

Performance related pay in European local governments

A comparative analysis of France, Germany, and Italy

A paper prepared for the 2014 Annual conference of the European Group on Public Administration (EGPA), Speyer (Germany)

PSG V: Regional and Local Government

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Citation:

Proeller, Isabella ; Meier, Anne-Kathrin ; Vogel, Dominik ; Mussari, Riccardo ; Casale, Donatella ; Turc, Emil, Guenoun, Marcel 2014. *Performance Related Pay In European Local Governments: A Comparative Analysis Of France, Germany, And Italy. Conference Paper. 2014 Annual Conference Of The European Group On Public Administration (EGPA). Speyer, Germany.*

1 Introduction

The introduction of performance-related pay in the public sector has been one of the main trends in public management reform in the last two decades. In 2005, two-thirds of the OECD member states had already implemented performance pay for civil servants or had been on the way to introduce it (OECD 2005). In this paper, we analyze the implementation of performance-related pay (PRP) at the local-level in France, Germany and Italy. As PRP is perceived as one main instrument to increase effectiveness and quality of public services, it is important to study the implementation of this instrument in different countries in order to gather insights on possible designs and their effects.

We decided to focus on these three countries, as we wanted to extend the literature on PRP, which is mainly focused on Anglo-Saxon countries, until now. France, Germany and Italy belong to the “Rule of Law” tradition and have encompassed managerial reforms in the last twenty years and represent the Maintaining/Modernizing clusters identified by Pollitt and Bouckaert (2011), which are particularly missing in comparative administrative research (Kuhlmann and Fedele 2010, 1116). Even if slower or lighter institutional change can be expected in these three countries, it is important to study public sector reforms in this cluster.

We focus on local government organizations (LGOs) because previous comparative research on public management reforms has shown that in Continental/Rule of Law countries, local governments were the forerunners of administrative modernization. Saint-Martin (2000) compared Canada, UK and France and suggests that the most salient difference between France and Anglo-Saxon countries was that LGOs were the gateway of private management techniques in the public sector, which spread subsequently at the central government level. Kuhlmann and Fedele (2010) suggest that the advancement of LGOs in the implementation of reforms is common to France, Germany and Italy.

France and Italy are unitary states with Napoleonic tradition where LGOs were politically and administratively weak (tutelage, few competences) while Germany is a federal state with a long tradition of local autonomy. The institutional trajectories at the local level of these countries are rather contrasted: France entered in a deepened decentralization process during the 2000s through the transfer of social expenses and the increase of financial autonomy (linked with a limitation of fiscal autonomy) to the local-level. Meanwhile, Italy became a quasi-federal state. As for Germany, LGOs kept their very high autonomy.

Based on this case selection, this paper aims at describing the application of performance-related pay at the local-level and to analyze commonalities and differences. It tries to identify factors influencing the implementation of PRP and outcomes of the different designs of PRP in France, Germany, and Italy. Previous evaluations have identified severe weaknesses in performance-related pay schemes in the public sector. According to Perry (2009, 43), “performance-related pay in the public sector consistently fails to deliver on its promise”. Therefore, we will also focus on challenges and problems public organizations face when they introduce or have to introduce performance-oriented pay.

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To answer this question the paper first describes and analyzes the implementation of PRP in the three countries. The last chapter is dedicated to derive conclusion of the case studies and to develop further research questions.

2 PRP in France

2.1 Emergence of PRP in the French civil service: PFR and collective incentive schemes

Performance bonuses in the French civil service are a relatively new development, which can be traced back to a number of general ideas gathering strength and visibility during the late 2000s in both political and administrative circles. A special report to the project of budget law of 2008 Carrez (2007) mentions the need to modernize the pay policies of civil servants in order to reduce the complexity and illegibility of the existing texts and practices, as well as the need to renovate the purchase power of public employees in agreement with the trade unions. It recommends further a generalization of the experimentations with individual merit pay and collective performance bonuses as a means to improve the attractiveness of the civil service and to recognize professional merit and the employees' results and quality of work. Validated by an agreement with the trade unions in February 2008, and assorted with a guarantee of total transparency of the methods and design of the tool, the *PFR* (bonus for functions and results - *Prime de Fonctions et de Résultats*) is rapidly translated in law (Decree no 2008-1533 of 22 Dec 2008). Quite curiously, this predates another major legal revision (Law 2010-751) which lifts the ban on the possibility to take into account criteria relative to individual and collective performance in pay policies for the whole civil service, an interdiction which held sway in French administrative culture since the after years of the second world war.

The progress of PFR towards implementation occasioned the formalization of complementary goals by the ministries of budget and of civil servants. The PFR was promoted as a modernization tool for HRM in the public sector, at once increasing the transparency of pay policies (replacing *de facto* about 1 800 bonuses across the national and local government administration), and providing for a more equitable treatment for agents with comparable jobs across public administration (Silicani 2008). Insisting on the break-up with the general culture of uniformity and bonuses based on "objective" non-agent related criteria, the PFR was also seen as a means to improve managerial leeway, giving direct supervisors the possibility to manage the relationship with their subordinates through individual goal-setting, evaluation, and incentives. Eventually, with country-wide program budgeting and redistributed managerial accountability and authority down the line since 2006, and in a context of budget cuts and reduction of the figures of civil servants, the PFR offered the possibility to manage better salary budgets, to better remunerate the employees, and effectively recognize and reward professional value and work performances.

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2.2 PRP design and a critical analysis of its mechanism

The design of the PFR remained stable from the outset and was only progressively refined by successive government decisions. It includes two parts: the functional bonus PF (*Prime de Fonctions*) and the performance-related bonus PR (*Prime de résultats*). The assessment of each follows specific calculations, but they are jointly paid on top of the yearly base salary as determined by the career index and national grids. First, the functional part is intended as a tool for acknowledging the professional trajectory of the agent. It is connected to the characteristics of the occupied position, its challenges, level of responsibility and authority, and needs of technical expertise. Akin to the OECD's (2005) vision of allowances for certain posts and working conditions, this part required the construction by each ministry and LGO of a refined categorization of the various posts associated to each civil service category. Hence, PF is in reality unconnected to the personal characteristics of the agent. This cautions the idea that the PFR tool does not break away completely with the former philosophy of public sector bonuses, meaning that 'objective', non-agent related criteria should justify complementary pay. Second, the PR part is formally connected to the annual assessment interview (*EAE Entretien Annuel d'Evaluation*) of each civil servant, during which multiple criteria are analyzed such as: commitment to serve (*manière de servir*), the achievement of annual objectives set by the supervisor, personal involvement, interpersonal skills, and the acquisition of other competencies and skills required on the job. This explains the *de facto* categorization of the PR part as a PRP component, although the merit bonus (professional worth and competence) and pay for results (goal-related) are not separated and follow a single procedure of assessment and attribution. However, the separate assessment mechanisms for the PF and PR part explain why the latter is called to evolve year after year, whereas the former could only change its quantum whenever the agent is called to a different post. As for amounts, the PFR may make a significant difference. For instance, middle managers of the national civil service could reach in 2011 a PF bonus of 15,600 € and a PR bonus of 10,200 € per year. A concern for equity appears as the superior margins of the PFR's parts are contained by national limits for each category of civil servants. As for volunteering LGOs, their assemblies must validate and enact all the limits and modalities of their PFR systems.

