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#### CONTEMPORARY ISSUES IN PUBLIC POLICY AND ADMINISTRATIVE ORGANISATION IN SOUTH EAST EUROPE

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## PREFACE

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This book, *Contemporary Issues in Public Policy and Administrative Organisation in South East Europe*, contains selection of papers presented at the Second International Symposium on the Development of Public Administration in South East Europe, which was held in June 2008 at the Faculty of Administration, University of Ljubljana. The symposium is one of the rare events discussing and focusing on the development of public administration in the area, which has been going through difficult social, economic and political transformations in recent decades. The book includes some of the most interesting, useful and contemporary readings about public administration and policy issues, which are currently plaguing countries of South East Europe. As should be noted, the region of South East Europe consists of countries with very different historical, cultural, political and economic backgrounds, which are still reflecting in today's administrative differences among those countries. In particular, the positive experience of several countries of the regions, which succeeded in joining European and North Atlantic economic and political integrations should be very useful to those countries of the region still struggling to achieve those goals – administrative and policy issues are one of the most important aspects for successful economic and political integration as they provide the backbone for implementation of required conditions.

Basically, the volume focuses on specific issues, which can be grouped in three different topics, all together including fifteen papers. The first part, entitled Issues in Public Policy Analysis, provides an insight into several dilemmas of public policy formation, such as the issue of optimal taxation, quality of tax regulation and administration, welfare state reform, privatisation of higher education and public sector performance measurement.

**CIVIL SERVICE PAY REFORM IN SOUTHEAST EUROPE:  
CREATING INCENTIVES FOR PERFORMANCE?**

*Aleksandra Rabrenovic*

**1 INTRODUCTION**

The reform of civil service pay has in recent years emerged as one of the most important issues in the development of civil service systems in the region. Inadequate remuneration levels for civil servants have brought about significant brain drain from the civil service of many SEE countries, whose Governments have recognized the need for in depth reform of the civil service system in order to be able to recruit and retain staff of the right quality and to motivate them to produce the highest quality results. It is important to note that pay system reform constitutes an important segment of comprehensive public administration reforms which took place in SEE countries over the past decade. Most SEEs now have adopted civil service legislation and progress is being made with the actual implementation of these laws, including creation of civil service management structures, such as Civil Service Agencies/Departments, which successfully operate in most countries in the region (Verheijen, Rabrenovic 2007). The establishment of civil service management structures has brought about centralized recruitment procedures which have, in most countries, improved fairness of recruitment practices and career progression.

Civil service pay reform, as part of the PAR package, has proved to be a highly complex and difficult element of the civil service reform. In most SEE countries, the Governments have, with substantive donors assistance, supported analytical background work on civil service pay, which would usually show a number of weaknesses in existing pay practices (lack of transparency, comprehensiveness, uniformity) and a lack of pay competitiveness with the private sector (DFID, World Bank 2004; DFID 2004; World Bank 2006c). The pay reform itself, however, has proved to be a highly difficult task, primarily due to firm fiscal constraints which all the countries in the region face. In order to create better incentives for civil servants, wage reform entails additional budget costs, which are very difficult to be allowed in countries which already have a high public sector wage bill in relation to GDP (Reid, Orac 2007).

The paper shall analyze the attempts at reforming the civil service remuneration system in SEE countries that have taken place in the last couple of years, mainly under the influence of the EU accession process and involvement of bilateral and multilateral donors, such as UK Department of International Development and the World Bank. It should also be pointed out that the civil service pay system represents one of the areas which fall under the annual assessment of the EU Commission in its regular reports on SEEs progress towards the EU membership. This gives additional importance to the civil service pay and initiates a discussion of what the European values in civil service pay and grading are.

Although there are no formally established rules of what constitutes European principles on civil service (or public sector) pay, there are certainly a number of principles which are considered to represent good European practice in civil service pay. Before getting into deeper analysis of the SEE civil service pay systems, we shall elaborate European principles of civil service pay, with a special reference to a rather controversial issue of performance related pay. This shall be followed by a background analysis of civil service pay systems in SEE countries and assessment of the progress with civil service pay reform and analysis of future reform challenges. Special attention shall be paid to civil service pay reform efforts undertaken in Serbia, Montenegro, Albania, Bosnia and Herzegovina, Macedonia and Moldova.

**2 EUROPEAN CIVIL SERVICE PAY SYSTEMS: TOWARDS UNIFIED PAY STANDARDS**

The first underlying issue for discussion when the civil service pay systems are in question is the structure of the civil service system itself, i.e. whether it is career- or position-based, or a mixture of both. Both the classic position-based system and the career-based system have inherent strengths and weaknesses and have different impacts on incentives and design of the pay system.

