THE INTRODUCTION OF THE PERFORMANCE APPRAISAL SYSTEM IN THE HUNGARIAN CENTRAL GOVERNMENT

By

Krisztina Szalai

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

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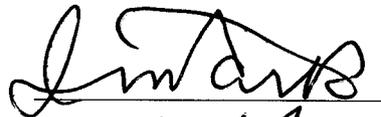
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ABSTRACT

**THE INTRODUCTION OF THE PERFORMANCE APPRAISAL SYSTEM IN THE
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Krisztina Szalai

In 2007 a new performance appraisal system was introduced in the Hungarian central government. As a member of the implementation team I have experienced not only the glorious, but also the dark sides of taking a brave step towards the establishment of a professional human resources management system. The enthusiasm that characterized the initial steps has turned later into a bitter-sweet realization of the failures, that – after all – impeded the successful root taking of performance appraisal – and the managerial model it has symbolized.

My research is based mostly on 'participant observation': on the experiences I have gained during the implementation and on interviews, review of available documents and relevant literature.

In conclusion, I found that the best intentions and initiatives can fail if they are not supported by strategic planning and contingency approach. Furthermore, the failure of one issue may result in raised resistance against the upcoming steps, which in turn, will become a heavy burden of any further reform attempts.

Dedicated to all civil servants, human resources professionals and scientists,

who believe in the success of public management reform

ACKNOWLEDGEMENTS

Contents

List of charts

Introduction

When New Public Management emerged in the 1980's, Hungary still belonged to the Soviet Bloc and public administration had other targets than reengineering itself.

New Public Management (NPM) aimed results oriented, flexible public organizations with well defined goals, minimized direct state participation where market can provide better solutions. In one word, a management model over bureaucratic.

Public management usually looked for recipes in private sector and classic management literature. (Vassné, 2001, pp. 10-11) Soon enough, performance was identified as a key concept, which was not yet understood – or employed differently – in public organizations. Performance management became a core element in reform programs, as a tool that supports governments' competitiveness by making cost efficiency and effectiveness measurable and imposing higher service standards that in turn will strengthen the legitimacy of government. (OECD, 1997)

While the Western Bloc's scientists and practitioners developed and implemented successful methods applicable for public identities, Hungarian public sector focused on transition (1989). Neutrality and stability of state operations (Vass, 1998, pp 591) were more important than the use or even the knowledge of contemporary (public) management tools. As a result, Hungarian public administration has just started to reinvent itself in the new millennium.

Under the umbrella of a broader administration reform, in its 2006-2010 Program, the Hungarian Government has decided to make a move towards strategic human resources management. As a key component, 'new performance appraisal' system was introduced in 2007, first in eleven ministries, than gradually on all tiers of public administration.

Due to the ad hoc and non-coherent NPM reform attempts in the previous years, the public administration was still best characterized by classic bureaucratic model – lack of strategic planning, no traditions in evaluation, non-existent resource management, severe coordination problems etc. (Vass, 1998, pp 592) Human resources management accordingly was administrative, the workforce aging and civil service's reputation was ambiguous.

Conditions – out of question – weren't supportive and the Prime Minister's Office, leading the implementation process, expected high resistance. The Government Human Resources Centre developed a unique implementation program, the performance appraisal method itself were also widely respected by HR professionals. Regardless of the conditions, for the first sight, the reform looked attractive and high returns were anticipated. However, actual implementation and acceptance decide on failure or success.

In this paper I have used an empirical, case study approach in analyzing the implementation of performance appraisal. Performance appraisals are widely used by private and even public organizations and the practice has a large share in management literature. However, practical implications are seldom scrutinized (Schleicher et al., 2009). Though, what works perfectly in theory may not be functional in living organizations.

Between 2006 and 2008 I worked for the Ministry of Economy and Transport (MoET), Hungary and I was a member of the local implementation team of the 'new performance appraisal'. I have experienced on my own skin the difficulties of the project. Although this project was designed with extra care – compared to several others –, implementation wasn't smooth. We have learned a lot and our failures may call for other reinventors' attention.

In my research, I shall scrutinize the implementation process and the performance appraisal system in details, using the abovementioned ministry as a case. I shall highlight some cultural characteristics to picture the context.

I have found that sound management tools unfortunately, may not work with automated success in public sector. Cultural, theoretical problems own the lion's share, but proper planning and adaptation under better change management might have made the project more successful.

As the Hungarian public administration shares general characteristics with multiple countries, I strongly believe my research findings are applicable for other administrations and this paper will help other reinventors' success.

Methodology – participant observation

As it was shown in the introduction I was personally involved in the implementation of performance appraisal system between fall, 2006 and summer 2008. This gave me an opportunity to collect first-hand experiences during the implementation process starting from shaping the system until the end of its first year in practice and even an insight of the system's success in its second year of operation.

In each research various methodologies can be used, but the fact that I was personally involved in the process under review, gives an opportunity to employ *participant observation* as the most adequate methodology.

Participant observation as a form of subjective sociology allows the researcher to put herself – either openly or secretly – in the shoes of the subject to gain a better understanding from the subject's point-of-view. (Jorgensen, 1989, Jones, 1996)

Internal consultancy shows similarities with this method as you become a member of the organization you came to support. MoET employed nine full time internal organizational development (OD) consultants on a permanent basis and I was one of them. Our job was to identify, analyze organizational and HR problems, work out project plans that will help solving these problems, put them into practice, follow them up and evaluate their success – and in the meantime maintain an objective, external standpoint.

Certainly, this type of employment has limitations, because the consultant must be able to keep a certain social distance from the organization and people, which is the subject of his/her activities.

Social distance means objectivity and this is the point where consultancy and participant observation diverge. As a researcher you aim to remain detached of the people or system you observe and you must avoid influencing their behavior. As a consultant your aim is behavioral change. Your experiences as an 'insider' is a valuable asset you must employ. You are not allowed to assimilate perfectly even if you are involved in the changes, but you must keep yourself upstage of the changes and maintain the 'outsider's' approach, that will help you to stay focused on the target and not get distracted by your 'insider' self.

In this paper I will summarize my experiences as a built-in-consultant, who has acted similarly to an open participant observer. Management and public administration literature that kept our team focused on targets, while working on OD projects, will now support the objective evaluation of the performance appraisal implementation process.

Focus and terminology

As limited analytical recourses are available about evaluation of implementation of the performance appraisal (PA) system in Hungarian central government, I will deal exclusively with the Ministry of Economy and Transport, unless it is stated otherwise. The straight focus may call for further explanation about the legitimacy of the research findings. To alleviate these concerns I shall defend the relevance of the study by listing the following considerations.

All the typical characteristics that may apply to any other Hungarian ministries held for the MoET: bureaucratic processes and organizational culture, state of human resources management, aging workforce, unpracticed strategic thinking etc. On the other hand, the

same Ministry acted as a flagship in each and every public management reform initiative, being supportive and committed to excellent performance in every project. Furthermore, the ministry took several reform steps beyond the centrally controlled ones, which will be listed later. The unique potpourri (which I shall elaborate later in 1.2 chapter) of the abovementioned characteristics provided a perfect background to test all the reform efforts in an environment that has already made numerous steps towards a more effective management of public tasks.

We saw, despite endless number of publications and studies are available on performance appraisal and design, limited resources deal with proper implementation process.

As this paper will point out, a theoretically 'perfectly' designed system supported by relatively impressive implementation efforts might fail on resistance. I will focus on contextual and procedural elements, organizational culture and will not attempt to identify a 'perfect performance appraisal', nor for this single ministry, nor for the Hungarian or any other public administration. My research will highlight some structural, cultural, process or behavioral elements that hampered the successful implementation, whose analytical review before a similar attempt might call for higher success rate elsewhere.

For the sake of readability, I shall consistently use the terms 'managers' for 'department and/or section heads', 'executives' for 'state secretaries' and for 'the cabinet in chief' and 'employees/professionals' for the 'civil servants' working in the first line. The first two groups will be labeled as 'raters' while professionals as 'ratees'.

1. The Hungarian Context

1.1   The public administration reform

The freshly reelected government's program for 2006-2010 started with the chapter: 'State Reform'. This was the first time in the modern history of Hungarian democracy, when a government declared its intentions to reform the public administration as the most important field of interventions.

The document envisions a small, frugal, effective public administration which fulfills the citizens' and organizations' needs – public or private – via high quality service, where the 'value-for-money' is granted.

The major taglines mentioned in the document: reduced number of public organizations and public servants, attraction of young talents, reorganization, transparency, higher service standards, efficiency, regionalization, e-governance, client focus. (The Hungarian Government's Program, 2006, hereafter: 'Program'))

The ideal state was opposed with the reality: a mushroomed, slow, ineffective, expensive, centralized and worn-out bureaucracy, which was not only ineffective, but hampered the country's development and competitiveness. As the IFUA report captured, problems were rooted in the unclear definition of state roles, lack of strategic planning and client orientation, quality and performance management, strong political influence in decision making, excessive or deficient legislation, ineffective organizational structure and procedures, budget deficit opposed high demand for quality services. (IFUA, 2004) Furthermore, in Hungarian public management no attention was paid for NPM (Vass, 1998, pp 592) and management was least interested in 'performance', 'efficiency' and total quality management. (Vassné, 2001, pp 41, Fábián, 2004)

The 2006-2010 term was the time for changes in all aspects of governmental interventions in an attempt to modernize the state operations and to make pubic spending management more effective in order to meet the challenges of the 21st century. Endless documents described the desired stage, which has probably helped strategic planning, left however limited stretch for detailed project proposals – and actualization.

1.1.1 Human Resources Reform

Achieving the ideal state requires human efforts. However, at starting point, governmental personnel departments merely exceeded personnel administration, and were far from human resources management (HRM) or strategic HRM level. Public sector, as an employer and public servants, as employees had a questionable reputation, which called for general reengineering. Organizational culture was unitarian, the leadership autocratic and bureaucratic. (Shein, 2004, pp. 191-192) Civil servants were described as embittered, non-innovative employees working under hated procedures. (Fábián, 2004)

Yet again, first time after the transition for democracy, human resources were handled on the highest tiers of administration. A State Secretary was appointed in the Prime Minister's Office in July 2006 to manage and control central efforts in modernization of public HRM. Among the first steps a decision was made to restructure a former organization, the Government Human Resources Centre – that previously provided full services for the civil servant's vocational exam – as the central background institution supporting the change projects.

The mandate was derived from the 'Program' that emphasizes performance-principle. 'We hold up performance requirements against public servants, (…). We guarantee new rewards for exceptional performance, streamline human resources systems, and enhance employment

opportunities for young, talented professionals.' (Program, 2006, pp8)

The central idea of State Secretary's agenda was to make the Hungarian civil servants and HRM prepared for the challenges posed by the Hungarian European Union (EU) presidency in 2011. This meant a radical reconstruction towards a service-oriented public administration, which can also be considered as an attractive and joyous workplace. To achieve this goal, projects were launched to create a universal recruitment and selection process, to perform a central administration-wide human diagnosis, whose results may provide basis for a development and carrier management program. The key task however, that was anticipated to become the founding stone of all the rest – was the implementation of performance appraisal. (Managermagazin, 2010)

It was clear at the time, that sound management tools working nicely in private sector were not adaptable in their original form. Furthermore, the re-elected government started reforms in all intervention sectors at the same time, which resulted in extra workload and raised the resistance to unknown human resources (HR) and OD practices.