Another recently introduced PRP tool in the French public sector is the collective incentive scheme. Such schemes had been timidly experimented within various ministries during the early 1990s (Ministries of Finance, Home Affairs, Defense), with HR bureaus being aware of the lack of clear legal basis. Drawing on a parliamentary report (Diefenbacher. M. 2009) and benefiting from the PFR debate and positive climate, collective incentives were formalized by both law (July 2010) and decrees (August 2011), offering national administrations the possibility to award their employees allowances connected to the organization's (or the department's) achievement of pre-specified performance goals such as quality improvement, cost efficiency, sustainable development, etc. However, the interest for this PRP tool was quickly stalled, with trade unions perceiving it as a mechanism for the reduction of personnel and financial resources in disguise (2011).

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While the PFR has been widely promoted as a merit bonus for the French civil servants and a support for individual motivation, a critical analysis of this instrument shows from the outset its many shortcomings and the ambiguity of its labeling. An approach from the angle of various motivation theories shows more specifically that some of the goals that were attributed to the PFR could be compromised by its very design. First, the identification of PFR with a merit bonus is weakened by the incorporation in the tool of a major part depending on the position occupied by the civil servant. This part lacks a direct reference to the individual's behavior, competence, or output, and has been excluded by the OECD (2005) from the field of performance-related pay. Second, while the PR part of the PFR is defined as an individualized bonus, motivation theories may indict the effectiveness of this hybrid which mixes an appreciation of professional competence and behavior on one hand, and of goal achievement on the other hand. Indeed, motivation theories hold that the attribution of a bonus connected to professional worth (merit bonus) may increase beliefs of self-efficacy (Bandura 2003), self-esteem, and validate the employee's professional image, thus enforcing the stream of intrinsic motivation at the work place . Also, a bonus' connection with goal achievement (results-based bonus) is deemed to create internal recognition and orient behavior (Locke 1967), to reinforce positive behavior (Cameron and Pierce 1994), and to strengthen the employee's expectations of performance, instrumentality, and valence (Vroom 1964). However, motivation theorists also posit that the motivational effectiveness of individual bonuses depends primarily on the sensemaking process of the individual, the cognitive treatment of the information contained in the bonus which conditions the employee's perceptions of the task's requirements, of personal performance, recognition, and valued behavior (Lévy-Leboyer 2007). In the case of the PFR, the joint assessment of the two types of rewards within the PR part, along with a single reward for both merit and goals achievement, is likely to blur the conditions and effectiveness of both motivation mechanisms mentioned above. Also, the monthly payment of the bonus attributed for the year's achievements further reduces the proportion of the reward in the overall wage and its significance to the eyes of the employee. Further attention is drawn to distortions which arise from inevitable adaptations of the PFR to the local LGO context.

2.3 Legal arrangements of PRP in the local civil service, diffusion, and application in LGOs

The beginnings of PRP in the local civil service coincide with those of the national services. These are specified by the Law 751 of July 2010 and the decree no 1705 of December 2010, which target during the first wave of application the senior management positions and those of chief engineers. The main difference between the implementation at the national level and at LGO level resides in the pace of reform. Born by the impetus of the RGPP reforms at national level, the PFR was meant to be quickly generalized for all administrative positions, and for positions in the social and technical sectors, after a period of experimentation in selected administrations. In contrast, the pace of reforms in LGOs was relented by the constitutional principle of freedom of administration. The extension of PFR was seen as an optional process, depending on the decisions of the LGOs' councils to validate the change or

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pursue with the previous system of bonuses and allowances. Until September 2012, further decrees extended progressively the possibility of application of the PFR to local civil servants in the lower hierarchy levels, although the legal bases for a generalization were never drawn out.

So far, the application of PRP tools in French LGOs calls for the following comments: (a) their implementation and diffusion is extremely limited, almost anecdotal, (b) local adaptations of the design of PFR limit drastically the part connected to the employee's results, hence its kinship to PRP systems, (c) within the context of LGO administrative culture, the implementation of PFR came at the cost of budget inflation and significant distortions of its initial goals, and (d) the local adaptations of PFR were swift to reach their limits, leading to demands for a renewal or abandonment of the system.

First, the effects of PFR are very limited today in the world of local governments. In taking up this competing system to the existing schemes, the only volunteering LGOs shared the features of small size, youth, and financial abundance (notably, inter-communal organizations who benefitted from national incentivized budgets), as well as some experience with salary individualization attempted in the grey folds of the law. Their initiatives proceeded in the absence of lessons from the national level, who struggled simultaneously with the new tool. But where it happened, local councilmen and their chief administrators were interested by the possibility to simplify the existing over-complex bonus system. Some diversity in practices could be noted, as national texts were translated to the local context and intentions of the LGOs. However, a common feature appears in the achievement of the assent of trade unions at the cost of guaranteeing the existing salary levels for employees, of rejecting quotas, and considering the PFR as an additional rather than a substitute bonus. The ensuing budgetary inflation is widely acknowledged by the profession as an essential reason why PFR was not diffused more widely across the LGOs whose finances were beginning to suffer from the economic crisis.

