility, the degree of difficulty and other demands connected to work as well as personal skill and results related to agency objectives. Local management and local trade unions consider the need for pay increases due to higher skill, more qualified assignments, higher work demands, higher competence and responsibility, promotion and performance. The results of pay determination should stimulate development and commitment, promote appropriate pay differentiation and be regarded as fair related to work results and performance.

The system demands that the management develops local pay policies that are generally transparent and recognised by most staff. A typical local pay policy:

- focuses on the agency's activities and objectives,
- supports the agency's ability to recruit and retain staff with adequate skills,
- clarifies how pay determination can motivate, develop and engage the staff in good work performance,
- defines criteria for pay determination,
- includes means in order to prevent discrimination.

A similar system is in operation in Finland, where the main principles of pay policy are that pay should promote efficiency in the state sector, and that must be based on fairness and equity, flexibility and conformity with the common labour markets. As a consequence it is stated that the individual agencies should try to implement graduated pay systems taking into account:

- the demands of the job (first component)
- individual work performance and professional skill (second component)
- the team performance (third component)

From this point of view the Finnish case shares with the Swedish one the preoccupation about providing competitive reward packages able to cope with the differences in regional labour markets as well as the rigidities deriving from the shortage of specific professional skills. However, in some cases it tries to combine this dimension with an assessment of the performance at the team level, as already seen in the case of the Finnish Road Administration (Box 7).

The advantage of the bonus system lies in the transparency it allows in linking pay to organisational goals or individual development paths. Its disadvantages reside in the fact that, given the low level of turnover typical of many offices, the same people end up getting the bonus year after year, thus sometimes losing the motivational value along the way. The individual pay's main problem, on the other hand, as it is for instance clearly stated in the Finnish Statistical Office case study, is that "the motivating effect of the system is most clearly visible among young employees and those with academic training. By contrast, statistics experts with long years of service at Statistics Finland and high salaries under the old system are more difficult to reward under the new system". In other words from this experience the individual pay seems to be better suited to the development of younger professionals, providing a progression in the first part of their career, when probably the monetary reward has also the strongest motivating effect.

In order to overcome some of the difficulties already mentioned there are experiences that incorporate the bonus into the basic salary after a certain number of years of consistent performance. Such a provision is in operation for instance in the UK Senior Civil Service, but may be the clearest example is coming from the Consorcio de Compensaciòn de Seguros, the Spanish case study.

### **Box 10 - Spain: Consorcio de Compensación de Seguros**

The annual assessment will be used for the economic promotion of the Consorcio employees according to what is established in this point, by means of an assignation of points in terms of the results obtained.

Points to be assigned are the following:

- For an excellent given	7.5 points
- For a very satisfactory given	5.0 "
- For a satisfactory given	2.5 "
- For an inappropriate given	0 "

When 10 points are reached, the amount from a scale will be accumulated to the employee's individual bonus, according to the amount fixed for its remunerative level. Rests existing after 10 points are reached, will be applied for obtaining the next step. Economic remuneration of the new step will start to be perceived starting from the first month of the year after the one the assessment refers to.

Steps got in the different levels will be always perceived in the amount established for the level they were acquired at, notwithstanding the fact the employee is promoted to higher levels in future.

When a change in the employee's remuneration level occurred during the period to be assessed, promotional store accumulated will be used for acquiring one step from the level assigned after the change.

Assessments on the personnel under short-term contracts for a time equal to or higher than one year will not have any promotion effect. Nevertheless, in the case they would gain a permanent job, the points they may have obtained in their short-term contracts starting from the 1<sup>st</sup> day of January of the next year will be taken into account.

This system, that is quite usual in the private sector, tries to combine the advantages of the bonus with the individual pay negotiation approach, at the same time giving some sort of transparency to the reward progression and trying to maintain an explicit link with the organisational objectives.

In any case, being the bonus or the annual pay increase the system in use, it is normal to pre-define the maximum amount of the monetary reward. As already shown in the EIPA survey, and in the previous boxes, the amount can be quite different from one country to the other, ranging from 3-4% to 25% of the current pay. The guidelines in use in Ireland, for instance, detail the criteria to be followed in proposing a bonus.

## Box 11 - Ireland

Within the overall cost limit of 10% of the paybill, awards of up to 20% of salary may be made to individuals. The system of performance-related awards approved by the Government requires that there be rigorous application of awards and clear differentiation in the awards applicable to different levels of performance. The following guidelines will be applied by the CPA and should be followed by Secretaries General in recommending awards for Assistant Secretaries.

### A Awards of 15% to 20%

Only in the most exceptional situations where performance has surpassed all reasonable expectations and has resulted in the achievement of a major goal of the Department. In many years it would be expected that no one would qualify for awards of these levels and no more than a very small number of people in any year where such awards arise.

### B Awards of more than 10% and less than 15%

Only where performance has substantially exceeded the targets defined. The extent to which an award exceeds 10% should be determined by the extent to which targets were exceeded. Around 25%-30% of awards could be in this category.

### C Awards of more than 5% and up to 10%

Stretched targets have been fully met or exceeded (but not to a major degree). Relative levels of performance of persons in this category should determine where an award falls in the range but payments at the upper end of this range should arise only where targets are exceeded. Around 65% -70% of awards could be in this category but there should be a reasonable distribution of payments over the 5% to 10% range.

### D Awards of 0% to 5%

Stretched targets have not been fully met. No payment should be made where there is a failure to reach the level of performance required subject to discretion to make payments of up to 5% where demanding targets have been narrowly missed. Around 5%-10% of awards could be in this category.

A final point to be touched in this brief account of the systems of PRP in use is that sometimes – as it is the case, for instance in Finland, Ireland and Italy – the top managers are excluded from the schemes, while in other cases, like Denmark, not only they are entitled to an annual bonus, but the maximum amount of the bonus is a larger proportion of their salary than in the case of middle level managers. The argument behind the exclusion in some cases (but not in Ireland, for instance), seems to be the willingness to avoid that top-level performance should be assessed by the political authority, while, on the other hand, the Danish provision points out that the bigger the responsibility the higher should be the “risk” element of the reward.

## 4. What is rewarded?

By and large most of the schemes in operation try to link PRP with the organisational objectives and/or with the individual development of the manager.

There are however variations.

For instance in Portugal, where the case study produced concerns a very specific category of personnel, namely the general practitioners in the Health Service, what is rewarded is the willingness to modify the behaviours by incorporating some of the goals of national policy.

### **Box 12 - Portugal: General Practitioners Remuneration**

Remuneration is granted on the basis of the following simultaneous requirements:

- ✓ integration in a group of at least 3 doctors undertaking to ensure on working days surgery hours for those looking for medical care;
- ✓ annual action plan for the group providing for development and professional cooperation according to criteria and strategies for the use of capabilities and facilities available within the local health system and quality and guarantee criteria along with cost effective health care dispensed. These include printed forms for corresponding diseases and diagnosis and therapeutics means according to principles of technical and scientific rationality;
- ✓ data base containing a list of patients assigned to the practitioners of the group. Identification, year of enrolment on the list of family doctors and date of latest appointment with same doctor must be mentioned on the list;
- ✓ information system enabling to evaluate implementation of the action plan and monitor specific activities (surveillance of risk groups – pregnancy and puerperium, children aged one year and family planning of women of fertile age).

Doctors joining the new scheme are jointly liable for compliance with all obligations imposed by the granting conditions of the pay scheme.

