Overview on Civil Service Salary Systems in EU Member States and some Reform Trends

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The European Institute of Public Administration, Maastricht (EIPA) conducted a survey entitled “Basic Elements of the Remuneration System in Public Administration” in 1997 and a further study in 2002 for which I was responsible entitled “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)”. Since then, I have continued my interest in this area and it was gratifying to see the 2005 OECD study “Performance-related Pay Policies for Government Employees” agreed with many of the conclusions of my study. Set out below is a brief overview of the development of civil service salary systems in the 15 Member States surveyed.

**AUSTRIA:** The reform of the remuneration of contractual staff, which became effective in early 1999 (Vertragsbedienstetenreformgesetz – Reform Act on Contractual Employees). The reformed system of remuneration for contractual staff is a promotion system with function allowances. The previous careers of the contractual staff, in particular for academics and “A” level school leavers, did not constitute careers with a fixed salary structure and were not comparable with the careers of civil servants or with those of employees in the private sector. Within the salary groups there were no function-related remuneration components. With the Act Employees it was possible to create a modern and performance-oriented remuneration system which, unlike the previous remuneration pattern has attractive full careers in which senior positions are attainable which were previously exclusively reserved for civil servants. It provides attractive remuneration for young staff compared to other careers and it rewards supervisory and responsible functions directly and according to performance.


**DENMARK:** In 1998 “new pay systems” were introduced. New pay systems applied to approx. 40 per cent of the employees in the Danish public sector from 2002. There are therefore now two different pay systems; The traditional pay system, where basic pay in most cases includes automatic pay rises based on seniority. The basic pay is agreed on centrally, but might be supplemented by local pay (to be agreed on decentrally or locally). The new pay systems started replacing the traditional pay system in 1998, partly as experiences. Now they are introduced as permanent systems. New pay systems consist of basic pay (to be agreed on centrally) plus a superstructure with additional pay based on any special functions that are attached to the job or group of jobs and the employee’s personal qualifications and performance (to be agreed on centrally, decentrally or locally) plus a performance related pay that reflects that the employee has met a number of predefined qualitative or quantitative targets (to be agreed on decentrally or locally). One of the main objectives of the new pay systems is to create a better and more obvious link between pay and personnel policy on the one hand, and the objectives and strategies of the individual institution on the other. This provides ways to use pay as an active tool to reach the institution’s goals. This means that pay, to a larger extent than through the traditional pay system, will reflect responsibility, authority and qualifications as well as constitute a means of remunerating performance.

**FINLAND:** The official goal of the Ministry of Finance is that every central government agency is in the sphere of a new pay system from 2002. In the new system the wages and the salaries are graded on the basis of the job requirements. The level of pay also depends on individual work performance and professional skill, which can thus be influenced by the individual civil servants.

**FRANCE:** All career development is linked to merit. Seniority is of course considered to the extent that it is tantamount to professional experience and is expressed by advancement to a higher step within a grade. Merit is however the main criterion for faster advancement to higher steps within a grade and for promotions from one grade to the next within a corps, or from one corps to a higher one. There is also the concept of functional employment, for which there is a special remuneration grade and which concerns posts to which civil servants of the higher corps are seconded for a limited period of time. This notion makes it possible to bring in – for senior positions such as management posts in central administrations or decentralised services – officials selected on the basis of their productivity.

**GERMANY:** The Act on the Reform of Lecturers’ Pay that came into force in early 2002 has laid the foundations for a comprehensive modernisation of the civil service law governing higher education staff, as well as for the optimisation of the recruitment and remuneration conditions throughout the area of academia and research. Flexible basic conditions have been created, so that institutions of higher education and research can better fulfil their scientific and research tasks in international competition. Alongside the
reorganisation of the qualification path of university and college teachers, greater performance orientation of lecturers’ pay is a key aspect of the reform. Furthermore, employees now have the possibility to receive a performance bonus or a performance allowance for individual performance or team performance. In this regard, legal provisions similar to those for civil servants and soldiers govern employees. From experience to date, improvements to the performance-related pay instruments are planned, so that exceptional performance can be better rewarded.

