

ANNEX A

Performance-related Pay Policies Across 12 OECD Countries: Brief Overview*

* The descriptions in this analysis are derived from the OECD country reports referred to in the Foreword. The material for Canada is derived from information provided by the Privy Council Office and the material for New Zealand is derived from material provided by the State Services Commission.

Denmark

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>PRP established for the first time in 1997. PRP policy revised in 1997. In 2002, most of the unions entered the new pay system.</p> <p>PRP applies to all staff in Denmark. For some personnel groups, it is voluntary to transfer from the old to the new pay system; for others it is mandatory.</p> <p>PRP is not defined in any laws. All rules related to PRP have been adopted in the collective agreement with the central employees' organisations.</p>	<p>In the new pay system, the pay runs are generally shortened and pay setting is to a wide extent decentralised. However, overall pay determination is still decided in a centralised manner.</p> <p>The Danish performance-related pay system is decentralised.</p> <p>This decentralisation is counterbalanced by the comprehensive control of each institution/agency using the new pay system. In order to monitor the wage level trends, the State Employer's Authority has developed a special on-line statistical tool – accessible from the internet – called ISOLA.</p> <p>This database has been important for enabling the State Employer's Authority to run, monitor and control the highly decentralised pay system.</p>	<p>There is no common PRP model across government organisations. However, most PRP schemes are based on the same three elements:</p> <ul style="list-style-type: none"> • Basic pay to be agreed upon centrally between the Ministry of Finance and the organisation negotiating on behalf of the employees. • A superstructure which is agreed centrally/locally on the basis of any special functions which are attached to the job and on the employee's personal qualifications and performance. • A PRP element which is agreed at the organisational level and reflects the fact that the employee has met a number of pre-defined qualitative or quantitative targets. <p>The ultimate goal of the new pay system is that up to 20% of the total salary payment in the Danish state should consist of allowances and (directly) performance-related pay.</p>	<p>All allowances are decided on the basis of individual appraisals, based on a dialogue between the employee and the line manager. This salary discussion is integrated into the yearly performance interview. The agreements are agreed and signed by the manager and the union representative/liaison. In some institutions a balanced scorecard is used for this appraisal, but normally the rating is much more informal and the salary discussions are only based on the local salary policy.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>In the new Danish pay system there are no centrally-determined levels of pay reward. This question is to be decided at the local level by institutions/agencies. All control elements imposed on the new pay system are less restrictive, because the pay-pool system is in principle replaced by individual grants to institutions.</p> <p>Institutions controlling their own wage bills may make their own wage decisions within the wage-bill grant.</p> <p>The new pay system entails additional budget responsibility. Consequently, it presents an additional challenge to management.</p>	<ul style="list-style-type: none"> • Sign of success since 1997: the number of employees under the new pay system has increased. Since the last collective agreement, the Ministry of Finance has made about 20 new collective agreements with the respective unions/central organisations. • In 2001 the Ministry of Finance, the State Employer's Authority and the Danish Federation of State Employees' Organisations conducted an evaluation of the new pay system experiments in 111 government institutions. Some key results are: <ul style="list-style-type: none"> • A positive effect of PRP is "more focus on and acceptance of individual appraisal and payment." • PRP leads to better opportunities for recruitment. 	<p>Among the most significant negative effects mentioned by managers and employees' representatives:</p> <ul style="list-style-type: none"> • PRP represents too much administration; • it creates uncertainty among employees. <p>The main problems seen from the Ministry of Finance's point of view are:</p> <ul style="list-style-type: none"> • lack of delegation within the institutions; • lack of competencies/qualification of line managers to handle the new pay system; • not enough courage by line managers to treat the employees differently. <p>On the institutional level, the following difficulties are often seen:</p> <ul style="list-style-type: none"> • the salary policy is not clear enough; • no clear link between the goals of the institution, personnel policy and salary policy; • not enough information from management to the individual employee (creates uncertainty). <p>The introduction of PRP was a highly controversial issue with the members of the different unions (not enough money in the new pay system; too much focus on pay).</p> <p>The 2001 survey conducted on PRP indicated that only 39% of managers and 23% of union representatives think PRP leads to more focus on results.</p>	<p>To achieve the full effect of PRP, it is important that decentralisation continues within each institution/agency by empowerment of the immediate line manager.</p>