The variable components apply to the following cases:

- the carrying out of home care (this variable component is paid monthly to each doctor along with basis remuneration);
- the extension of the assistance coverage period by the group, when applicable;
- the weight base set for each specific activity in accordance with execution criteria or objectives.

This is probably but one instance of a larger group of elements that are deemed worth of reward, i.e. the dimension of the commitment of the employee or the manager, by this meaning the effort that he or she is putting in the work. A clear example of such an approach is the definition, and the way of assessing, “special performance” in the Austrian Ministry for Public Service and Sports case study at the basis of the annual performance bonus that was in use in this agency, until recently.

### **Box 13 - Austria: Ministry for Public Service and Sports**

#### **"Special performance"**

The guideline for rewards and the manual for the performance bonus give assistance to the assessor by listing the criteria to be considered when evaluating the performance of the servants/managers.

Therefore, the following aspects have to be taken into account:

- technical competence, which means the quality of the fulfilment of the manager's functions, the accomplishment of objectives set for the manager and the keeping of time-limits
- adverse or favourable environmental conditions
- behaviour adopted in fulfilling the functions, e.g. initiative, eagerness to make decisions, communicative skills, organizing ability
- team leadership

In consideration of these aspects the performance can be regarded as special, if the servant/manager for example

- made extraordinary efforts above standard (cost-orientated acting, consumer orientation),
- took over additional functions besides his standard functions or took part in special projects,
- did good work despite personnel understaffing or
- acted as deputy for a longer period.

But the most common way of anchoring PRP to the improvement in performance of the public service is to reward the attainment of previously defined objectives. In the case studies there is a wealth of examples of the sort of objectives/expected results that the different schemes want to reward.

For instance in the Italian Prime Minister office three different sets of objectives are specified.

### **Box 14 - Italy: Prime Minister Office**

More specifically, the results of the operational performance assessment are not generic; they are instead classified according to the following three sets of objectives:

- the *innovation/improvement objectives* established by the General Secretary Directive for each organizational unit;
- the *objectives* set by the contract of each senior executive;
- the *maintenance/improvement objectives* connected with ordinary work activity and formulated by each executive.

In Finland, coherently with an approach that puts strong emphasis on individual development in the annual assessment of individual work performance in the definition of the individual pay for the following year, strong emphasis is given to the improvements in behaviour, that is the organisational competencies that are treated as the individual goals of the employee.

### Box 15 - Finland: Statistics

In the assessment of individual work performance, four main assessment criteria are used, and their interpretation is clarified where necessary using sub-criteria. The criteria and their sub-criteria are:

- Work results and sense of responsibility:
  - quantity and quality of work results
  - implementation of agreed tasks
- Occupational skill:
  - mastery of job content
  - mastery of equipment
  - initiative and independence
  - multiskilling
- Interaction skills
- Development potential
  - attitude to new assignments
  - self-improvement
  - participation in workplace development

The weight attached to the criteria are:

Work results and sense of responsibility	35%
Occupational skill	35%
Interaction skills	15%
Development potential	15%

But also when a "classical" bonus system is in operation the assessment of the development of organisational competencies can play a major role as it is the case in the Italian Agenzia delle Entrate (Tax Administration) where in defining the bonus amount a 50% weight is given to the behavioural aspects.

### Box 16 - Italy: Agenzia delle Entrate

The system is based on a 'dictionary of competences' consisting of twelve definitions of managerial competences prevalent and suited to the Agency's organizational context. Although it draws on a well-established cultural tradition, the dictionary of competences has been compiled internally to the Agency by a group of managers and officials from the human resources department with the support of external consultants. The dictionary is therefore not a replica of competence typologies used in the private sector but has been adapted to the specific conditions of the public sector.

The dictionary of competences comprises five different clusters of competences: (a) self-control; (b) motivational dynamism; (c) relational dynamism; (d) leadership; (e) cognitive dynamism.

Each of these clusters is defined operationally into a set of properties or *competences* which can be observed empirically in managerial behaviour and are defined one by one. The following figure shows the association between each cluster and the relative competences identified as "suited to the managerial context of the Revenues Agency".

### **Clusters and the competences defining them operationally**

<b><u>Clusters</u></b>	<b><u>Properties (competences)</u></b>
Self-control	Moral integrity and consistency, self-confidence, balance
Motivational dynamism	Initiative, results-orientation
Relational dynamism	Persuasiveness, other-directedness, flexibility
Leadership	Team leadership, empowerment and development of collaborators, assertiveness
Cognitive dynamism	Ideational thought, development and sharing of expertise

On the contrary sometimes the objectives can be much more on the “hard” side, as the following example from Austria shows.

### **Box 16 - Austria: Federal Agency For Water Management**

Since 2000 the Federal Agency has been subject to the so-called “flexibilisation clause”. Its main objective is to introduce private-sector elements into the organizational unit, where appropriate; consequently, offices or units are managed similarly to enterprises and traditional administration turns into management.

Besides cost accounting, controlling, performance ratios and the like, one such element is the option of a bonus wage system provided under the flexibilisation concept, which comes close to a performance-oriented payment system.

The flexibilisation clause contains 2 elements, which serve as a basis for defining targets for the executive staff:

1. balance-oriented budgeting based on an agreed project programme of a limited duration,
2. possible use of positive balances within the organizational unit.

Hence, the most important targets for the executive staff, which may be deduced from the above, are as follows:

1. increasing the efficiency of performance (management targets)  
efficient use of staff saves time for additional projects and money if cost-effective procedures are adopted in filling vacancies; exploring other options of performance (contract awarding, contracts for work);
2. increasing the efficacy of performance (technical targets)  
no wasting of time and money with small-scale projects; increased demand-orientation based on defined political, social and economic goals;
3. increasing the economic efficiency (economic targets)  
partly resulting from 1 and 2; but also includes the aspect of increased cost-awareness, good market-orientation as well as “entrepreneurial” creativity.

As already mentioned in passing, usually PRP addresses directly the individuals, but in some other cases team performance is rewarded. A specific attempt to foster this practice can be found in the UK, where a specific Guidance was very recently issued (September 2003) by the Cabinet Office about Team Based Reward for Government Departments and Agencies, capitalising on the experiences already developed in the Department of Work and Pensions and HM Customs and Excise, i.e. examples of national networks. The argument behind these attempts is that “Team working has the potential to improve productivity. Team based reward is a means by which it is possible to encourage group endeavour and co-operation, but to work there needs to be alignment between team reward mechanisms and the prevailing or

desired organisational culture". But as we have already seen team performance is taken into account also in other countries as for instance Finland and Denmark.

In the latter case a very interesting idea is also developed, that is the provision that the team reward should take into consideration the general results of the whole organisation as well as the results achieved by the "neighbourhood" teams, that is the offices that are in strong relation with the one to be assessed. Within the general framework of the "chain of contracts" (see Box 32) that characterizes the Danish administration, this specific provision is meant to reward inter-office co-operation, a dimension seldom taken into account in the PRP schemes.

### **Box 17 – Denmark: National Board of Industrial Injuries**

To promote cooperation at the Board and between the teams and the units, the assessment of target achievement against this contract includes the average results of "the neighbour teams/units" and the average results of all the other teams/units. This is done giving a weight of 60% to the performance of the individual team, of 20% to the average of the "neighbour contracts" and the remaining 20% to the general performance of the agency, calculated as the average of the remaining contracts.

## 5. The assessment process

The typical process of assessment of the performance ideally includes three phases the first one being the self-assessment by the individual manager. The Box about Ireland below describes this phase in a case in which the bonus is linked to the attainment of organisational objectives.