A second observation concerns the effective shape under which PFR was adopted in LGOs, with a design progressively estranged from classical PRP systems. In effect, PFR implementation was dependent on the necessary assent of the LGOs' assemblies, the approval of trade unions, and the adaptation to the socio-economic context. In practice, the *PF* part, which depends on the position occupied by the agent, ended up dominating the *PR* part (60 to 40), although the former is not recognized by the OECD as an individual-related form of PRP. Furthermore, the results-based part (*PR*) was implemented through a wide range of criteria, of which most depended on qualitative assessments of competence, behavior, and commitment to serve, and only a small part reflected the agent's output and goal achievements. While this *PR* could be seen as a brand of merit bonus, such unbalanced weighing of criteria makes the so-called "results bonus" less coherent to payment by results.

The third comment calls attention to the gap between the initial goals of the PFR, the administrators' and officials' perceptions, and the effectiveness of the tool itself. Most HR managers of adopter LGOs

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mention as a prime motivation behind the experiment the bureaucratic aim of simplifying, making more transparent and equitable the variable pay of their agents. As previously mentioned, some individual variability of bonuses had already existed, although it was connected to their positions and specific job requirements rather than personal skills and performance. The PFR was perceived as a mechanism that installed a unique process for variable bonuses, a transparent approach in which widespread communication on LGO-wide criteria and procedures was appreciated by both administrators and employees. However, it appears that skepticism was the primary attitude of the decision-makers. Perceived as an additional bonus to the acquired rights of the employees, the PFR contributed to reduce budgetary leeway. Employee numbers remained inelastic due to the political spin-offs of LGOs' employment policies, thus preventing the new performance bonus from reaching its initial goal of human resource rationalization (less civil servants with better salaries). Often, human resource managers opined that PFR clashed with existing civil service culture, inasmuch as it enforces managerial discretion, breaks away from uniformity, and threatens with salary reduction. This vision may explain not only why the PFR tended to be formalized and rigidified progressively, but also its disconnectedness from performance management processes (strategizing, management control, budget control, etc.). Eventually, even the simplification goal seemed endangered by the growing complexity of the tool induced by successive adjustments, political intrusiveness, and increased demands for transparency and formalization.

Last, we may note the progressive extinction of PFR experiences and the reorientation of the system in adopter LGOs. The resource-intensive form taken by its implementation, combined with an unfavorable financial context due to the country's decreasing endowments for the LGOs makes the systems virtually unusable. The local governments' first priority is to find ways not to reduce existing salaries for their agents, an incompatible issue with their inflationary view of the PFR. Further on, the individualization of pay based on performance is increasingly seen as (a) incompatible with administrative values, (b) too dependent on mature HR tools which are often inexistent (automatized provisional management of jobs and competencies, automatized annual assessment interviews), and (c) growing too complex in time. This leads to a perceived unbalance between expected benefits and the implementation and operation efforts. Eventually, this view was validated by recent legislative changes, with the vote into law on 20/05/2014 of a new bonus system (the IFSE) which, while similar to the PFR, makes optional the results-based bonus for the whole civil service. This alternative bonus institutionalizes the profession's preference for a simplification tool, rather than a performance-management instrument for their human resources. As per collective incentive schemes, their implementation remained virtual despite being voted into law in 2010.

3 PRP in Germany

3.1 Origin

In regard to performance-related pay for public employees, Germany can be identified as a latecomer compared to the majority of OECD countries. In 2005, two-thirds of the OECD member
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states had already implemented performance pay for civil servants or had been on the way to introduce it (OECD 2005). In the same year, performance-related pay in the public sector has just started to appear on the agenda in Germany. This is quite interesting as the traditional collective labor agreement had already been identified as a motivation obstacle for employees long before as exceptional performance did not pay off in terms of the salary.

Due to the introduction of the New Steering Model – the German local-level adoption of New Public Management instruments – in Germany, there has already been an increasing call for a stronger focus on performance and performance-based incentives in the public sector in the early 1990s. Nevertheless, experiences with performance-related pay were sparse although the Collective Agreement for the Public Service (BAT) introduced the chance to implement performance-related pay for public employees. Besides, the reform of the public sector employment law (Dienstrecht) also allowed the introduction of PRP for civil servants (“Beamte”). Although these attempts show the trend towards a more performance-oriented public administration, these reforms did not lead to an integrated implementation of PRP in Germany due to several reasons. First, the above mentioned legal regulations were just valid on the local level and were based on voluntariness. Furthermore, due to discordance between the bargaining partners, only a very small number of districts implemented PRP in the mid-1990s (Holtmann 2008).

Due to financial constraints at the local level, public administrations have not further pursued the aim to introduce PRP. Besides, it was often doubted whether PRP could really increase public employees’ motivation and performance. Only in 2003, a commission on the reform of the public sector again recommended the introduction of an effective reform of the reimbursement system including PRP (Regierungskommission 2003). The suggestions of this commission were highly discussed and finally ended in the reform of the “Collective Agreement for the Public Service” (TVöD and TV-L), signed by the public administrations as employer and the public sector unions in 2005. This constitutes the duty for public administrations at all levels to introduce PRP starting in 2007. In the following, we will concentrate on the description of PRP for public employees as the regulations for civil servants are completely different and only concern a minority of the people employed at the local level (a share of 13.3% are civil servants).

With the introduction of performance-related pay (PRP), the motivation, self-responsibility and leadership skills of employees working in the public service should increase. This development converges with the international trend of introducing performance-related pay in the public sector (OECD 2005). Initially, performance-related pay was launched with a budget of 1% of the basic pay of all employees of the respective organization in the previous year and has already risen up to 2%. Originally, it was planned to increase the amount up to 8% but it is still unclear until when this will be realized. Performance-related pay is paid on top of the regular salary and there is no chance to lower the salary due to bad performance. All employees of an organization are eligible to get PRP, there is no exclusion of any group and no official quota (nevertheless, organizations are allowed to use quotas).

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3.2 Design

German public administrations enjoy a lot of discretion to design the concept of PRP. The collective agreement for the public sector (§ 18 TVöD) merely regulates the basic framework of the performance payment; more specific regulations have to be decided in mutual agreements (“Dienstvereinbarung”) by the particular bargaining parties (employer and staff council) of the respective organization. In case organizations do not resolve a mutual agreement, they allocate the money based on the principle to give every employee of the organization an equal share of PRP (performance does not count at all). In the mutual agreements, the employer and the staff council have to agree on detailed commitments on the use of PRP, especially concerning the type of performance appraisals, the distribution of PRP and the performance appraisal methods. As organizations have a very wide scope of decision regarding the design of the performance pay system, there are a lot of different PRP systems in local government in regard to the types of PRP, the allocation of the budget and the performance appraisal methods. The implementation of PRP is supervised by an internal committee (“Betriebliche Kommission”).

