# *A Review of the Public Service Reform in Germany: intention, chances and risks, and mandatory requirements to the frameset*

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## 1. The situation of the public services

Due to the financial pressure on the public budget and the developments just characterized the public services are caught in the squeeze on public spending and the demand for a more efficient and effective performance. The risk of a "capacity-gap" is on hand – even widened through severe personnel cutbacks in local government, on which the financial pressure was forwarded by delegating more and more tasks to the local authorities, during 1992-1995 with an annual percentage of personnel cutback of up to 9.6%[1]. This caused not only an increase in the public servant's average age and hence missed chances of hiring younger people to acquire new potential in the long-run. And for good measure it did not lead to the expected cost-reductions at all.

The situation of the personnel in the public sector can be characterized as follows: On the one side the personnel as the main cost-factor in public services is a (political) target for cost reductions either by means of job cuts: leaving jobs vacant after the retirement of public servants. Or by means of privatisation bearing the risk of a one-sided emphasis on cost-reduction in the short-run and neglecting the strategic dimension and sustainibility. On the other side personnel is the primary potential of the public sector when it comes to face and cope with new, heterogeneous challenges in the long run – especially when those concern skills such as steering, monitoring, organizing etc.

## 2. Reform of the Civil Service Law in Germany – intention, chances and risks, and mandatory requirements to the frameset

Looking back to 1997 the Reform of the Civil Service Law – mainly motivated by the severe financial pressures – sought (summarizing the main topics) to[2]

- improve the performance element in pay,
- increase mobility and flexibility,
- improve personnel recruitment and selection,
- increase flexible part-time working, and
- extend retirement ages

giving the chance to strengthen performance-orientation, changing the perspective from an input - and process-orientation to an outcome- and impact-orientation. And thus giving the opportunity to assure a

[1] Vgl. Dieter Vesper, Öffentlicher Dienst: Starker Personalabbau trotz moderater Tarifanhebungen – Entwicklungstendenzen in den neunziger Jahren, DIW-Wochenbericht, Heft 5, 1998, S. 12-13.
[2] Vgl.David Marsden, Dieter Sadowski, Stephen French und Karin Richertz, Performance-Related Pay and the Public Services – a Comparison of Recent Approaches to Reform in Germany and Great Britain, Anglo-German Foundation 2000, S. 14.

linking between the cost and the performance of public services providing a basis for making the public service competitive, and that way preparing the public service for challenges coming up due to globalisation and liberalisation, concerning especially the developments on the EU-level.

And as any medal has another side critics pointed out the risk that the Reform might be used to achieve the "lean state" exclusively by means of job cuts and reveal areas for rationalization instead of leading a systematic discussion of goals and tasks and the skills needed to carry them out.

Though one main element of the reform was the improvement of the performance element in pay one has to keep in mind that a one-sided emphasis on extrinsic incentives, concentrating here on financial incentives as one of many specifications of extrinsic incentives will not work and will not lead to the result of a more efficient and effective performance.[3] Extrinsic and intrinsic incentives must be balanced and embedded in a broad incentive-system providing the conditions needed to carry them out.

Just a short side-cut: Creating such a system, of course, does need time, time to develop, to experience, to implement – the problems with reforms in general are that the decision to start a reform comes up when cost pressures are that immense that politicians can reason almost any decision for seeking cost-reductions even if those decisions lack any strategic dimension and seek only increases in efficiency in the short-run. For example, looking back to the year 1926 Walb had back then stated that the "Kameralistik", the cash-orientied accounting system of the german public sector, had some deficits concerning for example the measuring of costs, and developed a new system by adding the necessary components to the "Kameralistik"; what theory and researchers obviously had pointed out as a problem and provided solutions for took the practice over 60 years to realize as reaction to severe financial pressures in the early 90's.

But now back to the topic:

For financial incentives to work best, four main conditions have to be met:[4]

(1) Financial incentives must be appreciated, which is in the public sector having to cope with the condition of budget-neutrality not that easy to meet. Actually to set operative incentives one could be forced to leave jobs vacant in order to generate financial incentives. This in turn induces an increased workload per employee and soon the employee might reach his marginal productivity making financial incentives for increasing productivity and performance unworkable.

(2) Financial incentives must be accessible. In case the goals set for an employee to deserve a financial bonus are not realistic, meaning for him not accessible under the conditions given, they won't work. In the case of qualification-deficits and a lack of preparing the employee for new, challenging tasks the fulfillment of this condition will be even more difficult.

(3) Crowding out-effects caused by the existence of fairness-deficits, the interpretation of performance-oriented incentives as a cutback in self-determination and an enhancement of control, and the interpretation of Performance-Related-Pay-Systems (PRP's) as a responsiveness of the executives to a dissatisfaction with the employee's performance of services so far, must be minimized.

And last, but definitely not least:

(4) A basis for Management by Objectives must be provided:[5] A management by objectives without objectives is a mission impossible. Therefore

[3] Vgl. Peter Eichhorn, Immaterielle Leistungsanreize im öffentlichen Dienst, in: VOP – Verwaltungsführung, Organisation, Personal, 13. Jg., heft 3, 1991, S. 152-156.

