

# Performance Management in Slovak Local Governments: Evidence of Performance Measurement and Performance-Related Pay

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## Abstract

*Performance management and performance measurement in particular is increasingly gaining popularity in the EU countries, especially at a local government level. One of the likely reasons for this phenomenon could be the impact of performance measurement not only on individual but also on overall organisational performance. Economic growth has varied considerably in towns and municipalities across Slovakia and what is more, the still ongoing financial and economic crisis has made things even worse – perhaps most clearly in peripheral regions. Local government development, performance management and the level of prosperity can be intertwined and can benefit not just the particular municipality but also the wider region. Good quality human capital in terms of motivated, skilled and outperforming staff is seen as an indispensable asset both in the private and public sector. Hence, performance management and performance measurement do not have to be seen merely as managerial or bureaucratic exercises. Instead, they could have much more wide-spread regional policy and regional development effects. The research deals with the topics of performance management, performance measurement and performance-related pay (PRP) in Slovak local self-governments or municipalities. Municipalities in Slovakia possess considerable level of freedom in terms of their performance management which allows both performance measurement and performance-related pay to be implemented. The purpose of the research is to evaluate and analyse the current state of performance management and in particular models and approaches of performance measurement of individual bureaucratic staff.*

**Key words:** local self-government, performance management, performance-related pay, Slovakia

**JEL Classification:** H11, H83

## 1 Introduction

Public administration, both as a field of study and in particular as a system and organisation of public sector is naturally at different levels of development in Slovakia compared to for instance Western European countries. Nevertheless, due to a considerable level of decentralisation Slovak municipalities and their executives have a significant level of freedom to select and execute human resources management policies of their choice, or adjusted and suited to their needs. Slovak local government has what Bryson calls an ‘admirable degree of independence’ (2008, 349). Human resources management, regardless of private or public sector, includes tasks such as HR planning, job analysis, managing pay, recruitment and selection, performance management and appraisal, learning and training, job reduction, employee relations, etc. Among all these topics, the research is concerned with performance management – performance appraisal (i.e.

performance measurement) and managing pay in terms of performance (i.e. performance-related pay).

With an increasing pressure on local governments in Slovakia to save public resources and cut public spending, the question of implementing more New Public Management-driven or other types of reforms still remains very topical. Hence, the question of improving and assessing human resources management and performance management – in peripheral regions in particular – ought to be high on the agenda. Research shows that human resources management if carried out well can lead to an improvement in 3Es (economy, efficiency, effectiveness) and overall performance of public organisation (Osborne and Gaebler, 1992) – all necessary prerequisites for sustainable regional development.

### Research questions

The researcher asked the following three central research questions:

- To what extent do Slovak local governments use performance management and measurement tools?
- How and to what extent do Slovak local governments measure individual staff performance?
- To what extent do Slovak local governments employ unconsolidated performance-related pay schemes?

The research dealt with the topics of performance management, performance measurement and performance-related pay (PRP) in Slovak local governments. The purpose of the research was to evaluate and analyse the current state of performance management and in particular models and approaches of performance measurement of individual bureaucratic staff in Slovak local governments. What is more, the research provided an answer to what extent Slovak local governments employ performance-related pay schemes.

The catch-all term **performance management** generally refers to what Colin Talbot calls ‘measuring, monitoring, and managing the performance of public system’ (2005, 491). However, performance management can also refer to a specific and one of the most advanced performance measurement approaches (McCourt and Eldridge, 2003; see also Table 1). The primary purpose of performance management is to increase overall performance of an organisation. Performance management includes among other topics a number of approaches and models to measure performance. They might include consideration of groups efforts - collective or group performance; some measure outputs only; others also social skills, traits, behavior, competences, etc. However, because the research covers individual performance only, the researcher covered no more than the means of individual **performance measurement**.

Talbot also makes an important reference to New Public Management (NPM). He talks of a *close alliance* of performance tide to the NPM trends in the last part of the twentieth century (2005, 493). Furthermore, he makes an important distinction and mentions ‘three different foci in terms of what is supposed to be for ‘performing’ in current theory and practice: organizational performance; performance of policies or programs; and performance by public servant’ (2005, 494). It is the third type only which this research was concerned with. Hence, the primary focus of the chapter is individual performance of local bureaucratic public servants.