There are three types of PRP which can also be used in combination: The most commonly used is the performance bonus which is usually paid once a year. Another type of PRP is a bonus which is based on the fulfilment of an economic goal by a single employee or a team and is also paid once a year. This type of PRP is rarely used as it can only be applied in organizations where the economic performance is measurable. A third, but also rarely used, type of PRP is an incentive bonus payment, which is paid monthly in advance for a determined period of time.

Regarding the allocation of the budget, the organizations can decide whether they divide the organizational PRP budget (2% of the basic pay of all employees of the respective organization in the previous year) into sub-budgets (e.g. for different departments) or use one budget for all employees of the organization. It is often argued that it is the easiest way not to divide the budget into sub-budgets. This way, at the end of the performance appraisal period, the ratings of all employees are compared and the amount of performance-pay is calculated by the result of the performance ratings. Apart from the simple calculation of the individuals’ amount of PRP, this method is often criticized as all employees are lumped together although there might be great differences in regard to the performance appraisal criteria between different appraisers. This way, appraisers might have an interest in rating employees of their department too good in order to ensure that they get a high amount of performance pay. At the same time, realistic appraisals might lead to a lower amount of performance-pay. However, the division into sub-budgets is often used. There are several possibilities for the division of the budget. For example, organizations can divide the budget by departments or they can choose a division by pay grades. In the case of a division by departments, only employees of one department are compared. It is often argued that this way is more fair compared to one budget for all employees as it reduces the chance that there are different people
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doing the performance ratings. Therefore, the chance that everybody is rated by the same criteria is higher. After the completion of the performance appraisal process, only the results of the employees of a respective department are compared. As there is an individual budget for every department, only the performance ratings of every department's employees are compared and transformed into the individual amounts of PRP.

Two methods of performance appraisal can be applied: agreement on goals and systematic performance appraisals. The agreement on goals is characterized as a voluntary contract between a single employee or a team and the supervisor on mostly three to five targets. By using systematic performance appraisals, superiors have to use objective and measurable criteria for the performance assessment. It is up to the employer whether to allow only one method of performance appraisal, both methods or a combination of both. Most frequently, they implement both methods so that it is up to each appraiser of the organization which method he applies or they decide to just implement the agreement on goals (Meier 2013).

Different studies provided evidence that employees perceive agreements on goals as notably fairer, more transparent and participative in comparison to the combined model or systematic performance appraisal (Meier 2013; Erez, Earley, and Hulin 1985). However, it remained unclear for a long time whether it makes a difference if the goals are agreed between the employer and a single employee or a team. The results of the survey by Meier (2013) confirmed that team agreements on goals lead to less envy between employees than other appraisal methods. All in all, team agreements on goals show less significant and less strong influences on transparency and fairness of the performance appraisal as well as on participation within the goal setting process than individual goal agreements. Accordingly, individual agreement on goals is overall perceived most positively by the employees.

3.3 Implementation and Problems with PRP in the German public sector

Despite several years of the application of PRP in the German public administrations including LG, there are few evaluation studies that demonstrate what effect performance pay actually has and how the employees perceive the different appraisal methods (Meier 2013; Schmidt, Trittel, and Müller 2011; Schmidt and Müller 2013).

In 2013, Meier examined 21 German county councils and cities with county status in the context of an employee survey to analyze whether the introduction of PRP in the public service resulted in crowding effects of intrinsic motivation and public service motivation (PSM). The analysis has shown more positive results than previous studies regarding PRP. Concerning intrinsic motivation and PSM, motivation crowding effects seem to occur due to PRP. However, not only a displacement of motivation (crowding out) takes place, but also a reinforcement (crowding in). Crucial for these effects is the employees' supportive or controlling perception of the performance pay. While a supportive perception has positive effects on intrinsic motivation and PSM, the controlling perception apparently crowds out the employee's motivation. The performance appraisal schemes' Citation:

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design turned out to be the by far most influential factor regarding the perception of PRP. Particularly, the perceived fairness and transparency of performance appraisal systems are influential. In contrast, personality factors and the employee's motivation proved to have a notably lower influence on the perception of performance pay.

In the international context it has been frequently criticized that there is a tendency to "reward" a very high proportion of employees with the best possible rating within the performance appraisal process (Landy and Farr 1983; Perry, Petrakis, and Miller 1989). In Germany, the limited data suggest that more than 90% of employees receive at least some performance pay (Meier 2013). The percentage of those who get the best performance appraisal is very high and varies from 56% (Meier 2013) to 59% (Schmidt and Müller 2013). The study of Meier (2013) has also shown that the choice of the performance appraisal method influences the chance of getting the highest rating: agreements on goals offer a significantly higher chance to get the best performance rating while it seems to be very hard for those employees who are rated with systematic performance appraisals. This finding is especially relevant for those organizations which implemented both appraisal methods.

The low rate of PRP, which has already been mentioned above, is often seen as a reason for the employees' dissatisfaction with it. This fact might explain the mildness of the appraisers as they might see (too) good performance appraisals as a potential for motivation while more realistic performance appraisals might demotivate the employees. However, there is also the risk to demotivate the top performers as there is only a slight difference in the amount of performance pay between them and other employees. This way, the principle of *performance* pay is defeated.

It is also often criticized that those employees who are responsible for the performance ratings are not well trained for this task. Especially goal setting requires a special training for appraisers as it is a new method in the German public service. Although, goal setting is often referred to as the best method for performance appraisals as it offers objective criteria, it is also criticized as appraisers set goals which are too hard or too easy to achieve.

The differentiation between public employees and civil servants also leads to problems with performance-related pay in the German public sector. Although both groups work together in the same teams, there are completely different regulations concerning PRP. The regulations of § 18 TVöD only apply for public employees. Civil servants are also eligible to get PRP but based on other regulations that also differ between the federal states. While there is no quota for public employees, there are strong regulations on the percentage of civil servants who can get PRP. These quota differ between the federal states: for example, only 10% of the civil servants in the respective organizations in Saxony and a maximum of 20% in Baden-Wuerttemberg are eligible to get PRP (Weber 2013). Besides, their amount of PRP has to be paid on top of the budget for public employees' PRP. While the amount of PRP that is used for public employees is already quite low, it is even lower for civil servants: for example, at a maximum 1% of the basic pay of all civil servants of the organization in the previous year in Bavaria or with 0,3% at the state level even lower (Weber 2013).

