

## **Performance-related Pay and Labour Relations in German Municipalities**

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## INTRODUCTION

In Germany the *Federation of Municipal Employers' Associations* (VKA) and the *United Services Trade Union* (Verdi) agreed upon a new national *Collective Agreement for the Public Service* (TVöD) in 2005.<sup>1</sup> One intention of the actors, the VKA in particular, was to turn away from the so-called 'principle of alimention' and turn towards the achievement principle. In consequence, fringe benefits, for example for married couples and children, were abolished and holiday and Christmas allowances cut. The money released was to be used for the introduction of 'performance-related pay' (PRP), as was determined in § 18 of the collective agreement. Financed through a cut in benefits, PRP must be paid over and above basic pay and be available to all employees on principle. The local actors can choose the method of performance assessment provided by the TVöD: 'systematic performance assessment' (SPA), which is normally similar to appraisal, 'target agreements' (TAs) or a combination of both.

As prescribed in the collective agreement, PRP was launched in 2007 with a relatively small initial budget of one per cent of employees' basic pay of the previous year. Meanwhile a raise to two per cent was agreed upon and successively realized until 2013. According to the collective agreement, the budget can be raised up to eight per cent, but every increase to reach this percentage requires the further agreement of VKA and Verdi at the national level.

The 2014 pay round probably will bring a decision on the further development of PRP. Presumably, the VKA will repeat its demand for a further budget increase whereas Verdi deems a debate on principles to be necessary (Meerkamp, 2013: 93). The rekindling of conflict seems probable.

PRP has been disputed since the collective actors agreed upon the TVöD. Whereas in the VKA's view PRP is a crucial instrument to raise efficiency and to advance further objectives of public sector reform, Verdi had agreed on its introduction only in order to save the national agreement which seemed to be endangered. The trade union had reason to believe that after the Bundestag elections in 2005 a coalition of the Christian Democratic Union (CDU) and the Free Democratic Party would take office. Fearing the new government would abandon collective agreements Verdi conceded the introduction of PRP and a deterioration of payment conditions (Schmidt et al., 2011b; Bosch et al., 2012: 30). In the end, a grand coalition of CDU and Social Democrats took office, but the agreement was already signed.

From a trade union's perspective the introduction of PRP can be seen as worsening the terms of trade for labour as a commodity, because it requires additional achievement from the employees in order to obtain a bonus which – in the form of the former fringe benefits – used to be fixed pay. There was reason to assume that not only staff councils<sup>2</sup>, but also quite a few employers would not be keen on introducing PRP. However, a provision of § 18 TVöD aimed at counteracting noncompliance stipulated a reduction of the pay-out for employees by about half of the PRP budget (six per cent of the monthly pay for September instead of one per cent of the previous year). The remaining budget may not be used for purposes other than PRP, but it must not be paid out before a local PRP agreement has been concluded. The shortened pay-out was intended to evoke a claim for implementation by the employees.

Under these conditions it was difficult to predict how many municipalities would introduce PRP. However, whereas some employers mistrust the benefits of PRP, others – in accordance with influential representatives of VKA – aim at more than merely efficiency. According to TVöD, PRP is intended to improve not only *motivation* but also *personal responsibility*, *leadership* and *public services* in general. Some VKA representatives see PRP as a continuation of new public management reforms by other means. This approach, in contrast to renegotiating the pay-performance ratio, targets more at a change of leadership and is not necessarily a zero-sum game. Hence, it is conceivable that in some cases administration and staff councils would agree on PRP as a joint project or as 'integrative bargaining' (Walton and McKersie, 1991). Considering the leeway given to the local actors for shaping their own PRP systems, not only the actual

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<sup>1</sup> The *Tarifvertrag für den öffentlichen Dienst* (TVöD) covers both manual and non-manual employees but not civil servants ('*Beamte*'). It supersedes the *Bundes-Angestelltentarifvertrag* (BAT) for non-manual employees and the *Bundesmanteltarifvertrag für Arbeiter gemeindlicher Verwaltungen und Betriebe* (BMT-G II), the former collective agreement for manual workers. However, the TVöD is still incomplete as a 'single status agreement', because no agreement on new job evaluation rules has as yet been reached (Schmidt et al., 2011b). For an overview on labour relations in the German public sector, cf. Keller 2010, 2011 and 2013.

<sup>2</sup> Staff councils are a public sector variant of works councils and likewise employee-only representations. Although staff councillors are often trade union members, staff councils are legally independent from trade unions and elected by the entire workforce. Staff councils are built on co-determination rights as well as labour law and, if available, additionally on collective agreements concerning some issues.

frequency of PRP but also the character of the implemented systems were difficult to predict and caused controversy. Whereas the VKA tries to present PRP as a success, only impaired by the trade union's negative attitude, Verdi tends to a negative assessment.

As a matter of fact, there was not much practical experience with PRP in German public services previous to the sector-wide introduction of PRP in the course of the new collective agreement. Thus, the few studies that do exist are primarily concerned with earlier exceptional attempts by a couple of municipalities to work with performance pay (e.g. Tondorf, 2007; Tondorf et al., 2002; Jörges-Süß, 2007; Jörges-Süß and Süß, 2011; Holtmann, 2008; Matiaske and Weller, 2008). Other literature is biased by consultants' interests: mixing knowledge with consulting offers to assist in the implementation of PRP (Weiß and Kratz, 2008). First findings from a study in North Rhine-Westphalia (Schmidt et al., 2011a and 2011c) indicated that the implementation of PRP is neither as unproblematic as the VKA suggested, nor everywhere opposed by staff councils and employees as some trade unionists had assumed. Empirical evidence on PRP may help not only to rationalize the discussion, but also to advance the academic debate on PRP which delivers a plethora of hints for both the functioning (Lazear and Gibbs, 2009) and the failure of PRP (Frey and Jegen, 2001; Frey, 1997), and altogether is lacking conclusions concerning the sense and purpose of PRP in general and in public services in particular (Marsden, 2010 and 2004; OECD, 2005 and 2012; Demmke, 2007).