However, having performance measurement put in place but without any connection to reward system does not make much sense. So the other emphasis of the research was on performance-

related pay as a means of rewarding performance of individual staff. According to McCourt, **performance-related pay (PRP)** is ‘one approach to using pay to provide an incentive to individuals to work more effectively’ (Mccourt and Eldridge, 2003, 158). Armstrong and Merles use it to describe schemes which ‘base additional financial rewards on ratings of performance, contribution and competence’ (1994, 258; quoted in McCourt and Aldridge 2003, 158). Furthermore, they also add that it is ‘the main method of determining pay progression for non-manual workers’ (ibid). Prior to PRP systems, private sector too used fixed incremental pay systems which had been expected to be still largely present in Slovak local government offices to this day - very much in line with the Weberian model of bureaucracy (Weber, 1978).

The primary objects of this research were Slovak local governments and their bureaucratic staff. The terms *local self-government*, *local government* and *municipality* will be used for the purposes of the article and for the sake of simplification interchangeably. They will all refer to local self-governments be it municipalities, towns, boroughs and cities in Slovakia.

By **local government bureaucratic staff**, the author refers to the bureaucratic apparatus (white collar workers) employed at town and city halls. These are staff that does not usually get into contact with the public, perhaps apart from the first contact center employees (the so-called *client centers*). Hence, the research did not include what Lipsky (2010) calls street-level bureaucracy, although local government staff in Slovakia also includes street-level bureaucrats (e.g. local police force, nursery and primary school teachers, etc.). The reason for this omission is the complexity and variety of tasks performed by all local government employees.

What is more, it is important to note that the research did not intend to test and provide answers on the question of performance measurement effectiveness; nor discuss overall local government or organisational performance; nor assess effectiveness of PRP; nor analyses any other related topics and issues. Nevertheless, these could be considered in further research.

### **Research methods**

The author used fixed and flexible research methods for acquiring quantitative and qualitative data. However, this case study only draws from the acquired quantitative data due to the limited space. In terms of data collection, the author measured the extent of the use of different means of individual staff performance measurement and PRP by conducting a quantitative research survey distributed in 100 Slovak local governments (i.e. Slovak towns and other municipalities). The author chose the number 100 in order to secure representative, comparative and statistically relevant data and results. Proportional stratified random sampling technique was used in order to attain a representative and statistically relevant result. First, all Slovak municipalities greater than the size of 5,000 (i.e. total of 156 local self-governments) had been divided into 5 groups or strata according to their population size:

- 5,001 – 10,000
- 10,001 – 15,000
- 15,001 – 20,000
- 20,001 – 25,000
- 25,001 and more

For each of these five groups, a proportional number of Slovak municipalities (i.e. 42, 23, 12, 12, and 11) were randomly chosen, hence making a list of 100 local governments which were contacted and included in the research. The reason for selecting only municipalities with

populations greater than 5,000 is the low number of municipal staff in small municipalities and hence likely and arguably a natural absence of systemic performance management schemes. Of the 100 Slovak municipalities that had been contacted, 34 responded (i.e. response rate 34%) and filled in the questionnaire.

## **2 Performance Appraisal**

It is not enough to define what performance means, since means to measure it have proven to be an even greater challenge. A number of authors have written on the topic of performance appraisals (Coens and Jenkins, 2002; Murphy and Cleveland, 1995; Daley, 2010). For instance, Murphy and Cleveland (1995) analyses performance appraisals from the historical perspective, their environmental influences, organisational influences, purposes they are expected to serve, information they attempt to obtain, their standards for judging performance, psychological processes that are likely to be involved in evaluating, design, etc. Hence, performance appraisals can be considered as a broad topic on their own.

Performance appraisals are generally regarded as a basic public management tool necessary to measure individual staff performance. Although generally regarded as being beneficial, a number of authors question their use and effectiveness. For example, Coens and Jenkins (2002) argue that performance appraisals do not necessarily accomplish intended goals, do not have any real effects; and the authors instead suggest other means of accomplishing intended goals. To illustrate, staff performance appraisals are often associated with problems in scoring. A person who scores might be lenient, his scores can be too contrasting or they can depend purely on his personal preferences; or he could have central tendency bias to name just a few of the problems. Hence, staff performance results might easily be inaccurate and possibly even lead to severe consequences for the organisation. Similarly to any other performance management tool, performance appraisal too ought to meet a number of criteria if it is to bring any useful outputs or outcomes. Depending on these criteria, one can distinguish between various approaches to performance appraisal of which some are more complex but not necessarily more effective than others.

