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**Fair Salary Systems in Public Administration,
Conditions, Reform Goals and Strategies:
The Example of Austria**

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Fair salary systems in public administration: Conditions, reform goals and strategies

The example of Austria

The expectations of the citizens with regard to the public services in Europe, but also the expectations of the civil servants with regard to their employers have changed continuously. The call for fair and performance-adequate salary systems has become a central question for policy makers.

The development towards more flexibility and more fairness in pay is very different in the countries of the EU as is the understanding of the function and the historical development of the public services.

In Austria the political discussion about more fairness and performance - adequate pay in the administration started almost two decades ago. This discussion has triggered a series of initiatives to modernize the Civil Service Law and the Salary Law. This process has not come to an end and will surely continue.

Radical reforms of the public service - like a complete assimilation of the public service regulations to the private sector as in some Scandinavian countries - were always out of discussion. There was and still is a common understanding among policy makers in all political forces that the classical principles of administration should be kept as a historical trajectory of the state: *the Civil Service is supposed to guarantee a stable, non-partisan administration strictly bound by the rule of the law and oriented only on the common good !*

The problem in the salary system was that the old service-class system and the other career-systems rely on formal criteria like education and seniority. The few instruments of flexibility and differentiation in the system had become less and less important over time – there was a clear trend towards equalization; driven by an extremely high unionization of the civil servants.

At the same time this tendency of equalization of different ways of actual performance brought with it a lot of latent discontent (all this took place amongst a broad and long-lasting trend of rising salaries in the public sector).

The old appraisal systems were part of the problem. They did not reflect the real performance of the individual but rather a standardized comparison in the grades. Appraisals were rare, subjective and the results usually too positive. Immediate consequences with regard to pay and career development were also rare.

It is important to note that the political discussions and reforms which I will describe now have taken place among a general trend in Europe and the rest of the western world: the trend of decentralization and individualization in Human Resources Management.

Starting point

In 1990 a lot of interviews with civil servants were done and analysed. The most critical comments focussed on the lack in fairness of the salary system and inadequate daily practices in human resources management.

The policy makers set 3 specific targets for the upcoming salary reform:

- stronger differentiation which corresponds to the specific job content
- elements of performance related pay: the appraisals should be more differentiated
- higher positions should be made more attractive; these positions should be held for a limited period

The call for more and stronger performance - related pay - elements led to an intensive discussion about the correct definition of performance.

A specific study (TRIGON, 1990) laid the scientific basis for the salary reform. The main definitions regarding performance and performance - related pay were the following:

„The basic elements of pay should be the job factor and the performance factor. Regarding the job factor a specific position should be analysed and classified irrespective of the actual job owner.

The basic pay has to be differentiated according to the different job contents or specific demands. The classification of the jobs should correspond with the set-up of the organization. The basis for the classifications should be detailed job descriptions and profiles of the specific job demands. Job supplements which every owner should get irrespective of his individual performance are part of the job -factor.

The second element of pay should be a performance-factor. In this respect the fulfillment of a position by an individual or by a group are assessed and the achievement of certain defined levels should be honored.“

Salary reform 1994

The salary reform of 1994 brought a modernization of the salary system for those civil servants whose salary followed the old service class system. The call for a stronger differentiation corresponded to the specific job content was answered with the introduction of a modern method of job description, analysis and job classification. Besides this new classification of all jobs, the salary was split up into a basic pay and a position supplement. At the same time the old seniority rule or – more precisely - „anciennity – rule“ was mitigated by raising the entrance salaries as far as possible within the given budgetary limits.

The fact that jobs are different even within the same grade and hierarchy was also taken into consideration. The jobs were classified, brought into a hierarchy and the pay was differentiated according to the specific job content.