Finland

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>The State Employer's Salary and Wage Policy Programme (known more commonly as NPS, New Pay System) was launched in 1992 after several years' preparation.</p> <p>NPS is becoming mandatory for all organisations. This has meant a gradual increase of pressure for organisations and the collective bargaining parties to prepare, negotiate and realise NPS. This development is about to reach full implementation, as there are provisions about NPS in the central state collective agreement for 2003-04, as well as for the demise of the old pay systems.</p> <p>The scope of NPS is wide and encompasses all personnel up to middle managers. Managers above that level are excluded from NPS. Top managers cannot benefit from results-based rewards either.</p> <p>NPS is intended to be applied in all sectors/activities and at all levels of the administration.</p>	<p>Ministries/units prepare, agree and implement NPS within the general framework and guidelines set at the central level.</p> <p>Once implemented, ministries/units have the responsibility for their performance appraisal system, as well as for covering its cost.</p> <p>The new pay system has not been defined in law or regulation. The implementation of the NPS policy is to take place by collective bargaining.</p>	<p>The three main elements of salaries and wages are:</p> <ul style="list-style-type: none"> • pay according to the demands of the job; • pay according to individual performance (parts of a collective agreement); • results-based rewards (RBR), allocated at the team/unit level (RBR may exist independently of the other two elements, as RBR are not based on collective agreements). <p>Performance appraisal is based on job objectives.</p> <p>The main elements for determining the criteria by which to assess performance are: organisational targets (politically determined); the collective bargaining process.</p>	<ul style="list-style-type: none"> • The principles and elements of performance assessment are specified for each unit separately, within the general framework of NPS. • Every organisation has a set of criteria for assessing individual performance. Ordinarily 3-5 main criteria are agreed upon in the collective agreement and a network of sub-criteria as well as their weights are specified. A typical set of criteria would be a variation of "competence, effectiveness, and co-operation".
Performance payment	Overall impact	Specific problems	Lessons learnt
<ul style="list-style-type: none"> • Pay according to individual performance is a combination of bonus and merit increment based directly on performance ratings. This link is standardised in each collective agreement. The amount of this pay element is correlated with the individual performance as well as the position in the salary range. • The maximum pay (for exceptional performance) is between 25-50% of the basic salary. The average of individual performance pay in relation to individual total pay is currently about 15%. • RBR are bonuses. The average amount of RBR was 1.7% in relation to individual total pay in 2002. The range between the agencies was 1-8.3%. 	<p>Implementation of NPS had a mixed reception. Top management has generally accepted NPS and energetically striven for its implementation, even if sometimes the amount of necessary input was underestimated.</p> <p>The employee organisations have principally accepted NPS.</p> <p>Recent evaluation reports reveal that a minority of organisations which have implemented NPS have analysed its effects on staff.</p> <p>An indirect but still very indicative statistical fact is that salaries and wages in organisations that have implemented NPS prove to have been a bit better than in other organisations.</p> <p>The overall management process has been improved with NPS. The unanimous message from management has been that, when linked with pay incentives and sanctions, the impetus for maintaining good management processes grows, as well as the likelihood of efficient management and leadership. Employers in agencies feel that NPS, PRP and RBR are a very good incentive, for example as a tool for organisational development.</p> <p>The introduction of NPS has also resulted in improved staff development and training.</p> <p>Employers think that the RBR system has had a fairly beneficial effect on collaboration within teams.</p>	<ul style="list-style-type: none"> • Homogeneity in ratings; • slow progress. <p>Since the early 1990s, progress towards the realisation of NPS has proved slower and more difficult than expected at first.</p> <ul style="list-style-type: none"> • Financing RBR is a problem for agencies with no chargeable activity. RBR, which are self-financed by agencies, are often considered relatively modest. • RBR systems were often very complex at the beginning. 	<p>The implementation strategy of the new pay system has proved to be a long-term project. The full benefits of it are expected to become evident only during the next generation.</p> <p>The State Employer's office and the central State employee organisations have formulated principles to be applied to RBR systems in agencies:</p> <ul style="list-style-type: none"> • RBR needs to be allocated at the team/unit level. • RBR is a tool for managing, but the reward system should be constructed in consultation with the staff. • The improved result must be objectively demonstrated using specially constructed indicators. • Financing must be ensured. • The development and operation of the results-based pay model must be followed and evaluated. • It is useful to develop simple PRP models, including at least three but preferably not more than 5 or 6 indicators.

France

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>The focus in France has traditionally been on incentives such as promotion or advancement. No real system of PRP until now. Individual remuneration for civil servants is based on:</p> <ul style="list-style-type: none"> • Their position (corps, grade and step). • Specific characteristics of the job for senior civil service jobs (<i>Nouvelle Bonification Indiciaire</i>, about 10% of basic salary). • Bonuses can be granted for overtime work, according to the difficulty of the work, special qualifications, etc. <p>Bonuses are generally allocated collectively and their amount varies greatly according to ministry and grade.</p> <p>Only 10% of civil servants earn bonuses that are more than 30% of basic pay.</p> <p>High bonuses are concentrated in senior management groups.</p> <p>Groups not covered by bonus schemes include teachers.</p> <p>Senior civil servants have NBI: a variable part of pay linked to the post.</p> <p>Bonuses were not pensionable until 2003.</p> <p>In October 2003 the French Minister of Civil Service and State Reform announced a proposal to introduce performance pay for top civil servants. As from July 2004, France started experimenting PRP for the director's level in six pilot ministries (Ministries of Defence, Finance, Interior, Equipment, Agriculture, Civil Service).</p> <p>PRP is in the form of bonuses, up to a maximum of 20% of the base salary. If successful, PRP will be extended to all directors in the central civil service in 2006.</p>	<p>The system of bonuses is highly decentralised and differs greatly between ministries and corps.</p> <p>Annual budgets for bonuses are allocated by the Finance Ministry to departments/corps. The budget is based on an average rate for each occupational group multiplied by the number of staff in that category within a department. The budget is indexed according to the general wage increase.</p> <p>Individual departments decide how to allocate bonuses among their staff and can supply budgets from their own resources.</p> <p>Audits by financial controllers, the General Financial Inspectorate and Parliament.</p>	<p>Current system:</p> <p>This is not performance-related pay in the strict sense of the term.</p> <p>The government has a "budgetary package" to cover the average amount, multiplied by the number of civil servants eligible for the allowance. How those resources are then distributed among civil servants is left entirely to the discretion of each government department.</p> <p>Joint technical committees are consulted on "allocation criteria for performance bonuses".</p>	<p>Since 2002, the evaluation and rating of civil servants must be part of an integrated policy process. The performance review results in a report validated by the official concerned and his/her line managers.</p> <p>Criteria for assessing performance:</p> <ul style="list-style-type: none"> • Professionalism and technical skills. • Organisation and performance. • Personal qualities and interpersonal skills. <p>The employee's rating is taken into account for fast-track promotion to another step within a grade.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>Performance bonuses are not included in basic salary and did not enter into pension calculations until the 2003 pension reform.</p> <p>Indemnities represent about 17% of the remuneration of civil servants, but vary amongst ministries, sectors and level of qualifications of staff. Senior civil servants receive higher bonuses than other categories of staff (about 40% of their remuneration depends on these bonuses).</p>	<p>For ministries which have introduced PRP: The most positive aspect is the decoupling of pay and length of service. In departments that have reviewed their bonus allocation criteria, the system now gives a young high performer a much higher level of allowances than a longer-serving civil servant in the same corps.</p>	<p>Overall, no real PRP system in France for the moment. The bonus system is complex and obscure for most civil servants.</p> <p>Problems raised by the existing system:</p> <ul style="list-style-type: none"> • There is a natural tendency of secondary remuneration schemes to converge and give every person in the same grade approximately the average. • Disparities between ministries and corps. • Lack of transparency. • The system of bonuses is highly complex. Bonuses are usually distributed according to other criteria than performance. Bonuses for employees are usually distributed on a collective basis. • The variable parts of pay – bonuses or NBI for senior civil servants – are not directly related to performance in most cases. 	<p>Two reports were published in April 2004 on performance management and PRP in France (Report from the committee of enquiry into the cost and efficiency of public services and a report from J.-L. Silicani from the <i>Conseil d'État</i>). These reports call for a gradual introduction of PRP in the public sector, for a clarification of the bonus and allowance systems and for the setting up of a clear evaluation process based on job objectives – notably for senior management.</p>