### **Approaches to performance appraisal**

For the purposes of this research, the author will distinguish between four basic types of staff performance appraisal, as specified by McCourt and Eldridge (2003): annual confidential report (ACR), management by objectives (MbO), performance appraisal (PA), and performance management (PM); of which performance management is regarded as the best and most sophisticated approach to individual staff performance appraisal. It does not only look backward but also forward, is continuous, has reference to strategic objectives, relates to job description, includes meeting with supervisee, feedback is given to supervisee, objectives are set, and may manage teams as well as individuals (McCourt and Eldridge 2003); for comparison see Table 1.

All four approaches can be sorted according to seven key features: link with organisation mission or objectives, individual objectives, inclusion of feedback, time period, rating of performance, basis of ratings, and employee participation. The following table summarizes the main features and characteristics of the four performance appraisal approaches.

Tab. 1 Comparing approaches to appraisal

Feature	Annual confidential report (ACR)	Management by Objectives (MbO)	Performance appraisal (PA)	Performance management (PM)
Link with organisation mission or objectives	NO	YES	NO	YES
Individual objectives	NO	YES	Sometimes	YES
Inclusion of feedback	NO	Sometimes	YES	YES
Time period	Annual	Annual	Annual	Continuous
Rating of performance	YES	YES	Sometimes	YES
Basis of ratings	Traits	Performance on objectives	Traits or behaviors	Performance on objectives
Employee participation	NO	NO	YES	YES

Source: McCourt and Eldridge, 2003, 226.

McCourt's and Eldridge's characterization will also be used to answer the second research question which asks to identify the most popular individual staff performance measurement approaches in Slovak local governments. Based on theoretical knowledge and the level of public administration development, the author expects the annual confidential report to be the predominant means of performance appraisal in Slovak municipalities.

### Performance-related pay

Individual public performance measurements and PRP are not and should not be seen as a panacea. Despite PRP being ever since the influential work of F. W. Taylor (1911) regarded as the greatest incentive for *private sector* staff, extensive research conducted shows that PRP schemes in *public sector* do not always deliver the desired results (e.g. OECD-PUMA, 1993) and neither does NPM (e.g. Van Helden and Jansen, 2003) which encourages the use PRP. Ingraham agrees that PRP schemes have not always delivered the expected performance outcomes and they are often regarded as mere exercises in favoritism (2005). However, she also argues that the effectiveness of PRP largely depends on 'adequate resources and careful performance evaluation' (ibid, 529) and hence one could argue that PRP in public sector organizations like any other public management policy must be treated with great attention, both in the preparatory and later stages. PRP in local government is similar to any other PRP government schemes but can be adjusted to local conditions, culture or context.

PRP and **unconsolidated** PRP in particular is the focus of the third research question which asks about its use in Slovak local governments. By unconsolidated PRP, the author refers to any additional payments which are treated as a bonus on top of base salary and need to be 're-earned' in each review period. It is important to make this clear distinction in order to be able to more precisely compare research data. For instance, annual incremental pay rises in Slovak local governments could be by some regarded as PRP since they are awarded based on work experience (i.e. number of years). Hence, incremental pay rises and other forms of pay which does not need to be regularly re-earned, were not included in the research and the author instead focused on unconsolidated PRP only. Typical examples of unconsolidated PRP which are awarded in Slovak local governments and hence need to be re-earned each review period, mostly include financial rewards and end of year bonuses and personal premiums. Again, based on theoretical knowledge and current ongoing financial crisis, the author had expected unconsolidated PRP to be present in Slovak local governments to a limited extent.