Three major assumptions speak for the functionality of PRP in public services and three against it.

In favour of PRP it is argued, first, that employees are self-interested and more willing to fulfil organizational demands if they get a material incentive (Lazear and Gibbs, 2009). Second, employer representatives and consultants often argue that employees appreciate PRP as a symbol of social recognition (i.e. a non-material incentive). Third, PRP is regarded as a matter of fairness and therefore as conducive to a good working atmosphere and increased motivation. Arguments against PRP are, first, that PRP can erode 'intrinsic motivation' by extrinsic incentives (Ryan and Deci, 2000; Deci, 1971). Although according to this concept extrinsic incentives can compensate for a decrease in intrinsic motivation to some degree, in a context of public services where jobs with pronounced 'intrinsic motivation' (like teaching and caring) are common and the budget for incentives is small, the balanced effect on motivation might be negative (Matiaske and Weller, 2008). Second, it is argued that employers in public services are too weak to establish a well-functioning PRP system. Superiors are hesitant when it comes to performance assessment because employees possess a considerable degree of informal, passive bargaining power. Third, the introduction of PRP is criticized for excessive 'transaction costs' (Keller, 2013: 128). Considering that the small budget for bonus payments would presumably yield only weak effects, the accruing costs for administration, the working time for performance assessments and appraisal talks seem to be out of proportion. Moreover, whether PRP reduces trade unions' and employees' power and influence on pay and working conditions is debated (Heery, 2000; Marginson, 2009).

After a description of our empirical basis we will discuss the following questions: How frequently is PRP implemented in German municipalities and which methods of performance assessment are implemented? How efficacious is PRP and is there a difference in outcome depending on the assessment methods used? What are the attitudes of employees concerning PRP? What are the effects of the introduction of PRP on public sector labour relations in Germany and what can be concluded for the functioning of PRP in public services in general?

## **EMPIRICAL BASIS**

The paper presents findings from a research project completed in 2012 which was funded by the Hans-Böckler-Foundation.<sup>3</sup> In the course of this project we conducted interviews with employers and staff councillors as well as group discussions with employees and superiors in municipalities. In this paper we focus on our statistical findings, which are integrated however in a context of meaning derived from interpretative research methods. In addition to conversations and surveys at the local level, we talked with trade unionists and employers' representatives in order to get an impression of their intentions and strategies.

In 2011 we conducted nationwide postal surveys based on a random sample of 1,781 municipalities with over 3,000 residents, drawn from the address database of the German Federal Statistical Office. We designed two similar, comprehensive questionnaires, one for employers (EMP-survey) and one for staff

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<sup>3</sup> We worked on the research project with the title "Performance-related pay, performance management, and participation in public service" for about two and a half years. The report will be published in 2013.

councils (STC-survey). In addition, we developed an abridged questionnaire with some of the other questionnaires' core questions for small municipalities with less than 3,000 residents from a sample of 628 (SEMP-survey). Assuming that in small municipalities often no staff council would exist, we addressed our survey in these cases only to the head of administration.

Response rates were: 24 per cent for the EMP-survey (426 cases), 35 per cent for STC (604 cases), and 33 per cent for SEMP (206 cases). The net samples were weighted by the number of residents in the population. Because the responses of employers and staff councils concerning basic facts hardly differed, we compiled a new integrated net sample 'CASE+' (1,064 cases). This sample included all cases from EMP and SEMP and if no response from employers was available we complemented it with data from the STC survey. Because in the questionnaire for small municipalities we had left out some of the questions in the surveys sent to large municipalities, an additional net sample 'CASE-' (858 cases) was used which excluded the cases from the SEMP-survey. The response rates of 'CASE+' and 'CASE-' were 44 and 48 per cent respectively (Table 1). For most questions, however, separate samples were used because of the risk of interest-biased interpretations by employers and staff councils.

**TABLE 1 SAMPLES AND RESPONSE RATES FOR THE NATIONAL SURVEYS**

	Employers (EMP) (3,000)	Staff councils (STC) (3,000 residents and more)	Small employers (SEMP) (less than 3,000 resi- dents)	'CASE+' / 'CASE-' (EMP, STC, SEMP) / (EMP and STC only)
Gross sample	<sup>a</sup> 1,781	<sup>b</sup> 1,746	<sup>c</sup> 628	<sup>d</sup> 2,409 / <sup>e</sup> 1,781
Response (Net sample)	426	604	206	<sup>f</sup> 1,064 / <sup>g</sup> 858
Response rate	23.9%	34.6%	32.8%	44.2% / 48.2%

<sup>a</sup> = Random sample of municipalities with more than 3,000 residents; <sup>b</sup> = Gross sample corrected of municipalities without staff council; <sup>c</sup> = Random sample of municipalities with less than 3,000 residents; <sup>d</sup> = Gross sample EMP and SEMP together; <sup>e</sup> = Gross sample EMP; <sup>f</sup> = 1,064 cases put together from 426 EMP-cases, 432 STC-cases, and (for some questions) 206 SEMP-cases; <sup>g</sup> = 858 cases put together from 426 EMP-cases and 432 STC-cases (without SEMP), used for variables not asked for in small municipalities.

Because it is not possible to determine the impact of PRP on organizational performance directly (due to the complexity of many variables), it is important to learn about employees' perception of PRP and its influence on their behaviour. In 2011 and 2012 we surveyed all or a sample of employees in 34 municipalities which had already introduced PRP. We refer to these surveys as 'STAFF34'. We used three versions of questionnaires for three possible variants of assessment methods (SPA, TA, or a combination of both). Of the questionnaires, 3,211 were returned (an overall response rate of 44 per cent). Although response rates to the single employee surveys were mostly near the average of 52 per cent, they ranged from 22 per cent to 96 per cent.