1.2 Ministry of Economy and Transport – an unique potpourri of bureaucratic and management model[1]

'The Ministry of Economy and Transport has decided – among the first in the Hungarian administration – to outline a clear vision about the role of the Ministry in the government, its strategic policies for its colleagues, external partners and clients.' – declared the Minister in his Foreword of the Ministry's Strategy. (Strategy 2007-2010, hereafter: 'Strategy', 2007, pp 5) The document 'as the first institutional strategy' – and one of the first ministerial strategies – managed policy issues and organizational development under the same roof, and aimed to provide a vision for all employees, strategic guidelines for operations, enhance communication and HR management, and last but not least, targeted MoET as a role player

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[1] This chapter is based on situation analysis, 'Strategy', 2007, Operations chapter, pp 70-75

for other ministries.

Even though my research deals exclusively with performance appraisal within organizational development (hereafter: 'OD'), I can't spare to say some words about the Ministry's organizational culture. I hope this will help readers understanding of the complexity of implementation process, while this review will also provide beneficial insights for appropriate evaluation.

A specific analysis of operations in the 'Strategy' speaks about organizational problems in an unusually opened tone. It clearly describes the lack of traditions in strategic thinking and planning ('lacking the institutional strategy and a unified strategic vision, only little attention was given to the implementation of a consistent mix of professional policies', pp70), but stresses the importance of the recent document. The 'Strategy' also recognizes the focus on internal activities, the process failures 'of operational characteristics of public administration' such as inter-ministerial or interdepartmental reconciliations and high volume of ad hoc tasks, which represents the major share in day-to-day operations – and last but not least associated with the lack of strategic approach.

Whatsoever helpless is one Ministry in itself to change the general workflow design in public administration; the MoET did its part by switching for project-based operations. Project approach was also attempted to mitigate the shortcomings of organizational culture rooted in poor culture of compliance with deadlines and feedbacks, lack of accountability, manipulation and withholding of information, process management and unclear scope of responsibilities. These attributes led to an unhealthy culture where idiosyncratic traditions became superior in bureaucratic environment. (Kotter & Heskett, pp 73, 1992)

Let me emphasize the advantages of project system by highlighting its culture-forming attributes. Although Act LVII of 2006 deconstructed the tall hierarchical pyramids and

created flat organizations, individual responsibility was undefined. Project makes possible for professionals in non-leading positions to take responsibility for certain tasks[2], and requires a managerial skill set beyond the bureaucratic command-and-control leadership skills in the traditional military model. (Kahn, 2003. pp 17.)

The failures mentioned above were worsened by paper-based documentation, as it was the only legal way administration. This evidently led to a slow and ineffective communication and hindered transparency, while open communication plays a vital role in organizations (Gorther, 1997). Transfer for electronic process design was lot less a budget problem, than a human resources one: digital literacy on average in central administration was slim.

A look on the age breakdown of the staff helps to understand it.
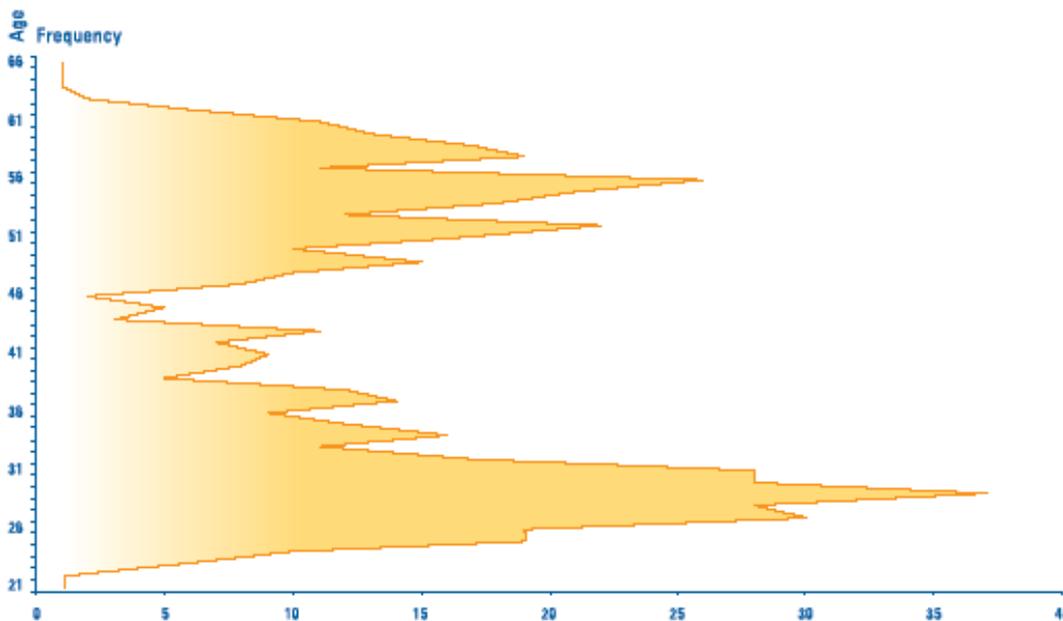
1. chart Age breakdown of MoET, Source: MoET 'Strategy', pp 72

Thirty percent of the staff members was between the age of 50-60, while – rather as an exception than the rule – in the MoET, fifty-four percent counted for the employees younger

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[2] According to the general principle, official documents can only be signed by civil servants appointed as managers, while the administrator's name is listed on the letterhead.

than 40.[3] Unfortunately, this favorable feature was coupled with less impressive data in respect of yearly average turnover rate, which was twenty-two percent between 2002-2006 regarding the total staff and even worse on managerial level.

Beyond unfavorable age breakdown, constant re-allocation of tasks and structures hampered the conservation of any good practice and knowledge management.

On the other hand, the Ministry dealt with 'economy' and had one of the closest relations to private sector. In 2006 almost all managers were replaced in MoET, all having private sector experience. As we know, leaders are key players in transmitting, transforming a culture (Shein, 2004) and the replacement aimed to utilize this advantage. Organizational chart (Appendix 4) showed strategic orientation, while unique procedures, such as the previously mentioned project system, were introduced coupled with the usage of shared electronic platforms. Various all-hands events beyond Christmas-party were organized, stories about executive meetings circulated in the house.

A touch of business leadership was embedded in the culture, so were the jargons, methods, processes of both (public and private) fundamental typologies.

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[3] Such a high representation of young employees is still unique in government sector. While the lack of 40-50 years olds is a general feature. (ECOSTAT, 2008)

Strengths	Weaknesses
Reform orientation	Bureaucratic, paper based processes
Executive commitment and talent	No result/performance orientation
Relatively young workforce	Lack of rewards or sanctions
Flexibility	Decline of personal responsibility
IT support	In/External communication problems
Opportunities	**Threats**
Central reform efforts	Administration-wide coordination problems
Better task/responsibility allocation	Unclear responsibilities – constant reallocation
Performance management	High turnover – non-attractive public sector
Knowledge management	General neutrality, disinterest
Advanced use of IT	Operative, non-strategic approach

The picture described in the document shows an ambiguous picture of the MoET's culture. But the high percentage of young and talented staff, the presence of ex-businessmen managers and executives provided an opportunity for change, not to mention the structural changes. The Cabinet was responsible for strategic modernization, which has helped the core divisions stay focused on policy making and traditional support functions. Two new departments, Department of Strategy, and Department of Organizational Development, were also set. Their key responsibility was the effective transition from bureaucratic procedures to managerial approach.

The government's reform attempts supported the initiatives, but timing was sometimes inappropriate. Besides its own initiatives, MoET tried to be the best performer of all Ministries in any OD projects. Controversially, the huge amount of organizational development attempts sometimes distracted attention towards core tasks and raised coordination and workflow management questions.

All in all, the MoET had a strategy and strong executive commitment towards specific goals both OD and HR, which was a promising sign for significant changes.

1.2.1 MoET's HR Strategy

Prime Minister's Office and Government Human Resources Centre played the main role in HRM related modernization and MoET's strategy was closely aligned with these central efforts. The submission targets the following vision: 'Being a modern state operator we work hard to develop a ministry and a network of background institutions where motivated staff – taking on challenges and responsibility, continuously improving their skills – carry out their tasks to a high level of service.' ('Strategy', 2007, pp 69). The consequences for HR development were embodied in HR specific targets.

> II. Our goal is that the MoET staff has the sufficient abilities and competencies necessary for carrying out its tasks. We wish to improve the Ministry's abilities to accommodate and adjust itself in a flexible way to the conditions dictated by the environment through continuous development of the staff's professional competencies and skills, as well as purposeful preparations for the EU presidency in 2011.
>
> III. Our goal is to develop operations of the Ministry accommodating to challenges and altering tasks in a flexible way, both organizationally and in terms of human resources, providing high quality services for its external and internal customers. ('Strategy', 2007, pp 69)

Coherent steps were following each other to support these HR goals. Diagnostics and an up to date administration system was needed to gain reliable information on development needs, that will provide essential inputs for a training program, which was also essential to make colleagues understand performance evaluation. Well-trained management in turn is a prerequisite for motivation, carrier development and proper recruitment. Development projects followed each other in this sequence (Appendix 1), while central direction came according to its own agenda.

Based on these strategic considerations, MoET worded an impressive target regarding performance evaluation:

'In close cooperation with the Government Human Resources Centre, we will create the conditions for performance evaluation of the staff. The key to the successful introduction of a new performance evaluation system and to its harmonization with the strategic and organizational goals is to familiarize the entire MoET staff with the aims, role and benefits of the performance evaluation system, as well as **to have the system accepted by them**.' ('Strategy', 2007, pp 77)

Still, when the PA system was put into practice, preparation was still in process. MoET was unique in two aspects: when the PA was introduced in January, 2007 the Ministry was about to finalize its strategy, so the two projects were mutually supportive. Additionally, besides the administrative HR department, the Ministry had an Organizational Development Department, that was responsible for NPM projects. Unfortunately even these unique supportive elements, that were cannot be found elsewhere in the other ministries at the time weren't enough to make the implementation a success story from a strategic HR exposure as it will be discussed in Evaluation chapter.

Human resources development can not happen from one day to another, and it was clear, managers on average were rather professionals in their expertise and acted in command-and-control style, rather than 21st century leaders. 'Vision', 'mission', 'focus on results' were terms, that needed explanation, so were employee motivation and coordination (Kahn, 2003, pp 17) and worse, their hands were tied by legislation.

Problem identification led to a comprehensive, assessment based, customized leadership program from September 2007 to May 2008.

'Leadership Academy' was closely aligned with the HR strategy and aimed to help managers find their own leadership style and strengthen internal communication and cooperation, meanwhile creating a common ground for MoET-specific values. Participants were mostly managers and some talented individuals in non-leading positions and it was hoped an annual program will improve managerial skills to a certain extent that may – on the long run – show

high return on investment in employee relations, process management, and in PA practice in particular.

The preliminary assessment identified problems in managers' self-portrait as 'leaders', motivation skills, development of others, communication, cooperation, situation and performance assessment, problem solving skills and ability to give proper feedback. Behavioral change was experienced on completion as managers had a better acceptance of their leadership roles and gained a better understanding of the importance of performance management. However feedback providing skills were still below the desired level, so was the skill of active listening, which were also essential in performance evaluation. (Miatovics-Baranyai, 2008, pp 7-8)

Let us now turn our attention towards the performance appraisal system (PAS) itself.

2. The performance appraisal system in the Hungarian public sector

2.1 The need for the system

Best Employer 2006, Central Eastern Europe survey conducted by Hewitt Associates shows the importance of performance evaluation. According to the results, the most successful companies are the ones that respects their employees efforts by not only giving feedback about their actual performance, but honor those efforts by monetary rewards. Performance related pay, as the report went, supports loyalty by far to the greatest extent, while – as an unfortunate feature – the gap between salaries and efforts put in work seemed unbridgeable. (HR Portál(B), 2010)

Public organizations (numerous included in the survey mentioned above) were rather famous for job security, but guaranteed lower salaries in turn, where basic pay and pay raise was based on seniority (UN, 2004, pp. 11), while relatively generous non-monetary compensations helped to bridge the monetary gap.