### **Box 18 - Ireland**

#### **Assessment of performance**

At the end of the review period (i.e. after 31 December 2002 in the case of the initial period), each Assistant Secretary/Deputy Secretary completes a self-assessment of performance. Ideally the assessment should cover no more than 3 pages. The following general approach is taken

- a short statement is made indicating if the normal duties of the job, including the management of the Division, were carried out effectively.
- there is a progress report on achievements by reference to each of the key objectives defined earlier, concentrating on the measures identified to assess success or otherwise including quantitative factors where appropriate.
- the individual contribution which had to be made to achieve particular objectives is described.
- where there were changes in objectives during the year, a report is given on the changes which occurred and the achievements against the revised objectives.
- comments are provided where relevant on reasons why particular objectives were not fully achieved, e.g. unforeseen factors which affected achievement.

In the case in which the performance is assessed against the development of organisational competencies, i.e. the behavioural aspects of managerial activity, the same attention to the factual dimension is given, as shown in the following Italian example.

### **Box 19 - Italy: Agenzia delle Entrate**

Used for assessments of competences is the so-called 'critical incidents' method, where the manager conducts self-assessment by indicating episodes that he/she deems important for evaluation of his/her competences. This phase of the competences assessment process is particularly delicate because it sets the agenda for the discussion between the assessee and the assessor of first instance.

There are, in the countries that adopt PRP, several instances in which this phase is considered important for achieving the motivational effect. But also in the cases in which it does not form a necessary part of the assessment process, the exchange between the assessor (invariably the immediate superior) and the assessed manager is deemed crucial.

The following example describes the typical process.

## **Box 20 – Spain: Consorcio de Compensación de Seguros**

Concretely, the method for carrying out the assessment is the following:

- 1<sup>st</sup> stage: The assessor will provisionally fill in the questionnaire so that he/she can use it as a guide during the interview.
- 2<sup>nd</sup> stage: Personal interview in which the impression by the assessor is compared with the person being assessed and the goals for the next period are fixed.
- 3<sup>rd</sup> stage: Modification, if required, of the questionnaire having been firstly filled in, on which the assessed person's remarks will be included.
- 4<sup>th</sup> stage: After all assessments regarding each Directorate General or Delegation have been made, a copy of each questionnaire will be sent to the Secretariat General.

Leaving for the moment apart the fourth stage, what it is worth noting is that the personal interview is an essential part of the assessment process in most cases. This is pointed out very clearly in the Swedish answer, where it says that "All agencies are expected to keep a yearly development dialogue at all levels between each employee and manager/supervisor. Most agencies also use this model that, at its best, really can work as a 360 degree dialogue where the employee gives feedback to the manager and vice versa."

This said, the system through which the assessor evaluates the performance can be quite structured. The Finnish example below gives a quite detailed scale for the assessment.

## **Box 21 - Finland: Statistics**

The assessment of individual work performance uses a scale of seven grades, described below:

1) Poor. Work performance does not correspond to the demands of the job. The employee has failed to attain aims which were either agreed on or which he/she could reasonably be expected to attain. The shortcomings in occupational skills are so extensive that they cause problems for the entire work community.

2) Satisfactory. Work performance does not fully correspond to the demands of the job. The employee has not fully attained aims which were either agreed on or which he/she could reasonably be expected to attain.

3) Fairly good. The employee has attained the agreed aims in the main operating sectors and has adequate occupational skills.

4) Good. The employee has attained the agreed aims in all or most of the operating areas assessed. The employee has good occupational skills.

5) Very good. The employee has attained the agreed aims in all operating areas. He/she has implemented the development measures agreed and also clearly improved his/her own competence. The employee's occupational skills are an example to others. He/she fulfils all the demands of the job, some better than average.

6) Excellent. The employee has exceeded the agreed aims and performed exceptionally in all tasks. He/she has demonstrated flexibility and adaptability under pressure. The employee's occupational skills exceed the demands of the job. The employee has developed his/her field of work considerably.

7) Perfect. The employee has exceeded the agreed aims by a wide margin and it is hard to find any fault in performance. He/she has demonstrated exceptional flexibility and

initiative in particularly demanding and difficult circumstances. The employee's occupational skills exceed the demands of the job by a wide margin, and he/she is a generally recognized expert in the field. The employee's expertise and mastery of his/her work is recognized and praised outside the immediate field, the workplace or Finland.

Less elaborated, but equally formal, scales are mentioned in the Italian and Spanish case studies, while for instance in Ireland the assessment by the superior is incorporated in the proposal concerning the amount of the bonus. This depends from the fact that in this case the final evaluation of performance and the decision about the amount of the bonus is entrusted to an external body, the Committee for Performance Awards.

### **Box 22- Ireland**

Following a report by the Review Body on Higher Remuneration in the Public Sector, the Government accepted a recommendation that a Committee for Performance Awards be established to oversee the schemes of performance-related awards other than those for the local authorities and health boards for which separate committees were to be established. The Review Body considered that the main roles of the Committee should be to monitor the application of the scheme of performance-related awards and to bring independent judgment to bear in approving objectives for the persons covered by the scheme and in approving recommendations for awards.

The Committee for Performance Awards (CPA) was established in November 2001. The members of the Committee are the Secretary General-Public Service Management and Development- of the Department of Finance, the Secretary General to the Government, the Secretary General of the Irish Association of Investment Managers, the former Group Chief Executive of the Bank of Ireland Group and the chairman of a private company.

This is certainly an exceptional case, mainly because the CPA is composed by a majority of people coming from the private sector, but it is quite usual that the evaluations made by immediate superior are reviewed by, or at least communicated to, the director general or the human resources department.

Apart from the goal of securing homogeneity in the assessment criteria, as well as, when this has been formalised, the respect of the evaluation scale, the provision that the evaluation is or can be scrutinised by someone further up in the hierarchical scale is supposed to refrain the assessor to underestimate the importance of the process, for instance by giving equally "good marks" to all his or her subordinates (as the Spanish paper says, a "coffee for everybody", or, following the Austrian paper, a distribution according the "watering-can principle"). As we will see this is one of the most critical points of the whole exercise because the temptation to avoid this sort of responsibility seems quite widespread. The previous generation of bonus systems in some countries was sometimes discontinued basically because the variance in the assessments was very low and strongly unbalanced towards the "excellent" end of the scale.

But a review is also deemed necessary for the more fundamental reason that public service pay should be opened to external scrutiny and that the fairness in evaluation, beside being a good management practice as well as a necessary ingredient of the motivational goal of PRP schemes, is also considered a general rule for the public sector. This has been clearly stated, for instance, in the UK Department of Work and Pensions case study, as shown in the following box.

**Box 23 – UK: Department of Work and Pensions**

*Allocating bonuses in full public view*

Paying bonuses as a public sector organisation means that there is a potential for scrutiny possibly beyond that which is applied to private sector organisations. Bonus payments must be seen to be fair and, above all, rightfully earned. All DWP bonus schemes complied stringently to the general principles of Corporate Governance and performance against targets was validated externally of bonus teams. Processes and payments in the first year of operation were scrutinised by Internal Audit to ensure probity of action.

## 6. Introducing Performance Related Pay

After the overview of the main characteristics of PRP sketched in the previous pages, let's shift the attention to the process of introducing it in the public agencies.

In order to fully appreciate the efforts done in this regard one has to bear in mind the goals that were pursued through the introduction of the new schemes, already stated before, but very nicely summarised in a comprehensive way in the following Box concerning the UK experience.