Germany

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>PRP introduced in 1997.</p> <p>The Act Governing the Structure of Remuneration in 2002 created new opportunities to award performance steps, bonuses and allowances in a flexible manner.</p> <p>The Civil Servants Remuneration Act governs the legal basis for performance steps, bonuses and allowances as follows:</p> <ul style="list-style-type: none"> • Performance steps (no more than 15% of employees) • Performance bonus/performance allowance (no more than 15% of employees). • Allowance for temporary assignment to special duties. <p>PRP is meant to apply to all categories of staff. It is allocated at the individual or team/unit level.</p> <p>The granting of performance-related elements of pay as a means of rewarding excellent performance is applied throughout the federal administration. In 2003, for instance, over 41 000 performance-related elements of pay were given to 550 000 staff members.</p> <p>Over € 50 million were spent on performance-related pay. However, this instrument of pay is not applied uniformly by the <i>Land</i> administrations; some make much use of it while others do not.</p>	<p>The general guidelines for PRP arrangements (performance steps, bonuses, etc.) are defined at the federal level. Each department is responsible for designing and implementing its own performance appraisal system.</p>	<p>Combination of:</p> <ul style="list-style-type: none"> • Performance steps. • Performance bonuses. • Allowances. <p>In order to prevent performance bonuses and allowances from becoming set elements of remuneration and to keep them from becoming routine, there are restrictions in the Civil Servants Remuneration Act (<i>Bundesbesoldungsgesetz, BBesG</i>) with regard to the beneficiaries, the amount and the modes of payment.</p>	<p>Aptitude and professional achievements of a civil servant must be evaluated at least every five years.</p> <p>Detailed process of performance appraisal decided at the department level.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>Performance steps: The number of performance steps awarded by the employer within one calendar year shall not exceed 15% of the civil servants and military personnel employed by a particular employer under remuneration scheme A.</p> <p>Performance bonus/performance allowance: Performance bonuses shall not exceed the initial basic salary of the pay grade of the civil servant; performance allowances shall not exceed 7% of the initial basic salary.</p> <p>Performance bonuses and performance allowances shall be awarded only within the framework of special budgetary provisions.</p>		<p>During the last legislative term, the legal basis for performance-related elements of remuneration was amended by the Federal Act on Special Payments. This amendment was prompted by a scientific study on the effects of the performance-related remuneration system introduced by the Act to Amend the Public Service Law of 1997.</p> <p>This study raised the following points of criticism:</p> <ul style="list-style-type: none"> • Demotivation of a majority of staff members because of the quota of 20% of staff members per year who may be awarded performance-related pay. • Lack of binding performance criteria and of objective performance evaluation. • Lack of information on performance-related elements of remuneration. Lack of transparency in the awards procedure. • Lack of financial resources. Resources for performance-related elements were only allocated during the current year and only for that year. • Restrictions concerning performance-related pay for top performers because of eligibility criteria (for example for the performance step). 	<ul style="list-style-type: none"> • In the amendment to the provisions on performance-related pay of 2002 some of the problems identified were remedied (increase of the quota to 15%, discontinuing the rule that staff members remain at a particular salary step for at least half of the usual time before being eligible to advance to the next step, transfer clause, improved system to reward teams). • So far there is no information on current problems and difficulties with the implementation of the new rules. • Furthermore, the 2002 reform of professors' remuneration introduced a performance-oriented remuneration system (fixed basic salary/ variable performance-related pay). The experience of the <i>Länder</i> concerning the implementation of this measure must be taken into account before any problems and difficulties can be analysed. A thorough evaluation of the model for professors will be undertaken by 31 December 2007.