In career-based systems, promotion and pay are based on a system of grades attached to the individual rather than to a specific position. Civil servants are hired at the very beginning of their career and are expected to remain in the public sector more or less throughout their working life (Pusic 1973). There exists a separation between the grade, which is acquired with time in the civil service, and the specific post. Pay is linked to the acquired grade rather to the position, i.e. level of complexity and responsibility of tasks to be carried out in a specific position. In this system there is a strong emphasis on career and personal development. Linking pay with grade instead of position also reduces possibilities of unfair management and

patronage. However, in this system much less importance is placed on individual performance and accountability (OECD 2004b).

In position-based systems promotion and pay are linked to positions and jobs rather than length of service. There are weaker guarantees of lifelong career in the civil service. The focus is, instead, on selecting the best-suited candidate for each position, whether by external recruitment or internal promotion or mobility. For this reason, position-based systems allow a more open access and lateral entry is relatively common. Fairness of the system is ensured by open and competitive processes for each position and a strong focus on individual performance assessment. The downside of the system is that, in case when human resource management processes are not transparent and objective, possibilities for patronage in recruitment and promotion are enhanced (OECD 2004b). Furthermore, since civil servants can be promoted only if there is an available vacancy, opportunities for career development are limited.

Career development in the public sector is traditionally based on seniority in many countries. However, the trend is moving towards position-based systems with increased emphasis on performance, merit and skills. One of the reasons for such a trend is the fact that a number of OECD countries have experienced a high turnover of staff over the past decade, facing problems of attracting and retaining high-qualified staff (OECD 2001). The perception of the public is that, unlike in the private sector where individual performance is highly valued, civil service is characterized by slow career advancement, whereby seniority is more important than individual merit (OECD 2001). The conducted research has shown that an opportunity to be given more challenging tasks and to be promoted by one's own achievements may play a far more important role in recruitment and retention than the seniority system (UN Department of Economic and Social Affairs 2005).

Given that a number of European countries are turning towards position-based systems, the principle of "equal pay for equal work" is becoming a key pillar of the European civil service pay philosophy. Simply put, "equal pay for equal work" assumes the existence of a common grade and pay structure across the civil service. The grade of a job is decided by means of a job evaluation system that allocates jobs to grades on the basis of an assessment of relative job outputs, accountability, knowledge and required skills, management responsibility, the extent and nature of contacts inside and outside the department etc (DFID, World Bank 2004). The establishment of a common structure and common pay levels facilitates the movement of people between ministries and agencies and fosters a corporate civil

service identity (DAI 2006). There are, however, some exceptions to this rule. For example, higher pay levels are sometimes provided for specific jobs which are at a premium in the market, e.g. high-level IT or financial skills. Such pay levels are regarded as exceptional, require specific justification, and are subject to regular reviews (DFID, World Bank 2004).

Another key European principle in setting civil service pay is transparency. Transparency denotes the ease with which civil servants and members of the public can see how the pay system is constructed and how civil servants are paid for their contribution compared to others. The level of transparency is generally measured in terms of the ratio between the base pay and real pay. In most advanced European systems, this ratio stands at around 90%. This means that the basic pay is the main element of total pay, typically forming at least 80-90% of total pay. This means that the number of pay allowances or bonuses should be minimal (forming the remaining 10-20% of pay). Benefits in kind (e.g. housing, cars, and mobile phones) are also quite rare. Benefit schemes are regarded as expensive to administer and potentially divisive, i.e. some people get greater value from the benefits than others for whom the benefits may not be relevant (DFID, World Bank 2004).

Competitiveness of civil service salaries is becoming an increasingly important principle for European civil service systems, which have been fighting a fierce battle with the private sector to attract and retain highly qualified and talented staff (OECD 2004a). The levels of civil servants' salaries in most European countries are reasonably in line with market pay levels, although they are somewhat lower than in the private sector. In order to be able to attract and retain qualified staff, civil service systems have to reward their staff competitively. In this way, the tendency of staff to seek illegal ways of supplementing their income is also reduced. However, it should also be noted that total pay levels in the civil service are normally lower than for comparable jobs in the private sector, typically 80% - 90% of private sector pay levels (OECD 2006). This somewhat lower compensation of civil servants is usually compensated by greater job security than in the private sector.

A reasonable compression ratio, as the difference between the lowest and highest civil service salary, is another important benchmark of effective civil service pay system. The compression ratio should not be either extreme or too small – which is the more typical problem in a public administration. A ratio from 1:7 to 1:12 would be deemed to offer a good career path in a professional civil service (DFID, World Bank 2004). If the civil service is to attract the very best civil servants into the

leading and high levels, then it may be legitimate to have higher compression ratios as a transitional measure as the economy develops.