GREECE: Important changes have occurred in the regulation of industrial relations and wage setting in the Greek public sector in the last few years, such as new regulations introducing part-time employment in public services and local authorities, and a major increase in temporary and seasonal employment. Also regarded as important are efforts to reorganise public services through longer opening hours and more shiftworking, to link productivity with pay, and to create new rules for career advancement, the system of promotions and the conditions for retirement and determination of pensionable pay. The recent changes concentrated mainly on enacting a new presidential decree on public service fixed-term contract employment and a proposal from the Minister of the Interior to create sectoral rather than uniform pay scales in the public sector and individualise pay based on performance and output of each authority.

IRELAND: There is no change in the basic remuneration system since 1997. A scheme of performance-related awards for grades at Assistant Secretary and Deputy Secretary level, which was recommended by the Review Body on Higher Remuneration in the Public Sector, has been introduced with effect from 1 January 2002. The scheme is based on 10% of the pay bill for the grades concerned but, within this overall limit, individuals may receive awards of up to 20% of salary. The scheme replaced a previously existing scheme based on 4% of the pay bill. The awards made are non-pensionable lump sums.

ITALY: In recent years, some reforms in the Public Sector have had an effect on the remuneration structure of civil servants. For non contracted staff, a new remuneration system was introduced, based not only on the usual legal aspects of their work but also on the agreements reached in discussions with trade unions, which were formalised by a decree of the President of the Republic. According to this, these categories of staff have been considered to hold internal and external co-ordination administrative roles and therefore of managerial level. This rethink of category has also led the way for a review of the remuneration system which now consists of additional remuneration tied to the grade of responsibility and to performance, together with the fixed remuneration system. In addition, increments for years of service are applicable to these categories, tied to the evaluation of the performance of the unit.

LUXEMBOURG: A study analysing the relations between the different careers in relation to the development of the elements on which their classification is based (education, responsibility, competences, special constraints) will see the career development of civil servants linked more strongly to the way they handle their duties and their willingness and capacity to take on responsibilities. To this end, the existing mechanisms will be expanded and improved.

NETHERLANDS: The grading structure was reviewed in 1997 in connection with a new job evaluation system. Within the grading structure the weighting of the job and the appropriate pay scale are determined through job evaluation. Uncapped awards: An uncapped award can take the form of a one-off bonus (similar to old bonus scheme which was also a one-off award) or a periodic supplement (i.e. paid monthly on top of the salary). The crucial difference is that reasons for granting awards are no longer laid down in the rules and regulations. The competent authority at decentralised level can determine its own reasons for making such an award and how much it should be and whether it should have the form of a one-off or monthly award. Right to an interview: Since 1 January 2001 civil servants have had an enforceable right to an interview and at least one must be held each year. It is important that pay awards are based on the interview. This link is seen as an important way of guaranteeing that staff get the pay they are entitled to. The competent authority is required to make appropriate arrangements if circumstances prevent an officer’s line manager from conducting the interview. The competent authority’s assessment of performance and any resultant decision on pay must be based on transparent and objective appraisal criteria. The competent authority is required to lay down these clear and transparent criteria at ministry level.

PORTUGAL: The pay scheme of the Portuguese Public Administration underwent an in-depth reform in 1999. However, it has, so far, remained basically unchanged. As regards public institutes, autonomous pay systems have been developed, which are a consequence of the introduction of individual employment
contracts as a legal employment relationship with the public administration. A number of experiments have also been undertaken with a view to defining salary bonuses relating to improvement of productivity. These experiments are carried out in a number of sectors namely, health, fiscal administration and justice.

SPAIN: Since the study “Basic Elements of the Remuneration System in Public Administration” was made in 1997, there have been no changes to the rules governing the remuneration system for civil servants in the General Administration of the Spanish State.

SWEDEN: The Swedish central government sector keeps the same system of individual pay as in 1997. It has been developed further in so far as the Swedish Agency for Government Employers made an agreement with the Swedish Confederation of Professional Associations in 2001 to the effect that supervisors and their subordinates may revise the individual pay in a direct agreement instead of in a collective agreement with the local union.

UK: Senior Civil Service: From April 2002 a new pay system replaced the existing SCS pay arrangements. The new system introduces a larger element of differential reward for performance into base pay and also offers performance related non-consolidated bonuses. All departments and agencies are currently working to design and implement new pay and performance management arrangements for staff who are not part of the SCS. These are being framed around the same principles for modernisation as those applied to Senior Civil Servants. For example, departments and agencies are looking to ensure that all effective performers are able to progress through their pay band to a target rate that rewards them fairly for the job that they do. Another principle is that there should be proper incentives to encourage all staff to give of their best and strive for continuous improvement.