### **Box 24 - UK: Senior Civil Service**

#### **Aims of PRP:**

- Differentiate rewards based on relative contribution specifically to reward excellence and delivery.
- Significant rewards for the best performers.
- Reward and promote continuous improvement.
- Compete in the market, but to target resources.
- Timely pay progression to a market linked target rate.
- Support a more open Civil Service with greater interchange with private and public sectors.
- Developmental focus to performance management.
- Support the development of a more diverse workforce.
- Improve transparency and understanding of the system.

Obviously not in all the countries all these objectives were considered equally important. For instance:

- in Germany [Box 5] and in the Austrian Ministry for Public Services and Sport [Box 13], among others, the main goal seems to give significant rewards to the best performers,
- in the Nordic countries special emphasis is put on the need to compete in the market in order to recruit and retain the most promising young managers,
- in other situations, like the already quoted cases of the Austrian Federal Agency for Water Management [Box 16] or the Spanish Consorcio de Compensación de Seguros, the accent is mostly on efficiency and the achievement of specific targets, and
- in the Italian fiscal administration as well as in the Finnish Statistic Office a very large weight is given to the development of the skills and organisational competencies of the senior staff.

In all the cases reported, however, the aims of introducing performance assessment and linking it with the remuneration were ambitious and were part of a larger effort towards the

modernisation of administrations and the creation of a more effective human resource policy in the public sector.

This said, it is not surprising that several case studies report difficulties and obstacles in the process of introduction.

Quite apart the opposition of the Trade Unions – reported for instance in the UK and in the Italian Prime Minister Office, but in other cases the evidence points in the direction of Unions' involvement and acceptance of the principle – the difficulties relate very often to the lack of performance management culture within the administrations.

Probably the resistance came at least in the same measure from the future assessors as from the assesses.

In order to overcome the difficulties and secure early success to the experiences there is a certain number of characteristics of the process of designing and implementing the schemes that appears to be very important.

In the first place there is a widespread emphasis on the need of good communication of the goals as well as of the characteristics of the exercise. This is explicitly pointed out in the Spanish case, but can be found almost everywhere.

In the second place an emphasis is sometimes put in the incremental approach in the implementation as a factor able to secure success. This may come about in two different ways. The first is to gradually increase the sums involved in the bonus in order to differentiate only gradually the total pay of the recipients. One instance of such an approach is found in the British Senior Civil Service, where is reported “the Government’s intention to build up the non-consolidated bonus pot” which has grown annually “to ease the transition to the new system”. However one must pay attention to not start too low: as the Danish contribution points out: “it is important ..... that the performance related pay makes up a reasonable part of the total pay. If the part is too small, why use system at all?” On the other hand, the respondent hastens to add: “if the part is too high, it can be dangerous for the level of the total pay, and it becomes essential to choose the right goals”.

The second way to adopt an incremental approach is to apply the scheme to carefully chosen parts of the public agency involved as it is shown in the following Box regarding the UK Department of Work and Pensions.

### **Box 25 - UK: Department of Work and Pensions**

An incremental approach has helped to make the task of introducing team bonuses into a large organisation more manageable. This also has the added bonus of learning lessons as the scheme is rolled out area by area – the earliest areas to run schemes will now be entering their third year of operation and this experience has valuable lessons for newer areas.

It also allowed the DWP to select or avoid areas of the organisation. For example, DWP did not introduce into areas operating under legacy arrangements organisations which were due for modernisation e.g. much of the Pension Service. Instead team bonuses were targeted to incentivise modernisation by introducing schemes in Jobcentre Plus Pathfinders and Pension Service Empower where bonuses will figure as a key part of performance management culture.

This is also the case in UK HM Customs & Excise, where since the beginning of the process of introducing team based reward, it was considered a trial exercise in which only volunteers teams could take part. The idea was that by a carefully monitored experiment – surveys of staff attitudes were conducted before and after the first implementation and focus groups at mid-point – not only a better fine tuning was possible before a generalisation, but also that the good result of the trials could improve the acceptance in the organisation as a whole.

It must be noted, on the other hand, that in some countries this incremental approach, choosing the parts of the organisation that will be the first to introduce PRP, would be perceived as unacceptable. The “universal” character of the scheme within the Spanish Consortium, for instance, is regarded as one of the factors able to secure success.

A third way of overcoming the difficulties in implementation was to base PRP on additional funding, i.e. not touching the existing salarial arrangements for the generality of the employees. Both in Italy and Spain this seems to be the case, for instance, but the clearest example comes again from the UK – a country in which much emphasis is put on the process of introducing PRP – as shown in the following Box.

### **Box 26 - UK: Department of Work and Pensions**

#### *Treasury commitment – pump priming*

A further advantage of incremental approach was that early progress could be demonstrated, which was vital for securing pump priming funding from HM Treasury.

A critical success factor for DWP was the ability to secure additional money to fund bonuses in the first two years (pump priming). This was particularly useful in establishing buy-in: it was helpful in gathering volunteers to run with team bonuses in the initial phases.

Critical to securing additional funds was to maintain an open and honest dialogue with Treasury colleagues, coupled with the ability to show real progress against desire to implement team bonuses.

A fourth, very widespread, factor considered crucial for a successful implementation is to provide training both to the personnel to be evaluated (if only to communicate the general architecture of PRP and give the necessary information for the self-assessment phase) and to the managers acting as assessors. In particular training is deemed crucial for linking the introduction of PRP to the more general dimension of human resource policy as well as to the strategic goals of the organisation. As we will see, this strong link between PRP, human resource policy and strategic change is considered one of the most important factors of the whole experience.

In any case to provide good training on the scheme, mostly in large organisations, is an expensive exercise and this is why, in the Italian Tax Administration an original system was designed to accomplish this task without an excessive financial burden

### **Box 27- Italy: Agenzia delle Entrate**

The new system (called SIRIO) was officially launched on 1 January 2002, in experimental form and in combination with the planning phase that followed stipulation of the 2002 Annual Convention. Its introduction came about in incremental fashion, the purpose being to overcome the cultural resistance against the system reinforced by the criticisms provoked by the system previously in operation. Fearing further hostility by managers, in fact, on advice by the consultants and because of the limited resources available to inform and train personnel, the working group adopted a bottom-up approach. It devised an unorthodox scheme to implement PRP whereby Agency officials were appointed to train their superiors, i.e. the assesses.

In January 2002, selection was made of a group of twenty-six officials distributed across the country and chosen by the consultants after screening by the human resources management. Those selected attended a five-day course held in February 2002 and on which they trained by the consultants as 'SIRIO trainers'. Thus created were thirteen mixed pairs (male and female) of trainers who were supervised by a consultant as they conducted a first course used to test their training abilities. After a classroom follow-up session held in March 2002, the thirteen couples trained around 1270 managers throughout the country on 92 editions of the course. Each course for assesses lasted two days, plus a day-long follow-up session held after six months.

A parallel training programme was organized for the assessors of first instance, i.e. senior managers. This programme was delivered entirely by the consultants during a four-day residential course. The training programme concluded in May 2002. In June of that year the assessors began to collect data, after allocating objectives and competences, although they did so with some delay with respect to the official deadlines because of the experimental character of the first year. The first cycle of data collection of managerial performance was completed in 2003.

Finally other factors that were often pointed out as important resources for the success of the schemes were the creation of a project team, the opening up of the process to the contribution of external consultants and the co-operation with other agencies with similar programs, as shown in the following box.