And finally, the principle of fiscal sustainability is highly important for successful civil service pay reform. The wage bill must be affordable within public sector budget ceilings. It must also be sustainable into the future, and must not have a detrimental effect on pay in other areas of the public sector (Reid, Orac 2007).

### 3 PERFORMANCE-RELATED PAY – A CONTROVERSIAL STANDARD?

The issue of performance-related pay has attracted huge attention both in OECD and transitional countries, including countries of South and East Europe. The adoption of performance-related pay in the public sector reflects the influence of the private sector culture of incentives and individual accountability on public administration. Examination of the historical development of performance-related pay shows the logical expectations that position-based systems, which grant a higher degree of delegation to managers, were the first to widely introduce performance-related pay. However, it is noticeable that some career-based systems like those in France and in the Czech Republic have also recently introduced performance-related pay schemes to some extent. This constitutes quite a radical change in these civil services which are traditionally oriented to collectivism and based on promotion (OECD 2005). SEE countries, as we shall see in more detail later, have also started to introduce some elements of performance-related pay.

Although improved staff motivation was one of the main reasons for introducing performance-related pay, research conducted in the US and Europe has indicated that the impact of performance-related pay on motivation is highly controversial. Performance-related pay schemes by their very nature reward a small percentage of employees, with the risk then being that the remaining majority experience some demotivation, especially if the process of awarding pay bonuses is not perceived as credible and fair (World Bank 2003). Civil servants often stress that non-performance factors influence performance ratings and subsequent pay decisions, due to the inherently subjective nature of the performance appraisal process. Some studies conducted in the US found that introduction of pay for performance eroded trust between employees and supervisors and led to decreased organizational commitment and heightened levels of alienation on the part of numerous employees (Rainey, Kellough 2000). In the similar vain, research carried out in the United Kingdom concluded that the existing performance-related pay schemes, which were mostly based on individual reward for individual performance, had failed to

motivate staff to perform, leaving many employees disappointed with the system (Makinson 2000). Many studies and staff surveys indicate that it is not performance-related pay that motivates, but a satisfying job content and career development prospects have been found to be the best incentives for public employees (OECD 2005). Economic theorists also emphasize that human motivation cannot be restricted to monetary incentives and that intrinsic motivation is of great importance for all human activities (Frey 2000).

Despite such fierce critics, and perhaps paradoxically, pay for performance policies continue to be introduced on a large scale in many OECD member countries and are continuing to be implemented in transitional countries as well. The reasons for this should perhaps be sought not in performance-related pay as an isolated phenomenon, but in broader management and organizational changes which are triggered by the introduction of pay-for-performance schemes. These changes include effective appraisal and goal setting processes, clarification of tasks, acquisition of skills, creation of improved employee-manager dialogue, more team work and increased flexibility in work performance, which all together has a positive effect on organizational management (OECD 2005). Furthermore, in order to overcome difficulties with individual pay-for-performance systems, some countries (Finland, Germany, Korea and the United Kingdom for instance), are switching to team performance pay systems, which have shown to have beneficial effects (The World Bank 2003).

The lesson to be learned from the OECD countries' experience is that the transition to performance pay systems is not easy, as it implies much deeper changes in organizational and cultural values. A number of studies have indicated that pay for performance requires high levels of organizational trust, based on common or shared values and objectives between executives and employees and consensus about measures of both individual and organizational success, where the ability to link individual performance to organizational goals is strong (Ingraham 1993; OECD 2005). In such an environment the focus is on a continuous dialogue between executives and civil servants, information sharing, negotiation, mutual respect and transparency (OECD 2005). It is also suggested that performance-related pay requires a mature and well-established civil service culture and a stable political and policy environment (OECD 2005). This, of course, questions the effects that pay-for-performance schemes may have in South and East European countries, as shall be discussed in the course of the ensuing analysis.

#### 4 CIVIL SERVICE PAY SYSTEMS IN SEE COUNTRIES: BACKGROUND OF REFORM

Most South and East European countries traditionally have career-based civil service models. This, as explained earlier, means that gradual career development/salary increments are based primarily on education qualifications and 'years of service'.

Although the principle of seniority is very much present in most continental European career systems, it has proved to have an adverse effect on the development of civil service systems in South and Eastern Europe. There are a couple of reasons for that: 1) a gradual career/wage growth principle creates strong disincentives for young staff to remain in the civil service, who stay for 2-3 years to gain experience and then go to the private sector, which has much better opportunities for career advancement and more competitive pay levels; 2) there tends to be a large number of end-career officials, whose salaries are significantly higher due to years in service increments; 3) there is a lack of qualified upper-level professionals and middle-level managers (so-called 'missing middle') who should be the leading force in carrying out professional public administration duties and tasks. Bearing in mind the transitional environment of SEEs countries with rapidly growing private sector opportunities for work, there was a clear need for reforming the public sector pay systems in order to be able to attract and retain talented and qualified personnel.