It seemed probable that municipalities voluntarily participating in an employee survey would represent a selection of cases that had primarily positive experiences with PRP. However, a comparison between data from STAFF34 and the national surveys showed only limited deviation. Albeit our employee samples cannot be regarded as representative for the entire population (e.g. 25 per cent of municipalities worked with TAs compared with 16 per cent of the national sample), the data of STAFF34 are not untypical. On average 74 per cent of respondents of STAFF34 were non-manual employees, 19 per cent manual employees, and 8 per cent civil servants (*Beamte*); 62 per cent were women and 21 per cent were members of a trade union, mostly Verdi.

#### FREQUENCY OF PRP AND ASSESSMENT METHODS

Although the vast majority of municipalities are members of a regional employers' association (KAV) belonging to the VKA and are covered by the TVöD, only 55 per cent implemented PRP in the sense of a variable pay component related to performance. Because PRP has been introduced in only 35 per cent of

small municipalities,<sup>4</sup> the proportion of PRP active municipalities rises to 59 per cent if small municipalities are excluded from the dataset ('CASE-'). The number of employees covered by a PRP system is also 59 per cent. The remaining municipalities refrained from introducing PRP, and hence usually also from concluding a local agreement. In some cases, the implementation of PRP is circumvented by agreements which stipulate lump-sum payments or by informally ignoring an existing PRP agreement. Lump-sum payments in defiance of an existing PRP agreement may be used to avoid the effort of the assessment process and paying out the full budget, while officially still complying with the policy of VKA (Table 2).

**TABLE 2** FREQUENCY OF PRP AND ASSESSMENT METHODS (PERCENTAGES, COLUMN 'EMPLOYEES' SHOWS THE PROPORTION OF EMPLOYEES REPRESENTED BY THE CASES)

	CASE+		EMP	STC	SEMP
	Cases	Employees	Cases	Cases	Cases
Exclusively or predominantly systematic performance assessment (SPA)	40.9	31.9	47.6	35.0	28.6
Exclusively or predominantly target agreements (TA)	6.6	17.1	8.0	7.5	2.9
Exclusively or predominantly a firm combination of both, in which SPA-components predominate	5.0	6.4	6.3	4.3	2.7
Exclusively or predominantly a firm combination of both, in which TA-components predominate	2.4	3.4	2.1	2.9	1.1
Lump-sum payments conformable with PRP-agreement or directive	13.0	14.1	9.6	17.4	16.4
Lump-sum payments contrary to PRP-agreement or directive	7.2	5.0	7.5	11.5	4.6
No PRP-agreement or directive exists	24.9	22.1	19.1	21.5	43.8

Because traditionally in German municipalities pay was regulated by the national collective agreement in a strict way, the fact that such a high proportion of municipalities are avoiding the implementation of PRP can be seen as a clear signal for a low acceptance of PRP. A closer look shows that PRP is lacking acceptance not only among staff councils but among employers as well. Of the employers without a PRP agreement, 57 per cent explain the absence of the latter with their rejection of PRP, out of which 48 per cent respond that both actors of local labour relations agree in this regard. Since the VKA was the promoter of the introduction of PRP, these numbers are indicative of intra-organizational tensions among employers.

Most PRP-active municipalities prefer SPA as an assessment method: 75 per cent respond they would exclusively or predominantly use SPA (these cases represent about 54 per cent of employees). In a further nine per cent of the cases SPA dominates in a combination of both methods. Although only 12 per cent of the municipalities work exclusively or predominantly with TA and in four per cent of the cases TA is the more important ingredient of a combination, it nevertheless covers about one third of the employees because it is often applied in larger municipalities. However, despite the fact that TA is favoured by Verdi and (with some reservations) also by the VKA, SPA is the predominating method. Moreover, in

<sup>4</sup> Because the TVöD postulates as a precondition for introducing PRP that a local agreement between employer and staff council is concluded and a joint committee is established, where employers and employee representatives, appointed by the staff council, are equally represented and the local PRP-system is developed and controlled, Dannenberg (2013: 100) argues that without a staff council lump-sum payments are legal.

quite a number of cases the choice of SPA was made because compared to TAs it seemed easier to exercise without investing much time and effort. Sometimes SPA seems to be a cautious version of avoidance.

Although PRP is not very popular, there is often a pronounced willingness of staff councils and employers to cooperate. From municipalities with PRP, 91 per cent of employers and 80 per cent of staff councils report “good” or “very good” cooperation during the process of PRP introduction (i.e. the work in the joint committee to decide on assessment methods and to develop the rules of the system). Merely three per cent of employers and eight per cent of staff councils characterize this cooperation as “poor” or “very poor”. Only minorities of employers and staff councils argue about PRP, in most cases they cooperate – regardless of whether they are introducing or avoiding it. Although PRP is a heavily contested issue between VKA and Verdi, cooperation prevails in most municipalities. Besides remarkable exceptions, at the local level the most important split is not between the actors of workplace labour relations, but between municipalities which support or oppose PRP.

### EFFECTS OF PRP: DO ASSESSMENT METHODS MATTER?

Employers and staff councils were asked to rate a list of possible effects of PRP. In most cases a majority of both actors (from municipalities which had introduced PRP) could detect no effects of PRP (“no change”). A slight majority of employers reported positive effects on “fair performance-based pay”, “leadership”, and “self-responsibility” (mostly weak effects: “rather improved”). For all other options a majority of employers saw neither positive nor negative effects (Figure 1). Staff councils state an even weaker functionality of PRP. For all the items listed a vast majority of staff councils (between a minimum of 64% and a maximum of 90 per cent) negate any effects; a minority see improvements, whereas another minority report negative effects. The crucial finding is the predominance of weak effects. Although there is a difference between employers’ and staff councils’ statements, both rate the effects of PRP on average as being weak but slightly positive.