Hungary

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>Hungary introduced its performance assessment system in 2001 when the Service Act was amended, creating the performance-based pay system. In practice this legal instrument was first introduced in 2002.</p> <p>The system embraces the majority of civil service personnel from interns to department heads.</p> <p>Rules pertaining to performance assessment shall not be applied to administrative state secretaries, deputy state secretaries, political lead consultants and political consultants.</p> <p>The performance assessment system provides for personal assessment exclusively without ensuring a separate budgetary allocation for it.</p>	<p>The basic features of the regulation are uniform. The Civil Service Act provides the regulatory framework. Performance assessment is obligatory for central and regional public administration organisations and local governments (municipalities).</p> <p>Beyond complying with the statutory requirements, it is for each public administration organisation to decide how to implement PRP, taking full responsibility for its actions.</p>	<p>The performance assessment system is based on three components:</p> <ul style="list-style-type: none"> • The definition of the key objectives of the public administration organisation. • The definition of personal performance assessment criteria. • The assessment of the civil servant's performance on the basis of the performance criteria by the person exercising the employer's rights by the end of the current year at the latest. <p>The head of the organisation exercising his/her transferable rights may alter the rank-based remuneration of the civil servant by a +/-20% degree for the following year on the basis of the results. However, it is not obligatory to alter the basic remuneration of the civil servant.</p>	<p>The definition of the key objectives of the public administration organisation. The key objectives are annually set by ministers or the heads of public administration organisations. In local governments, key objectives are set by the body of representatives. The definition of personal criteria. It is the job description which ensures a link between the organisational/operational objectives and individual ones.</p> <p>The assessment of the civil servant's performance. The person exercising the employer's rights provides a written assessment of the performance of the civil servant.</p> <p>A legal dispute can be launched in order to eliminate false or incorrect statements of fact contained in the assessment.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<ul style="list-style-type: none"> • Merit increments. • +/-20 % of salary. 	<p>An extensive training programme was launched and numerous national conferences held.</p> <p>The introduction of the performance assessment system was preceded by a published performance assessment guideline for civil service personnel and by professional conferences.</p> <p>It is too early to speak about substantial changes, but it is apparent even now that the system has induced positive changes in the civil service.</p> <p>A number of public administration organisations have developed their own internal procedures. This improves the objectivity and transparency of assessments, taking local conditions into consideration.</p>	<p>The greatest problem seems to be the lack of a separate financial allocation for public organisations to back up the possible +/-20% fluctuation in remuneration, so the possible changes in salary must be financed by public organisations themselves from their own budgets.</p> <p>Short- and mid-term organisational objectives are hard to incorporate at individual level, making it difficult to harmonise organisational and individual objectives.</p>	<ul style="list-style-type: none"> • Increase the professional level of work; • promote change of the organisational culture.

Italy

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>Several initiatives were adopted to ensure a more transparent and accountable administration in the 1990s. Performance-related pay policy was implemented in this context in 1993. PRP is applied to the managerial level only.</p> <p>The current PRP system is based on evaluation of the individual performance of managers.</p> <p>The PRP for the second level of public managers ranges from a minimum of 5 to a maximum of 10%; for a top level public manager it ranges between 10% and 15%.</p>	<p>Governed by law and by collective agreements.</p> <p>All government bodies, local and central, are required to set up a performance appraisal system.</p> <p>Measures concerning the PRP system have been diffused through collective agreements since 1999.</p>	<p>Managers' remuneration is defined through collective contracts.</p> <p>The structure of additional pay for managerial staff in ministries is made up of the following:</p> <ul style="list-style-type: none"> • remuneration linked to the post; • performance-related pay. <p>The national collective contract regulates the overall pay with some flexibility left for the individual contracts.</p>	<p>The evaluation concerns the performance and organisational skills of each manager individually. The evaluation is carried out by the level immediately preceding the position to be evaluated, with the higher level (<i>i.e.</i> head of department) being evaluated by the relevant minister.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>Bonuses do not represent an ongoing increment to the manager's remuneration.</p> <p>The annual performance-related pay cannot be inferior to 20% of the annual value of the salary for the particular post, within the limits of available resources.</p> <p>Again, the national collective contract regulates the overall pay with some flexibility left for the individual contracts.</p>	<p>The PRP system has not been fully implemented in Italy and it is therefore premature to indicate the overall impact of it. The system has achieved a first aim relating to a greater focus on results and has a great potential in improving performance by providing managers with a mechanism for the structured review of performance.</p>	<p>Often it is not easy to evaluate the achievement of objectives that cannot end in quantitative outputs, leading to a lack of objectivity during the process.</p> <p>Other difficulties noticed in the implementation of PRP: the insufficient development of planning and control systems; resources actually assigned are insufficient; trade unions tend to be sceptical in considering evaluation and remuneration systems as adequate in evaluating differences of productivity and professionalism; the part of pay linked to evaluation is not fixed nor, therefore, sufficient to be an incentive to managers (even though the last collective agreement changed this situation somewhat).</p> <p>Ministers do rather prefer alternative mechanisms in selecting and evaluating managers. They tend not to define measurable performance targets.</p>	<p>Some early lessons emerging from pilot experiences indicate that political leadership and a clear definition of measurable performance targets is paramount.</p> <p>According to the debates and experiences noted, the PRP system is applied more extensively at the local rather than the central level, because of the proximity with the citizens.</p>