### **Benefits and risks of PRP**

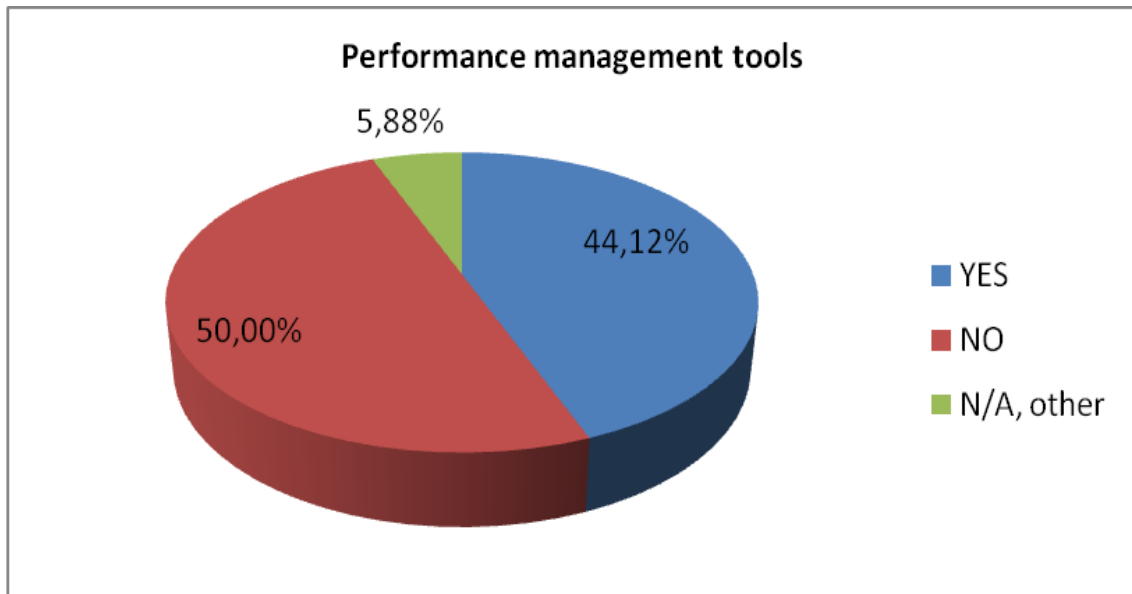
Although the aim of the research is not to assess the effectiveness of the use of PRP in Slovak governments, it is worthwhile noting that performance management literature also deals extensively with PRP benefits and risks. Crucially, a distinction between PRP used in private and public sector ought to be made. Private sector organizations and staff employed by them work primarily in order to maximize companies' profits and hence pursue their and companies' *private interests*. By contrast, staff working for public organizations should at least in theory also pursue the *public interest*. Thus, the use of PRP in public sector faces not only this theoretical dichotomy but it also leads to various practical implications, including benefits and risks for public sector organizations. Among benefits, literature states at least a short-term increase in performance, staff satisfaction and improvement in staff attitude. On the other hand, the list of potential risks and problems is far longer and includes for example perception of favoritism, lack of overall performance impact, gaming, negative effects on team work, long-term drop in staff morale, etc. For further information on benefits and risks of PRP, see for example, Siegel (2010), Murphy and Cleveland (1995), Poister (2003), Coens and Jenkins (2002).

Empirical research so far has not delivered any conclusive evidence that PRP in public sector organizations delivers the expected results (Siegel, 2010). What is more, a number of governments and their public sector organizations which once introduced PRP on the wave of NPM reforms ceased to use them and instead introduced non-financial means of public sector staff motivation and awards which can include flexible working hours, home office, generous pension schemes, etc. Hence, PRP remains a complex system which requires careful attention by public sector managers. A number of conditions need to be followed in order to have a working and effective PRP, whether being unconsolidated or being based only on progression. For instance, McCourt and Eldridge (2003, 163-164) mention the following conditions:

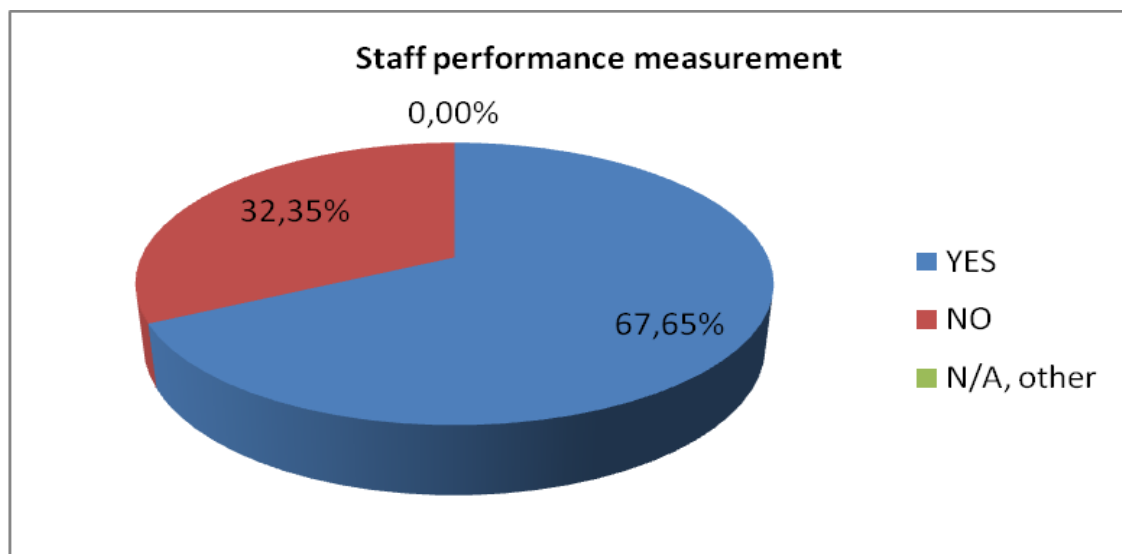
- 'PRP should be linked to the performance management (or appraisal);
- PRP should be tailored to the particular needs of the organisation;
- criteria for making PRP awards should be balanced;
- awards should be flexible and paid in different ways;
- credit should be given for working as a member of a team;
- PRP criteria should not refer exclusively to short-term objectives;
- employees should be able to participate in the PRP design process;
- thought should be given to getting the message across.'

### **3 Research Findings**

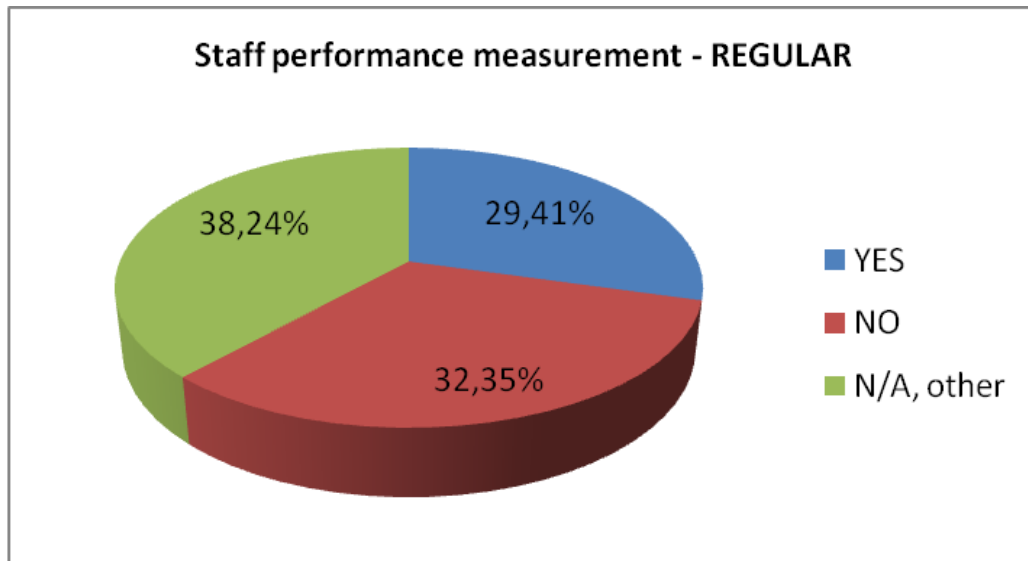
Because of the sheer size of data collected, the findings section will mostly concentrate on the research questions only. Results (Fig. 1) show that only 44% of Slovak local governments use specific performance management tools – other than individual staff performance measurement, mostly benchmarking and in some cases ISO standards and CAF. Results (Fig. 2) show that most Slovak local governments use individual staff performance measurement (67.65%). In terms of regularity, results (Fig. 3) show that Slovak local governments measure individual staff performance measurement on a rather irregular basis - only 29.41% measure it regularly.