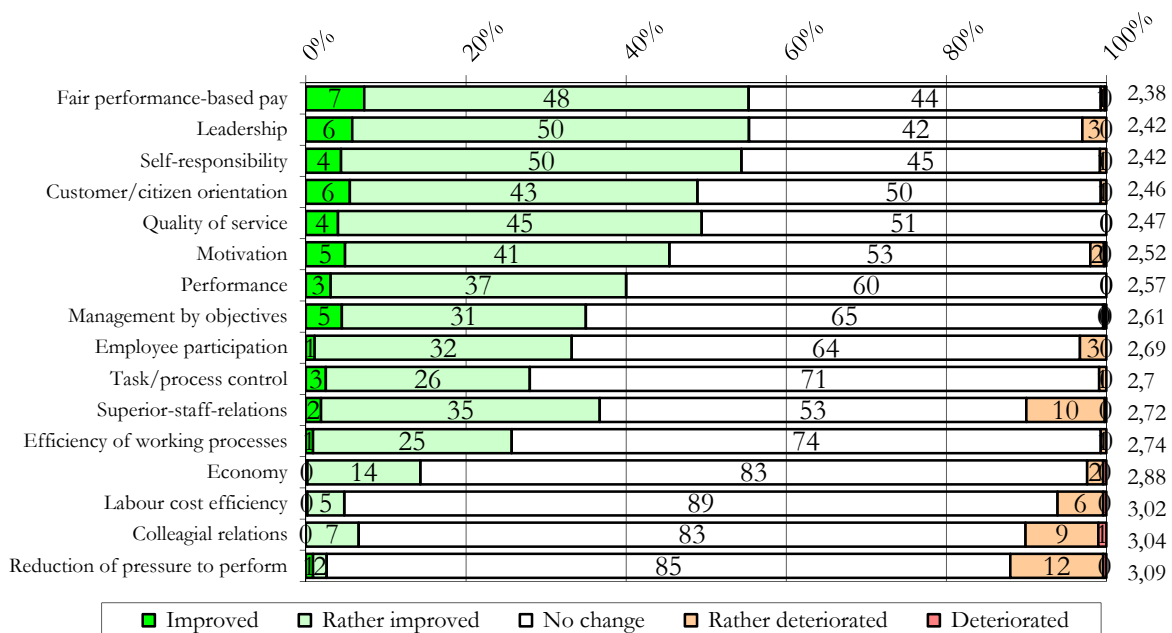


Figure 1 “What effects did the introduction of PRP have on the following issues?” (Employers’ view – EMP-survey, percentages and mean, sorted according to mean)

Municipalities using TA as a method of performance assessment report more positive effects than those applying SPA as indicated by employers', staff councils' and employees' data (Table 3). TA is not only superior concerning effects on performance and other organizational objectives, but unintended negative effects on social relations at the workplace, as has been criticized in particular by employees, are also less pronounced.

**TABLE 3 EFFECTS OF PRP BY ASSESSMENT METHOD** “WHAT EFFECTS DID THE INTRODUCTION OF PRP HAVE ON THE FOLLOWING ISSUES?” (EMP-, STC-, STAFF34-SURVEYS; MEAN OF A SCALE FROM 1 = “IMPROVED” TO 5 = “DETERIORATED”, SEM IN BRACKETS; SORTED BY EMPLOYERS’ MEAN FOR TA)

	Employers		Staff councils		Employees	
	SPA	TA	SPA	TA	SPA	TA
Management by targets	2.72 (.036)	2.10 (.119)	3.02 (.043)	2.48 (.087)		
Self-responsibility	2.48 (.039)	2.12 (.100)	2.82 (.039)	2.47 (.074)	2.78 (.016)	2.65 (.026)
Leadership	2.44 (.045)	2.28 (.111)	2.88 (.045)	2.76 (.070)	3.04 (.019)	2.91 (.026)
Fair performance-based pay	2.40 (.044)	2.31 (.107)	2.86 (.043)	2.81 (.069)	2.94 (.024)	2.82 (.033)
Customer/citizen orientation	2.49 (.041)	2.31 (.112)	2.76 (.033)	2.72 (.063)	2.86 (.014)	2.83 (.022)
Quality of service	2.49 (.038)	2.34 (.120)	2.81 (.034)	2.69 (.066)	2.85 (.014)	2.80 (.022)
Task/process control	2.77 (.033)	2.34 (.110)	2.91 (.025)	2.80 (.059)		
Performance	2.60 (.036)	2.39 (.117)	2.84 (.033)	2.88 (.051)		
Superior-staff-relations	2.77 (.046)	2.42 (.098)	3.12 (.048)	2.69 (.104)	3.28 (.020)	3.06 (.026)
Employee participation	2.74 (.038)	2.45 (.095)	2.94 (.040)	2.72 (.078)	3.06 (.018)	2.87 (.025)
Motivation	2.53 (.043)	2.47 (.117)	2.98 (.046)	2.89 (.068)	2.94 (.020)	2.84 (.029)
Efficiency of working processes	2.75 (.033)	2.71 (.081)	2.97 (.024)	2.91 (.052)	2.91 (.014)	2.85 (.024)
Economy	2.89 (.028)	2.82 (.078)	3.03 (.031)	2.85 (.060)	2.97 (.014)	2.96 (.025)
Collegial relations	3.05 (.029)	2.99 (.086)	3.28 (.038)	3.14 (.056)	3.43 (.018)	3.17 (.025)
Labour cost efficiency	3.01 (.025)	3.04 (.066)	3.04 (.025)	3.01 (.032)		
Reduction of pressure to perform	3.09 (.026)	3.12 (.111)	3.31 (.042)	3.37 (.088)	3.34 (.018)	3.36 (.029)
Co-determination regarding performance issues			3.01 (.040)	2.76 (.073)	3.07 (.018)	2.84 (.026)

Moreover, TA is expectedly superior with regard to employee representation. Although the reported positive effects of both assessment methods are weak, there is always a positive deviation in TA. Unsurprisingly, the most positive rating of TA was given for “*management by targets*” and “*self-responsibility*” which can be regarded as typical features of TA.