An important feature of most public sector modernisation programmes is a move towards management control by emphasising performance rather than rules and procedures. Identifying distinct operational units and setting objective performance targets for them is also a feature in most Member States. Performance management involves linking the targets of the unit to the strategic goals of the organisation. In the public sector this tends to introduce the notion of linking the pay system to performance targets, or performance related pay (PRP) since the public sector pay bill is the biggest budgetary item in almost all public sector organisations. PRP is generally believed by management in the public sector to be successful in the private sector and that such success can be transferred to public sector institutions.

It was clear to me from the responses received from the 15 Member States surveyed in 2002 that most of them have implemented performance-related pay systems in recent years, some to a greater extent than others. Denmark, Sweden and the UK are the most advanced in this process, while Luxembourg was the only Member State not yet experimenting with PRP. The main reason cited in most cases was to increase the motivation of employees and thus to improve performance, effectiveness and efficiency. However, there are other reasons, not all related to rewarding and motivating staff. In many cases it forms just one element in a major change programme and is seen as a tool of management in devolving HRM responsibility and accountability down the line. There is a strong tendency to decentralise the remuneration system and locate reward decisions with line management. The focus is to tighten the link between individual performance and the pay reward given - the individual's salary increase is dependent upon an assessment of performance against operating objectives.

The oft-stated objective of rewarding outstanding effort and differentiating between good and bad performers is coupled with the need to attract and retain talent currently being rewarded for performance in the private sector. There is also an element of ensuring that those at the top point of their salary scale with little hope of promotion continue to deliver. Inflexible pay relativities across the width of the public sector are another reason for seeking mechanisms for individualising remuneration systems. Budgetary constraints play a part, as do public opinion and, of course, fashion. Wage increases in the public sector are extremely expensive, particularly in a climate of low inflation, and a PRP scheme offers one mechanism for allaying the fears of the taxpayer. The capacity to provide additional rewards that are not subsequently amalgamated with pay (and then with pensions) is another attractive incentive.

In terms of organisational change, a PRP scheme is seen by many Member States as a mechanism for ensuring that all employees are aware of the objectives and strategy of their organisation and of the culture management wish to foster. Several respondents referred to the availability of additional training as being part of the performance related reward system.
Where performance pay is in operation, it is used to improve the pay of those the organisation wishes to retain. However, it is not clear if this is the actual outcome and PRP schemes may, in fact, be detrimental to the motivation of individuals if not handled very carefully.

The complexity surrounding reward management is just one of the difficulties faced by human resource management (HRM). For example, Storey (1992) made a distinction between “soft” HRM, “strategic interventions designed to elicit commitment and to develop resourceful humans” and “hard” HRM, “strategic interventions designed to achieve full utilisation of labour resources”. It seems that many of the public sector pay schemes currently in operation try to do both, with little evidence of success on either front. Many writers on HRM have examined the systems used to reward individuals (Smith, 1992; Legge, 1995; Kessler, 1995). In the final analysis, it appears that many of the reward initiatives pursued represent no more than a “shuffling of the pack”(Kessler, 1995), rather than any innovative, integrated strategy which could be considered part of a distinctive HRM approach.

Many writers on organisations present human resource management as a model that can be followed like an architect’s drawing. They set out the theory and when it stutters in practice they formulate a new theory. Writers on pay schemes list advantages and disadvantages of such schemes, set guidelines for their introduction and operation and offer solutions to foreseeable problems (Armstrong, 1991; Armstrong and Murlis, 1994). More recent textbooks and the evidence provided by empirical research (Mabey and Salaman, 1995; Geary 1992), however, are less positive about textbook schemes. They suggest that successful performance management schemes, of which PRP may be one dimension, may need to be organisation specific. All are agreed that there are many issues around the operation of all pay schemes, including PRP schemes.

The main argument put forward in favour of PRP is that it acts as a motivator, by providing extrinsic rewards in the form of pay and intrinsic rewards through the recognition of effort and achievement. PRP is also seen as helping employees to identify closely with the goals of the organisation, leading to increased productivity, quality, flexibility and teamwork (Armstrong and Murlis, 1991; Wright, 1991). In addition, PRP is seen as useful in the recruitment and retention of staff.