Korea

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>The Korean Government introduced an annual merit increment programme and a performance bonus programme in 1999.</p> <p>The Korean civil servant's pay is composed of base salary, allowances and welfare expenses:</p> <ul style="list-style-type: none"> • Base salary is the regular pay by grade and step according to the degree of responsibility, difficulty of the position, and length of service. It accounts for approximately 50% of monthly pay, depending on the rank in the organisation. • The allowance is an additional remuneration paid separately according to the position and living conditions of individuals. Allowances are broadly classified into three categories: common, special, and extra work. There are five types of common allowances (seasonal, diligence, seniority, family support, and managerial allowances). Also, there are three categories of special allowance (hardship post, high risk, and special task allowances) and three types of extra work allowance (overtime, midnight work, and holiday work allowances). • The expenses paid for civil servant's welfare include meals, grade, household support, commuting, traditional holiday bonus, and non-vacation payments. <p>All categories of staff are covered by PRP schemes, with two different systems applying to top-level staff and mid-managers and below.</p>	<p>The system is designed and applied at the central level.</p>	<p>Annual Merit Increment Program (AMIP):</p> <ul style="list-style-type: none"> • Yearly stipend system. • Application: director general and above in each ministry. • Performance-related pay. • Increased variable proportion of pay is added to the fixed portion the following year. • Excellent performer (top 20%) = 7% of performance standard amount in each grade; outstanding performer (21-50%) = 5%; normal performer (51-90%): 3%; unsatisfactory performer: 0%. <p>Performance Bonus Program (PBP):</p> <ul style="list-style-type: none"> • Application: division director and below. • Form of payment: lump sum bonus. • Bonus amount: excellent performer (top 20%): 100% of his/her standard salary; outstanding performer (21-50%): 70%; normal performer (51-90%): 40%; unsatisfactory performer (below 91%): 0%. 	<p>Two measures are used: MBO (management by objectives) for higher-level employees and performance appraisal rating for mid- and lower-level employees:</p> <ul style="list-style-type: none"> • The performance appraisal includes three major areas with different weights: performance (60%), ability (30%), and attitude (10%). • Management by objectives (MBO) is a planning and appraisal tool that has different variations across organisations. MBO is based on evaluation by the degree of goal accomplishment. Each goal is classified as follows: <ol style="list-style-type: none"> 1) the strategic goal assigned to the level of the director general; 2) the main goal assigned to the level of the division director; and 3) the basic goal assigned to the level of the assistant director. <p>In addition, 360-degree feedback is used for supplementing existing appraisals.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>There are two forms of PRP schemes used in Korea: merit increments and bonuses.</p> <p>Merit increments are added to the annual salary of a higher level government employee and linked to his/her performance ratings.</p> <p>Bonuses are paid to government employees annually and designed for mid- and lower-level employees. Performance bonuses can be provided in various ways:</p> <ol style="list-style-type: none"> 1) on an individual basis, 2) on a departmental basis (<i>i.e.</i> collectively), and 3) combinations of both. <p>Performance bonus on an individual base is the most common form at present.</p>	<p>PRP is newly introduced in Korea and it will take time to succeed so it is necessary to make continuous improvements based on both domestic and international partnership.</p>	<p>Employees may receive merit increases even if performances do not warrant them, because supervisors want to avoid creating animosity among employees.</p> <p>Employees' job performances tend to be assessed subjectively, based on supervisors' judgments. Unfortunately, developing performance measures for every single job is not only difficult but also expensive.</p> <p>Because PRP programmes focus mostly on individuals, they do little to integrate workforce members. With limited budgets for merit increases, employees must compete for larger shares. Competition among employees is counter-productive if teamwork is essential for successful projects.</p>	<p>Link performance appraisals to business goals: The standards for judgement of employee performance should be linked to the competitive strategies and aims an agency has decided upon.</p> <p>Allowances are overdeveloped: base pay accounts for approximately half of the monthly pay, while allowances and other welfare expenses make up the remaining half. In these circumstances, government employees are likely to perceive PRP as an allowance. In order to avoid such a situation, allowances must be integrated with base pay as much as possible in the near future.</p> <p>Merit increases should consist of meaningful increments.</p>

New Zealand

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>Since 1988, every department has become an employer in its own right. Performance pay schemes were introduced as part of this general set of reforms. New Zealand was at the forefront of introducing performance-related pay to the public service.</p> <p>One reason for introducing PRP policies was to abolish the distinction between public and private sectors.</p> <p>PRP schemes potentially apply to all staff covered by voluntary agreements.</p> <p>PRP is implemented in almost all the public service in NZ.</p> <p>Chief Executives and the Senior Executive Service (about 150 positions) are covered by individual employment contracts.</p> <p>The health and education sectors overall are not covered by a national collective agreement (but groups within them are).</p>	<p>There is no standardised system of performance pay.</p> <p>Within broad provisions, departments are free to design their own systems and must fund them from their own budgets.</p> <p>There is no centralised oversight of the operation of departmental performance pay systems.</p> <p>Control is through the overall financial accountability of the Chief Executive Officer who must ensure there is adequate budgetary provision for approved performance payments.</p>	<p>Each manager is responsible for managing his own budget. Departments have to achieve certain "bargaining round parameters"¹ set by the government.</p> <p>Departments should work closely with the State Services Commission in planning for collective bargaining.</p> <p>Departments should set remuneration levels taking into account: 1) market demand for the relevant skills/capabilities, experience, and responsibilities; 2) recruitment and retention factors; 3) ability to pay within approved baselines; 4) comparisons with other groups within the department; 5) any future government policies aimed at achieving equitable outcomes for employees generally or for particular groups of employees; 6) other factors relevant to the particular department.</p> <p>The remuneration policy for Chief Executives and top managers is set by the State Services Commission and determined in agreement with the government.</p>	<p>Different in each department.</p> <p>Recognition of performance and/or acquisition of skills:</p> <p>In general terms:</p> <p><i>i)</i> performance which meets the normal expectations of the job should be recognised by salary rather than by lump sum;</p> <p><i>ii)</i> salary increases (rather than recurrent lump sum payments) should be given to employees who year after year exceed the normal expectations of the job;</p> <p><i>iii)</i> departments with existing contractual arrangements to make lump sum payments should have a strategy in place for negotiating/phasing out such arrangements as opportunities arise.</p> <p>There are some exceptions to this general approach.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<ul style="list-style-type: none"> • Merit increments (decided by individual departments within the pay range set out in voluntary agreements) • Bonuses 	<p>The State Services Commission notes that experience of base remuneration based on performance or levels of competency (or a mix) has been very positive.</p>	<p>The one exception is Police – a career service – which is moving back to a more length of service basis for pay.</p>	<p>The schemes have led to clarification of job goals and greater accountability of staff.</p> <p>More successfully implemented in small departments where they can be more closely monitored.</p> <p>The schemes have not led to the expected reduction in wage drift.</p> <p>In the last five years there has been increasing emphasis on the competency basis and some agencies have moved away from the pure performance basis.</p>