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In the end, performance-related pay has caused a lot of discussions and problems in the German public sector. In 2009, it has already been abolished on the federal level. Since 2014, there is no duty to distribute PRP at the state level. The trade union essentially argues that it does not fulfil its purpose and lead to discord and enviousness between employees (ver.di 2011). Besides, Organizations have to agree individual bargaining agreements with detailed commitments on the use of PRP (especially concerning the type of performance appraisals, distribution of PRP) which were often not agreed on.

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4 PRP in Italy

4.1 Origin and first introduction of PRP in LGOs

Since the 1980s, the waves of the New Public Management movement started to influence Italian public sector, injecting brand new attention on internal controls, performance and customer satisfaction. The number of Italian civil servants increased, in line with the European trend in the period 1970-1990. However, the aim of the Italian government was to maintain public spending and hiring¹, due to rising unemployment rates that led to the enactment of the Law n. 285/1977, which provided temporary occupation for 58,000 people in the public sector (Melis 2003).

In addition, a new wage structure for non-armed military staff and civil servants had been introduced with the purpose of uniforming public personnel conditions' horizontally, in order to overcome the existing hierarchical model which dated back to the times of Fascism². The new structure of qualifications had been designed to correspond to the actual duties performed by employees and the conditions of employment improved, extending public employees' institutional weight through a steady increasing protection and empowerment by their unions (L. 93/1983).

Melis (2003) noticed that the main cultural and institutional characteristics of public personnel that proved poor innovation propensity in the Italian context were the origin of the employees from the south of the country, the type of formal legal training, in a context of low productivity of work schemes and stiffness. These cultural and structural characteristics, mixed together with Italian institutional structure and bureaucracy,

The institutional characteristics that emerge in this period are the perfect bicameralism and the previously recalled 'southernization of the civil service' as a persistent socio-institutional peculiarity. Both these features remained constant in spite of the changes in the electoral system, institutions and in civil service's regulations (Ongaro 2009).

The continuous reorientations of the legislative framework and the impact of policies to curb state spending by limiting the salaries of civil servants constituted the basis for the beginning of a critical period for Italian bureaucracy. This period has been characterized by a generalized loss of confidence and credibility of the Italian Government due to the massive involvement of central and local governments in corruption, the "s.c. dirty-hands scandal", that boosted for the reorganization of Italian administrations and a stimulus for the intensive public management reforms of the 1990s.

¹ Except for UK and Holland (Melis 2003).

² L. n. 312/80.

Citation:

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To this regard, Ongaro (2009) recognizes that between 1992 and 1994 Italy has been interested by a major policy cycle in public management³, since a strong reform process took place during almost all the decade, constituting a real change of course with respect to the previous period characterized by a general immobility.

In the same period, various deficiencies in the internal mechanisms and in human resources management had been evidenced by a study on the conditions of Italian bureaucracy (1993) led by the Minister for Public Administration at the time Sabino Cassese, whom main findings can be synthesized as follows:

- lack of flexibility of civil servants
- rigidity of remuneration policies and career management
- poor distribution of staff in the territory, resulting more concentrated at the center and the south of the country
- increasing public personnel costs, due to the expansion of the workforce in the previous decade
- lack of productivity measures and lack of incentives and sanctions and controls related to work efficiency, effectiveness and productivity (Melis 2003, 87)
- fragmentary and ineffective procedures of decision-making processes (Mele 2010, 256)

This context constituted the basis for the intense and necessary public management reform and policy circles that followed across the 1990s (see Ongaro 2009; Mele 2010), that concerned public employment's institutional design, career progressions, and remuneration systems (Capano and Gualmini 2006).

Law 142/1990 imposed the introduction of special units devoted to the performance management in every local council (s.c. Nuclei di Valutazione). Then a subsequent comprehensive reform of the civil service took place in 1993 (decree law n. 29), introducing a first kit of performance instruments in LGOs.

The main features and aims of the reform were the homogenization of employment for civil servants, the distinction between leadership skills and politics and the creation of a bargaining agency for public sector employees, called ARAN, responsible for representing the public part in the national bargaining and the privatization and devolution of the civil service (Melis 2003; Lippi 2002). The reform process also allowed public managers to have more discretionary power in the use of resources (Mussari and Ruggiero 2010).

³ The author analyses the public management reform processes and trajectories of modernization in Italy, in a time span that goes from 1992 to 2008, identifying 3 main public management policy cycles: 1992-1994; 1996-1999 and 2001-2002. His analyses will be recalled further (See Ongaro 2009).

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Following a typical NPM ethos, the reform of the civil service of 1993 promoted more professionalism in government. This was in contrast to the prevailing bureaucratic culture characterizing the Italian public sector. The reform aimed at introducing an increasing responsibility for performance of public employees and at strengthening their performance orientation, trying to replace the prevalence of bureaucratic compliance with managerialism (Lippi 2002).

Notwithstanding these efforts, a proper performance-related pay system for public managers was not yet introduced. In fact, the system introduced has been defined by Mussari and Ruggiero (2010, 544) as “a reward structure composed of two parts one fixed and the other flexible but based on the job position and its relative responsibilities for the manager”. The authors explain how the system has been designed having in mind a motivated public manager that strives to comply with the planned performance task, due to his commitment to public interest. Being de facto rewarded more for their effort in achieving a task, rather than for the concrete attained objectives (see Mussari and Ruggiero 2010).

In the same year, a second report led by the Minister of Public Administration issued some “Guidelines for Modernizing the Public Administration” and revealed the need for more decentralization, simplification of bureaucracy, and the introduction of more effective control systems in Italian administrations. The new practices introduced in those years were declared as following a more bottom-up approach to the reform process (Mele 2010, 257). In 1995, decree law 177/1995 introduced a mandatory adoption of program and control systems for planning, programming and budgeting in local administrations (see Di Mascio and Natalini 2013).

The process of modernization further continued with the appointment of Franco Bassanini as Minister for Public Administration in 1996. The main reforms, commonly referred to his name (Bassani Reform I, II, III) aimed at achieving good levels of administrative simplification, the introduction of managerial tools, and a more functional devolution to local administrations (Mele 2010). Those reforms inaugurated the process of 'federalization', which culminated in the constitutional reform of 2001, by which various administrative functions were transferred to the local authorities. Indeed, Bassanini Reform III, further reinforced the distinction between tasks and responsibilities of political leadership and the administrative one, also extending the regime of private law even to the general managers (Capano and Gualmini 2006) reorganizing public managers' reward system in order to include a proper pay-for-performance scheme (Mussari and Ruggiero (2010).