Additional key attribute was the lack of performance management, and as promotions, career advancement (not only in pay raise, but in responsibilities) were mostly at stake on political negotiations, employees were lot less motivated to perform outstandingly. On the other hand, public positions gave employees the rare opportunity to make certain influence on national level and become a part of a broad institutional setup (Hilliard, 2002), which was seldom granted for private employees and meant strong instinctive motivation for public servants. This is what has kept the compensation system operable. (Vassné, 2001, pp 37)

Lack of performance management (Vass, 1998) meant not only an HR problem. Public administration was input driven, outputs and/or outcomes were seldom identified, even more rarely measured (IFUA, 2004, pp. 7), which calls accountability into question.

A rather interesting motivation behind the idea of PA was unequal salaries and incomparable effort-wage ratio between ministries. Performance appraisal aimed to mitigate these differences via an objective bonus system. Even though the Civil Service Act regulates the salaries in exhaustive details, it still leaves enough room for individual adjustment. (UN, 2004, pp. 11) In practice this meant certain ministries considered as 'rich', were handling employee compensation rather generously, while 'poor' ministries could not afford more than the minimum wage level stated in the same Act.

No doubts, performance management was needed, but was it the most essential step to take? We will observe first how the PA was designed and implemented and attempt to answer the question in Evaluation chapter.

2.1.1 Goals PA aimed to meet

In summary, on state level, performance appraisal system aimed an effective, service and client oriented state, where operations are transparent and dealt in a highly professional manner, which will also lead to cultural change.

On individual level, PA aimed well defined tasks and challenges for civil servants; a culture, in which their performance is measured in an honest superior-subordinate relationship, a compensation system, in which their efforts are honored and rewards are paid the basis of individual contribution to public goals, therefore their job satisfaction is elevated. Use of system also targeted mapping of developmental needs. ('Manual', pp 8)

Additionally, determined bonus system narrows the gap between private and public salaries, making the public sector a more attractive workplace for young professionals.

2.2 The performance appraisal system

The performance appraisal system, introduced in 2007 was a development oriented, cyclic and systematic feedback-providing process on individual performance, paying performance-based year-end bonuses.

Performance appraisal was regulated in the 301./2006. (XII.23.) Government Decree (hereafter: 'Decree'), which was modified several times lately. In this chapter, regulations in their initial form are displayed.

The PA cycle – as shown below – started every year with goal setting period in January-February. Annual organizational and individual goals were to be reviewed half way. Half-year reviews in July gave opportunity to adjust the targets if necessary and also to discuss achievements up to that point. Annual performance was appraised in November, – as due to legal requirements – performance based bonuses must be paid out in December. In the meantime, managers provided coaching support for the subordinates.
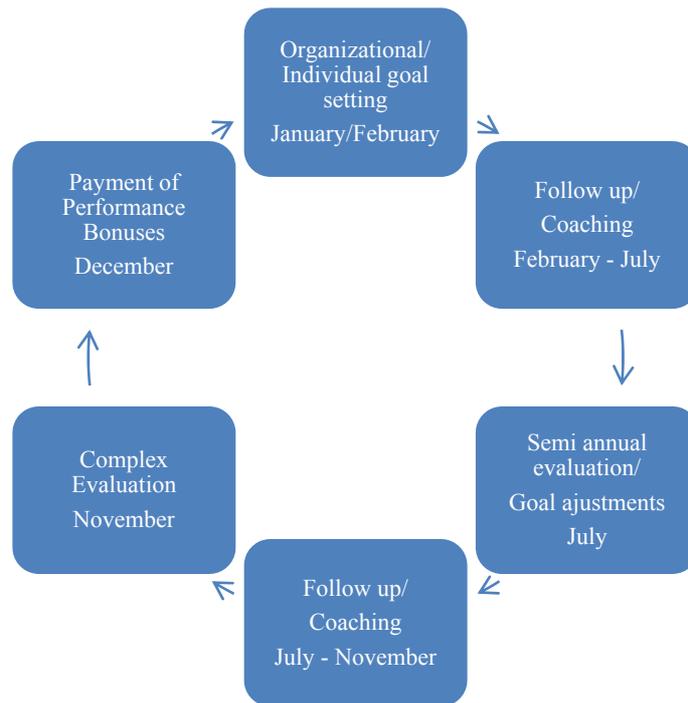
2.2.1 Goal setting process, the 'What?' and 'How?' and "development' of PA

The main question in designing a performance appraisal system is always the 'What?', the content.Whether results, behavior, efforts or development must be measured and on 'What?' basis.

The public PA was designed to measure three main components of individual performance. These components were labeled in the Decree as 'What?', 'How?' and 'development'. 'What?' measured the results, the ratee performed and achieved, while 'How?' referred to employer's behavior via competencies. 'Development' measured progress both in personal and professional development.

Individual goals were set in a top-down process starting from the Prime Minister down to individuals in a hierarchical order – providing perfect alignment between individual and organizational goals as shown on Chart 4 bellow.

Prime Minister set sector-specific goals for ministers based on government Program. These

goals became ministerial goals and as there are 'too many goals (…) for any one person to control it all' (Kahn, 2003, pp 17), they were broken down to divisional goals, filtering down to departmental and individual goals. Besides the Program, Strategy, charter, sector-specific agendas provided basis for goal setting.

4. chart Sources of individual goals, based on MoET, internal documents

For individuals, the goals assembled this way were so called 'specific goals'. Goals on non-individual level were publicized and civil servants had to suggest their own 'specific goals' based on the well-understood goal-hierarchy and on their responsibility area in which they can contribute to meet those targets. Suggestions provided basis for annual rater-ratee agreement not only for the 'specific' but for all types of individual goals.

Organization Goals	Ministry's Strategy	Annual Measures Plan									
	Department Agendas	Dept 1	Dept 1	Dept 1	Dept 1	Dept 1	Dept 1	Dept 1	Dept 1	Dept 1	Dept 1
	Division Goals	Division 1					Division 2				
Individual Goals	Ministerial Goals	Minister's Goals (Ministry's Goals)									
	Managers' PA	dept head	dept head	dept head	dept head	dept head	dept head	dept head	dept head	dept head	dept head
	Individuals' PA										

5. chart Breakdown of goals, Source: MoET, internal documents

It was possible to assign 'additional goals' during the year that were not planned or became necessary after the normal goal-setting period. These goals were only be added on a mutual agreement between rater and ratee.

Proper goal setting meant SMART goals – specific, measurable, agreed upon, realistic and time based ('Manual', 2006, pp 15) – with desired results, deadlines and measurable 'milestones'.

As a final component, performance of job description was also evaluated: quantity and quality of work, deadlines met and work attitude. These four elements were evaluated on a five-point rating scale.

'Specific goals', 'additional goals' and job description fulfillment jointly composed the 'What?' criteria in evaluation, while the 'How?' was also appraised.

'How?' consisted of various competencies, that were appraised on a four-point rating scale. In initial stage, a non-adjustable competency list was given for managers and non-managers as follows as shown on the next chart.

Managers	Non-managers
Strategic thinking	
Subordinate development	
Leadership techniques	
Integrity	Integrity
Empathy	Empathy
Communication (persuasion)	Communication
Team work, cooperation	Team work, cooperation
Innovation, creativity	Innovation
	Professional skills
	Problem solving skills
	Client-orientation
	Responsibility
	Performance orientation

<p align="center">6. chart Compulsory competency list for civil servants, Source: 'Manual'</p>

Besides the 'specific goals', raters had to assign 'development goals' for individual advancement, which represented the major share in annual evaluation lately. 'Development goals' could be either on-the-job or off-the-job goals, such as job enrichment, rotation, mentoring, project work or schooling, trainings.

Mutually agreed annual goals were inserted and stored in electronic form (in PA software), printed, signed and filed in personnel files until the end of the year, when complex evaluation sheets were attached. Complete PA packages were stored for five years. The evaluation sheet can be found in the Appendices. (Appendix 3.)

2.2.2 Annual evaluation

In November each year annual performance was appraised in a coaching-style, structured evaluation interview.

Both rater and ratee had to prepare themselves for these sessions. Ratees had to submit self-appraisal before raters submitted their evaluation via PA-software. During the evaluation session both sides had to defend its position and make an agreement on final grade of ratee.

Performance was classified on a four-point rating scale. Managerial and non-managerial performance was evaluated on the same basis, 'What', 'How', 'development', but in different proportions according to role specifications. Differences are shown in the following table.

The maximum point in complex evaluation was 100 points. The Decree hadn't provided detailed calculation; it was built in the PA software. (See in Appendix 2.)

Criteria	Practice	
	Non-managers	Managers
What?	**60**	**60**
Specific goals (additional)	20	40
Job description	40	20
How?	**40**	**40**
Competencies	40	40
Development	**0**	**0**
Sum	**100**	**100**

7. chart Break down of evaluation criterion

According to the decree, final appraisal had to follow a forced distribution. That could be applied either on organizational, divisional, departmental level. In case of fractions, that could happen when forced distribution was applied for smaller units, rounding up was allowed, while was not to be followed in units employing less than 10 employees.

The bonus-sum depended on the ratee's annual pay and his/her position in the hierarchy according to the following chart. Bonus paid was calculated as a percentage of annual pay as Chart 8 demonstrates.

Final Grade	Point	Forced distribution	Bonus (in percentage of annual pay)			
			Managers		Non-managers	
			Min	Max	Min	Max
Exceptional performance (A)	90 – 100	0 – 10 %	33%	56%	25%	44%
High (B)	75 – 89	20 – 30 %	17%	31%	11%	23%
Normal (C)	50 – 74	50 – 60 %	3%	14%	3%	9%
Development needed (D)	0 – 49	0 – 10 %	0%	0%	0%	0%

8. chart Combined table of FDRS and bonus payments based on the 'Decree'

2.3   Implementation process – central and MoET level

The implementation had an extremely tight timeline. The PAS had to be implemented in 11 ministries by the end of 2007. The State Secretary was appointed in July, 2006 and his apparatus was merely set up while it was already working on the implementation. Implementation meant the inclusion of 6300 civil servants, education for the system within one and a half year – with special care for managers, development of PA software, legalization, and training of local HR staff members – and also a full year of practical application.[4]

Due to the pressing deadlines and for the sake of better understanding, state secretariat held fortnightly meetings with ministerial HR department heads starting from late fall, 2006. These meetings were mostly about central plans, while personnel departments could also voice their concerns, ask technical questions and make recommendations either about design, legislations or implementation of PA. However, as we saw previously, governmental personnel were administrative; therefore these meetings pursued educational goals accordingly. Mutual understanding of managerial approach and public administration specifications was desired and besides the regular circulation of preliminary documents, this

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[4] Extension of PA on all tires of public administration was planned to be finished by the end of 2011 and it is happening accordingly.

solution helped the change of thoughts and faster decision making about the design of the system. As personnel departments were rarely involved in HR related decisions (ECOSTAT, 2008), it was evident, that local HR staffs faced one of their greatest challenges in history as besides the challenge of PA system, all administrative HR functions were planned to be centralized at the same time.[5]

In a rapid pace, Decree of Civil Servants' Performance Appraisal and Rewards was signed December 23, 2006 and became effective January 1, 2007 (21. §).

As full coverage implementation seemed to be impossible in such a sort time frame, the PA was introduced in two steps even on ministerial level.