1. The purpose of the bargaining parameters is to establish government policies and expectations for collective bargaining and employment relations generally in the public service, so that departments can act in accordance with these.

Spain

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>The productivity bonus remunerates specific performance or working behaviour.</p> <p>The productivity bonus can be used in all public administrations – central, autonomous and local – although it is generally used in the central administration.</p> <p>The productivity modality for remunerating achievement of objectives is applied in specific sectors, for example: social security, state traffic office, police, university professors.</p> <p>The productivity bonus is applied to a high percentage of civil servants in groups A and B. The percentage of groups C and D is much lower and, in general, the productivity bonus is not based on performance assessment but on longer working hours. There are two important exceptions: Social Security and the Police, which have their own systems, based on performance measured by achievement of objectives and are linked to collective performance assessment at the team/unit level. All categories of staff are included in these schemes.</p>	<p>At the beginning of each fiscal year, the Ministry of Finance issues a resolution fixing the productivity level for each ministerial department or autonomous administration.</p> <p>During the year, the productivity level can be adapted to the number of staff. The Ministry of Finance determines the amount of the global credits intended for the productivity bonus, adapting it to the number of staff and the degree to which the objectives fixed for each programme have been achieved.</p> <p>Inside this total salary allocation the different departments and organisations are free to design and develop their own systems of performance and productivity related pay. Each department determines the criteria for awarding the individual amounts of the productivity bonus.</p>	<p>The different departments and organisations design and develop their own productivity and performance remuneration systems independently. There are models based either on assessing individual performance or for team/units.</p> <p>Team/unit PRP is the majority system when productivity is used for remunerating special performance.</p> <p>The main characteristics required by law for calculating the productivity bonus are the following:</p> <ul style="list-style-type: none"> • It remunerates any special performance, extra activity and interest or initiative used in doing the job. • The global amount cannot exceed a certain percentage of total personnel costs in each programme and each organisation. • The amount of PRP awarded has to be known by the other civil servants in each department or organisation concerned, as well as by trade unions' representatives. 	<p>There is no standardised performance appraisal system. Each department/agency has the responsibility for developing its own system. Once the global amount or salary allocation for the productivity bonus has been fixed, each department enjoys wide independence in establishing individual criteria for each civil servant.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>Productivity bonus.</p>	<p>No evaluation of the results at the central level.</p>	<p>The application of the productivity bonus for special performance is limited as it only affects specific sectors. In most cases the productivity bonus has been linked to the extra activity (longer working hours) and it is almost always a fixed amount related to this criteria. At the same time, there are different sizes of productivity bonuses according to working hours in the different ministerial departments for equivalent positions.</p>	