Many researchers, however, (Dwyer, 1994; Kessler, 1992; Marsden and Richardson, 1992) have questioned whether PRP actually acts as a motivator, or, indeed, if money can motivate: “Most managers are aware of Herzberg’s view that the job itself is the source of true motivation, not the pay or even the conditions of work” (Dwyer, 1994). Kovach (1987) found major differences between the views of managers and employees on employee motivation. Managers thought money would top the list, while employees listed job satisfaction as the top motivator. The incentives created by different forms of pay and reward, and their impact on performance, can be complex. As job security is considered by civil servants to be an important element of their reward package, Member States wishing to introduce New-Public-Management style contractual arrangements (to reward performance) may have to offer a higher base pay to compensate for lost job security.

There are many reasons for the introduction of PRP schemes, whether in the public or private sector. Kessler (1992) suggests that PRP can be used to assist organisational change. It might also help to achieve cultural change by letting employees know what the values and expectations of the organisation are. Changing the culture may help to change the relationship between management and employees. In this connection, Ribbens (1988), Kessler and Purcell (1992) and Procter et al. (1993) note that the individualisation of pay can be used to circumvent the collective bargaining process, thus reducing the influence of trade unions and re-establishing managerial control.

The reasons for introducing PRP can have a significant impact on the success, or otherwise, of the scheme. Crowe (1992) suggests that “each scheme will need to be assessed in the light of each organisation's objectives”. In addition, the design of the scheme, and the extent to which employees are involved in that design, will also affect its success, or failure. A successful PRP scheme needs more than employee involvement in the initial stages. It needs to be seen as fair and equitable by all employees. Without this perception of fairness, employees will probably distrust the system and will not produce better performance on the job. The issue of fairness is even more critical in flatter organisations where opportunities for promotion may be limited.
To ensure that a PRP system is perceived as fair, Greenberg, (1986) suggests that employees should have the opportunity to participate in pay design decisions; that full information be provided in a timely fashion; that the rules governing pay allocations be consistently followed; that channels for appeals be readily available; and the organisation have safeguards against bias and inconsistency.

Apart from fairness, the responses received identified other problems associated with PRP, including a tendency toward a short-term focus on quantifiable goals to the neglect of more long-term issues. They also identified measurement difficulties, in terms of both difficulties in measuring the work of public servants and avoiding subjectivity. It is clear from a number of the schemes described that communication and agreement on objectives and standards of performance are seen as central to the success of the scheme. However, it is not clear whether individualisation of pay sits well with the concept of teamwork.

It is not clear either whether PRP in the public sector is successful where it has been introduced and it seems from available literature that there are many pitfalls associated with its operation.

Research on PRP in the private sector indicates that the problems of performance measurement in the public sector have also arisen there (Cutler and Waine, 1999). Private sector PRP schemes also have difficulties in developing appropriate performance measures and this can be seen in debates on senior executive pay in the private sector (Parkinson, 1993). The research also indicates that PRP creates an emphasis on short-term, particularly financial, targets at the expense of a developmental role for appraisal (Newton and Findlay, 1996: Styles et al, 1997). This is the case even where such developmental objectives are embodied in, for example, corporate mission statements.

A 1996 case study on PRP in a private sector company in Ireland entitled “Performance Related Pay: What Makes a Successful Scheme?” by Ms Aisling Kelly and Dr Kathy Monks, found that managers believed the PRP scheme had inspired increased performance and had achieved substantial positive motivational effects. However, this does not necessarily indicate that it was the monetary element that created the incentive. Improved communication with supervisors, increased focus on set objectives and a clear picture of how individual work fitted into overall organisational goals were observed as associate characteristics of motivation. Indeed, it could be argued that all three characteristics could be derived from increased communication and by implication, communication is essential for an effective PRP scheme. Essentially, the study indicated that a number of factors may have been responsible for inspiring motivation for increased performance, including the symbolic status of a pay increase signifying recognition of well accomplished work and the increased and more effective channels of communication opened by PRP’s introduction.

Research by the London School of Economics Centre for Economic Performance (CEP) on performance pay in public services was based on the civil service, trust hospitals and head teachers. It showed that a great many public servants agreed with the principle of linking pay to performance but were not happy about the operation of their schemes. Although many employees valued the opportunity their appraisals gave them to discuss their work with their line managers, they considered the link with pay harmful. Many reported PRP had reduced motivation and morale, yet the study also found that a sizeable minority of line managers believed that staff were working harder as a result of PRP. In addition, the study of head teachers highlighted a number of special features of primary and secondary education that are relevant to the design of performance management systems. These include a strong sense of the value of public service, a powerful awareness that schools' success depends on all teachers, practical reservations about the implementation of performance pay, and a view that judgmental performance targets were more appropriate for schools than simple statistical indicators.