First, managerial and executive levels became subject of PA. Excluding the Prime Minister who set goals for his ministers, ministers, executives and managers were compelled to have a completed PA form by the end of February, 2007. Ministerial and divisional goals were required in order to set goals for managers. To facilitate the process, goal setting sessions were held in each ministry with the Minister's and top management participation under the supervision of the State Secretary in January and February, 2007.

The second stage started with the goal setting period for non-managerial staff members, parallel with half-year assessment and adjustments (if needed) on managerial and executive level in July, 2007.

To support the goal setting period, a manual (hundred and six pages) was published and distributed for managers, a shorter one (nine pages) for non-managerial staff. Managers were invited for half day sessions, when the PA was introduced. State secretary in person held a road show, and visited all the ministries and held lively, all-hands presentations about PA. This approach was previously unknown in public administration.

Application manuals for the PA software were also available. The software was also

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[5] Centralized human administration was never put in practice as it was planned as it was opposed to ministerial interests. However a unified database for government recruitment and preliminary selection of managers are now operated centrally.

developed in a rapid pace and run in test version in the first year of implementation, lacking report functions and aggregated organizational goals.

First year's final evaluation period was supported by centrally organized, coaching trainings provided by external trainers for executives and managers in September and October, 2007. Shaping of attitude was the central message of these two days trainings, says Attila Baranyai, one of the trainers working on this project. (Baranyai, 2010.)

Date	Milestone	Performed
July 2006	State Secretary appointed	Prime Minister
Summer 2006	Government Human Resources Centre restructured	State Secretary
Fall 2006	Fortnightly meetings	Prime Minister's Office (PMO), Local HR Staff
November 2006	Road show in Ministries	State Secretary
23rd December, 2006	301/2006. Decree accepted	Government
1st January, 2007	PA effective for ministries	-
January 2007	Organizational goal setting sessions	State Secretary – Ministers (one by one)
February 2007	Individual goal setting for executives, managers	Executives (managers)
15th April, 2007	1st adjustment of Decree	Government
June – July 2007	Half day training for managers – goal setting	PMO, Managers
July 2007	Review of goals for managers	Managers, executives
July 2007	Goal setting for non-managers	6300 public servant
September – October 2007	2 days coaching trainings	PMO, managers, Training company
November 2007	Annual evaluation	6300 public servant
15th November, 2007	2nd adjustment of Decree	Government
December 2007	Performance based bonus payments	HR, executives

9. chart Timeline of PA implementation

Refinement of the 'Decree' and software application, delayed processes and constant debate went on in the background in a growing media attention at the beginning and by the end of the first year, while the bravest measures, such as the originally planned compulsory dismissal of worst performers on a five-point scale and evaluation of development goals were

lifted in the initial year (23. § (1)). The first, to minimize resistance, the second, as nor budgetary, nor organizational prerequisites were yet provided to support trainings for individual development, nor had on-the-job trainings (enrichment, rotation etc.) traditions in public administration.

By the end of 2007, performance bonuses were paid out on annual and semi-annual evaluation basis and shortfalls of PA became clear.

2.3.1 MoET specifications

As certain deficiencies in the central implementation process and above all, tight timeline allowed no sufficient preparation for implementation, MoET provided extra services, direct or indirect, to back up the implementation.

In comparison with other ministries – a limited number of managers participated on centrally provided half day trainings due to their more urgent duties, so the non-interactive manuals landed in drawers.

High absence rate made OD Department aware of possible resistance against the system; therefore it designed internal trainings in a way that better matches managers' preferences. OD staff provided two hours lectures and discussions for managers from division to division and used customized training material in order to give realistic examples for goal setting.

These trainings also emphasized the linkage between PA and 'Strategy', connecting the annual measures plan of 'Strategy' and 'specific goals' in PA. Clear association between these two projects helped a better understanding of both and somehow mitigated the resistance resulted from extra workload beyond core tasks. The same department provided consultancy services at all times either on goal setting or any related issues. These services were taken occasionally.

In goal-setting period, secretary heads were working jointly – and voluntarily – to find applicable solutions for administrative staff.

In September 2007, when the first orientation program was provided for new starters, PA had its own session and Leadership Academy classes also touched the PA issue.

As performance appraisal sheets were filed in civil servants personal files and hence became confidential, nor the HR, nor the OD department were in a position to provide quality assurance. Therefore nothing else, but managerial conscience – or subordinate consciousness – could guarantee proper application.

2.4   Observations

Besides the abovementioned road show, brief manual about PA and PA software, reasonable publicity and voluntarily legislation check and random managerial briefing, no education was provided for civil servants. I am not saying that this wasn't satisfactory. Actually quantitatively it was more than enough; still civil servants without any strategic HR background hardly understood the importance of it. If practices were outperformed as advised, goal-setting and evaluation interviews with supervisors should have granted the opportunity to discuss the details. However, these were seldom performed, or even if were, managers themselves moved insecure on the field.

Based on training experiences, less than 20% of the managers had the necessary skills to outperform these meetings, but differences were significant between ministries. In economy-oriented ministries – MoET, Ministry of Finance – responses were more favorable. However, majority of managers focused on possible monetary rewards and PA as development tool wasn't understood and resistance against forced distribution was exceptional. Despite these pitfalls, trainings were successful in shaping attitudes. Managers had a positive impression and felt relieved not to receive a 'brain wash'. Some of them were opened, but the biggest success, as Baranyai cites from a Finance Ministry manager: 'I am less resistant than before the training'. (Baranyai, 2010)

As a result employees were either afraid of the consequences – lower bonuses as usual or political clean-up (seniors) – or became enthusiastic if they saw their potentials (young talents). On average however, civil servants were skeptical, opposed of extra workload and suspected abuse of the system as it was seen in a previous attempt in 1998. (Vassné, 2001, pp 44)

Unfortunately reality seemed to justify their skepticism, especially during the first year of implementation. Not only in MoET, but in all ministries serious confusion surrounded the PA. Definitions on certain terminologies and detailed legislation on non-standard cases were unclear or absent. Managers felt themselves unconformable in evaluation not only as it was something new for the majority, but also as a forced distribution had to be applied among their subordinates. This resulted in application debates, mostly controlled centrally by local HR departments, and caused further damage in self-esteem or simply led to give in.

Forced distribution in itself should not necessarily cause severe problems as it 'depicts reality' (Attila Baranyai, 2010). But it was the most feared and least and utmost clearly defined section of PA. Amount received as bonus was decided in accordance with an employee's final annual evaluation; therefore it was in the spotlight of debates, which requires a detailed elaboration in Chapter 4.4.4. Let me state here only the fact that forced distribution was indeed *forced* to be applied in MoET, elsewhere it was neglected. Unhappy managers or subordinates were compensated via out-of-PA solutions, depending on the ministry's budget allocation.

As we saw, this performance appraisal was a very complex system especially for the least educated culture. Rigid competency-list, forced distribution, unclear and complex math, excessive paperwork, endless goal-setting and evaluation interviews, complicated temporary measurements and last but not least, unclear details put a dark shadow on the first year.

In general we can say proper coaching-type PA interviews were seldom conducted by managers, not only because they were not yet skillful in leadership to do so, but as they hardly had anyone to turn to fill in the gaps between theory and practice.

Either they were unprepared, afraid to fail, helpless in defining output or outcomes, the end result was the same. Ratees with even less expertise filled out their evaluation sheets with 'specific targets' and 'measurable' outputs/outcomes, but as there was no culture of strategic planning, strategic documents were even less accessible – and less understood – for non-managers. Not only that (by definition) this is not their duty.

In best case scenario, raters had a short conversation on goal setting with ratees in order to finalize the goals, rather in sense of duty, than as coaches.

Evaluation sessions, especially in an unclear legislative situation on details and hands tied up due to forced distribution, became nearly meaningless and resulted in a disappointment.

Not surprisingly, not in MoET, but in several fellow ministries PA in part or in full was ignored, which behavior was also backed up by a very unusual phenomena as we shall see in the next section.

2.5   An unusual feature: dual appraisal

One may ask, having had a look on the *still effective* version of the Hungarian Civil Service Act, why the so-called 'new type' appraisal was needed. Chapter III, 34-36. § in the Civil Service Act regulates performance evaluation and appraisal. As the Act states, civil servants performance must be evaluated in a written form on an annual basis based on civil servants compliance with job description and organizational goals.

Final evaluations are made on a four-point rating scale as follows: 'highly competent', 'competent', 'merely competent', 'incompetent'.

Assessment is based on ten factors in case of non-managerial roles and on an extra two for managers:

- professional knowledge and expertise,
- analytic skills,
- judgment capacity,
- accuracy,
- skills of expression in writing,
- skills of expression orally,
- sense of responsibility,
- sense of vocation,
- skills of establishing and keeping contacts,
- diligence/endeavor
- plus quality of the work of team directed and
- organization of work for managers.

These competencies are evaluated on a five-point scale (outstanding – above/bellow than average – average – not satisfactory). No direct evaluation is formally attached nor to job description or to annual goals – opposed to the main text – and can be listed on the top of the rating sheet, as these factors are labeled as 'points to consider in the evaluation of meeting the criteria and the responsibilities'. (Appendix 1, Civil Service Act)

This kind of evaluation was exerted mainly for bookkeeping purposes in case of promotions – that is granted automatically once legal criteria were met and 'competent' grade was granted. Final points provided basis for next years base-pay adjustments (43. §, Civil Service Act), and might make career advancement speedier ('highly competent'). (UN, 2004. pp 11) Certain titles were not grantable unless one had an 'outstanding' record, while 'promotion' – meaning base payment raise – was by default based on years in service, unless one had an outstanding performance. This has certainly led to abuse according to ministerial budgets and HR practices. The system served only formal purposes and promotions were almost entirely seniority based. (Vassné, 2001, pp 37)

I shall not elaborate this system as its deficiencies speak for themselves. The 'new type' performance appraisal was introduced to amend these problems, but did not replace the 'old' one in legislation. This means, the effective Civil Service Act still justifies usage of the 'old' system, which is – out of question 'easier' to use in all sense, however ineffective it is from a managerial viewpoint – still the legal basis for base-pay adjustments. No need to emphasize consequences in proper use of the 'new' system, which is indeed, regulated on a lower – 'decree' – legislative level.

3. Performance management, measurement and appraisal in the literature

Performance measurement and appraisal is a debated tool in the management literature. The theoretical benefits associated with the use of performance measurement and appraisals in creation of a high-performance organization are seldom questioned, however, in practice the perverse effects often dominate the positive achievements in the long term. (De Bruijn, 2002., Popovich, 1998)

Regardless of school or institution they belong, whether they do it in practice or theory, researchers either against or in favor of performance management, draw an ambiguous picture about it. The literature lists numerous paradoxes about 'performance', 'performance management' and 'evaluation', but before I review those, I would like to set a clean table for the detailed discussion by introducing the following definitions.