### **Box 28 - UK: HM Customs & Excise**

A project team within HR was set up and worked closely with an external consultant specialising in Pay & Reward Strategies, who acted as an expert resource and "critical friend", and a working group representing the main business areas of the department and the finance and planning division. In addition the four departments specifically mentioned by Makinson Report and HM Treasury formed a high level working group, which proved useful for airing and sharing problems and ideas.

## 7. The main problem: getting the objectives right

From the critical appraisal of the experiences, some of them a quite recent, as already pointed out, one of the problem emerging very clearly is the critical nature of the way in which the objectives are defined and the level at which they are established.

This has been very neatly said in the Danish paper on Customs and Tax Administration.

### **Box 29 - Denmark: Customs and Tax Administration**

There seems to be two major critical aspects in working with performance related pay, an aspect about the managers' view of the fairness of the scheme and a technical aspect about goals. The two aspects are not quite independent.

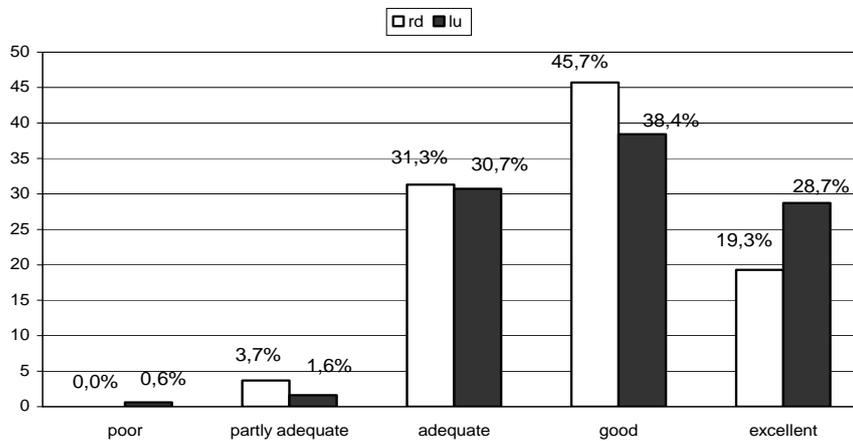
The aspect about the managers' view of the fairness of the scheme includes a number of sub aspects, of which two are mentioned here. First, it is important that the managers find the goals in the contracts relevant. It is the main impression that most managers find the goals relevant, also because they participate in choosing their own goals within the given frame. However, the experience also is that some professional managers find that ToldSkat's concrete results are weighted too low in the contracts and goals about human resources and strategy and development too high. Second, it is important that the goals are ambitious, but also realistic, which certainly is a balance. If the goals are not ambitious, the managers might not see them as serious, and if they are too ambitious they may be de-motivating. A good way to measure the level of ambitions is to look at the results achieved. If all goals have been achieved totally, the contract may have been too easy, and if only a small part of the goals have been achieved, the contract may have been too ambitious.

The critical technical aspect is to find relevant and suitable goals in the tax field as they are rather sensitive. Some of the contracts contained a goal dealing with the size of adjustments of taxpayers' income, which caused a strong public debate. The critique was, that a manager could be tempted to make doubtful decisions in his or her eager to earn more money. This critique seems to be right, but at the same time it was more a theoretical and principle critique than a practical one, as the possible gain for the managers was quite marginal, as well as making doubtful decisions was – and is – unacceptable according to the organizational culture. In any case the decision was made to focus rather on input goals in term of activities to be carried out, instead of output goals in terms of effects on society.

From a theoretical point of view the problem of the objectives lies in the information asymmetry implicit in the bottom-up approach to goal establishment. Because of the need of involving the individual manager in the process of defining the expected level of performance, and because of the specialised nature of some of the tasks, supervision becomes quite difficult. If one adds the complication of putting in place an information system able to give "objective" and timely feed back, it is somewhat natural that the goals will tend to be rather on the "easy" side.

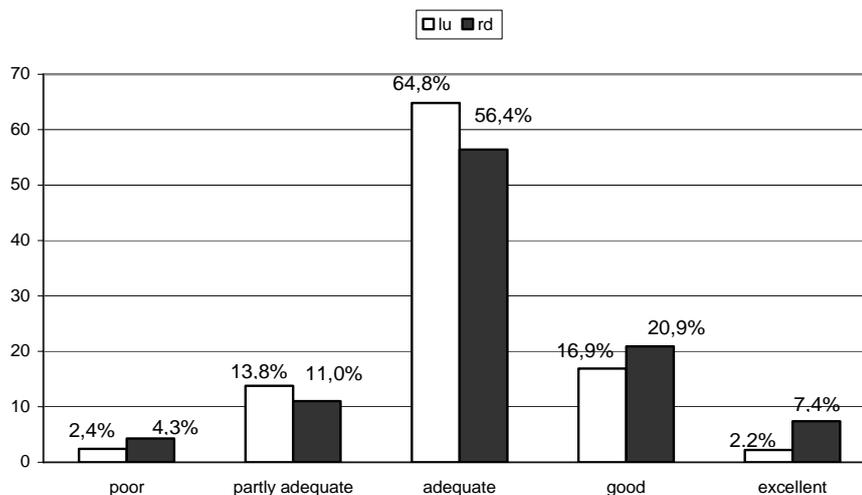
A very plastic example of the difficulties is encountered in the following table concerning the Italian Tax Administration.

**Table 7 Result appraisal 2002  
(regional directorates and local offices)**



As it is clear, despite the fact that the Agency has a very complex Managerial Control System, the level of attainments of the targets was very high and probably too high. It is exactly for this reason that the previous system, only based on organisational goals, was superseded by a new one in which the attainment of the targets was complemented by an assessment of the organisational competencies, i.e. of goals defined in behavioural terms. Also thanks to the careful training already referred to in the first year of implementation, the competence assessment was much more balanced than the results appraisal, as shown in the following table.

**Table 8 Competences assessment 2002  
(regional directorates and local offices)**



But if the main problem is to avoid the unbalance of the assessments and/or the tendency by the assessors to adopt a little differentiation, then there are other systems that can be used.

One of the most widespread is the quota system in which the personnel who is entitled to the different classes of merit evaluation is formally predefined, thus introducing *de facto* an internal competition between the recipients. Such an arrangement is used, for instance in Austria, Finland, and Germany, to which the box below refers.

### **Box 30- Germany: Section 42a BBesG**

The Federal and *Land* Governments shall be entitled to introduce for their areas by means of legal ordinances performance bonuses (one-off payment) and performance allowances for outstanding special services by civil servants and military personnel in pay grades of remuneration scheme A. The legal ordinance of the Federal Government shall not require the consent of the *Bundesrat*.

The total number of performance bonuses and performance allowances awarded by the employer within one calendar year shall not exceed 15% of the civil servants and military personnel in employment with this employer under remuneration scheme A. Exceeding the percentage laid down in sentence 1 shall be admissible to the extent to which performance steps pursuant to Section 27(3) (2) are not awarded. The legal ordinance may stipulate that an employer with fewer than seven civil servants may award a performance bonus or a performance allowance to one civil servant in each calendar year. Performance bonuses and performance allowances shall not be pensionable; it shall be possible to renew such payments. The payment of performance allowances shall be limited in time; in case of poor performance it shall be discontinued.

Performance bonuses shall not exceed the initial basic salary of the respective pay grade of the civil servant or member of the military; performance allowances shall not exceed seven percent of the initial basic salary. The decision to award performance bonuses or allowances shall be taken by the highest responsible service authority or the body appointed by the same.