The already started introduction of public management instruments improved after the appointment of Pia Marconi, a young manager with previous experience in the private sector, as director-general of the Italian Public Administration Department's office for innovation. Moreover, it is relevant to our analysis to cite that Miss Marconi was before part, and then chair, of the OECD's Public Management Committee that in the 1990 extensively contributed to the spread of the NPM principles in Europe,

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since this surely influenced her service for the Italian Government in the sense of a more incisive performance orientation for Italian public sector.

The reforms of this intense period systematically introduced public management instruments, such as, flexible arrangements in the management of public work (e.g. telecommuting, part-time and temporary work) (L. 662/1996) and in 1998, Law 80/1998 further extended to general managers the regulation of the commercial labour sector.

In 1999, decree law n. 286 compulsory mandated that public managers' performance evaluation had to be consistent with the results of the managerial control systems (Mussari and Ruggiero 2010) and distinguished among the four branches of local administrations' control systems: performance management, strategic control systems, audit, and managers' evaluations (Di Mascio and Natalini 2013, 147).

On the implementation side, ample freedom was let to the local level, to implement in the 'best way' by the political leadership and the executive body in order to better fit with the characteristics of each institution, such as, cost cutting, provision of productivity bonuses, and/or new contractual forms for public employees. This freedom led to an incremental and fragmented introduction and enforcement of managerial instruments in Italian LGOs. Table 1 shows the reward structure and the characteristics of managers in Italian public administration.

Table 1 Reward structure and managers in Italian public administration

	<i>Ministers</i>	<i>Regions</i>	<i>Provinces</i>	<i>Municipalities</i>
Number of Managers	4.028 (21,3%)	3.265 (37,4%)	1.782 (9,5%)	5.638 (31,8%)
Managers/100 employees	2,1	7,7	3,2	2,1
Average Age	54,2	53,8	51,4	50,7
Average length of service	23,7	23,6	17,7	18
Average gross annual pay (euro)	87.248	86.199	80.592	73.866
% of pay for performance	5%	9,7%	8,5%	7,4%

Source: Cristofoli, Turrini, and Vallotti 2007

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4.1 Design and characteristics of PRP in force

PRP system has been recently reformed following a typical top-down approach through the introduction of the decree law n. 150/2009⁴ that aimed at strengthening the already existing principles introduced by previous reforms during the past 20 years⁵. The regulation develops a comprehensive system of performance orientation, evaluation and measurement for the 3.4 million Italian public employees of which 569,000 working units are distributed among the different levels of government as follows: Municipalities 76%, Provinces: 11%, Regions: 7%, in accordance with the public law framework and collective agreement for public employees (Italian Court of Auditors 2012, data 2010).

The rewarding structure introduced by the legislative intervention has been defined as congruous with the motivational and conjectural implications of such measures, consistently with the main literature and economic theory (Mussari and Ruggiero 2010). In this framework, “performance” is intended as the contribution that an individual, unit or group of individuals, provides to achieve goals and targets and to attain organization’s mission statements (CIVIT 2012, Resolution 89/2001), while, “performance related pay” commonly refers to the variable part of pay, which is awarded each year (or on any other periodic basis) depending on performance” (OECD, 2005)⁶.

The main principles and promoted values of this intervention are:

- the enhancement of merit through the provision of bonuses linked to individual performance and organizational units;
- the obligation to measurement and evaluation of performance;
- transparency in government activity and about public resources and the instruments and practices of performance measurement and evaluation;
- the centrality of customer satisfaction for the assessment of individual and organizational performance.

By means of these general principles (Art. 3 Law n.150/2009) the reform aims at improving work organization and at ensuring high-quality standards of the functions and services provided to the citizens. Moreover, the introduction of a culture of evaluation both for the staff and the management as well as the acknowledgement of merits and demerits and the strengthening of independence, powers and responsibilities of leadership are also regarded as high priorities for performance enhancement. At the same time, the increase of the efficiency of public work and the containment of public spending, by tackling low productivity and absenteeism are felt as necessities,

⁴ The s.c. “Brunetta Reform” from the name of the Minister for Public Administration and Innovation at the time of the reform.

⁵ See decree law 29/1993.

⁶ OECD (2005). Performance related pay policies for government employees. Paris: OECD Publishing.

Citation:

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as much as, equal opportunities and the enforcement of transparency and legality in government that should also be mentioned as complimentary promoted values.

The reform introduced the so called "performance cycle", to indicate a process organized around a three-year planning document (performance plan) indicating strategic and operational objectives and indicators and an annual report on performance that provides a feedback on the organizational and individual performance respect to the resources.

Measurement and evaluation are carried out by independent bodies, called OIV that must be constituted in every LGO. To this regard, the previously mentioned Nuclei di Valutazione (evaluation units of local administrations) have been substituted by Independent Evaluation Units (OIV) in order to improve the technical competences in performance evaluation and to ensure external transparency. Indeed, a National Commission for Evaluation, Transparency and Integrity, then substituted by the National Authority for Anti-Corruption and Transparency in the public sector (A.N.AC / CIVIT) is responsible for coordination and for the issuance of general guidelines for the local evaluation bodies.

The main difference between this intervention and former reform efforts concerning internal controls, evaluation and performance is that the previous ones (see the already cited law decree of 1993) were more focused on the local dimension of the evaluation bodies; instead the reform of 2009 brought back a central oversight on evaluation by this national commission with the task of coordination and methodological support for local evaluation units (Di Mascio and Natalini 2013, 150).

The PRP system envisages negative measures too, in order to avoid the phenomenon of missed or inconsistent implementation by managers. In fact, in the event of breaches of the obligations inherent in the adoption of the "plan of performance" it is forbidden to supply the remuneration of results to managers who are found to have contributed to such failure, and the administration will not be allowed at proceeding with staff recruitment (art. 10 l.d. n. 150/2009).

Resource allocation devoted to the appraisal of individual performance is provided according to three levels of performance achievement: high merit rank; intermediate merit rank; low merit rank. At the first rank is attributed a quota of 50% of resources for a maximum of 25% employees; to the second rank is attributed the other 50% of optional resources for a maximum of 50% employees; while for the third rank no resources are allocated and a maximum of 50% of employees can be associated to this merit rank by the performance evaluation process.