[4] Vgl. Ludwig Theuvsen, Erfolgsbedingungen leistungsorientierter Entgeltsysteme, in: Die Verwaltung, Bd. 39, 2003, S. 487 ff. und S. 492 ff.

a) objectives must exist – which is in the german public sector characterized by unsubstantial objective-statements, such as “public task”, not an easy condition to be met

b) the controllability-principle must apply, and

c) the achievement of objectives must be measurable – this condition being essential for establishing a performance measurement is not easy to be met in the public sector: difficulties with measuring effectivity and linking input, processes, and products to outcome and impact bears the risk of a concentration on efficiency-measures “compensating” the lack of effectivity-indicators by creating a high amount of efficiency-indicators.[6] In the end this might lead to an overweight of efficiency-aspects favouring privatisation in decision-processes and neglecting the strategic aspect, the long-term impact of the decisions to be made. And the concentration on efficiency-aspects might not even promise that all aspects concerning the decision are included: much too often transaction costs, such as contracting, steering, and monitoring are neglected in make-or-buy-, produce-or-enable-decisions.

Summarizing the statements made above, before implementing extrinsic incentives one has to analyse the frameset asking questions, such as

(1) Do financial incentives make sense?

(2) Can the employee access the incentive?

(3) How interprets the employee the performance-oriented incentive?

(4) Is the system prepared for a Management by Objectives?

Under the stated present situation of the public service an emphasis on activating so far unused motivation and skills is of a high importance for meeting the challenges in the long run. Therefore the system has to be verified carefully whether it fulfils the mandatory requirements needed – and if not, action has to be taken. Let me point out four requirements:[7]

(1) The quality of personnel management and management knowledge must be improved. Workshops for executives to learn about personnel management techniques, evaluation methods, how to find objective performance criteria and how to implement a Management by Objectives, are a necessary element in challenging the changes in the public sector.

(2) Human resource management must be intensified. This regards human resource development, and the identification and development of labour-potentials and skills.

(3) A stronger accentuation on intrinsic wants and needs concerning the particular, occupied job. This regards an increasing adaption of skills to particular, new, and challenging tasks, for example through additional training seminars and workshops on the one hand, and an increase of mobility and flexibility, for example through job enrichment on the other.

[5] Vgl. Peter Eichhorn, Public Management by Objectives and Performance Measurement, in: Evalutation and Accounting Standards in Public Management, hrsg. von Dietmar Bräunig und Peter Eichhorn, Schriften zur öffentlichen Verwaltung und öffentlichen Wirtschaft, hrsg. von Peter Eichhorn und Peter Friedrich, Band 175, Baden-Baden 2002, S. 33-40.

[6] Vgl. Karl Oettle, Elemente der Ökonomisierung des Verwaltungshandelns, in: Die Verwaltung, Bd. 32, 1999, S. 298.

[7] Vgl. Helmut Klages, Die Situation des öffentlichen Dienstes, in: Öffentliche Verwaltung in Deutschland, hrsg. von Klaus König und Heinrich Siedentopf, 2. Aufl., Baden-Baden 1997, S. 528 ff.

(4) Optimising work-flow. Not exclusively to raise efficiency by "electrifying" processes in the short-run. But to increase autonomy and responsibility by creating more transparency in the throughput-process and putting business reengineering into practise to discover and optimise exactly those elements which induce "side-cuts" that do not contribute to the efficiency and effectivity of the results.

## 3. Conclusions and Perspectives

Summarizing the results gained above to cope successfully with the modernisation-gaps and the challenges coming up in the future I want to suggest the following procedure:

(1) At the very first a mission statement must be built to provide a basis, a framework in which a long-term strategy can be implemented.

(2) Objectives derived from the mission statement have to be specified: no management by objectives, no incentives to increase performance without objectives!

(3) Then tasks have to be determined and the optimum framework for letting tasks perform at its optimum has to be established.

(4) At the very last – but not interpreting as "when time passes by, someday" – the legal framework has to be analysed very carefully and if necessary modifications have to be determined, at any point of the process never loosing the strategic perspective of the mission.

Let me give a short example regarding the modification of the legal framework to provide a basis for a more efficient and effective performance of public services: In Germany the annual event of the so-called "December fever" must be mainly attributed to budgetary law, since budgetary appropriations depend on the factual expenditures of the previous year – a public servant acting within this framework develops the strategy to spend the budget given before the budgetary-year ends in order to receive again a decent budget for the year coming up: no efficient and effective performance! Modifications in the budgetary-laws enable the public servant to gain more responsibility and autonomy over the spending of the budget and create a more efficient and rational spending-behaviour: the one who acts efficient and effective is no longer the "dummy" but the "smart".

Nevertheless any reform in any part of the public sector must be seen within the whole, complex framework. Reforms concentrating exclusively on one specific part of the public management reform process, and on one specific level (micro, meso, or macro) do neglect the horizontal dimension across boarder lines with the private and npo-sector on the one hand, and the vertical dimension across the levels of government on the other hand[8] and will not be able to meet the challenges coming up within a world characterized by internationalization and globalization.

External enforcements and restrictions confront the public sector with the need to find solutions for up to now unknown problems. The public sector should meet the challenges of reforms actively and with the willingness of substantial changes and developments without abandoning those traditional elements necessary to cope with the future.

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