In the Spanish case study the quotas are statutorily predefined at all levels and tend to draw a curve quite similar to the one found in the Italian case referred above, with about 2/3 of the employees in the satisfactory range and 1/3 in the good or excellent range.

If such provisions are able to avoid some perverse effects, the problem of getting the objectives right however remains, and it seems that the main way of achieving such result is to stress the importance of the planning phase. In the previous pages we have already seen some of the ways the different countries try to set the operational goals assigned to the individual managers.

For instance, as shown in the box below, the planning cycle in the Italian Prime Minister Office is quite detailed and based upon different classes of objectives (strategic and operational) defined in a top-down perspective, and with specific provisions on the monitoring of their attainment.

### Box 31- Italy: Prime Minister Office

The planning document is undersigned by the General Secretary and takes the name of the General Directive for administrative action and the management of the departments and the offices of the General Secretariat. Directives have annual duration. Each directive is divided into three parts. The first specifies the strategic objectives for each of the structures. The strategic objectives state the policy lines as established by the Prime Minister.

There are four general strategic objectives for 2003:

1. reorganization of the structure of the General Secretariat and rationalization of personnel management;
2. analysis of the organizational structure and work flows in the departments/offices, and the re-engineering of processes of particular interest;
3. the rationalization of expenditure;
4. progressive computerization and integration of information flows.

On the basis of the strategic objectives, operational objectives for improvement/innovation are allocated to each structure or department. These operational objectives shape the principles of the general strategic objectives to the characteristics and needs of the various units, so that each of the latter may be assigned up to, but not necessarily all, four operational objectives, according to its institutional tasks and resources.

The directive also lays down a planning schedule for each operational objective, stating the following managerial aspects:

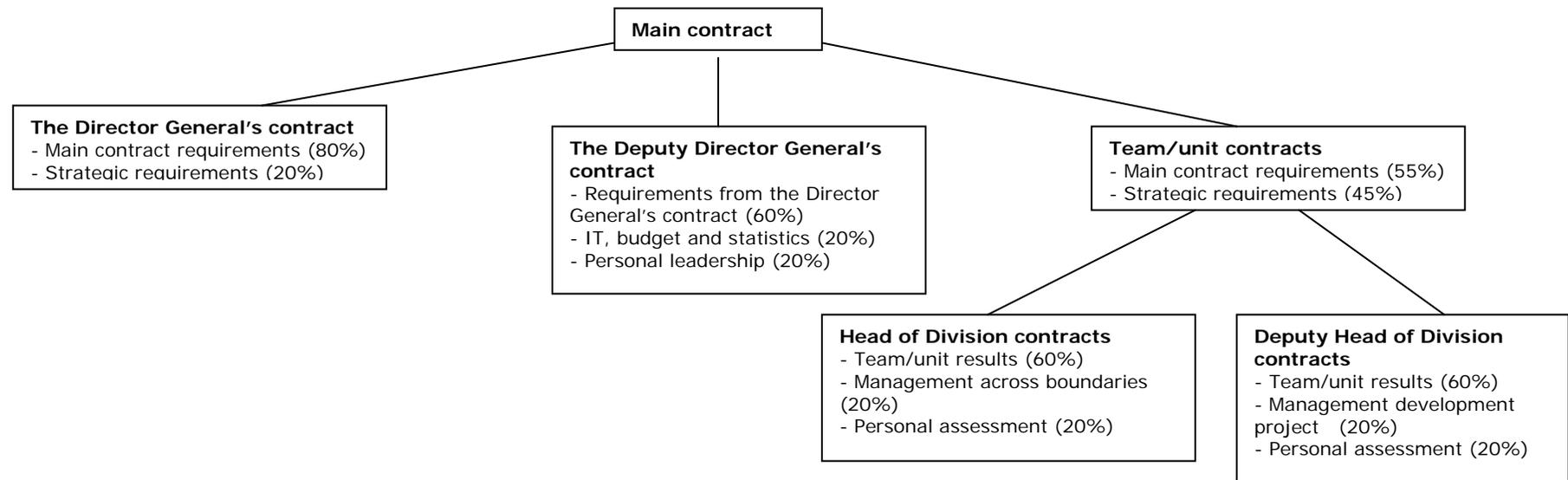
- a. deadlines for the achievement of objectives;
- b. the senior manager responsible for achieving the objective;
- c. the officials directly involved in achieving the objective
- d. other structures of the Prime Minister's Office involved in achieving the objective;
- e. priority level of the objective;
- f. criticality level of the objective;
- g. performance indicator
- h. estimate of the resources available for achieving the objective;
- i. expected percentage of attainment of the objective;
- j. phases in achieving the objectives, with annexed intermediate results and percentage weights of the importance of each phase for the final result.

Finally, the third part of each directive charges the *Servizio per il Controllo Interno* (Internal Control Office) with the task of monitoring achievement of the results specified, using the intranet system. At least every six months, the Internal Control Office must provide the General Secretary with a report on progress towards fulfilment of the objectives specified.

But a much more stringent system is in use in Denmark, in the National Board of Industrial Injuries (NBII), following its transformation into a central government enterprise in 1993. Here a systems exist that is called a "chain of contracts" and that is depicted in Box 32. The idea is that by linking the different contracts with each other and with the main contract between the NBII and the Ministry of Employment, an internal mechanism is put in motion that stimulates co-operation and competition between the different units and teams as well between the different hierarchical levels.

### Box 32 - Danemark: National Board of Industrial Injuries

As can be seen from the chart below, the Board has a main contract with the Ministry of Employment, which contains concrete targets for the individual year. The Director General's and the Deputy Director General's contracts (CEPCs) are based directly on the main contract so that the most important performance requirements according to the main contract are also included in the Director General's and the Deputy Director General's contracts for the individual year.



Also the individual team/unit contracts are indirectly based on the Boards performance contract (main contract), providing incentives for the individual teams/units to meet the requirements set out in their own contracts and consequently also the requirements of the Boards performance contract (main contract).

This sophisticated system of establishing the annual goals is admittedly very complex, and, as the Danish paper points out, very time consuming. However it is also complemented by another original feature, namely the fact that the annual objectives have a multi-annual built-in dimension (the “line of sight”) and this not only probably facilitates the annual negotiation of the contracts, but also provides the necessary perspective in managing the different teams/units in order to guarantee continuous and consistent improvement over the years.