However, although the effects of TA are better rated, SPA is used more frequently. There are two possible explanations for this finding which at first glance is quite surprising.

First, some municipalities seem to deploy SPA because it allows official compliance with the national agreement and the VKA’s PRP-promoting position, while evading the effort and trouble which is feared to be the consequence of an effective PRP system. In these cases SPA is chosen not because of the local

actors' belief in its effectiveness but due to the possibility of practising PRP without noteworthy effects. If the performance of the vast majority of employees can be rated positive without much ado and discussion about performance, SPA can be used as another way of informally circumventing PRP.

The second and more important explanation is that many local actors, even those who aim at a serious and effective introduction of PRP, are convinced that SPA requires less effort and less expenditure of time and money than a system based on TA. At first glance this seems evident, because it is actually – as many interviewees state – not always easy “to find targets”. One argument is that it is impossible to define targets because in some jobs the particular tasks are prescribed so precisely by law that there is no further leeway in the work process. If this were the case indeed, PRP would be completely useless, no matter whether TA or SPA is applied. Actually, every job, even if standardized or highly regulated, leaves some leeway to carry out the work in different ways.

The problem is that without specifying tasks and performance criteria (i.e. defining targets), employees have to deal with a situation of uncertainty. If the organization eschews to properly define performance criteria, as is possible when SPA is applied, it is left to the employees to operationalize performance expectations and to draw conclusions as how to change their working behaviour in order to achieve a positive performance assessment. Employees can try to translate the results of their performance assessments into specified, forward-looking requirements (i.e. more or less concrete objectives).

However, it seems obvious that it is more difficult for an individual employee to set targets without the guidance of his or her superior: defining requirements which are in the eyes of the superior an adequate operationalization of organizational expectations and will be rated positively if achieved. Because most employees therefore will also refrain from the difficulties of operationalizing, a purposeful change of behaviour is not very likely. Under these circumstances it is not only difficult to adequately assess performance *ex post*, often criticized as a grave problem of PRP, but a lack of orientation will already obstruct efforts of employees from the very beginning.

The only orientation employees have without clear targets is that they should perform somehow better than the others. In these cases they cannot compare their assessments with their target attainment but only their own PRP assessment with their colleagues'. Consequently, employers often argue comprehensibly that only a minority of employees should get a bonus because otherwise the incentive effect will vanish. However, the less precisely employees know what they have to do for a better rating of their performance the more 'envy and rivalry' are encouraged.

Of employees whose performance has been evaluated with SPA, 45 per cent agree with the statement “PRP gave rise to envy and rivalry”, whereas in the case of TA only 22 per cent answer in the affirmative (STAFF34). When asked whether they received a full pay-out, a partial amount or no bonus at all, 77 per cent of the employees whose performance was assessed by TA and only 30 per cent of employees with SPA received a full bonus payment. TA and SPA work very differently. TAs allow bonuses to be distributed among many employees and thus to foster acceptance while being efficient nevertheless, because a target-actual comparison can be drawn. In the case of SPA a wide dispersion of bonuses is contradictory to increasing efficiency. The same applies to acceptance and functionality. TA is, by contrast, normally more efficient and more accepted. The findings show that assessment methods do matter and have to be taken into account when discussing the controversial question of the benefit of PRP in the public sector.

## **THE EMPLOYEES' ATTITUDE: SCEPTICISM AND AMBIVALENCE**

Although PRP is not very popular among employees, this does not mean that it is completely rejected. In fact, the majority of employees (86 per cent) support the statement “*Who works harder should earn more*” (Figure 2), which indicates their acceptance of a linkage between pay and achievement. Presumably, this figure would be even more pronounced if the question was asked in a more general context and not in a survey dealing with PRP which in its real existing version employees often dislike. Similarly noteworthy is that almost all respondents (98 per cent) agree with the statement “*I try to do good work with or without PRP*”. Both statements indicate that most employees identify with the achievement principle. Viewing themselves as being already dedicated to it, an incentive to stimulate compliance with the achievement principle is considered unnecessary. Thus, employees' attitudes towards PRP are rather contradictory because on the one hand, PRP is seen to represent the achievement principle and is hence considered appropriate, fair and legitimate. On the other hand, because employees see themselves already as performance oriented, performance assessments are regarded to be a waste of time and a signal of distrust. Poor performance ratings contradict most employees' self-perception and hence are often interpreted to be a consequence of unintended failures or a misuse of PRP, or of superiors' contempt.