**Fig. 1 Use of performance management tools**  
Source: Author



**Fig. 2 Use of staff performance measurement**  
Source: Author



**Fig. 3 Use of regular staff performance measurement**

Source: Author

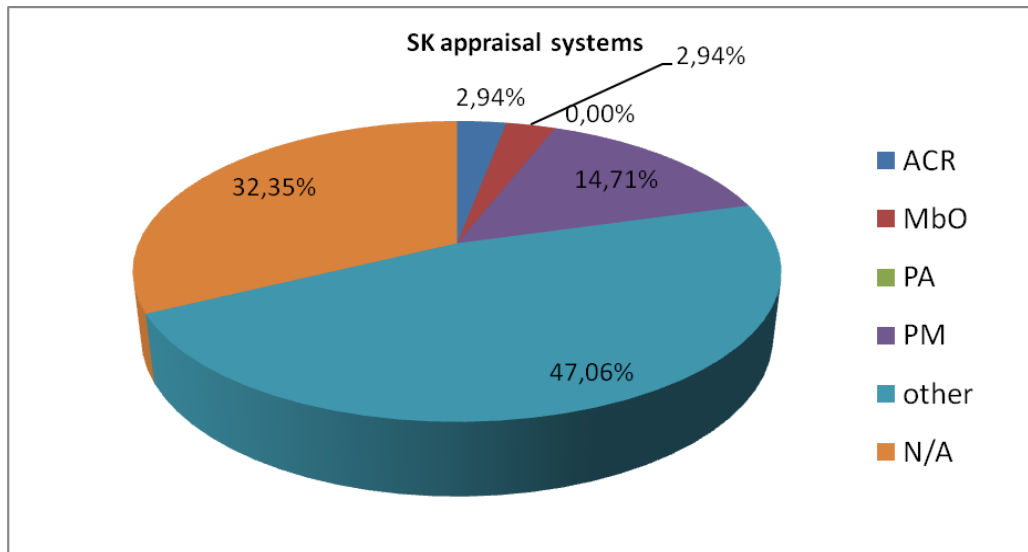
We were also interested to find out which of the 4 basic performance appraisal systems do Slovak local government employ. It was expected that annual confidential report would come as first. In order to test this hypothesis and to find the answer to the research question, the author identified 7 distinctive characteristics for each of the performance appraisal approaches used in local governments, as summarized by McCourt and Eldridge (2003). The author set the following condition: appraisal systems used in local governments had to match at least 6 of the 7 features in order to be characterised as one of the 4 distinct types. Otherwise, they were included in the ‘other - combination’ group. Quantitative results (Table 2 and Fig. 4) show that Slovak local governments do **not** use the annual confidential report as the dominant means of performance appraisal. Only one Slovak local government of the research sample (i.e. 2.94%) used a performance appraisal system which fits the ACR criteria. Instead, of those that measure staff performance, most Slovak municipalities use other or a combination of the four basic appraisal systems (47.06% of the whole sample).

**Tab. 2 Use of appraisal systems**

means of performance appraisal	Sum	ACR	MbO	PA	PM	other - combination	N/A - DO NOT MEASURE
SLOVAKIA – number	34	1	1	0	5	16	11
SLOVAKIA - %	100%	2,94%	2,94%	0,00%	14,71%	47,06%	32,35%