A study by economists at the University of Zurich suggests that if workers see as a punishment when it denies them their fixed-pay entitlements, they will react by minimising work effort. This helps explain why the risk element of many performance-related pay schemes has been gradually eroded. Indeed, a survey by HR consultants Watson Wyatt Worldwide recently found that 90 percent of employees view performance-related pay as an entitlement, not a reward. In essence, this means that the variable, risky element central to the concept of performance-related pay is not functioning. With supposedly variable pay viewed as a fixed entitlement, it is inevitable that failure to earn one's bonus will be perceived as punishment. Any action aimed at reintroducing discipline to failing schemes therefore risks employee backlash.
The idea behind performance-related pay does, however, remain sound. Employees are motivated to increase productivity if they see a direct link between work and reward, in other words if they can taste the fruits of their labour. However, when creating a compensation strategy, clear communication of the scheme's aims is vital. Employees should be given the opportunity to contribute. The same principles must be applied throughout the organisation. Performance-related pay can then provide the wonderful effects the organisation seeks while rewarding employees for their contribution to success.

The responses provided by the Member States indicate that, in most cases, the reward systems for public servants are under continuous review. While there are evident similarities, the range of rewards and perquisites that make up the total remuneration package differs substantially across Member States.

The focus of the survey was on models of remuneration that are linked to productivity or performance and it is clear that there is a significant move under way in most Member States to consider individualising pay as a means to achieve improvements in performance. However, the characteristics and functioning of the systems in use or being explored vary considerably, both in the level of rewards available and in complexity. The issues of assessment and measurement of performance, particularly when monetary rewards are involved, are obviously of major significance in this regard.

The responses also indicate that PRP systems are difficult to implement across the board. In many cases such systems are only applicable at the most senior levels. This may be an indication that PRP is costly and time-consuming to implement or perhaps that it might not be acceptable to employees in the lower ranks.

While most of the systems described are relatively decentralised, budgetary control is generally retained by the centre and flexibility for local management is confined to issues such as measurement of performance and distribution of the small pool of money available for performance related pay.

Some systems appear to have been introduced as pilot projects with a view to wider application at a later date, but in the absence of any rigorous analysis of the effects of the pilot projects it is not clear how wider application could be introduced. The need for extensive training of those conducting performance evaluations is one obvious prerequisite.

There is little evidence that any of the schemes currently in use address the issue of underperformance. The range of rewards for excellent compared to normal productivity is generally quite small, and none of the systems described contain any element of punishment for failure to deliver. It may well be that failure to get a performance bonus would be seen as a punishment, but this would appear to punish all those who deliver normal productivity as well as the underachievers.

As already mentioned above, the measurement of performance, particularly in those areas where there are no obvious quantifiable outputs, is a very difficult issue. However, most systems described involve the job-holder and his or her manager agreeing targets to be achieved, based on the goals of the organisation. Judgements as to how well such targets are met may, of course, be subjective. A useful mechanism is some of the schemes is to use employee self-assessment in the first instance.

Performance related pay systems require that performance be measured. The systems in place are, for the most part, linked to systems of performance management, involving formal discussions between the employee and his or her supervisor. While the merits or otherwise of PRP are unclear, nobody can doubt that regular communication between manager and worker is a good thing. The replies received show that formal annual appraisal is the norm, with some systems requiring more frequent discussions on performance, targets and progress to date. The best systems recognise that performance management is not a once-off intervention but a day-to-day part of the ongoing job of the manager.

Of the difficulties identified in the survey, the most significant centres on measurement. Resistance to change is also mentioned frequently as a problem and once again the solution rests with communication, openness and transparency.

It is interesting to note that very little attention has been given yet to evaluating how these systems have contributed to an improvement in performance, in HRM or in the quality of service delivered. While most responses indicate that employees are aware of the relationship between their performance and their
remuneration, it is not clear if any analysis has been undertaken that supports this view. In one case, a
motivation survey clearly showed that additional remuneration was not a significant motivator for the
employees concerned.

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