Sweden

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>Until the late 1980s, pay agreements were very centralised and negotiated increases were applied to the entire civil service.</p> <p>From 1980-89 a new budget system was introduced, replacing detailed annual appropriations by performance control and framework budgets.</p> <p>In 1989, the salary grade system was abolished and replaced by individual salaries. In 1994, full autonomy in employer policy matters was granted to heads of agencies.</p> <p>The centrally negotiated and Individual and differentiated pay system was implemented around 1990 and is today well-established throughout the civil service.</p> <p>There is no uniform system of PRP. Nearly all agencies use some kind of performance appraisal/evaluation dialogues once a year.</p> <p>Most employees of the Swedish Government are under individual pay systems set by collective bargaining, except senior government officials – including university professors, Directors-General, Under Secretaries of State – who were taken out of the collective bargaining system.</p> <p>Their salaries are now set on an individual basis either by a review board or directly by the government.</p> <p>Workers at all levels may be covered by bonus systems as part of their local collective agreements. There are however some exceptions among the police, armed services, and judges. In practice, agencies are reluctant to award them and bonuses are therefore more used in businesslike activities than in traditional central administration.</p>	<p>The remuneration system is highly decentralised. Agencies are almost completely autonomous in employer policy.</p> <p>Legislation concerning labour is largely discretionary – <i>i.e.</i> collective agreements may be substituted for legislation, provided that the labour market agrees.</p> <p>Most terms of employment are laid down in collective agreements.</p> <p>Since 1997, the government monitors agencies' employment policies by using a system with annual reporting of competence planning, salary level and development, gender distribution, age structure and staff turnover.</p>	<p>Every individual salary is negotiated at local level and is open to public scrutiny.</p> <p>Pay should be individually determined and differentiated.</p> <p>The system demands that management develop local pay policies that are generally transparent and understood by most staff. A typical local pay policy:</p> <ul style="list-style-type: none"> • focuses on the agency's activities and objectives; • supports the agency's ability to recruit and retain staff with adequate skills; • clarifies how pay determination can motivate the staff; • defines criteria for pay determination; • includes the means to prevent discrimination. 	<p>There is no uniform government staff evaluation system in Sweden.</p> <p>Nearly all agencies use some kind of performance appraisal/evaluation dialogue once a year to review performance and potential future tasks, results and training needs.</p> <p>Most agencies have evaluation and pay talks between a manager and each of their subordinates.</p> <p>Some agencies, such as the tax authority, have started to try to introduce 360-degree dialogue where the employee gives feedback to the manager and <i>vice versa</i>.</p> <p>Supervisors are required to inform their subordinates of their (the subordinate's) individual wage increase, explaining it in terms of job performance.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>There are three types of agreement negotiated at the agency level within a few framework agreements covering the entire central administration. The basic agreement and the general agreement are negotiated at the central level between the Swedish Agency for Government Employers and the central unions. The basic agreement deals with the negotiation procedure and is valid over a period of time, and must be confirmed by the government. The general framework agreement deals with overall salary levels and other general conditions. Local agreements determine the individual pay and other local conditions of employment and are negotiated at the agency level between management and union representatives. There are no centrally determined pay scales or remuneration schemes.</p> <p>The agencies are fully responsible for the results and consequences of their collective agreements.</p> <p>Where applicable, bonus payments are more directly linked to efficiency measures and cost savings.</p>	<p>Individual pay determination is much appreciated among employees and employers alike.</p> <p>Directors-general are well aware of their role as employers. They carry their responsibility for employer policies very well.</p> <p>Recruitment and retention of good managers is believed to have improved under the individual salary setting scheme.</p>	<p>There is a risk that individualised pay awards are used to pay newly recruited staff competitively rather than to award good performance. That is, PRP is used to recruit and train core staff rather than motivate and reward the majority of staff.</p>	<p>The division of functions between the government and agencies facilitates a clear separation between:</p> <ul style="list-style-type: none"> • pay increase – and budget appropriations; • staffing policies – and labour market policy; • available resources – and new unplanned activities; • recruitment – and politics.

Switzerland

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>The previous pay system allowed for a virtually automatic pay increase every two years for all staff, until their wages reached the ceiling of their respective pay bands.</p> <p>A PRP prototype was launched as far back as 1996.</p> <p>The Law relating to Confederation staff (LPers) was adopted by Parliament on 24 March 2000 and came into force on 1 January 2002. It ended the automatic wage increases to which civil servants had until then been entitled.</p> <p>There is a single implementing provision for PRP embracing all posts. The system is applicable to all Confederation staff on an individual basis.</p>	<p>The pay system is the same for the whole Confederation. Performance-related pay is defined centrally, its principles being enshrined in legislation and its implementing directives. The implementation of PRP, on the other hand, is decentralised in that individual managers have responsibility for applying it to their own staff.</p>	<p>Staff pay bands are determined by three different bodies, depending on the employee's position in the hierarchy.</p> <p>Appraisers have a certain amount of flexibility in that they are the ones to determine the percentage pay increase for employees whose performance is considered to be "highly satisfactory" or "excellent".</p> <p>Performance-related pay is incorporated into the regular pay system, with each administrative section having its own budget. This budget can be cut. A budget for performance deemed to be "outstanding" is also available, and this too can be cut.</p> <p>Pay increases based on performance can vary between 2-6%.</p>	<p>The targets set for employees are agreed between the latter and their immediate superiors.</p> <p>First, there are targets that are performance-related and that enable work to be geared to objectives and results.</p> <p>The next set of targets relates to employee conduct, covering certain personality aspects and working methods (vocational skills, personal skills, inter-personal abilities, the art of leadership, etc.).</p> <p>Interviews take place throughout the year to monitor performance.</p> <p>The formal process of performance appraisal takes place shortly before the end of the year and is conducted in writing.</p> <p>If an employee disagrees with the results of an assessment, the next manager in line can be asked to conduct a second appraisal.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>Financial rewards gained under performance-related pay consist of wage increases based on merit, and bonuses.</p> <p>1/ Merit increments: there are annual wage increases (from 0-6%), which are applicable until the wage band ceiling is reached, then a complementary bonus once the ceiling is reached (up to 12% if appraisal rating is A++: "far surpasses requirements").</p> <p>2/ Bonuses: This type of remuneration is left entirely to the discretion of managers. Performance bonuses can be awarded at any point in the year regardless of the rating. The size of the increase is normally decided by individual departments. The amount decided on is not negotiable.</p>	<p>An appraisal of PRP implementation was carried out very soon after the law came into force.</p> <p>The majority of people canvassed after the new pay system was introduced thought that the use of different performance appraisal techniques was a positive thing. They saw it as a sign of change and a departure from the image of the dyed-in-the-wool civil servant towards one of entrepreneurship based on modern public management techniques.</p> <p>Six months after the first compulsory annual appraisal, the majority of employees felt that a performance-linked pay system was a good thing. It gives employees and management the opportunity for open discussion, promotes results-oriented work, and encourages communication. It also means that both employees and managers have to deal with personnel tasks.</p>	<p>Some of the problems indicated are: the fact that PRP is linked to the Gauss curve, the difficulty of making the appraisal methods uniform, the incompetence of some managers, the negligible impact on salaries, the fact that public service culture is not amenable to performance-related pay.</p> <p>Given that the system has to be cost-neutral, employees have doubts as to whether the new system will be applied in its entirety. They are also concerned about whether performances will be correctly ranked. On this point, managers have remarked that if targets are to be properly assessed they must be set with care.</p>	<p>No extensive reforms have yet been envisaged. However, adjustments can be made, particularly to percentage pay increases relating to each ranking level.</p> <p>Like all administrations, the Confederation is faced with budgetary constraints. If on top of this, other measures are taken affecting pay adversely, staff could become demotivated very quickly and this could rapidly result in a downward spiral, where poor results due to demotivation lead to less pay.</p>