Source: Author

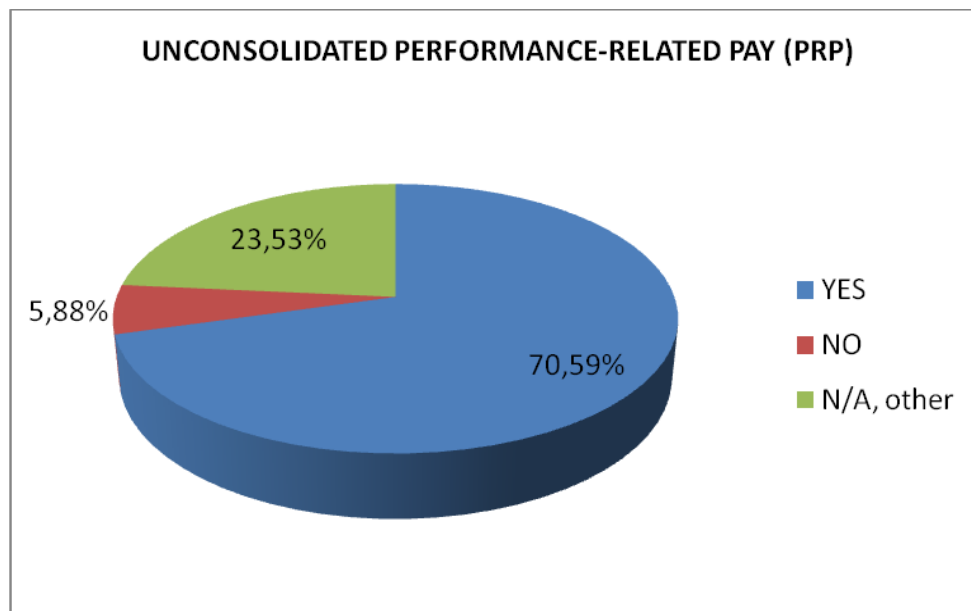




**Fig. 4 Use of appraisal systems in Slovakia**

Source: Author

The last research question dealt with the use of unconsolidated performance-related pay schemes. We expected unconsolidated PRP to be present in Slovak local governments to a rather limited extent. However, the very opposite was true. Results (Fig. 5) clearly refute the hypothesis and show that Slovak local governments use unconsolidated PRP to a significant extent (70.59%).



**Fig. 5 Use of unconsolidated PRP**

Source: Author

## 4 Discussion

Results show that only 44% of Slovak local governments use specific performance management tools and that only 29.41% of the municipalities measure staff performance regularly. However, we should not make general conclusions based on only a number of indicators and their data

comparison; but instead, we should consider other factors too which primarily lead to government efficiency and effectiveness. These could include the size of respective local governments (both in terms of population but mostly the number of staff), local government spending, size of budget, number and quality of provided services, etc. Hence, one should refrain from judging Slovak municipalities purely on the basis of concrete managerial tools or regularity of measurements, but should also look at other relevant factors which would bring a more complex picture of local government performance management in Slovakia.

Results also show that almost 68% of the research sample of Slovak municipalities have at least some means of **measuring** and assessing their individual **staff performance**. However, only 44% of Slovak municipalities have a standardized (written) set of rules or guidelines regarding performance and performance measurement. In terms of appraisal approaches, only one of the 34 Slovak local governments is using an appraisal approach which could be strictly regarded as the ‘annual confidential report’. 47% of Slovak local governments use some means of performance appraisal (i.e. a combination of performance appraisal approaches) but none of the four major theoretical approaches. 15% of the research sample is using the advanced ‘performance management’ system of appraisal.

Interestingly, although most Slovak municipalities which measure performance do not use the most advanced approach of the four, almost all use a more advanced appraisal approach to the ACR. This also arguably illustrates the influence of management reforms and the effort of local governments to not only measure but also to reward and increase staff performance; and perhaps through that even overall local government performance.

Regarding **PRP**, based on the literature review and the effects of the current economic crisis, the author anticipated that Slovak local governments would exercise their power to award unconsolidated PRP to a lesser extent. Since the current economic crisis broke out around 2008, Slovak local governments have also been influenced, particularly in terms of a greater pressure on public expenditure, and lower income through governmental tax distribution system. Hence, one would also expect local governments to limit their staff expenses; including awarding only well justified performance-based pay bonuses for staff. Results, however, showed that this has not been the case.

## 5 Conclusion

Performance management and performance measurement in particular is increasingly gaining popularity in the EU countries, especially at a local government level. One of the likely reasons for this phenomenon could be the impact of performance measurement not only on individual but also on overall organisational performance. Economic growth has varied considerably in towns and municipalities across Slovakia and what is more, the still ongoing financial and economic crisis has made things even worse – perhaps most clearly in peripheral regions. Local government development, performance management and the level of prosperity can be intertwined and can benefit not just the particular municipality but also the wider region. Good quality human capital in terms of motivated, skilled and outperforming staff is seen as an indispensable asset both in the private and public sector. Hence, performance management and performance measurement do not have to be seen merely as managerial or bureaucratic exercises. Instead, they could have much more wide-spread regional policy and regional development effects. These, including statistical correlation tests could also be the subject of further research.

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