**Box 33 - Denmark: National Board of Industrial Injuries: results required for 2003 and lines of sight until 2006**

<b>Performance requirements</b>	<b>Results for 2003 and lines of sight until 2006</b>
1. Case processing time for accident cases	During the period 2001 to 2004, the case processing time is to be reduced by 25%. For the years 2005 and 2006, no additional requirements for improvements have been decided.
2. Case processing time for occupational disease cases	During the period 2001 to 2004, the case processing time is to be reduced by 25%. For the years 2005 and 2006, no additional requirements for improvements have been decided.
3. Case processing time for private insurance cases	During the period 2001 to 2004, the case processing time is to be reduced by 25%. For the years 2005 and 2006, no additional requirements for improvements have been decided.
4. Case processing time for revision of industrial injuries cases	During the period 2001 to 2004, the case processing time for revision of cases is to be reduced by 25%. For 2003 to 2006, a further target is to reduce the case processing time for resumption by 25%.
5. Quality measurement industrial injuries cases	Quality rate of 85% in 2003. The performance requirement was 82% for 2002. The lines of sight are unchanged quality targets until 2006.
6. Quality measurement private insurance cases	Quality rate of 90% in 2003. The performance requirement for 2002 was 88%. The lines of sight are unchanged quality targets until 2006.
7. Percentage of industrial injuries cases reversed	In 2003, the target is that maximum 1.2% of the Board's decisions are reversed by the National Social Appeals Board. The target is a rate less than 1% before 2006.
8. IT strategy	Specifically, the Board will set up a computer-based advice system together with the local authorities in 2003. The lines of sight are development and implementation of a new case support system and development and implementation of self-service tools for citizens.
9. Shared services	In 2003, the Board is to contribute actively to the establishment of shared services in the Ministry of Employment.
10. Productivity	The productivity requirements measured as the number of standard cases completed for each man-year is 224 for 2003. For 2004 the target is 229. For 2005 the target is 233. For 2006 the target is 238.
11. Regional cooperation	In 2003, 9 projects on regional co-operation will be started up. The Board will take the initiative in establishing cooperation with the National Working Environment Authority's 4 new regional inspectorates.
12. Stakeholder survey	Annual dialogue meetings with the Board's stakeholders will be introduced.
13. User survey	In 2003, a new concept will be introduced for the user survey.
14. Employee survey	The job satisfaction figure is to go up by 2% from the last survey in 2001.
15. Joint projects in the ministerial field	The research project on the prevention of consequences derived from industrial injuries will continue in 2003.
16. Industrial injuries reform	The requirement is that the Board shall make an independent contribution to the Danish Folketing's reading of the bill implementing the Government's industrial injuries reform.
17. Manager development	The average manager evaluation is to be improved by 2% in 2003 compared with 2002. The average manager evaluation is to be improved by 2% a year until 2006.
18. Service to the Minister	The Minister is to be served in accordance with the current guidelines set out by the Ministry of Employment.

## 8. A general assessment of the system

Assessing the results achieved through the introduction of PRP is certainly a widespread good practice and in the case studies there is ample evidence that this has been extensively done.

For instance the introduction of the new, competence based, PRP system in the Italian Tax administration was preceded by an extensive survey (300 in depth interviews) showing a deep level of dissatisfaction with the system then in operation, pointing out: (1) the feeling that the qualitative part of the assessment, being largely discretionary, was likely to be used in a distorted way, legitimising rewards for informal organisational loyalties and (2) the judgement that the quantitative part was too cumbersome, mechanistic and abstruse to the point of reducing the complexity of management style and the achievement of goals to a “mish-mash of numbers”. The survey was therefore instrumental in bringing about the new system, where the assessment of behaviours is much more structured and transparent and the result appraisal has been simplified, with the added value of showing the managers how their opinions are sought and taken in consideration.

Another instance of a survey between the recipients of PRP can be found in the following Box concerning the UK Senior Civil Service.

### **Box 34 - UK: Senior Civil Service**

After the first full year of operation of the new SCS pay and performance management systems the Government wished to evaluate their effectiveness and measure success against the initial aims set out for them.

The questionnaire survey aimed to gather views, electronically and anonymously, from SCS staff about their personal experience of the new systems. Overall, some 520 SCS staff returned questionnaires in around two weeks. This was a good response given the short timescale. Although respondents were effectively self selected, the responses provided a good and broadly representative spread, which reflected the mix of ages, sex balance, pay band and performance distribution in the SCS as a whole. There were responses from most ministerial departments and a range of agencies.

The main positive points from the survey were :

- some 80% agreed that personal objectives were strongly linked to departmental objectives;
- over 50% said that they understood how their performance was assessed;
- over 60% found their last performance review motivating; and
- more than half found the competence framework useful.

Other findings included :

- about a quarter believed that the SCS package was competitive in the market (a significant rise since the previous review in 1995);
- more people thought that the new systems were well designed (39%) than thought they were well managed (28%); and
- nearly half said that they did not understand how the decision on their pay award was reached.

In other instances the evaluation of the effectiveness of the PRP system is based on much harder indicators, as it is the case in the Spanish case study where it is shown how, between 1990 and 2002 the productivity indicators have gone constantly up (case load for employee: +417% in quantity and +342% in value), with the result that an 85% increase in total salaries the total revenue of the organisation was multiplied by three (+294%). "Although - as the paper admits - it is not possible to establish what part of the above mentioned results" are the direct effect of the PRP schemes "it can be said that its contribution is a decisive one".

The acceptance by the managers of the system, and the increases in productivity are therefore two of the most important dimensions of the general assessments of the systems in operation, and in general terms it can be said the first dimension appears all in all more difficult to achieve than the second.

The reason, in the opinion of the author of this paper, lies mostly in the fact that the introduction of PRP is but a small part of a larger attempt at modernising administration through the establishment of a new personnel policy, able to increase the value of the human capital, the main, if not the only one, asset of the public sector.

This is clearly shown by the following Box in which the Ministry of Finance of the Kingdom of Denmark, one of the countries that has invested more and earlier, in performance pay, assesses in a very balanced way the positive aspects of the PRP systems in operation in the administration, as well as the main challenges to be faced in the future.

But it is now time to draw some tentative general conclusions from the analysis conducted so far.

## Box 35 - Denmark: Danish State Employers' Authority, Ministry of Finance

### Some positive aspects and challenges to the performance payment system from the point of view of the Danish State Employers' Authority, Ministry of Finance

Positive aspects	Challenges
<p>1. When implemented and used the right way performance pay should establish an obvious link between objectives, personnel policy and pay.</p> <p>2. Performance pay increases focus on objectives, results and quality.</p> <p>3. An increased focus on output improves the ability to prioritise among targets.</p> <p>4. As well as giving both managers and employees an extra incentive to achieve the targets set in the agency performance contract, performance pay gives the managers an extra incentive to promote good management. An evaluation in 1998 showed, that the bonus attached to the CEPCs gives the director general an incentive to improve performance.</p> <p>5. The implementation of the CEPC scheme is successful. When introduced permanently in 1997 the CEPC scheme was implemented only for 5 directors general (21 pct. of the potential). In 2001 the number was 68 contracts covering 69 pct. of the potential chief executives. In 2001 the CEPC scheme was implemented in 80 pct. of all ministries.</p>	<p>1. Setting up targets and measuring the results should be dynamic. If targets are repeated in the contract from one year to the next, the points of measurements should be adjusted, thus reflecting a higher level of ambitions and demands for quality, productivity and efficiency. The bonus should be paid only for exceptional and improved results. Most CEPC's satisfy the requirements of a dynamic adjustment of targets, however, only a minority of the CEPC's satisfy the requirements of a higher output or quality to achieve a maximum of points resulting in a full bonus. The inherent results may undermine the intentions of introducing performance related pay.</p> <p>2. Pursuing the targets set up in contracts may result in unintended goal displacement or neglecting important aspects of managing the agency, accomplishing a target or carrying out the mission of the agency.</p> <p>3. Chief executives and managers should be careful not to confine the activities and efforts to the achievement of targets defined in a performance contract. Focus remains to be kept on an integrated, joint effort and performance across the organisation or the government agencies within a ministry.</p> <p>4. In the CEPC's focus is on output. More focus on outcome is needed. A revised concept stressing the importance of results rather than output and internal performance will be included in a forthcoming guide from Ministry of Finance on effective operation of the central government institutions.</p> <p>5. The persistent monitoring of results requires considerable resources in the ministries and government agencies. High transaction cost of results-based management.</p> <p>6. As to employees' difficulties in changing the attitudes from solidarity towards performance related pay is experienced. In a survey carried out a few years ago showed that 70.3 pct of institutions experienced barriers among the employees towards the introduction of performance pay.</p>

## 10. Conclusion: the main lessons

As stated in the first paragraph of this Report, the aim of the study was not to make a comprehensive survey of the systems in use in the different countries and even less to make a full comparative exercise trying to explain the similarities and the differences between the MS, but rather to conduct an exercise in lesson drawing, based upon the empirical evidence provided by the respondents. In order to facilitate the discussion in the following pages ten points will be presented, revolving around the two issues that seem to be crucial for the success of PRP, i.e. the process of introducing it, and the links between the tool and the more general change management process and the reshaping of human resource policy for executive level personnel.