A series of bonuses linked to particular goal achievements are designed to promote performance orientation. They are described as follows:

- 1) Annual excellence bonuses for managerial and non-managerial staff;

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- 2) Annual innovation bonuses for the best projects in terms of improvement, change regarding internal processes, organizational performance, and/or the quality of a public service
- 3) Efficiency bonuses, that consist in the allocation of a quota of 30% of resources deriving by contingent savings due to re-organization or innovation to performance appraisal of the public personnel directly involved in those operations. Criteria are defined at a local level of collective bargaining.
- 4) Economic and career progressions for those employees ranked in high merit performance for three consecutive years;
- 5) General career progressions and attribution of responsibilities based on the evaluation system should constitute the criteria for career progressions (art. 25 L.D. 150/2009).

Excellence and innovation bonuses have to be adapted to the particular specificities of the local authorities, and merit appraisal is selectively identified by the law through the above mentioned instruments in order to avoid a 'cascade' distribution of the resources devoted to the performance management (Ruffini, Bottone, and Giovannetti 2011, 38), even if real implementation shows a general lack of selectivity in the distribution of resources mainly due to 'cascade' assignment of the devoted funds (Capano and Gualmini 2006).

4.4 Implementation and criticalities

Major implementation problems result from the prevalence of a legalistic culture, and the production of disconnected legal interventions in terms of levels of government and sectors. This affects all LGO, despite their increasing emphasis on the introduction of professionalism and on performance orientation (Lippi 2002).

Although, the pursuit of the intended outcomes had been further undermined by implementation gaps and, as a result, the whole scheme of promotion of performance suffered. First, the instruments of performance and merit appraisal have been often inconsistently applied, or in other cases, the recently developed tools were implemented according to old cultural patterns and procedures, confirming the discontinuity between formal procedures imposed by the current rules and consolidated patterns of informal implementation, showing an evident resistance to change (Capano and Gualmini 2006).

The personnel policies listed so far incurred in extensive "implementation gaps" (Ongaro and Vallotti 2008) even if they have been well-intentioned to improve the efficiency, effectiveness and economy of the public sector. In fact, the implementation of this NPM-reform in Italy has been labeled as "apparent" (Gherardi and Mortara 1987; Lippi 2002; Kuhlmann and Fedele 2010, 161) expressing a fracture between legal rules relating to NPM and local implementation practice.

The privatization of public employment started in the 1980s presented some implementation problem, especially related to second level negotiation, which normally complements the national

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collective labor contract with additional rules, due to unsuccessful implementation of the provisions included at the national level of bargaining. Moreover, the funds devoted to the remuneration of productivity were instead distributed as 'cascade' with no real connection to the performance. Career progressions too had been awarded not always in compliance with the promoted values of merit and fairness, due to "ad personam" distribution of resources without real connection to their performance (Capano and Gualmini 2006, p. 51).

A 2012 report of the National Independent Commission for Evaluation Integrity and Transparency in Public Administrations (CIVIT) stated that 40% of central administrations did not meet minimum requirements of PRP implementation. Most of them have been small administrations. Moreover, 54% of the examined administrations were not compliant with the quality standards prescribed by the PRP's regulation. Another criticality that the same report spots is that those administrations which are implementing PRP do not comply with the requirements of the law. These findings are considered as a structural criticality as they did not change over time. Further criticalities concern:

- the inadequacy of objectives, indicators and targets, that undermine performance measurement;
- inadequate integration between performance cycle and budget cycle;
- lack of transparency and participation both within the local administrations and between administrations and the public, about the performance cycle;
- lack of consistency in performance appraisal due to a lack of comprehensive and systematic consideration of the performance at an organizational level;
- poor connection between the cycle of performance management and the actions enacted to contain costs; poor evaluation and transparency of the performance of peripheral units.
- Extremely differentiate implementation.

'Best practices' can be found too, even if the data on missed implementation show several structural deficiencies in the implementation of PRP (CIVIT 2012, 4–5). One of the overall criticalities is the resistance to change due to the complex and onerous schemes of compliance created by the regulation. Simplification and rationalization of the performance management instruments seem to be the most needed solution. Moreover, the Independent Commission responsible for the implementation of the PRP system in LGOs is found to be powerless against the administrations, which did not correctly implement the PRP system. This is because the only instruments in its power are 'moral suasion' and orientation, such as, the publishing of the not compliant administrations on its website or the communication of the criticalities to the Italian Department of Public Administration (CIVIT 2012, 5–6).

At a local level, according to Mussari and Ruggiero (2010, 547) "one goal of the reform of public managers' performance evaluation system [...] has been the elimination of the possibility, at a decentralized level, of implementing an inefficient and ineffective evaluation system. To this end, a Citation:

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central Authority⁷ has been established, in order to frame, develop, and check the implementation of the performance evaluation system within LGO.

Public managers' performance evaluation systems that had been legally mandated since 1999, proved to be "scarsely used and underdeveloped" due to the cultural values of public managers and low levels of resources at disposal for additional pay for performance, if compared with the assigned fixed pay (Mussari and Ruggiero 2010, 547).

(Di Mascio and Natalini (2013)) surveyed 169 local administrations between 2010-2011 finding that 90% of municipalities nominated external experts to be members of the OIVs, that in 80% of cases are formed by external experts. But, in 75% of all municipalities these experts are appointed by the mayors discretionary. The same authors show that in 54.8% of the observed LGOs, local authorities do not effectively use performance-related pay. In addition, although the municipalities are required to publish PRP-related data on their website, only 23% of the administrations proved to be compliant with this requirement (Di Mascio and Natalini (2013, 151)).

The strengths of the system of measurement and evaluation are that in theory it clearly identifies and covers stages, timing, methods, subjects and responsibilities of the process of measurement and evaluation; the conciliation procedures related; the mode of connection and integration with existing control systems and financial programming documents and budget; the implementation of the policies put on the ultimate satisfaction of collective needs, plans and programs, and the detection of the degree of satisfaction of the recipients of activities and services.

Although, the perception of unfair evaluations and the perception of evaluations as mere compliance undermine its ratio and de facto put in question its capability to improve performance, promote merit, and really spread the culture of evaluation in order to improve also the quality of public services and customer satisfaction (Spano and Asquer 2011).