3.1 Definitions

All researchers employ a definition different in their scope for the abovementioned terminologies. In the next paragraph, I will list the definitions I have used in the research. The relation between 'performance' terminologies was pictured bellow.
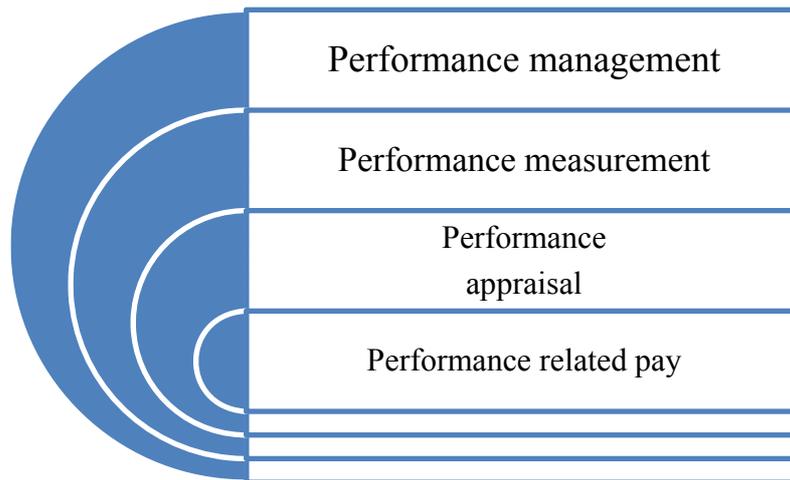
10. chart Relations of 'performance terminologies'

Performance management as the broadest category is a cyclic management tool that targets outstanding organizational performance, via setting performance standards, measuring and evaluating individual performance against those and providing feedbacks and development plans for better performance. (Vassné, 2001. pp. 12)

Performance measurement: an 'organization formulates its envisaged performance and indicates how this performance may be measured by defining performance indicators' (De Bruijn, 2002, pp 7) and measures actual performance against these indicators.

Performance appraisal or evaluation[6] is the process in which the individual performance is followed, feedback is provided for past performance and guidelines are given for future development.

Performance based pay scheme links a certain portion of the employee's compensation to his/her performance putting this portion at risk in order to motivate them without jeopardizing their basic financial security. *Performance based bonus* is a lump-sum payment, usually more substantial than merit pay annuities as it induces no commitment to continuous future pay. (Daley, 2002)

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[6] 'Appraisal' and 'evaluation' are used as interchangeable terms in this paper and seldom differentiated sharply in the literature.

Based on these definitions I agree with Bache, 'the sole intent of every performance appraisal system should be to *improve* the performance, to provide feedback on quality of performance and then review the process on the desired improvement of performance.' (pp 204 in Timpe, 1988) This statement also implies a commitment to key HRM values: competence and professionalism, results orientation, growth, fair treatment, flexibility, accountability, transparency, and ethical behavior. (Popovich, 1998, Hilliard, 2002)

These values represent the understanding the fundamental principle of treating employees as the organization's most valuable asset. Without their contribution, organizational goals will never be achieved, organizational performance is extinct, and the job doesn't get done. Therefore high-performance organization requires high-performance HR systems, whose policies and practices supports excellence in performance management.

3.2 How does performance management work?

Based on the above defined terminologies we can picture the performance management cycle.

Problem identification

Goal setting to solve these problems

Organizational / Individual

Definition of performance indicators

Implementati of solutions

Measurement of achievement

Evaluation, appraisal of performance
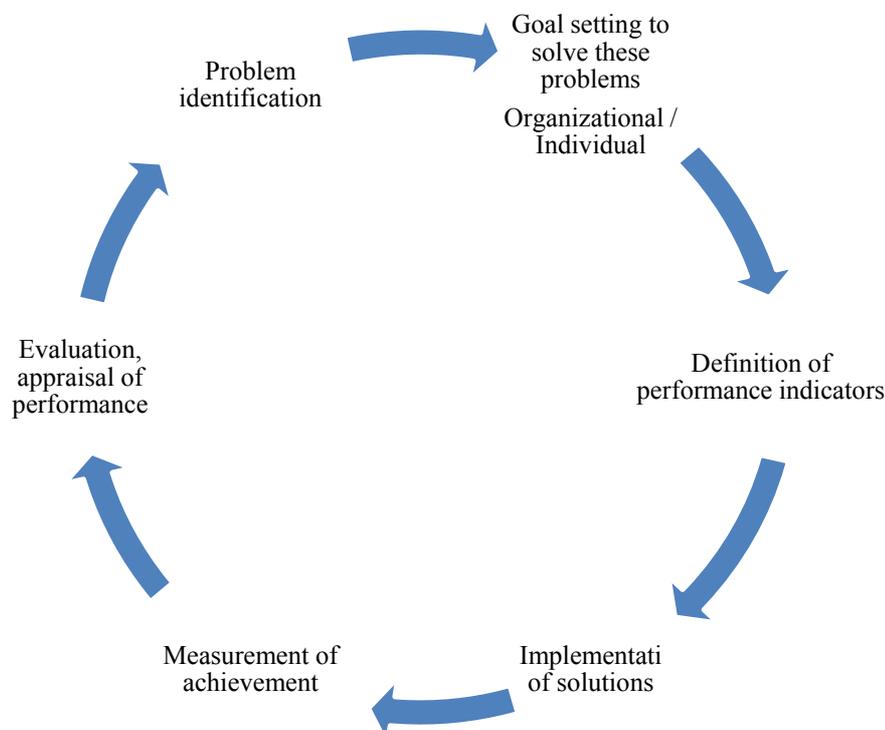
11. chart PA cycle, Based on Vassné, De Burijn

Performance management as shown above is used for both to enhance organizational and individual performance. As the cycle starts at problem identification and works on solutions continuously, development follows all the stages.

While the cycle influences all organization members' life, roles are divided. Definition of performance indicators is managerial task, while the majority of work done in implementation is the employees' duty. We will see how they can share the job of problem identification and goal setting in the next chapter.

High performance organizations usually have an external focus and spending extra care on customer definition to satisfy their needs, which in turn will make them successful. Budgeting, finance department usually has a key role in performance management by watching overall effectiveness and results (OECD, 1997) and next terms' budgets can be based on previous term's performance. This leads to scrutiny of causes of poor performance, and this is where the public and private practice parts.

3.3   Pros and cons of performance management

'Merit pay programs have more theoretical than practical advantages.'
Meyer

Hereinafter I shall list the commonly used arguments in favor or against the use of performance oriented management.

3.3.1   Beneficial effects

'What gets measured gets done'
Osborne

Performance based pay schemes built on expectancy theory that better performance will result in higher rewards (Meyer, 1987) as 'our behavior at work is shaped by rewards and incentives'. (Kahn, 2003, pp 65) 'To maintain their self-respect, people need, and of-course

thrive on, praise' says Hilliard (2002) and performance appraisal might fulfill those acknowledgement and affirmation needs.

Performance appraisal enhances individual and organizational performance by providing motivation and helps to reveal reserves. (Vassné,2001) Efforts are streamlined towards those goals, which are measured. Strategic orientation support efficiency and effectiveness by directing efforts towards higher contribution to organizational goals (Meyer, 1987) and also by channeling communication that reduces information overload. Focus on targets amends transparency and accountability, which in turn gives room for evaluation by external parties and enables benchmarking. (De Bruijn, 2002) Quest for excellence, competition supports professionalism, innovation and raises productivity and quality level. (Vassné, 2001, MPB, 2002, Corby 2009)

Some claim PA's distinguishing power as its most important feature. Well working performance appraisal helps to detect lazy and hard-working employees (MPB, 2002, De Bruijn, 2002), encouraging the best performers to stay and the worst performers to leave (Meyer, 1987, Schleicher, 2009). Performance appraisal system provides information for career planning, development and training supporting hiring decisions. (Vassné, 2001)

Once these expectations came true, performance appraisal bears fruits and legitimates itself. But the positive culture forming attributes might also work out to the contrary.

3.3.2 Objections

'Most kinds of organizations succeed because of cooperation among their members, not because of members' discrete, independent performances.'
Steers

While competition might enhance performance, it also provides disincentives for cooperation and leads to jealousy and antagonism. (Pearce, 1991, MPB, 2002) Differentiated pay leads to

dissatisfaction, loss of self-esteem, cutthroat competition among employees. (Meyer, 1987) Escalating someone's own performance provides room for playing with results to show targets were reached. Political game playing also flourishes. (De Bruijn, 2002) Both behaviors direct attention away from core activities, which destroys organizational performance. (Pearce, 1991)

Measurement problems especially at public organizations (MPB, 2002, De Bruijn, 2002) strengthen this behavior. Performance appraisal system doesn't recognize tacit knowledge or interaction, nor excellence or commitment. Still, quantitative measures are more widely used than qualitative, while lack of authority over the decisions calls the legitimacy of PA into question due to interdependencies. (Pearce, 1991) Therefore appraisals are non-meaningful and in best case, partly represent reality.

Staying close to reality becomes extremely difficult when dynamic environment calls for changes. Performance appraisal and measurement is – at most cases – static, while aggregated data veils the actual performance. This supports best accountability and benchmarking purposes. But once indicators were accepted, all incentives points towards conservation, therefore they freeze. Keeping these indicators updated requires huge efforts and time. These efforts are usually costly at the initial stage already and becoming more costly as indicator-list starts to mushroom. (De Bruijn, 2002)

Excessive measurement later becomes an exercise for its own sake, which draws technocracy and book-keeping into action, ritualizing the whole process. Meyer (1987) cites a study in which 80 percent of the companies had merit pay plans, but over the half of them admitted at least 95 percent of their employees have received merit increases. These data shows the abuse of PA system in practice as it blurs the linkage between performance and performance related pay due to lenient appraisals or lack of budget ceilings. Performance appraisal in itself cannot

guarantee the non-adverse selection, as talented individuals often leave (Hilliard, 2002) and establish their own businesses or join the private sector. Subjective judgment that can hardly be avoided may also lead to the same result and furthermore, PA introduces uncertainty in annual compensation (Pearce, 1991), which is something public organization members find difficult to tolerate.

Even if the PAS designed well, implementation problems are common, therefore on the long run, shortcomings overrule the benefits.

3.4   Implementation, design–principles

*'The HRM component of an organization
- properly defined and implemented -
can become a major value-adding element
that contributes to achievement and results'*[7]
NAPA

3.4.1   Implementation

As we saw in the previous chapter, performance evaluation, as all other management tool has its pros and cons. Once an organization commits itself to the use of an appraisal system, thousands of further questions arise: What do we need the performance appraisal system for? What is the best method for appraisals? When and how to implement a new or revise the old system? Who will take the lead in implementation? How will we make employees understand and use the system? What benefits and shortfalls are anticipated? How can we mitigate the problems?

Thus a system might be designed according to the best recipes in literature or utilize the best practices, implementation failures might lead to limited success as Pears points out (see in Steers, 1991), however, the literature provides some guidelines for successful implementation. (Vassné, 2001, Hilliard, 2002 bellow)

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[7] Cited by Popovich, 1998, pp 143 (NAPA - National Academy of Public Administration)

No form of meaningful change can begin unless clear goals have been identified. An organization's clear view on the desired outcome will help to design the system and implementation in a way that best supports to achieve these goals. Once an organization knows where it wants to go, the next step is to review the current context and processes, which will reveal the strengths and weaknesses of both the actual practices and the cultural characteristics which will support or hinder the implementation.

When the goals defined, processes, skills and future implications were scrutinized, it is time to formulate a strategy and design the implementation plan.

While top managerial and all staff commitment is a prerequisite for the success, a development team should be assigned to execute the daily tasks of the implementation and promote the proper training for the staff. The team might consist of external professionals, who has the expertise in the given field, but may have less information on the internal processes and standards, while in house staff has the in-depth internal knowledge but might have a conflict of interest and distorted perception on the situation. Hybrid teams might offer a balanced solution, where the indoor and outdoor expertise is combined and credibility issues are also minified. Hybrid set up might also help local HR professionals better understand their shifting role and identify their development needs (Popovich, 1998) that will help them to assist line managers in their new tasks.

Mandate of implementation team might expire at a certain point, while maintenance and evaluation must also be executed to preserve the system. By this time the indispensable functions of education, training, orientation and development should be executed, so that the competent employees will be able to promote the system.