Another serious problem is a high degree of fragmentation in SEEs civil service pay systems, which allows some institutions to have higher pay levels than the rest of the civil service and has an adverse effect on morale of civil servants working in other institutions with lower pay. For example, in Macedonia, special laws, complemented by the General Labour Code, regulate the status (including pay) of specific corps of civil servants, e.g. customs, tax and police, which have higher levels of pay in relation to civil servants working in other institutions (SIGMA 2006). Decentralized, more advantageous pay regimes for tax, customs and police officials could also be found in Serbia before the pay reform conducted in 2006. Although decentralized pay systems do exist in many OECD countries, this phenomenon is considered problematic in transitional countries for a couple of reasons. First, in case when special laws substituting General Labour Code provisions regulate the work relationship and conditions, too much scope is left for discretionary rights to heads of institutions. Second, differences in pay between civil service institutions have a negative effect on the work motivation of civil servants in other institutions, who are naturally inclined to look for a job in the institutions with higher pay levels for performing the same job.

Finally, there is no rationale as to why civil servants who are performing tasks of similar levels of responsibility and complexity should receive higher pay in some civil service institutions than in others.

In many SEEs there are also large pay variations among positions with the same title throughout the civil service under the unified legal framework. For example, an analysis of the classification of some common job titles in Moldovan civil service revealed that similar positions in civil service (heads of divisions, deputy heads of divisions) are typically categorized differently (in ranks 2 or 3 or 1 and 2), indicating different pay levels (World Bank 2006c). This lack of consistency between job content and its hierarchy leads to the distortions of pay levels across the administration and distortion of the principle of equal pay for equal work. A similar situation could be found in Bosnia and Herzegovina at all three levels. A review of the state's payroll data for April 2005 showed that there were significant differences in salaries for the same positions across positions that cannot be explained by the salary and allowance structure (DFID 2005). For example, there was around a 70% difference in salaries for "head of department" within the newly created agencies. Given that all civil servants fall under the unified legal framework, these wide differences are very likely to reflect some degree of favouritism or poor payroll procedures and controls.

In addition, uneven salary levels for similar types of positions can be attributed to an elaborate system of allowances and discretionary payments, which constitute a large proportion of pay and therefore imply significant managerial discretion in assigning them to individual staff. The higher the number of allowances, the greater the complexity and inefficiency of administering the system, and the less the transparency to an external observer. For example, in Romania, civil service trade unions claim that approximately 50% of a salary is made up of discretionary supplements (DAI 2006), which significantly decreases the transparency of the system and creates space for discretionary payments. In Moldova, the percentage of discretionary supplements was even higher, but after adoption of the new Public Sector Pay Law in 2005, situation has somewhat improved raising basic pay levels to around 50% of total pay, which is still very high in comparison to the European standard ratio between the base and full pay of 80-90 percent (World Bank 2007).

A large majority of SEE states use a separate 'years of service' allowance, which gives a disproportionate weight to a person's length of service in determining total pay and discourages performance. Years of service allowances can in some instances add up to 35% to overall pay.<sup>1</sup> Although length of service is a legitimate factor in pay awards, and many governments give automatic annual increases, in SEEs transitional environments seniority increases have proved to have an adverse effect on staff motivation, particularly on young personnel. As the years of service make a big difference in the total pay they discourage young personnel from joining and staying in the civil service, due to uncompetitive salary levels, and also discourage performance. Other allowances are usually added for meals, transport, holidays, academic degrees, work under difficult conditions and other, more incidental, allowances. There are other allowances, such as those for temporary duties and for work in various committees that are awarded selectively to a few individuals and are open to possible abuse.

Most SEEs civil service pay systems have a low compression ratio, which is reflected in little difference in total net pay between grades, constituting a significant impediment for performance. Low compression ratios discourage staff from taking on higher-level responsibilities and therefore negatively impact the quality of the civil service. For example, in Bosnia and Herzegovina, before initiation of reforms in 2008, a person who entered the civil service in the rank of associate could expect her net base pay to rise by no more than 20 percent after three promotions. Hence, strong performers had little incentive to take on additional responsibilities. Whereas, as we could see earlier, overall compression ratios in European countries can go up to 1:7 and even 1:11, in SEE states, ratios of around 1:3 or 1:4 are no exception. Moldova is an interesting case where the compression ratio, calculated by dividing the highest levels of pay by the lowest, is around 1:8.8. However, a more in-depth analysis has shown that among 85% of the civil servants the decompression ratio is only 1:2.5 (World Bank 2007). This shows that managerial positions, which are usually occupied by politically affiliated personnel, have significantly higher pay rates than the majority of career civil servants, which provides weak incentives to the civil service career. The high level of politicization of top levels and the lack of career growth thus constitute major obstacles to attracting and retaining highly-skilled staff in(to) the public sector.