The calculated additional costs of 87 Mio. € were slightly exceeded. Nevertheless many civil servants criticized the reform. This was not really a surprise because there usually is a difference in the way many people see their own job and the way a qualified expert classifies it. Another – calculated and expected - effect was, that many older civil servants criticized the reform because they did not profit from it. But this never was the intention of the policy makers! It was very clear from the beginning that the younger employees would be the winners and the older employees would be the losers of the reform. The last main point of criticism was that it did not pay tribute to individual performance.

Performance appraisal

This discussion led to a new regulation of the performance appraisal. After intensive preparation (two years of training and information for managers and staff on the new system) the new appraisal system was introduced. The yearly appraisal interview is now split into two parts:

Part I

The interview begins with an open discussion between the employee and his or her direct manager about the targets of the unit in general and the contribution of the particular employee. In the very first interview, fair, measurable, specific, achievable, realistic and time-framed main objectives must be set up. The next interview is about whether these objectives have been surpassed, met or not met, and which were the exact reasons for it.

To ensure confidentiality and openness of the interview, the summary of the interview remains with the participants. It is not permitted to reveal any part of the interview to third parties. If one of the participants refuses to sign the summary, another – and final date – must be set. Only at this final stage is it allowed to bring in one confidant.

Part II

The second part of the appraisal interview is devoted to the strengthening of the individual performance. To define measures of personal development, the discussion must focus on the following topics:

- which of the measures agreed upon last year were realized and which not?
- which effect did the measures produce?
- did the measures stand the test in practice or not?
- which qualifications of the employee cannot be used appropriately in his or her current position?
- which of the following measures shall be realized in the next period?
 - instruction by the manager/experts/colleagues
 - participation in projects
 - change of tasks
 - managerial training
 - technical literature
 - job rotation (including practice in private companies)
 - seminars, meetings
 - participation in external working groups
 - working abroad
- what will be the costs?
- who will support the realization of the measures?

The summary of this part of the interview is sent to the HR department thus providing it with a sound basis for staff planning and development.

Outstanding performance of individuals does not necessarily mean outstanding performance of the team. Therefore, it is useful and obligatory to discuss the targets and workflows of the team with all members of the unit when the individual interviews have been completed.

Possible topics of such a team discussion are:

- changes in internal workflows and competencies
- internal and external cooperation
- projects
- improvements in information channels
- internal meetings
- internal proposal systems
- technical equipment

The HR-department must be informed that all interviews and team discussions have taken place.

Contract Employees

In the next step the service and salary regulations for contract public employees were also reformed. The pay was split into a basic pay and a position supplement. The anciennity - principle was mitigated by raising the entrance salaries as far as possible within the given budgetary limits.

The system of allowances was not fundamentally changed during this reform. The only exception was the introduction of a „performance bonus“. The budgetary restrictions were rigid and the total amount for the bonus system is still limited to only 0,25 % of the salaries. An individual can get between 10 % and 50 % of his or her monthly salary as a bonus during a fiscal year. It is strictly forbidden to split the bonus among all employees or to use this money as a bonus for the managers.

The intention was to create (and to test) a new, flexible and additional instrument to motivate the top performers. To assure the necessary transparency the managers were trained for a period of a year before the bonus was introduced.

It is remarkable how many questions and doubts came up during the introductory phase. This clearly reflected the uncertainty which many managers had in respect of their accountability for resources in general and their responsibility for Human Resources Management in particular.

It is clear that salary systems with performance-related pay elements need the highest quality of managerial integrity and leadership. A bonus which is distributed without clear connection to performance will have no positive effect on the motivation of the staff. On the contrary, it will produce mistrust and envy.

Motivation itself must not be reduced to the field of pay. In my opinion, it is an illusion that a lack of motivation could be changed only with a reform of the salary system. No salary system can compensate for weak managers or a poor system of Human Resources Management, especially human resources development. A bonus can only support the daily work of excellent managers in their responsibility of Human Resources Management. Exceptional good quality of work should be honored by measures of career-development like job enrichment or job rotation or completely new responsibilities – bringing the job factor to the next level.