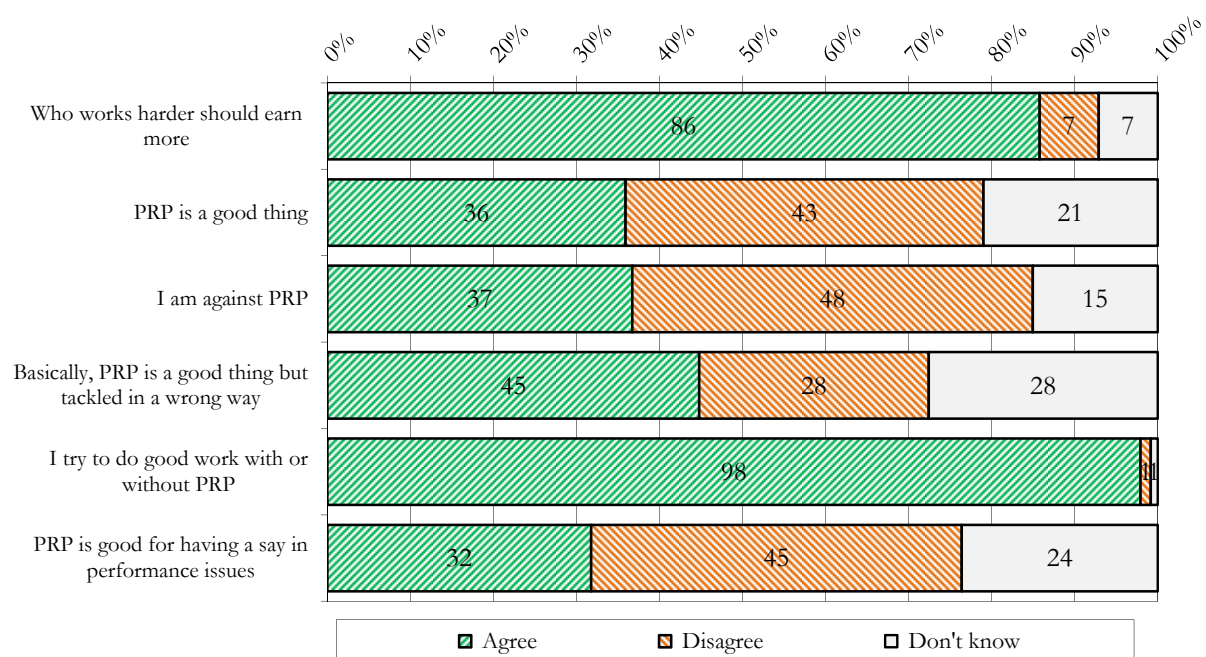


Figure 2 PRP and the principle of achievement “Do you agree with the following statements?” (Employees’ view – STAFF34, percentages)

If performance expectations are not sufficiently operationalized *ex ante* and consequently performance results are not properly measurable or are measured differently from the employees’ expectations, discontent is inevitable. Most employees experience performance assessment as a destabilization and partially a revocation of social recognition. At the beginning, when PRP was introduced, many employees regarded the “*initial budget*” as jeopardizing pay components that had been fixed until then. With a mounting budget, however, it is probable that a perception of PRP as ‘additional money’ will come to the fore. There should be little discontent with PRP from a perspective of employees’ material interest if: bonuses represent only a small proportion of wages and are paid on top of basic pay, performance expectations are transparent and achievable, and the criteria of performance assessment are specified *ex ante* and considered to be fair. However, if this is not the case, then employees will experience a loss of control over their working conditions and social recognition gets more uncertain (for an approach considering both interest and recognition cf. Voswinkel, 2012; Schmidt, 2005). Such problematic effects are more probable if SPA is applied. According to our employee surveys, only 28 per cent of the respondents with SPA are entirely of the opinion that their performance was appropriately assessed, compared with 65 per cent of those employees who concluded TAs.

One might assume that if TA is applied, not least because of its quality of assessment, its higher pay-out rate, its less negative impact on social relations and its relatively high acceptance among employees in comparison to SPA, this would have a positive impact on the respondents’ rating of PRP itself. However, their attitude towards PRP remains ambivalent: 36 per cent of all employees are in favour and 37 per cent against PRP (in case of TA: 39% and 37% respectively). The background of these differing views is primarily neither a consequence of applying TA or SPA, nor is it based on particular groups of workers; rather, it is caused by employees’ ambivalent attitude towards PRP in general.

## PRP AND PUBLIC SECTOR LABOUR RELATIONS

To comprehend the functionality and acceptance of PRP in German municipalities it is not only necessary to differentiate between SPA and TA but to take the broader context into consideration. In fact, the introduction of PRP occurred at a time when municipalities had cut down their staff and pressure of work had risen considerably. In our surveys, 88 per cent of both employers and staff councils report that pressure to perform for employees in recent years has increased, either heavily (40 and 61 per cent respective-

ly) or at least slightly (48 and 27 per cent respectively). The STAFF34 employee surveys confirm these findings, albeit only 73 per cent of the respondents state increased pressure to perform. It is hence questionable, even from an employers' point of view, whether in this context of already increased pressure of work it is reasonable to pursue a quantitative increase of performance as a goal of PRP.

Although we offered a long list of possible objectives (Figure 3), 12 per cent of employers that introduced PRP responded that they are pursuing no particular objectives. Although most employers understand PRP as an instrument for changing the terms of trade for labour as a commodity, many of them see neither the need nor the possibility to apply PRP in this way in public service. Often both actors, employers and works councils, agree on avoiding or circumventing PRP by insufficient practice. Where PRP is entirely avoided, which sometimes happens in a conflictive way, the practice of circumventing on the one hand is reminiscent of cooperative problem solving in the sense of Walton and McKersie's (1991) 'integrative bargaining', but on the other hand it is practised in a rather defensive, sometimes tacit manner, similar to Goffman's 'underlife' of a public institution (Goffman, 1961). In our case the public institution is represented by § 18 TVöD. In such cases the bargaining process leads to a result which we label 'feigned or poor PRP'.