Moreover, a differentiated implementation of the PRPs is evidenced since the general principles for designing the PRPs are prescribed by law, though standard coefficients to weight objectives' achievement against other performance dimensions are not imposed. As a result, LGOs show divergent ways and weights across different local governments. It must be reminded that municipal bodies have to deal with a context of wide-spreading emphasis on performance measurement despite Italian public sector's loss of competitiveness and productivity and fiscal stress (Italian Court of Auditors 2012, 50; see also law no. 94/2012; decree. 07/05/2012).

Further criticalities are related to the fact that often those evaluated take part in the process of objectives' setting and norm compliance became more important in respect to the achievement of goals and targets (Borgonovi 2005). This definitely poses doubts on the achievement of performance

⁷ CIVIT (Independent Commission for Integrity and Transparency Evaluation), then substituted by ANAC (National Anti-Corruption Authority).

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improvement through the PRP system. Public managers' perceptions about the review and assessment of managerial performance, such as the perceived unfairness and ambiguous goals, influence the effectiveness of the system; and the evaluation design, and practices can indirectly affect individual behavior by tightening perceived management control systems (Spano and Asquer 2011).

In general, performance management suffers because of difficult application, since to the complexity of the structures and the nature of activities of the public sector. Moreover, the differences in the implementation in Italian LGOs also show the problematical adaptation of performance schemes in different organizations that can be prone to find obstacles, resistance to change, and bureaucratic culture, until resulting in implementation gaps as evidenced by this case study.

Simplification seems to be a way to overcome these gaps, but also the culture of evaluation seems to be in discussion. As seen PRP system in Italy shows problems in its enforcement, since it is not fully implemented and even where implemented shows the phenomenon of adaptation and prevalence of compliance on goal achievement. Italy has about 8.060 municipalities, 20 regions, and 110 provinces and presents a diversified research field also due to cultural and territorial characteristics that prove differences between north, center, and south area of the country.

The legislation of 2009 (decree law n.150) introduced an organic performance management system, that was also present since 20 years in Italy but was more fragmented. In fact, the legislation introduced a central commission (before CIVIT, than ANAC) with the task of coordinating the evaluation bodies present in every administration (OIV).

The formal provision of a performance cycle is aimed at connecting strategic and operational planning and at defining goals, indicators and measurement both at an individual and an organizational level of performance. Moreover, the provision of selectivity in the distribution of resources and the different types of bonuses and career progressions aspire to merit promotion; equity; spread of culture of evaluation, results and goals instead of mere compliance; equal opportunities and transparency in the distribution of public resources.

Italy is a country where many reforms found strong resistances and where an immutable public administration seems to be unable to keep the pace with a changing society. Explanations to the stiffness of public administration in Italy involved the peculiar bureaucratic culture, the lack of technical capabilities, and/or of political will (Gherardi and Mortara 1987, 49–50).

Thus, implementation gaps seem to undermine PRP system's final goals and put in question its capability to reach its goals. Notwithstanding the presence of some 'best practices' in the implementation of PRP, this seems to be still a cold comfort, considering the numbers concerning the absent or unsatisfactory degrees of implementation diffused across public administrations in the country both at a central than at a local level.

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5 Conclusion

At the end of this paper, a short conclusion is derived from the three country case studies. First, we can state that the three countries show more differences than similarities. A shared commonality is the scope LGOs have in adopting the PRP system to their specific context. Although the design of the PRP systems differ very strongly between the countries, all of them allow for modifications when implementing PRP. We see this as an important factor in implementing PRP systems as every LGO has different organizational circumstances, culture, goals and needs. Therefore, PRP has to be adopted to the individual context in order to be an effective instrument to enhance LGOs performance.

Furthermore, all three systems enable the establishment of individual-level as well as collective-level bonuses. This is important as it offers the opportunity to adopt PRP to different working contexts. In some contexts, it is more useful to assess and reward the contribution of individual employees, while in other contexts it is impossible to separate the performance of an individual from the performance of his/her colleagues.

Beside these two similarities, we found a lot of differences in the design of PRP in the studied countries. First, France, Germany, and Italy differ in respect to the obligation of LGOs to implement PRP. In Italy, all local governments have to implement PRP and the implementation is controlled by oversight bodies at the local-level and a national independent oversight body. However, as pointed out in the case description, there is a substantial gap between the obligation to implement PRP and the implementation reality. In contrast, French LGOs are not forced to implement PRP. Instead, the local assemblies have to decide about whether PRP should be implemented or not. Germany's implementation reality is something in between. LGOs have to spend the specified amount of money dedicated to PRP, but it is possible to allocate the same share of the budget to all employees. In these cases, the PRP principle is defeated. However, the majority of German LGOs did not choose this way and adopted a "real" PRP system which includes detailed individual mutual agreements on the organizations implementation of PRP.

This points to another difference between France, Germany, and Italy: The diffusion of PRP in the countries. While PRP is implemented in most of Italian LGOs and the majority of German LGOs uses PRP, diffusion of PRP is very limited in France. The main reason for this are the different legal requirements associated with the implementation of PRP. Italian LGOs are expected by law to use PRP and German LGOs at least have to spend the budget dedicated to PRP. In contrast, French LGOs are allowed to decide on their own if they use PRP or not. In addition, French LGOs hesitate to introduce PRP because in most of the cases it increases personnel costs.

Besides, the legal framework created to regulate the use of PRP in France, Germany and Italy is different. France and Italy established national laws and directives to build a legal framework for PRP. In addition, French LGOs also have to find agreements with public sector unions to implement PRP.

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However, the legal framework of PRP in Germany was included in wage agreements and therefore negotiated between the LGOs and the public sector unions.

Finally, we can see huge differences in the supervision of the application of PRP. While France and Germany did not establish special organizational units to control the exertion of PRP, Italy developed a whole control system for PRP. In Italy, every LGO has to build independent oversight bodies and there is also a national oversight body. In Germany, the implementation of PRP is supervised by an internal committee but every organization has to establish an own committee. However, there is no central committee on the local level for the supervision of the application of PRP.

Finally, we can see more differences than similarities in the design and use of PRP in France, Germany, and Italy. Therefore, this case study identifies a lot of further research questions. First, it is important to deepen these findings and to find factors determining differences in these three countries. It will also be helpful to study the impact of the differences and to assess the outcome of PRP in different countries. What kind of PRP design is helpful in order to make PRP an instrument that increases effectiveness and quality of public services?

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- Citation:

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