Via the whole process planned and open communication is essential as performance appraisal has an influence not only on the individuals' well-being and development, but on the organizational culture. PA means a change in values that were mutually accepted hence shape

the relations between all members of the community therefore communication supported by participative management will help avoiding worker alienation.

3.4.2 Design

Under the label 'design' I understand the key characteristics of the performance appraisal system. Besides the importance of processes, the system design plays a critical role in acceptance.

Regarding the **content** of the performance measurement, a widespread problem is that we often measure what we *can*, not what we actually want. I will not go into details about the complexity of measurement problems here as it might be the topic in itself in a different paper. Let me just state here that there is a certain trade off between the accuracy of a data and the amount of efforts to get them measured. Sometimes it is easy to measure a quantifiable output, but that does not necessarily tell us in what quality were they performed. Quality measures are therefore more costly, subjective eventually, but may draw a more realistic picture of actual performance.

Furthermore, as individual performance is interdependent (especially in the context of this research), the failure in meeting a target might have its reasons beyond the employees own responsibility. Therefore the content should not necessarily be the output or the outcome, but the behavior and the efforts put into the quest for targets.

Either content is the subject of evaluation, there are usually multiple **methods** for measurement. Two forms dominate in practice: MBO and BARS. Management by objectives (MBO) is essentially a tailor-made solution and works the best, where results are related to performance and achievement of targets is traceable. Behaviorally Anchored Rating Scales (BARS) are useful tools to evaluate behavior, where outputs are more assessable than outcomes. Whereas both methods employ participative management tool set, MBO puts more

emphasis on ratee participation. By nature BARS fits standardized tasks and larger groups better than MBO. (Daley, 2002)

Depending on the nature of tasks at the workplace, the **organizational level** on which the performance is measured needs to be selected. Starting from individual level, team, division or organizational, as a whole, performance might be measured. The question is: how are these performances interrelated and what is the level, where the contribution and results are clearly matched.

The next question is **who** evaluates? In the classic case, employees' performance is appraised by their immediate bosses, however 360 degree evaluation and self-evaluation or combinations provides a feedback from various angles and results in a more realistic picture that helps to lessen subjective evaluations and attribution failures.

Timing as the last part of the greater picture decides the frequency of evaluations and also the schedule of goal setting. At most cases, performance is evaluated on an annual basis.

If performance appraisal aims to pay performance-based compensation, numerous further questions arise. What mathematical formula transfers performance to performance-based remuneration? What is the healthy proportion of performance-related-pay of total period-compensation? Should performance-based remuneration be a monetary award? What are the budget limitations? Can the proportions of different performances anticipated or influenced for planning purposes? What are the 'proper' proportions and what number of performance categories do we need to employ?

3.4.3   Characteristics of effective performance measurement and appraisal

One can easily get lost in the jungle of the various factors of designing an effective performance appraisal system, while the most important factors are eventually not easy to describe. De Bruijn identified the following three principles in effective design:

- **Trustful**ness: the evaluation must be based on interactions

- **Rich**ness: the evaluation system should employ multiple variables that represents the multiplicity of professional activities

- **Liveli**ness: an effective appraisal system is dynamic, follows the changes at the organization and challenges both the rater and the ratee

Might the principles look simple, none of them are evident in practice.

Co-production, strategic behavior, political game playing and command and control leadership undermines trust, that can only be overcame by mutual agreement born in open, two-sided, meaningful discussions. (Bache in Timpe, 1988) Requirements in variety call for continuous updates in definition of activities, results, indicators, measurement and evaluation methods, so does dynamism.

Effective measurement therefore concentrates only on the relevant product and process indicators, limits its reach to organizations, products and employees where relevant measurements can be achieved and differentiates output-outcome, quality and quantity (De Bruijn, 2002, pp 18-19) and pays attention on causes. (Ferris-Gilmore in Timpe, 1988).

Meyer argues performance appraisal is only effective where outputs are readily measured, teamwork has a low importance and employees are not forced to be engaged in zero-sum games. His findings question justification of PA in most organizational set up. (Meyer, 1987) Therefore key elements must be carefully developed to gain success in any setup.

OECD (1997) study has found the more top-down and mandatory the approach is, the more comprehensive the change is likely to be. Bottom-up approach results in less proper guidelines, amateur implementation and non-consistent changes, which poses risk on the big picture as the link is not clear between individual and organizational performance.

Institutional arrangements supporting the operations must also be made according to the same study. Finance departments who have an overall view of the performance must be involved in a supportive, non-competing cooperation with the personnel department. At most cases, specialist groups' presence cannot be spared, unless the traditional departments can face the difficulties of PAS implementation. Sustainable change is only achieved by comprehensive development of related areas, such as the legal frameworks, internal and external processes, development of necessary skills etc.

None of this can make the PA system work if not supported by an information system, but the most important elements are the clear objectives, therefore the system can be designed in accordance with the targeted goals. (OECD, 1997, De Bruijn, 2002)

In summary I have found *clear objectives* as the key element of PA – and any other – projects. These objectives should be supported by both soft and hard factors, under the label of people-first values and institutions.
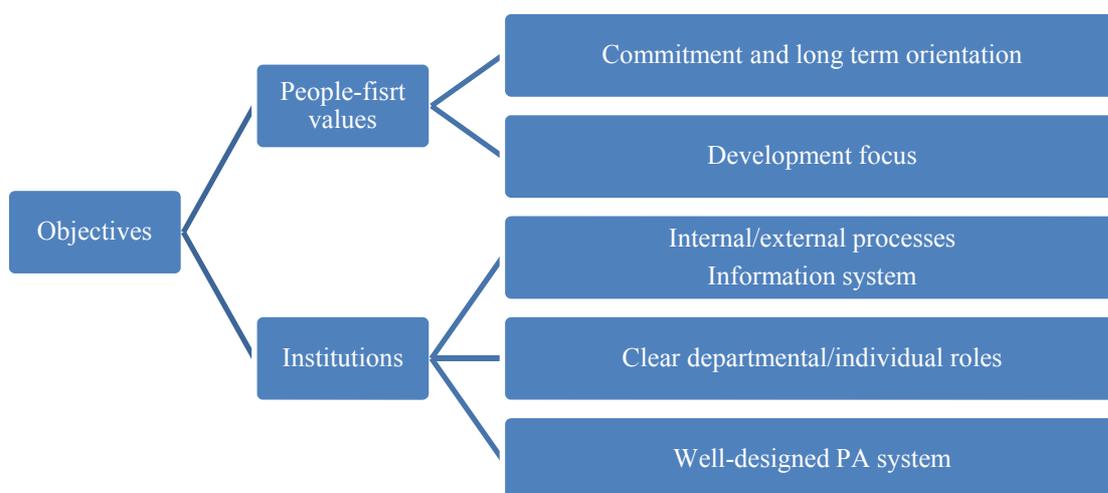
12. chart Building blocks of an effective PAS

3.5 Specifications in public organizations

'Public and private organizations
are fundamentally alike in all unimportant aspects'
Wallace Sayre

Although the general idea of management can be applied in the public sector, certain differences call for further investigation.

As public organizations are charged with administration of the law, abuse of power is rendered more difficult by overlapping jurisdictions. The HR relation: civil servants are seldom fully responsible for their tasks and processes tightly bind their hands. (Daley, 2002)

Opposed to companies that provide easily identifiable products and or services, the identification of 'products' and 'services' are more complex in public sector, as some of the terminologies can not be found in public sector. (Fábián, 2004) In our example, the MoET's key performed task is policy making and its effects will emerge via implementation on lower administrative tires. This means, MoET's – and individual's – production is generated in a co-production ('in cooperation with third parties') and multiple ('must do justice to different values'). (De Bruijn, 2002, pp 3) This feature leaves room for alternative judgments of results and causes difficulties in performance measurement (Daley, 2002, Gortner, 1997), starting at finding the best level of assessment.

Furthermore, the time lag between any intervention and its effect is normally longer than the evaluation period in which the organizational or individual contributions are measured. This is a key feature of gold-collar workers job, which stresses special evaluation needs. The direct effects associated with personal efforts in the achievement of final – often abstract – outcomes are likely to be non-measurable. Their evaluation is therefore more accepted and desired by coaching sessions, mentoring relations.   Political environment worsens the

problem, as alterations lead to temporary assignments (Fábián, 2004) that makes the assessment of performance nearly impossible. (Daley, 2002)

In practice of performance appraisals, public organizations tend to move towards complicated appraisal processes. Orientation towards internal activities and proper bookkeeping rather distorts PA's original function and decreases its efficiency sometimes resulting in no significant change between the before and after-PA stage. (Meyer, 1987)

Still, Vassné attributes better decision making, hence higher social benefits to performance management practices in OECD's public sector as it helps to identify public expectations, unfolds development areas, provides information to more adequate linkage between political agendas and organizational results and motivates public servants (Vassné, 2001, pp 17) just as it does in private sector.

4. Evaluation

'Having commitment without mission is impossible,
while having a mission but no commitment is useless'
Dessler

The previous chapter demonstrated the complexity and the difficulty of development, implementation, and maintenance of an effective performance system. In this chapter I will elaborate the performance of the Hungarian attempt in this effort and by the end of the chapter we shall see, whether the benefits has returned the time and attention paid on the implementation.

4.1   The vital role of front line managers[8]

*'Training and development
is the philosopher's stone'
Daley*

As Kahn and Hilliard pointed out (Hilliard 2002, Kahn, 2003, Newland, 1996), contemporary public managers have to possess complex managerial skill set that helps maneuvering between multiple tasks, interest groups, timely needs and strategic goals, subordinates and superiors etc.. If it weren't enough, we also expect government leaders to cope with and promote modernization and reinvention of public sector.

Hungarian public leaders however were rather bogged down by their traditional roles and the overall management system was far too bureaucratic to respond enthusiastically to reform attempts. Opposed to US example, Hungarian public leaders hardly accepted that their job 'included reinventing their piece of government' (Kahn, 2003, pp 19), and as lack of acceptance leads to delay in progress and undermines legitimacy via failures (Schleicher et al., 2009); their neutrality became a critical factor of the effectiveness of the PA system.

But it wouldn't be fair to blame only them. All their incentives called for conservation of empty old routines. (Kahn, 2003) Fresh thinking was hindered by dependence on established practice. I commonly heard managers rigidly following the rules that has backed their actions up and lifted their responsibility in decision making – and helped their survival in times of political alteration. This characteristic of culture was so strong, that it has clearly transformed leaders arriving from public sector in the twinkling of the eye, unless they have left the public sector on time.

Instead of being supportive of change, servile approach to reform attempts resulted in low acceptance of new initiatives, while decision makers forgot to provide incentives for better

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[8] Purcell, 2007

commitment. Even though Prime Minister's Office organized road shows and trainings before the implementation of PA, which was a more caring approach than the average, no follow up, training or consultancy was provided for managers who gave voice to their further training needs. (Baranyai, 2010) Some were in the favor of PA, but the majority was not only resistant, but afraid of the system and negative in respect of the appraisals themselves – just like in Korea (MPB, 2002). Hungarian managers have traditionally no routine in giving feedbacks rooted in fear from confrontation. (Managermagazin, ECOSTAT, 2008) These managers were also the least prepared for the system and interested in sustaining of old routines. (Vassné, 2001, Baranyai, 2010)

Unfortunately, these employees are the ones that bring policies and practices to life and the abovementioned factors raises the same concerns about 'the effectiveness of line managers in supporting and delivering people management activities' that Purcell et al. researched. (Purcell et al., 2007, pp 71, see also Bache in Timpe, 1988) In their research they have found the same areas of concern that holds for the Hungarian public administration:

- Lack of skills and knowledge

- Lack of commitment to people management

- Competing priorities and work overload

Problems lying in competencies and commitment were supposed to be solved by the 'coaching' trainings, but speaking about coaching where basic skills are missing questioned efficiency. The situation was slightly better in reform-responsive ministries, but even the one-year Leadership Academy at MoET was only a good start not a cure for bridging the gap. Furthermore, the PA system with its complexity and forced distribution, which in itself was the major inhibitor of acceptance (Baranyai, 2010) has nipped managerial confidence in the bud.