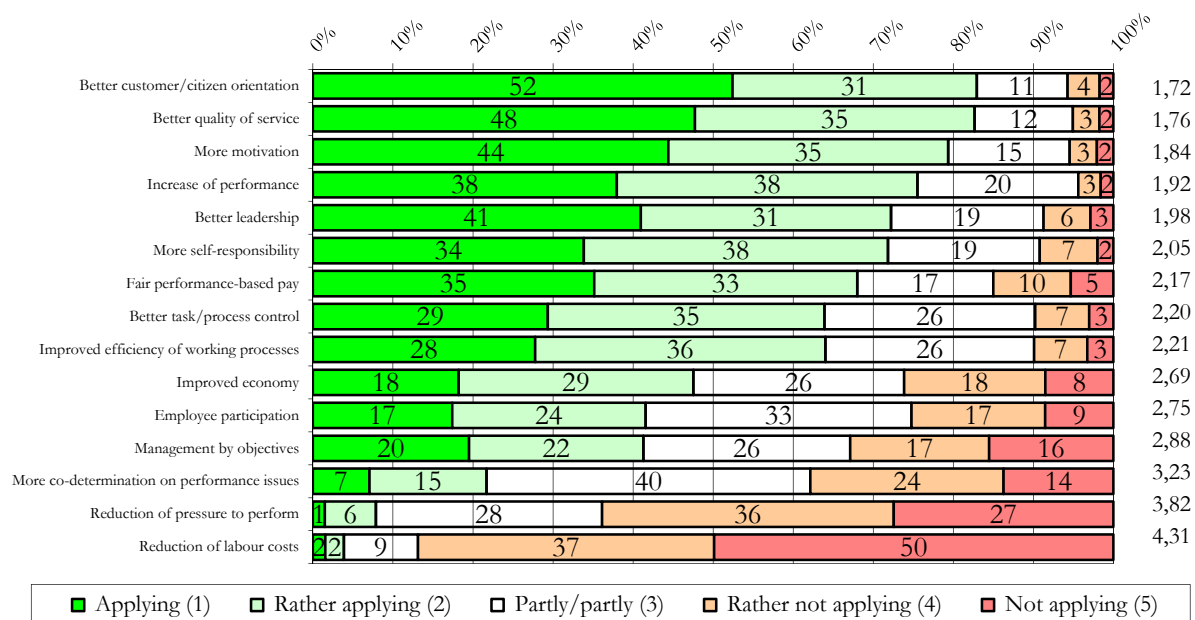


Figure 3 Employers' objectives with PRP "What particular objectives are you pursuing with the implementation of PRP?" (EMP-survey, percentages and mean, sorted according to mean)

In other cases, by contrast, the actors of workplace labour relations were intending to improve performance but without disadvantages for employees. Some of these cases aimed at improving communal services and citizen orientation, while extending individual employee participation (i.e. to give employees a say in their work and trying to use PRP as a measure for organizational steering). Although there are sometimes conflicts on the relative proportion of 'steering' and 'participation', the actors predominately define PRP as a 'positive-sum game'. This version of 'integrative bargaining' usually takes place in municipalities in which the actors have agreed on the application of TA.

A further group of employers and sometimes staff councils define PRP as an instrument to change the terms of trade of labour but not as something to be avoided in a process of 'integrative bargaining' as in the cases described above. Normally employers and staff councils renegotiate the terms of trade aiming at opposite directions, yet in some cases staff councils (often not organized in Verdi) agree with employers on incentives intended to increase achievement (Table 4).

**TABLE 4 PRP AND WORKPLACE LABOUR RELATIONS ('CASE+', PERCENTAGES)**

Type of Bar-gaining	Type of interaction	Preferred method	Resulting PRP type	Frequency (percentages)
integrative	cooperative	SPA	'feigned or poor'	approx. 20
	cooperative and conflicting	TA	'participative'	10 to 15
			'steering'	
	cooperative	none	'avoidance'	45
distributive	conflicting	SPA	'performance oriented'	20 to 25
	cooperative			

Although the national agreement gives staff councils a strong bargaining position for negotiating their respective local PRP system, some staff councils and employers cooperate on renegotiating the terms of trade of labour even to the disadvantage of the employees. But due to the tacit, passive bargaining power of public sector workers (caused by traditionally strong dismissal protection), employers (and staff councils) cannot ignore employees' concerns. Particularly in local systems which try to incentivise performance by means of a pre-determined and highly selective pattern of distribution, PRP usually suffers a lack of acceptance and thus tends to be unstable and ineffective. We therefore expect that in most cases the initial results of 'distributive bargaining on PRP' will persist only temporarily, and the variability of performance assessments and bonus payments as well as the impetus on performance will fade.

In the midterm we expect a minority of communities to have installed sufficiently functioning participative TA systems (or combinations of TA and SPA). A vast majority, however, presumably will operate PRP in a version similar to the 'feigned or poor'-type or continue to avoid PRP implementation. Moreover, about 55 per cent of municipalities apply PRP in a way interviewees have called the 'communism-principle': employees with the same assessment results receive the same amount of bonus, regardless of their pay grades. Consequently, employees with lower pay grades benefit compared to the former situation. Conversely, performance of employees with higher status is more likely to be assessed in a positive way than employees in lower ranks of the hierarchy ('hierarchy-effect'). Altogether the redistribution effects of PRP between employees of higher and lower status are weak or even in favour of employees with lower pay grades.

However, if PRP only has to be implemented as a cooperative and integrative project in accordance with employees and superiors in order to work relatively well and otherwise produces hardly any effects and pressure to perform, what are the problems with PRP besides 'transaction costs' for workplace labour relations?

Although the determination of pay in Germany is still highly centralized and the proportion of PRP is still small in comparison to other countries, the introduction of PRP implies a remarkable decentralization of pay determination in German municipalities. Formally the introduction of PRP corresponds with "organized decentralization" in the sense of Traxler (1995): the change remains under the control of central organizations and theoretically can be revised if necessary. However, the provision of PRP is not limited in time and a revision like an increase of the budget requires the approval of both negotiators. However, whereas the VKA is calling for a budget increase, this is out of the question for Verdi. And while in Verdi the abolishment of PRP is increasingly demanded, this is unacceptable for the VKA. It seems as if the national actors have actually lost their capability to control the regulation of PRP.