<sup>1</sup> In Serbia, the maximum ratio of years in service increment in total pay is 16 percent, in Bosnia and Herzegovina and Croatia 20 percent, while in Montenegro it can go up to 35 percent.

Performance-based elements, which have traditionally been absent from the civil service pay systems in SEEs, have started to be introduced with mixed results. The main problem with the introduction of performance appraisal is that managers often exercise significant discretion in awarding bonuses, which are not based on a formal performance appraisal system and broader performance management framework, as shall be discussed in more depth in the following section.

## **5 ONGOING REFORM PROCESSES: MAIN ACHIEVEMENTS AND CHALLENGES**

Over the last decade, a number of SEEs have undertaken important reforms in civil service pay. The reforms in most SEEs have concentrated on shifting from career-based to position-based systems, through linking the pay grades to content of the job (taking into account complexity, responsibility etc.); reducing the number of allowances and thus increasing the base pay to real pay ratio to up to 80 percent or more; decompression of the pay structure (coupled with depoliticisation); and introduction of a performance appraisal system as a basis for career development and pay progression.

It is interesting to note that in a number of countries the traditional career-based system has been reformed through introduction of principles of position-based systems, such as the equal pay for equal work and performance appraisal. The most visible reforms were carried out in Macedonia, Serbia and Albania, in which pay grades were clearly linked with the content of the job (degree of complexity, responsibility, independence etc.). Croatia and Bosnia and Herzegovina have also embraced position-based models in their legislation, but their implementation has not been entirely finalized. Similar efforts to introduce a position-based system are going on in Moldova. The most advanced reformers, Macedonia and Serbia, have designed job classification methodologies, whose implementation assumed the development of detailed job descriptions for each civil service post. In Macedonia, linking the job complexity with pay was done through introduction of the position supplement, which rewards each position relative to the nature and scope of work, complexity and responsibility for carrying out the work (SIGMA 2006). Albania has also introduced a position-based civil service system, linking pay grades to the nature of job performed.

Macedonia and Serbia have gone one step further by introducing performance-related pay through merit-based increments. In order to overcome weaknesses of position-based systems in which civil servants can be promoted only if there is an



available vacancy, horizontal progression has been enabled based on years in service and performance. In Macedonia, there are four “horizontal career steps” (A, B, C and D) for each position, which may be acquired after completion of three years of service in the same position, entailing a career supplement of 5%, 10%, 15% and 20% of the position supplement, respectively. Performance-related pay elements have been introduced by enabling civil servants to be promoted one year earlier when they get an “outstanding” performance assessment mark for two consecutive years.<sup>2</sup> In Serbia, a unified wage grid was introduced with 8 horizontal steps based on 5-percent salary increases, which should enable civil servants to have salary increases based on their experience and annual performance appraisal marks. Thus, for example, a civil servant who gets exceptional performance appraisal marks for two consecutive years would be able to progress by two steps in the horizontal line and thus get a 10-percent increase of salary. A civil servant whose performance was assessed as “exceptional” or “exceptional” and as “excellent” for two consecutive years, irrespective of the sequence of the assessments, is promoted for one pay step etc.

Whereas it is too early to assess the implementation of the Serbian reforms, the Macedonian experience shows that the introduction of a “pure” position-based system with restricted horizontal progression (only 4 steps) may bring about serious difficulties in the operation of transitional civil service systems. The position-based system has been criticized for a lack of flexibility, limited opportunities for career progression and increasing patronage in the recruitment and promotion process (Analytica 2007). An absence of managerial skills to implement modern human resource management practices, such as the performance appraisal process and career planning, has also been reported as an important obstacle to reform. The weak capacity of the Civil Service Agency and human resource management units in individual institutions and the lack of comprehensive training on HRM issues have further exacerbated the situation (Analytica 2007). Finally, the budgetary constraints on implementation of the full package of the pay and benefit system were recognized as another downside of the reform process, which significantly decreased civil servants’ motivation (Analytica 2007). In order to overcome the existing challenges, many voices have been raised for re-introduction of the career system model or introduction of other models which would improve possibilities for career advancement, such as fast-track promotion schemes etc.

<sup>2</sup> In contrast, whenever assessed with an “unsatisfactory” mark, the civil servant is “demoted” to a lower career development step and receives a lower career supplement until the next annual performance assessment.