Commitment also failed to flourish not only as the necessary skills, but as top managers

failed to act as role models. (Baranyai, 2010) State secretaries and ministers were neither actively involved in the process of the implementation nor in goal setting and proper evaluations. Various solutions have raised their heads and the common practice of evaluation sheets filled in by subordinates rooted in the same treatment between managers and top managers. Competing priorities were cited the most often and non-people management tasks overruled the PA problems at most cases (see Chapter 2.3.1). I consider the situation in MoET slightly better in understanding than in other ministries, but having the broadest responsibility area among European Ministries, it was no surprise that no 'perfect' appraisal or goal setting meeting was executed nor between managerial levels or below.

Managers were trapped in a situation, where they first had a – seemingly – full authority over an HR practice [9], but they couldn't execute their power. HR decisions depended on administrative rules – base pay was ruled by the Act, budgeted number of employees by charter, limited possibilities on pay raise on actual HR budget and political negotiations, trainings were supply, not demand driven etc. – which has strengthened their unease, and now – as we will see later in FDRS chapter – performance appraisals were also centrally controlled.

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[9] Evaluation sheets were filled by in line managers, but were countersigned by executives.

> In order to overcome of these difficulties I recommend starting with executive commitment – unless they can be taken as role models, incentives would crash.
>
> I also recommend more down to the earth solutions:
>
> - *Constant coaching support* must be provided via the whole duration of the implementation project. The desired solution is the internal coaching by committed executives, but external coaches can also be used.
> - *Proper incentives* should guarantee managerial engagement in the process. 'Role enrichment' was not enough as we saw, therefore further moral rewards, excellence awards, better career chances, training possibilities, monetary rewards needs to be employed as motivators.
> - Authority in performance evaluation is rather a shame than reward if this is the sole HR tool under managerial control. Therefore as the most essential recommendation I advise the *complete reform of managerial authority*. Under normalized circumstances, managers must have control over the number of their employees, a certain authority over their pay and pay raise, while tools and opportunity should also be given for employee trainings.

Lack of urgency, lack of emotional touch (Baranyai, 2010) has deeply rooted in lack of 'people-first-values'. (Dessler, 1993) Cultural factors, retarding the effective translation of PA policies into action, will be elaborated in the following sub chapter.

4.2 Fundamental questions in culture – HR values

'The values of the organization set the framework,
and HRM policies and systems
should reflect those values and put them into practice'
Popovich

Previous arguments shows, the effective employment of a performance management requires a strong commitment to treat public servants as a valuable resource (as we saw in Chapter 3.1). However ideals are empty words as long as they are not followed in practice and in Hungary's case, stated values collide with the ideal people-values.

The Act XXIII of 1992 on the Legal Status of Public Officials partly supports the desired HRM values. The opening words and Chapter 1, 1.§ (8) word the importance of responsibility and professionalism. Accountability, transparency, ethical behavior listed

afterwards in the Act would also call for further research, but the scandals points out deficiencies on this field.

Instead, I turn our focus to the chapter of the Act XXIII that describes the ideal civil servant as follows: 'impartial public officials neutral to party politics, operating legitimately and possessing up-to-date special knowledge'. The Act expects civil servants arriving at work with all the requisite skills. But this is no longer the case. However, human capital investment was greatly ignored these days.[10] Daily operations of civil service also pictured in the document:[11] the civil servant, the manager deals with the assigned tasks in a professional manner, is responsible for his/her own actions and responsibly pursue the public organization's long term or short term goals by following the commands and directions aligned with the law and procedures.

The citation clearly shows the inflexible; tradition bound nature of organizational culture, where business style change is difficult. (Hilliard, 2002) Importance of procedures demonstrates the priority of processes over people and recalls the administrative personnel management rather than Dessler's 'people-first' approach. Still, an effective performance appraisal cannot be achieved without these practiced values.

Here we saw the neutrality of top and front line managers, that has undermined communication, which might have helped ratee's feeling of connectedness and let them 'own a piece of the rock' (Dessler, 1993, pp 57). Goal setting and evaluation interviews targeted 'double-talk', employment of active listening skills using Dessler's terminologies. But instead of listening to their people's needs, raters were busy explaining systematic failures of PA and blur their responsibility in the process. In turn, this behavior supports the double standards and hidden agendas that have characterized the culture instead of pushing the PA

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[10] The sole compulsory exam a public servant was obliged to pass is the vocational exam mentioned earlier, which hardly supports the requirements of 'professionalism' and 'up-to-date knowledge'.

[11] No official translation is available of the effective version of the Act.

towards its original goals of open communication, personal development and self-actualization.

> Hungarian public HR management was entirely governed by rules so were processes and procedures. Knowledge transfer and communication was hindered dramatically, therefore in this subchapter I would highlight these two problems for which I would like to offer a solution.
>
> - *Knowledge management* couldn't flourish in the world of information monopolies. While the MoET has started to experiment with data management tools on shared IT surface, knowledge transfer had no traditions between ministries and accumulated knowledge was only 'stored' in individuals. Best practice sharing forums, events - formal or informal -, integrated and standardized data management shall help to solve the problems.
> - *Communication* and communication channels were also contaminated with politics, therefore open communication both inter- and intraministerial should be emphasized via usage of everyday words, sentence structuring both in written, oral communication and legislative texts. Email culture should also be supported by the usage of e-signatures – and electronic communication should be respected as an official communication chanel.

4.3 Theoretical problems – What makes performance appraisal possible?

If we could have overcome of these HR-values difficulties, PA-induced competition would still cause problems. 'Competition' is a phenomenon that neither public organizations, nor civil servants faced traditionally and what requires an entirely different mind-set alien for this culture. Minimizing the resistance resulted from this problem was identified as the most critical factor in Korea (MPB, 2002) and recalls concerns regarding Hungarian confrontation-avoidance in the previous chapter. Worse, lack of performance orientation represented the highest burden for effective implementation.

Performance measurement is a prerequisite for performance appraisal, while performance management has a limited use without the other two. But in the Hungarian public sector none of them existed on system level. *The failure of the Hungarian reform attempt roots in the*

delusion that implementation of performance appraisal will automatically solve performance-orientation problems.

Chung (1997) has also pointed out system thinking superiority over tunnel vision, which also valid in reform design. Even though a number of parallel HR projects were implemented between 2007 and 2008, general processes, intervention evaluations and program planning hasn't changed. As we saw in the context and literature review, prerequisites of an effective performance management system, such as data-driven management were absent.

The implementation team built the PA project on sand. They assumed top-down goal setting process prescribed by PA will automatically result in the birth of strategic planning in ministries. Let me remind the reader, the MoET was the sole Ministry who has worked on its written strategy at the beginning of the project. This document was later criticized for being not sufficiently specific, listing only outcome but no output targets. The other ten ministries had even less!

Goal setting therefore went relatively smoothly at MoET in breaking down 'specific goals' for employees. Task definition was greatly aligned with the annual measures plan, but measurement of accomplishments was unclear. Less measurement problems were expected for support staff, as most of the processes were internally controlled. These divisions promised the most fruits in performance measurement and evaluation, but missing skills and commitment made them hopeless to harvest. Realistic and specific goal setting and evaluation was nearly impossible in core divisions as policy making was essentially co-produced. As best substitute, internal outputs were defined, but accomplishment of these targets had not much to do with the Ministry's overall performance.

As a further step towards proper performance management, MoET – again as a path breaking initiative – launched a project in the second half of 2007 in order to define key performance

indicators (KPI) for its programs. Project members and management faced enormous problems in finding the best indicators as all programs were 'multiple'. Only a matured KPI list could have been used as the basis of individual performance standards, but that was light-years ahead.

> Culture of performance can't be achieved unless 'performance' is defined. I recommend calling the existing 'Governmental Strategic Planning Handbook (KSAK in Hungarian) into action and take the path of
>
> - Strategic planning with explicit and measurable results
> - Data collection and analysis accordingly – data driven management
> - Consistent measurement of key performance indicators
> - Strategic evaluation and adequate adjustment systems

For the sake of full-perspective evaluation, let me put commitment, culture and performance orientation problems aside. If we pretend to have clear people-values, reasonable amount of commitment and traditions in performance management, we can turn our attention towards design characteristics.

4.4 Design considerations

Although major problems that made the implementation project fail were found in deeper levels of organizational culture, numerous 'administrative' problems, that has raised resistance even higher, might have been avoided by better design.

4.4.1 One size fits all? – Contents

Researchers and practitioners (Popovich, 1998, MPB, 2002, ECOSTAT, 2008, De Bruijn, 2002) highlight application limitations of performance appraisal for various reasons. Least tangible products can hardly be measured fairly; while management by objectives is unjustified if an employee has no control over the results. Therefore performance-based bonus scheme for all civil servants has *no precedent in practice*.

'What?' Results focused performance appraisal is only effective for senior officials and/or managers and executives if anywhere in this set up and would have done more good, while efforts and behavior must have been evaluated in non-managerial and junior roles. This differentiation is present in proportions, but haven't solved the measurement problems effectively and made managers face an impossible mission in goal setting.

'Development' as a central component of the PA system stayed not only unmeasured in the initial year, but it is still not evaluated. Although Government Human Resources Center has significantly developed in the recent years[12] and they provide a wide range of management trainings nowadays, in 2007 their sole task was the vocational exam. Even today they hardly target broader groups with trainings opportunities beyond this one, while EU presidency catalyzed portfolio enrichment towards language courses. Declaration of importance without financial support results in confusion and corrodes credibility. As managers had no incentive to seriously consider their employees' training needs, PA couldn't help to identify the most severe the development needs. Meanwhile, assessment of training needs in advance would have helped better implementation – and a set of essential trainings must have been provided before the system made individuals accountable for development achievements.

Regarding the *'How?'* the essential competencies were undifferentiated from political appointees to administrative staff in the initial year. It soon became clear; role differences require a tailored set of competencies depending on job descriptions, which has led to the modification of the decree later. Managers can now select the most important competencies from a broad competency list. MoET managers were also ahead of their colleagues in other ministries, as in 2006-2007 job families were mapped and standardized job descriptions developed. This should have helped other ministries too, while the competency list still calls for further development.

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[12] Today: Government Centre for Public Administration and Human Resource Services

4.4.2　How much can be managed? – Who evaluates?

Self-evaluation and superiors' evaluation are the key components of final appraisal. The first usually inflates ratings or leads to overly critical evaluations. Where job security is the key motivator, criticism is seldom present. Employees were left helpless in this unusual situation, as middle and high level managers rarely reserved time for evaluation interviews. They could do so, as a manager on higher hierarchical level could hand over their evaluation rights to lower level managers. In MoET case, state secretaries were evaluated by the cabinet in chief instead of the Minister, which has lead to revulsion by state secretaries. As an unfortunate effect, they became more alienated from the system.