### 1. Performance Related Pay Works

The first, not obvious, lesson that can be drawn from the evidence is that PRP can be, and in several instance has been, a success. This means that the aims were reached, regardless of the fact that they were expressed in terms of improved effectiveness and/or efficiency in organisational activity, improved recruitment and retention of good people, increase in personnel motivation, better development of skills and competencies, etc.. In other words the widespread scepticism of the traditional administration towards the introduction of a typical private sector approach, is largely unfounded. PRP is, as we will emphasise again, essentially a tool, but not an impossible or even negative step.

### 2. Different PRP Systems Work Equally Well

The second lesson is that there is not such a thing as a one best way to PRP. As we have seen many different systems are in operation, and according to the well informed judgement of the different contributors they seem to have achieved at least partly their original goals. Some of the systems in use are more ambitious than others, and some have been, under the different circumstances, more successful than others. It goes beyond the scope of this paper to try to point out under which circumstances one specific system works better than another, but the fact remains that the different goals can be reached in a plurality of ways. One very cynic way of seeing the problem could be pointing out that, because, as we will see, much of the added value comes from the introduction process, at the end of the day the technicalities of the system adopted do not matter very much. However the reverse is also

true: exactly because of the critical value of the process, the PRP system adopted must be consistent with the organisational culture desired.

### **3. The Process of Introduction is Crucial to Success...**

Several case studies pointed out how the process of introducing PRP in public organisations often lacking an established culture of management by objectives and result orientation is absolutely crucial to attain the goals of the reform. This is not only because of the need of “achieving staff buy in”, i.e. the need to gain acceptance both by the assessors and the assessed, but for a much more fundamental reason. Between the lines of the evidence collected it can be read quite clearly that the introduction of PRP represents an unique opportunity of rethinking and socialising a common vision about the mission of the organisation, the priorities to be pursued, the desired characteristics of the workforce. To choose between efficiency or effectiveness targets for result appraisal, to stress the professional skills or the organisational competencies for the assessment of the management style and/or the definition of development paths, is a powerful way to make the members of the organisation share the values and the objectives that are behind PRP.

### **4. ..and a Bad Process Is Worse Than No PRP**

This is the reason why utmost caution should be used in introducing PRP, mostly when it goes against the traditional organisational culture. A botched attempt to force “modernisation” of the pay structure is worse than no attempt at all, basically because it decreases the credibility of the value change underlying PRP. Furthermore, as usually the value attached to “fairness” is very high and widespread in the public sector, the bad implementation of a PRP scheme (for instance giving good marks to everybody, or the use of the discretionary power in a way that allows favouritism) in a part of the organisation, makes it much more difficult to maintain it also in other parts where it has worked reasonably well.

### **5. Some Elements Can Help the Process**

These dangers cannot and must not represent an excuse for shyness or for inaction, but on the contrary a stimulus to invest attention and effort into the process of designing and introducing PRP. In the previous pages several ways to “getting the process right” are mentioned, and among the most widespread the involvement of external consultants (but certainly not the total outsourcing of the schemes), the large use of training both for the assessors and the assessees, the adoption of an incremental approach, the constant

monitoring of the perceptions of the stakeholders, can certainly be considered as relevant good practices.

## **6. Money Is Not Everything**

Obviously PRP is about money, and cannot be otherwise. But one of the lessons that can be drawn from the evidence collected is that the importance of the monetary reward in motivating personnel can vary quite a lot. It is likely that, as pointed out in several case studies, this aspect is more important in the earliest stages of a public manager career when the promising young executives can consider other possible workplaces. And it is possible that, in those administrations in which the interchange with the private sector is large, the existence of PRP schemes can play a role in inducing mid-level lateral entry into the public sector of gifted managers. But in any case from the evidence collected it seems, and in some cases this has been explicitly stated, that the motivational effect of PRP derives at least in equal measure by the “official” recognition of the results achieved.

## **7. Getting the Objectives Right Is Difficult**

As already pointed out in chapter 7 of this Report, the most critical aspect in several cases appears to be the difficulty of defining the right type and the right level of objectives to be attained by the evaluated managers. The fact that they must be challenging, but achievable, that must cover the most important areas of the activity carried out and/or of the management style and professional skills of the individual, makes this process much more difficult than finding the right indicators and/or securing a fair assessment process. If the doubts about the possibility of measurement are the way in which the scepticism of the traditional public administration doctrine expresses itself, overcoming this hurdle is one of the most important prizes of the whole experience of introducing PRP. This is because the scheme forces the professional and/or political heads of the public organisations to face the most difficult questions: “What do we want to achieve?”, “Which are the most urgent priorities?”, “Which are the skills and competencies that we want our manager to possess?”, and so on.

## **8. PRP Is Not an End In Itself**

Another way of looking at the same problem is to state clearly that the introduction of Performance Related Pay is not an end in itself. This seems to be a fairly obvious statement, but from the processes depicted in the different case studies it appears that it is a danger not to be underestimated. Probably this is a legacy of an earlier phase, one in which the assessment of managerial performance was considered mostly a way of punishing the incompetent or the lazy. But the fact remain that also the much more sophisticated schemes now in operation run the risk of becoming “self referential”, by this meaning evaluated more on their internal merits (how they are up to date with the current managerial fads) than by their ability to secure a more effective and efficient public sector, able to increase the value for the citizen and the taxpayer. From this point of view one should again emphasise how PRP cannot be but a part of a larger strategy of organisational change.

## **9. PRP Must Be Part Of Change Management Strategy...**

In the previous pages different suggestions about how to achieve the desired goals were put forward. Some of them – a careful planning phase, the adoption of “line of sight” objectives, etc. – are certainly useful and can be considered good practices able to provide inspiration even across national borders. But the most fundamental issue remains the link between the general mission of the organisation and the type and characteristics of PRP. The second element of the relation must be consistent with the first and must be considered an important part of the overall strategy. May be one can go a bit further and suggest, on the basis of the evidence, that the most apparent successes in the introduction of PRP are to be found in those organisations that in the same period underwent a process of change in the mission, and/or in the general orientation of service delivery, and/or in personnel policy. The reverse is clearly debatable, but it can be tentatively suggested to be very careful in designing PRP schemes in order to bring about marginal change, not least because of the difficulties of defining the objectives already referred to. A generic reference to the need of modernising the administration seems to constitute an insufficient justification, and to provide a shaky foundation, to the introduction of performance related reward.

## **10. ...and of Human Resource Policy**

The final point is probably the most clearly shared by all the people involved in human resource policy, i.e. the fact that PRP is a part of HR policy, not a substitute for its lack. The

commitment at rewarding personal development does not make any sense unless there are in place, for instance, training opportunities or other possibilities of improving the skills and/or the organisational competencies of the managers. To reward productivity and/or the quality of the work done can be even frustrating if the career has an unbreakable ceiling. This is just another way of saying something that has been already said several times, that is that PRP is a tool, even a powerful tool, able to support a strategy of modernisation, but not the panacea through which the brave new world of the “new administration” can come into existence.