Similar problems, related to insufficient management capacities, are being experienced with gradual introduction of performance appraisal in the majority of SEE countries. The most common challenge with the introduction of the performance appraisal system is that a high proportion of staff is usually awarded the highest performance marks, which significantly reduces effectiveness of performance appraisal. This problem has been experienced in the majority of those countries, including Montenegro, Serbia, Croatia, Bosnia and Herzegovina, and Albania, where, for example, a high proportion of staff (94 percent) is currently rated in the top 2 performance categories. In order to address this issue, a number of countries have introduced a programme covering performance appraisal in their standard training programmes. In the mid to long term, SEEs should consider a more comprehensive approach to performance management linked to government’s and organizational objectives, which would facilitate the creation of an ‘appropriate environment’ for carrying out individual performance assessments.

On the positive side, most SEE countries have significantly increased transparency of their pay systems through rationalization of the number of allowances and thus increasing the base pay to real pay ratio. The Law on Salaries adopted in Montenegro in 2004, for instance, has reduced the number of categories of allowances to 2-3 essential ones, including the ‘years of service’ allowance and ‘work in the field’ allowance. In Serbia, almost all allowances, except again the ‘years of service’ allowance, have been integrated in the base pay. Management allowances were integrated in the job classification and grading, and bonuses which had been paid quarterly without a proper performance appraisal system were also abolished. It is further interesting that overtime hours are not any longer paid through monetary allowance, but provide a basis for taking days off. Only if the amount of overtime work is excessive, it could provide an exceptional basis for monetary allowance. This provision refers only to career civil servants while managers are not entitled to any overtime allowances. Albania has also rationalized the pay system, by abolishing the management allowance (in 2006) and the allowance for scientific qualification (master or PhD – in 2000), although, interestingly, re-introduction of allowances for scientific degrees is being considered. Croatia also introduced some rationalization of allowances under the 2001 Law on Salaries. However, due to entitlements under the Labour Code reflected in the Civil Service employment conditions civil servants still obtain a large number of additional allowances that make up a significant element of pay.



Although there is a visible trend to rationalize the wage system, it has been very difficult to abolish the most generous 'years of service' allowance, which may be detrimental to motivation and performance, and also costly in budgetary terms. The reason for this is that 'years in service' allowance is very often granted to all employees by the Labour Code provisions. Therefore, it is obvious that integration of years in service allowance in the base pay cannot be done only in one segment of the pay system, such as the civil service pay, but would need to be seriously discussed on a broader scale with the authorities responsible for both public and private sector pay.

Another interesting (and perhaps expected) feature of fairly rationalized civil service pay systems is that the remaining allowances tend to be interpreted fairly broadly, in order to get around the established rationalized pay systems. In Albania, for example, it was noticed that 'job difficulty' allowance, which was kept as one of the few allowances in the pay system, was applied far beyond the standards laid down by the Government regulation<sup>3</sup>. In Montenegro, extensive use of the 'difficult working conditions' allowance, which was introduced by amendments to the Civil Service Law in January 2008, has been the subject of a fierce debate and a review by the Constitutional Court.<sup>4</sup> In Serbia also, one of the remaining allowances, i.e. that for work on a stand-by basis ('u pripravnosti'), was started to be applied to a number of employees who did not have to be called on duty after working hours, which is an obvious misuse of the newly established system. These experiences show that it is fairly difficult to abolish the system of allowances, both via a regulatory framework and in practice and that there is an obvious need for firm control of the payroll process.

As regards the decompression of the civil service systems, important progress can be noticed, especially in Serbia, Croatia and Bosnia and Herzegovina. The compression ratio of 1:9 was introduced in Serbia after the civil service pay reform of 2007 and in Bosnia and Herzegovina in 2008, which has made senior civil service positions much more attractive. A decompression of the system, however, has also had a negative effect to lower paid positions, which struggle to make ends meet and have a strong support from labour unions for an increase in their salaries.

<sup>3</sup> Cited according to the document: Analysis, Policies and Budget Programming Directorate, Albania: Report on the Budget Request Analysis for the year 2008

<sup>4</sup> The Administrative Court of Montenegro has initiated a procedure for a review of legality of the amendments to the Civil Servants' and State Employees' Salaries Law, by which the salaries of a number of officials and senior civil servants could be increased by 30% on the basis of the allowance of 'difficult working conditions'. Review request No. IV-14/08, Podgorica, 22.01.2008.

Therefore, a phased introduction of decompression measures, which is being attempted in Macedonia and Montenegro,<sup>5</sup> seems to be a good way to go forward.