Performance bonus in the environment of a stable classic administration is relatively cheap, but it creates systemic uncertainty. It is essential to keep the following in mind:

- any individualized pay element requires a clear basis. In Austria this basis is given in all ministries in the form of a well-defined management by objectives system. After some years in use this MbO – system has led towards a much more result-oriented mindset among the civil servants. It intensifies the dialogue between managers and employees and is one of the most important triggers for the cultural change that was one of the central goals of public administration reform.

Lessons learned

To my regret, there has never been a scientific study about the effects of these reforms on the effectiveness and efficiency of public administration. As an HR practitioner who took part in drafting, negotiating and implementing the reforms, I personally draw the following conclusions from a lot of contacts and personal feedback:

- It is remarkable that in the meantime almost everybody agrees that there is no alternative to introducing a modern MbO- system which identifies individual targets among clear targets of the organization.
- The new appraisal system had some initial problems. Now that these problems have been overcome nobody wants back to go back to the old, formalized structure of appraisals.
- The combination of communicative elements with individual performance improving measures is also widely appreciated now.
- It seems to me that the detailed forms and criteria of the appraisals are only of secondary importance. Much more important is the professional and fair use of the system. The main question is always the same: how fair, transparent and professional people are managed and how professional their potential is assessed and developed.

General factors of success

The critical factors of success in the introduction of new salary systems and performance appraisal systems are quite clear:

- „Test-runs“ and professional training programs for all managers and employees are indispensable prerequisites.
- Simply structured and unbureaucratic systems are better than complicated systems.

- Appraisals should be held on a yearly basis.
- There should be a clear differentiation between salary components and development components.
- Targets should be agreed in written form; a copy of the protocol should remain with each participant.
- Performance related pay elements are only useful if they are transparent and regarded as fair by all employees.
- The results of the appraisals should not only include pay factors but also human development measures.
- Feedback and trust between managers and staff are indispensable prerequisites.
- In other words: Individuals are more willing to perceive the decision-process as fair if they are allowed to present their own view, if decisions are properly explained and justified, if appraisals are implemented fairly and consistently over time and amongst colleagues, if employees are given a timely feedback, if they are treated politely and if employees trust their employers in making fair and professional judgements. When both parties respect each other, an appraisal will more likely be more successful.
- In Austria there has been a lot of progress since the introduction of the new systems. In those cases where reality is still behind the expectations, it is to a large extent also a generation problem.

All experience in Austria and other EU-countries shows that the introduction of a new salary- and appraisal system can only be realized in a long-lasting effort. In most cases the process took several years and brought with it – at least at the beginning – a lot of mistrust among employees. To overcome this mistrust it is important to inform all managers and the staff at a very early stage and in detail about the concept, the implementation and the consequences of the new system.

With regard to the introduction of a new target-system it is essential to train the managers how to define and agree on results and how to measure them properly.

It is also very important to train the managers on giving the right form of daily feedback to the employees. Quite often employees have problems agreeing on targets they do not really understand. Sometimes targets are not agreed but set by command. Sometimes the number of targets is not limited in a practical way.

Time, resources, trust, fairness, understanding and leadership are important factors when new salary and appraisal systems are to be effectively implemented.

Experience shows that the critical factors of success - those which lead to a change of values and culture of leadership - take a lot of time. The introduction of the new tools and instruments (statistics and monitoring systems, training, improving the relation between managers and employees) is costly and time-consuming.

In the end the success of all these efforts depends largely on how well the employees can be convinced that their managers can use and will use all the new tools and instruments in a fair, competent and professional way.

In my experience some managers have either overestimated their ability to assess others or have simply not taken the necessary time to understand the process of performance appraisal. In some cases there even is a combination between a lack of time, competence and motivation. Managers must therefore be trained continually in the field of performance feedback.

Altogether the introduction of a new salary system with elements of performance pay needs a much more professional practice of the target system and the appraisal system than a system without performance-related pay elements.