The fundamental problem is not the deficient implementation of PRP, but that collective actors have transferred power from the national level to local actors who have, however, difficulties in using it. Whereas employers and staff councils at large are unable to install functioning PRP systems, the national actors seem hardly able to change or abolish it. Eventually, PRP undermines the national agreement locally in a highly cooperative way and often the real practice depends on individual superiors' willingness to apply PRP. The introduction of PRP seems to replace bilateral as well as unilateral governance with a tendency of fragmentation and loss of control. In the midterm it is not a shift of power between the employers and employees that is the problem but a general loss of agency. Lamentations about a lack of lead-

ership in municipalities are legion among representatives of VKA. Concerning PRP, however, the VKA itself is in part responsible for this situation because it asserted its introduction without being backed by a clear majority of municipalities and neither sufficiently explained the intention of the TVöD provisions on PRP nor gave clear orientation and sufficient practical support for the implementation of PRP. These shortcomings derived partially from a lack of resources and partially from the fact that regional employers' associations themselves showed a lack of a clear orientation regarding the goals to be pursued with PRP.

However, not only the PRP politics of VKA can be characterized by a lack of clearness and strategy. While quite a few staff councils had agreed on the introduction of PRP, within Verdi the rejection of PRP increased and many representatives want to abolish PRP. This resulted in a predicament for Verdi because on the one hand the claim of many full time and lay officers to abolish PRP spoke against the development of their own implementation strategy, whereas on the other hand staff councils engaged in negotiating PRP agreements had insufficient support. Without a clear orientation the trade union's small resources for supporting staff councils' activities had little effect on the development of PRP. With a clear strategy Verdi could have supported the establishment of a more participative version of PRP. If Verdi succeeds in removing the PRP article from the TVöD, the way the union handles PRP will be regarded as a successful strategy, whereas otherwise one could say that an opportunity for shaping a more participatory work reality has been wasted.

Decentralization impairs the function of relief which the national agreement has for the local actors. As a result, 'transaction costs' increase not only for employers and staff councils but also for employers' associations and trade unions. Whereas employers bartered additional 'transaction costs' for a perhaps slightly increased right to manage, PRP brought advantages and disadvantages on behalf of employees as well. On the one hand, decentralization reduces the function of relief; on the other hand, staff councils gained a new issue of co-determination and the joint PRP committee as a new arena of bargaining. Appraisal interviews may offer employees a possibility to elucidate their own concerns. In the case of TA this is related to some influence for employees, hence the small reduction of institutionalized union power resulting from decentralization could be compensated by an empowerment of employees on site and additional trade union power based on an active membership.

## CONCLUSIONS

We examined PRP in German municipalities and asked for the frequency of implementation, the applied assessment methods as well as for the functionality and acceptance of the new instrument. We have found that municipalities often avoid or circumvent PRP. SPA is used more often than TA. On average, PRP yields only weak effects. As most economic literature states, monetary incentives function if performance criteria are sufficiently transparent – a condition which in the practical implementation of PRP is normally only fulfilled if TA is applied. Because most employees see themselves as followers of the achievement principle they experience the assessment of their performance and particularly a negative rating as a withdrawal of social recognition. Whether PRP leads to more fairness is difficult to decide, with respect to improvements of the working atmosphere and an increase of 'intrinsic motivation' it rather seems to fail.

Although it has to be emphasized that an erosion of 'intrinsic motivation' is not primarily a consequence of bonuses but rather of the assessment process and of the disappointment that arises if an employee does not receive any bonus payment, often 'envy and rivalry' is seen as a result of PRP. However, because of employees' 'passive bargaining power' those PRP systems which operate without employee participation mostly fail, often they simply show only weak positive as well as negative effects.

In public services a classical, unilateral incentive system is not an efficient mechanism to boost performance. Poor effects are bought dearly by appreciable 'transaction costs' and discontent. Neither is PRP an instrument that can be used for austerity policy because there are tensions between attempts to modernize and to economize public services.

However, in a context of a cooperative approach, including co-determination, employee participation, and joint consultation of superiors and employees on work and performance, PRP can work relatively well. A connection of functionality with TA is evident. Research on PRP should always take the impact of different assessment methods into account. It would be premature, however, to assume that the deficient situation could be resolved either by removing PRP or by prescribing TA for all municipalities combined with better support by VKA and trade unions. It is doubtful whether the situation can be changed fundamentally after the horse has bolted.

Although assessment methods do matter, the pivotal obstacles to a substantial alteration of the unsatisfying situation are not due to the design of PRP systems but to the overall bargaining constellation *ex*

*ante* and *ex post* the conclusion of the TVöD. The VKA pushed through PRP not only against Verdi but it also ignored the lack of interest and scepticism of many municipal employers. Meanwhile, although they had made a certain effort, numerous municipalities experienced weak, missing and sometimes failing effects of PRP and had to endure the discontent of their employees. Against the background of public debt and the debt brake prescribed by law it is not only municipal treasurers who might develop little interest in an increase of the PRP budget. An altered approach towards PRP or a complete new start of the PRP project on the employers' side is rather unlikely. Moreover, it does not seem that the VKA are taking adequate steps towards an open dialogue with municipalities. Not only unwelcome results and the risk of losing face seem to pose a problem for the VKA, but a lack of clarity about their own intentions hinders a change in their course of action with respect to PRP.

Due to these circumstances it seems unlikely that Verdi will be able to convince the VKA to abolish PRP. A positive reevaluation of PRP by Verdi, by contrast, is not only very difficult because of the negative attitudes towards the instrument which have developed over recent years, but it would only be justified if the VKA was both willing and capable to promote a participative version of PRP. The current unproductive situation will probably persist.

Besides a sensibility for assessment methods, further research on PRP in public services should take into account that functionality and acceptance depend on the organizational environment and the objectives pursued by external as well as internal actors. At least in the German case the key issue is to be found in individual employee and collective labour relations: the interaction between employee and superior, staff council and single employer, trade union and employers' association decides upon performance and reward. Without recognizing this, an alternative to the current misery is rather unlikely.

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