A proof that decompression of the civil service pay systems can be a "double edge sword" is also the fact that senior civil servants, who are often politically affiliated, are the main beneficiaries of the salary decompression. If a decompression is introduced in a highly politicized environment, which is not that rare among SEEs, only political appointees would really benefit from salary increases, while mid- and lower-level civil servants would lose out in this process. Therefore, it is important to link decompression of the pay system with de-politicization of the highest civil service posts, if this element of reform is to have its desired effect. Whereas some progress has been made in this regard in most SEEs, this issue still needs lots of attention in all countries of South and Eastern Europe. One of the positive examples is Albania, where the introduction of the Civil Service law and its subsidiary legislation allowed for the creation of a largely depoliticized civil service together with a significant improvement in the attractiveness of a civil service position, with respect to both remuneration and the fairness of civil service management actions (World Bank 2006b).

## 5 WAGE LEVELS: TOO LOW, TOO HIGH OR JUST RIGHT?

Wage levels in civil service remain problematic in many SEEs, although they are also improving in a number of states. Civil service pay continues to lag behind the private sector especially in Romania and Moldova. This is not exceptional, as public sector pay is generally lower than private sector pay in OECD states, as we pointed out earlier. The problems with low remuneration are reflected by the fact that, for example, in 2004 Romanian civil servants earned between €85 and €100 a month on average, including basic pay, allowances and bonuses, against a national monthly average ranging between €150 and €170.<sup>6</sup> In the same year there was a significant pay rise of 14.9% for civil servants which improved earnings, but they still lag significantly behind the private sector. In Moldova, civil servant salaries remain low compared with those of employees in the private sector. The low salaries of civil servants are commonly given as a reason for corruption in the public administration, but budgetary constraints prevent significant salary increases (SIGMA 2006).

<sup>5</sup> The Montenegrin Law on Salaries of 2005 includes a clause that requires the government to revisit the compression levels on a regular basis, but this has not happened yet.

<sup>6</sup> Figures from the Institute of National Economy website, DAI Europe Ltd., *Options for a Sustainable Unitary System for Romania*, August 2006.

Croatia and Serbia show a different trend, as wages in the Civil Service are at a similar level as those in the private sector, except for the financial sector.<sup>7</sup> For Croatia, some estimates in the late 1990s put the gap between public and private sector salaries as high as at 30% (Nestic et al. 2001). However, significant salary reductions in the civil service introduced in the following years, in particular in 2001, combined with a rapid growth in private sector wages, have brought back the balance between public and private sector wages. In Serbia, after reforms carried out in 2006, the wage bill for the civil service increased significantly (by 41.2%) in order to allow for a decompression of the system and increase of salaries of university graduates and has brought the salary levels of civil servants largely in line with the private sector (DFID 2007). Similarly, in Albania, after introduction of a new civil service salary structure, based on the empirical evidence on the competitiveness of the existing civil service, total remuneration packages were given to those in positions comparable to the domestic private sector. This led to, on average, doubling of civil service salaries, although the increases were more dramatic at the top (i.e., for Secretaries General). In Macedonia, civil service salary levels have also improved and seem to be in line with the private sector. It is, however, difficult to establish the real ratio between civil service and private sector salaries, due to inadequate reporting on payroll expenditure levels by the private sector firms.

In Bosnia and Herzegovina, a distinction should be made between the state and other levels, as the former in principle has higher salaries than the Croatian-Bosnian Federation and Republika Srpska. The analysis of pay data at state, Federation and RS levels conducted in 2005 showed that there are significant differences in total net compensation between the three levels of government (DFID 2005). In all cases, the total net compensation of state employees tends to be higher than in the other two entities (DFID 2005). Furthermore, public/private sector salary survey carried out in 2005/2006 showed that state pays for lower ranks are actually at or above private sector levels, while salaries for high skill positions are much less competitive (Reid, Orac 2007). Such a situation created significant pressures to hire within lower skilled ranks and makes it difficult to attract and retain the higher-level managerial and professional skill sets. Similar results were found in surveys conducted in Bulgaria, Romania and Serbia (DFID, World Bank 2004), which are faced with a pressure to bear for raising salaries for senior civil servants through an increase of the decompression ratio, as discussed in the previous section.

<sup>7</sup> Based on data presented in the Croatia CEM, 2004 and in Project Appraisal Document, Economic Management Structural Adjustment Credit, World Bank Report Number 28940, 2004

In the light of relatively high wage bill levels of most SEE countries, there is also a question of sustainability of existing salary levels, especially in Bosnia and Herzegovina, if the level of employment is to be kept at present levels (World Bank 2006a). Serbia and Croatia also have high wage bill levels, which are somewhat lower constituting 12 percent of GDP and 10 percent of GDP respectively, which is still considered relatively high and therefore does not leave much space for further salary increases. However, given that civil service wage bill usually only constitutes a small percentage of the general Government wage bill, it would be important for SEE countries to institutionalize the practice of conducting regular surveys of public and private sector salaries, in order to provide information on competitiveness of the public sector remuneration across positions and, based on such evidence, adjust civil service pay levels to private sector ones in order to keep their competitiveness (Reid, Orac 2007). This, of course, would have to be done within the available budget package in order to assure respect of the principle of fiscal sustainability.