United Kingdom

PRP	Flexibility and control	Overall design of PRP	Performance appraisal
<p>The policies of previous administrations to decentralise civil service management by creating free-standing agencies, and to reward all staff according to their performance, distinguishes civil service pay practices from much of the wider public sector, such as local government and the National Health Service. The two distinctive features of civil service pay are:</p> <ul style="list-style-type: none"> the delegation of pay, grading and performance management arrangements to departments and agencies for staff below the Senior Civil Service; the near-universal application of individual performance pay. <p>Prior to such delegation, HM Treasury centrally determined the pay, grading, and terms and conditions of employment for all civil servants in negotiations with unions. Individual departments had no control over the terms and conditions of their staff. The delegation of pay and grading regimes to departments and agencies began in the early 1990s. At the same time, performance-related pay was introduced to achieve a closer link between performance and reward for individuals and groups of staff. Departments received full delegation to develop terms and conditions for their staff in 1996.</p> <p>PRP policy applies to all staff. Senior civil servants' pay is managed directly by the Cabinet Office. PRP policy can be applied both at the individual and collective (team/unit) level.</p>	<p>The system was originally centralised with a trend to increased decentralisation in the past 10 years.</p> <p>In 1994, the government announced its intention to extend its policy of delegation to all departments for staff below the senior civil service and to replace the existing national pay frameworks. The senior civil service pay and grading remained centralised and managed by the Cabinet Office.</p> <p>In developing their own systems, departments are required to have regard to the four key principles set out in the Civil Service Management Code (CSMC): better value for money from the pay bill; improved flexibility in the pay system; better budgetary control of pay costs; an effective link between pay and performance.</p> <p>The Cabinet Office is the custodian of the CSMC and all civil service organisations are bound by the Code.</p>	<p>Current practice varies greatly within the civil service, with departments and agencies encouraged to align their reward strategies with their own business objectives. Current pay systems typically involve:</p> <ul style="list-style-type: none"> Most departments and agencies set pay ranges by grades. Most departments are designing reward systems in support of business needs. Most departments and agencies provide progression to a target rate or a "rate for the job". Non-consolidated bonuses. <p>Other rewards – departments and agencies generally offer very good non-pay rewards, such as good annual leave, flexible working hours, work/life balance policies, varied work, etc. The benefits of these are not "sold" particularly well and can sometimes become stale if not refreshed or publicised.</p>	<p>Most departments and agencies set pay ranges by grades. These are set in order to relate to market pressures and/or recruitment and retention factors. Pay ranges are generally revalued on an annual basis to meet needs and keep in line with market pressures.</p> <p>Most departments design reward systems in support of business needs. Most departments and agencies provide progression to a target rate or a "rate for the job". Target rates are set in accordance with what is considered to be the market rate for the job and are generally positioned between 80% of the pay range and the maximum. Once at the target rate, it is generally the case that only the best performers can receive consolidated payments past this point. Departments may also vary starting pay to reflect particular skills or pay in previous posts. High performers will not necessarily be the best paid in their grade. Departments are working hard to develop progression arrangements that are robust against equal pay challenges.</p>
Performance payment	Overall impact	Specific problems	Lessons learnt
<p>Non-consolidated bonuses are now being used as one of the main vehicles for delivering performance-related pay to staff performing above a satisfactory level. Bonus levels vary in different organisations and can be substantial in some and much less substantial in others.</p>	<p>There are a number of important elements that make reward schemes work well, including:</p> <ul style="list-style-type: none"> transparency; employee involvement; sense of fairness; realistic and clear goals; proportionality of the reward to the effort required; high degree of employee control over the measured outputs; impartial and high quality people management. 	<ul style="list-style-type: none"> Management capability: A report to the Civil Service Management Board in 2003 recommended "more active organisational and personal performance management – including greater transparency in expectations and regular honest feedback, based on better evidence, more clarity on how we will reward people who perform, and a simplified appraisal process" as part of a wider programme of improving leadership capacity. Flexible funding: due to funding constraints, departments and agencies are not able to provide adequate financial incentives for staff to want to perform at the top level. Departments and agencies also have difficulty measuring the impact that a performance-related pay system has in the achievement of organisational objectives. 	<p>The government considers pay delegation an important tool to facilitate improvements in delivery and productivity. Permanent secretaries/chief executives can determine how best to recruit, retain and motivate their staff and they have the ability to control their pay bill.</p> <p>The design of the reward system should reflect the nature of how work is actually carried out and also the culture and direction of the organisation. Performance-related pay schemes are used to align employees' performance with organisational objectives, to create a clear line of sight between individual objectives and achievement of organisational goals.</p> <p>It is important to pay attention to the culture of the organisation. If an organisation has a team-based culture, individual rewards may not be suitable. It is important to keep schemes fresh.</p> <p>There is scope to expand the use of non-pay rewards in the civil and public services. The Cabinet Office, with the help of key stakeholders, is currently developing practical proposals to improve the workings of the delegated arrangements within which departments can operate.</p>

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