## 6 CONCLUSION

Civil service pay reform has attracted lots of attention in most SEE countries, which have to greater or lesser extent achieved noticeable results in reforming their civil service pay systems. A number of countries have managed to increase the transparency of the pay system, through reduction of the number of allowances and supplements, and to increase the competitiveness of key positions in the civil service through increasing the decompression ratio between lowest and highest positions. Several countries have also introduced the European philosophy of equal pay for equal work through reform of their classification systems and introduction of elements of position-based models which emphasize the human capital requirements (such as skills, complexity and responsibility of work) instead of seniority. However, the Macedonian example has shown that introduction of advanced position-based systems, with limited career progression possibilities, may not be suitable for transitional civil service environments, which do not have sufficient human resource management capacities necessary for successful operation of the system.

There are still a number of issues to be addressed in the civil service pay systems in most SEE countries, such as: improving the pay structure and transparency through integrating a large number of the remaining bonuses and allowances into base pay; reducing the high levels of politicization of senior, best paid staff, and, in some cases, restricting the attempts to develop extensive pay-for-performance schemes.

Whereas depoliticization efforts are facing significant resistance from the political elites, further rationalization of the remaining bonuses and allowances is confronted by civil servants, who see it as a threat of reduction of levels of their salaries. Both politicians and civil servants in a number of countries, however, seem to be very much in favour of embracing wide spread performance-related pay schemes, which are expected to be panacea for all 'ills' of existing pay systems. It is, however, important to point out that extensive pay-for-performance schemes, especially those which increase the variable pay by offsetting the size of the base pay, can have counterproductive effects in transitional environments which do not have adequate management framework. In such circumstances, an introduction of performance-related pay may have an adverse effect and increase problems linked to trust, corruption and patronage. It may also lead to widespread dissatisfaction among staff and discourage competent employees from entering the public sector (OECD 2005). Therefore, for SEE countries, cautious and gradual building of a performance culture, in which individual performance objectives are linked to broader organizational goals, is recommended instead of focusing on pay-for-performance elements. Innovative techniques of team appraisal and rewards should also be considered, in order to boost the team spirit, enhance communication and coordination.

In order to be successful, the pay reform has to be properly linked to civil servants' career advancement and the overall process of human resource management, which has a substantial impact on the quality of the staff to be attracted and retained. To the extent that the career advancement process is perceived as too slow, too inflexible, or based on factors other than merit, the most-talented and ambitious civil servants or candidates for them will most likely find alternative employment. One of the options in this respect is to consider the 'fast track' programmes, such as those applied in the UK, which would enable qualified and highly motivated staff to assume additional responsibilities quickly and gain the recognition that goes with it.

Lastly, successful operation of any pay system requires an effective leadership and creation of trust and ongoing dialogue between civil servants and executives, information sharing, negotiation and mutual respect. The only way to allow civil servants to develop their full creative potential is to provide them with well-designed tasks and involve them in the decision making and policy process. This requires effective and participatory leadership at both senior- and mid-management levels, which, unfortunately, is rarely found in SEE's transitional environments.

Therefore, it seems that the greatest challenge for most SEEs at the moment is not to create monetary incentives for enhancing civil service performance but to create an environment of trust, participation, shared values and objectives in which performance and talent will be able to be fully recognized and appreciated.

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## Chapter 15

### PUBLIC ADMINISTRATION RELATIONS WITH MEDIA: THE CASE OF SERBIA

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#### 1 INTRODUCTION

Public administration meets various challenges in democratic societies. The transformation process within public administration brings a higher degree of decentralization and active citizens' participation (Livingstone et al. 2007, p. 614; Vigoda-Gadot 2004, p. 700), especially in local government. This requires introducing the public relations (PR) concept and defining two-way communication strategies between public administration and all target audiences (citizens, media, partners...). The paper examines the communication activities between the institutions of public administration and, in this context, one of the most important target audiences – the media. The purpose of the empirical research that has been conducted within representatives of the leading national media in Serbia is to explore media perception of PR activities of public administration. The presented basic results, findings and principal conclusions refer to: journalists' perception of PR professionalism of public administration institutions; their estimation of quality of the relationships that these institutions establish with media; identifying the most common problems that journalists encounter in this sector; their experiences and perception concerning the question whether the media, as the so-called fourth estate, could be influential in launching some topics and/or resolving issues that the general public considers as very important; identifying the "hot topics", meaning what they usually find as a most interesting to write about. At the end, we propose a proactive model for public administration institutions that could be implemented in defining and shaping their media relations.