The same design principle eased middle managers workload. Department heads could share evaluation tasks with deputy department managers and section heads. The decree aimed a situation, where no managers have more than ten subordinates to evaluate as this is the ceiling of shared attention. But as department or section size had no limitation, in MoET the number of ratees varied from two to fifteen. Where were no sections, deputy department heads ended up in a vacuum, while department heads had no one to evaluate if all their subordinates were employed in sections. At most cases, managers have found a practical solution, but some lost connectedness.

I recommend changing the evaluation sequence. Written self-appraisal leaves the ratees unfortified and misleads managerial evaluation. My recommendation is an evaluation interview in which both parties can defend their positions face to face. I would not use a legislative tool to mitigate the managerial-vacuum problem as it was better solved in practice, however I would emphasize all-managerial participation in evaluations via three partied interviews (between executive - department head – deputy department or section heads).

4.4.3   Timing – Parliamentary cycle

Timely rewards and punishments are more effective incentives for behavioral change than outdated. Therefore timing influences the appropriateness of performance evaluation. In the presented case, a calendar year cycle was introduced; however neither the political nor the parliamentary cycle follows a similar cycle in Hungary.

As by nature, policy makers' job is interrelated with the Parliament's tasks, a cycle-alignment would have helped to raised relevancy of evaluations.

According to the Act XXIII and budget cycle, all compensation must be paid before the end of the calendar year, therefore the PA Decree aligned the PA cycle with this regulation. Parliament on the other hand operates between September to June with an insignificant Christmas break in this respect. PA cycle aligned with that must have stopped speculative evaluations in November.

Unfortunately, these adjustments would still not solve the alignment of PA and policy impacts time horizon.

4.4.4   FDRS – The rating format

Managers were forced to follow a given distribution in evaluating their subordinates. As forced distribution was the point where most of the difficulties have reared their heads and according to Attila Baranyai, made the PA fail (Baranyai, 2010.), I shall scrutinize this issue in the following paragraphs.

Forced distribution rating system (FDRS) is a debated practice in the management literature. The advocates claim that the use of FDRS helps to identify not only the top performers, but also the ones on the bottom. It also forces managers to conduct more sincere evaluations. These factors will lead to an organizational culture that does not tolerate low performance, values honest feedback, therefore pushes the whole system towards high performance on the

organizational level. Contra arguments are just as valid. FDRS is a perfect substrate for politics and has a negative effect on team work, collegiality among employees, holds insecurity, raises legal concerns and the overall performance attributed to it declines on the long run. (Schleicher et al., 2009, pp 900) Furthermore, FDRS strengthens excessive technocracy, which became a key problem in this set up.

The decree hasn't stated accurately on which organizational level the FDRS must be applied. Organizational unit, more precisely, department level was defined as the most appropriate sphere in MoET. However as some of the departments were too small to apply the FDRS properly, the problems rooted in the mathematical rounding were mitigated on division level. This solution had a significant negative effect on internal politics as raters' with small number of ratees contested for the number of 'A' evaluations by occasionally employing tools not associated with the actual performance of the employee or the department to defend their position. In addition, the personnel department had the ungrateful duty to make the system balanced on organizational level, by adding or subtracting numbers between the divisions. As a result of the negotiations all department heads in each division received the quotas as given.

Managers sensed all decisions were arranged and done before they opened ratees' self-evaluations and the whole appraisal process is beyond their control. They felt appraisal interviews are not only useless, but unfair as their words will be dishonest. As both managers and subordinates are excluded from the process, the session is only a show, which is in strong opposition with the worded goals of PA and coaching-PA trainings. Resistance was so high that these trainings were occasionally blocked by managers giving voice to their concerns (Baranyai, 2010) and has became the most frequently touched topic beyond operational tasks – on informal occasions too.

The abovementioned discomfort is in line with the findings of Schleicher's experiments. "FDRS ratings are (a) more difficult when there are administrative consequences attached and (b) more difficult and perceived to be less fair when there is less variability in performance among the rates." (Schleicher et al., 2009, pp 922)

While the attached administrative consequences were less serious in the initial year than it was planned on the long run, the evaluation sheets are kept in the ratees' personal file that rose doubts in the future usage of the data. Variability in performance was not significant, or even if it were, usage of the 'old' PA showed managers can not differentiate poor and good performers – or they were unwilling to do so.

Schleiher et al. advices implementation teams to be prepared for the resistance, but once the resistance is extremely high, it may be even viewed as a sign, that the FRDS *should not be* implemented in this set up. FRDS should only be used, when the organization has a reason to believe there is a significant variability in performance among its members or units.

In Hungary, both factors clearly pointed towards a different rating format and I consider the FDRS as the key design failure. Even though FRDS aimed to force managers to differentiate among their employees, neither their skills were matured, nor was the culture in favor of competition. Therefore – if used for reason beyond these considerations – a less restrictive distribution format would have been a better choice. As performance has showed no significant variations I would recommend the 20-70-10 rule for superior – fair – development needed categories.

Beyond FDRS I have highlighted the use of MBO for managers and BARS-type evaluation for non-managers.

4.4.5 Monetary issues – Where does the problem lay?

Chung (1997) claims performance evaluation meaningless in presence of seniority based pay-system as no managers will take it seriously and meeting book-keeping requirements will overrule HR purposes. I partially share his argument.

In the Hungarian seniority based base-pay system significant change in pay-level requires decades in public service. Currently, salaries offered for fresh graduates are competitive with the private sector, but competitiveness disappears after the first two-three years in service. To keep young talents on board, off-seniority incentives must be granted for these employees. However, according to Meyer, 'significant differences in salaries are associated with differences in position level, not with differences in performance at any one level' (Meyer, 1987, pp 183), which is not at all the case in the public sector at the moment. High turnover, lifelong employment, still static organization 'is more likely to be due to a poor promotion system than to lack of a merit plan for paying employees.' (Meyer, 1987, pp 183) Therefore establishment of positions and career ladder – not necessarily more hierarchical levels – promises a cure for the problem.

Unfortunately, performance based bonus found another – though temporary solution – for the problem. The proportion of bonus of total annual compensation can reach one third of it, which is exceptional. (Pearce, 1991, ECOSTAT, 2008) Some claim, bonus payment has to be a significant amount as otherwise a one-time payment hardly stimulates remarkable change in behavior. But the proportions used initially in Hungary were rather perceived as pay raise, than incentives and started to become built in to expectations just like 13th month pay.

Modifications later decreased the maximum amount of bonus, which are still high, but has somewhat closed the gap between leaders and non-leaders. However as saw primary motivations in public service are non-monetary, while the age breakdown also points towards

the primacy of job security over monetary rewards I still doubt performance-based bonuses are the most effective cure for public HR problems. Basic pay system reforms aligned with job evaluation results are the stepping stones for the monetary reward problems.

4.5   Strengths, benefits

However much has been said about the shortcomings of the PA system, some of its strengths are speaking for themselves and were admitted by professionals too.

As we saw, the design principles of an effective performance appraisal system were all employed here. Participative management as a core idea gave employees the opportunity to become a part of the big picture, while it has also compelled managers in a situation where they can develop their skills. Development in focus was an idea that has never been in the spotlight of attention, although it was much needed. Implementation of PA has also emphasized strategic planning and helped organizations to focus on targets.

Road show, off-site trainings, continuous media attention were tools never used in advertising and supporting reinvention efforts. These tools has created a 'business-like' atmosphere, and helped raising awareness to a great extent.

Certainly, a number of managers has became fond of the systems in parts or fully. Some realized the potential of both personal and subordinate development. And more has started to overview current practices from a different exposition. In this respect, the PA project had definitely exercised its culture forming attribute.

Unfortunately, these features couldn't help to overcome of the strong counter-currents.

Strengths	Weaknesses
Participative management	Complexity
Well-constructed PA system	Lack of managerial skills
Development focus	Short timeline
Strategic orientation	Unprepared culture
Unique approach and implementation	Measurement problems
Opportunities	**Threats**
Differentiation – career management	Lack of political support
Incentive for employees	Fragmented reform attempts
Raised attractiveness of public service	Financial shortage
Strategic focus and planning	Intact base pay scheme

13. chart SWOT analysis of PA

4.6   Change management – implementation

'Change requires persistence and time'
Kahn

Change takes time, especially when the start lies miles away from the end stage. According to the OEDC (1997), to transform a non-performance orientation it is necessary to employ a new staff to implement new processes. We saw, MoET had more excessive support both internal and external, than the follow ministries. Still, even with staff assisting in knowledge transfer, cultural transformation and attitude change longer than elsewhere, timeline provided for this project impeded success in seeds.

In the USA, Kahn's (2003) review showed transfer from internal to external focus and appropriate performance reports takes decades to incorporate in public setting. Even supported by strong incentives and commitment, change is always difficult and time consuming. (Jenei (A), 2000)

We saw in Hungary we merely had a half year to put the PA in practice, when even the basic terminologies were not understood. No surprise, the intended HR policy has resulted in a completely different actual. This has made the best intention a hated, not understood attempt.

Unfortunately, this has resulted in solutions through the back door that current legislation made possible. Appraisals were just as lenient as they were in the old system, and even where

forced distribution was applied, corrections were made via other ways. Interestingly, in 1998-1999, Prime Minister's Office has experimented with a performance appraisal system, with exactly the same results as I have found here. (Vassné, 2001)

Ad hoc information flow, lack of institutional background and work overload are just as valid as they were ten years ago, but what makes reinventos even sadder, Vassné (2001) has pointed out the lack of knowledge management and denial of previous information. If the findings of this half-year attempt were reviewed, we might have avoided some of the problems. Instead, solutions have only started to scratch the surface, leaving the fundamental problems almost untouched.

Therefore I recommend a more caring situation analysis and sufficient time both for planning and implementation – as it will be shown in the Conclusion chapter.

4.7   Final evaluation

In final evaluation of an implemented reform initiative we can try to measure its efficiency, effectiveness and impact. (IFUA, 2004, pp 9) As we saw, evaluation had no tradition in the Hungarian public administration, and unfortunately performance appraisal project was no exception. I could not find an official report that evaluates the project or describes the necessary follow up steps. Modifications in regulation clearly show, that feedbacks existed. Still, these refinements had a relatively insignificant effect either on acceptance or proper use of the system.

Even though, during my work years at MoET I believed the performance appraisal might bring significant changes in public administration, now I need to admit, that this initiative has failed to accomplish any of its targeted or desirable goals.

Book-keeping requirements keep the performance appraisal alive, while exceptions seldom

can be found. I cannot attribute any major change in efficiency or effectiveness to the project. Performance appraisal was a self-standing project, while performance-based pay system implies an overall transformation in personnel management (MPB, 2002) that has not happened.

Even in MoET – which was cut in half in mid-2008 – empty routines took over the new initiatives as no proper maintenance was provided, while commitment and motivation to keep the system alive disappeared with the State Secretary in January, 2008 leaving the Government Human Resources Centre behind with an ill-prepared system.

On the other side of the coin I can hardly say more than Korea's Ministry of Planning and Budget: 'the mere fact that the program got off the ground merits positive evaluation' (MPB, 2002). A technically well-designed system awakened personnel departments of their shortcomings and the publicity earned by – relatively – caring and modern implementation tools helped to realize the problems both for public servants and the greater public.

5. Conclusion / Recommendations

"Let's quit appraising and begin reviewing"
Bache

In order to make the performance appraisal system successful or I'd better say, develop governmental human resources management to 'maximise human potential' (Hilliard in Farazmand, pp 182, 2002), the Hungarian – or any other – government must first make itself committed to a fundamental culture change and get the organizational values right first (Popovich, 1998). We may take South Africa's White Paper – mentioned earlier – to follow. The key ideals as listed in the paper:

- The public service treats public servants as a valuable resource
- The public service focuses on service delivery outcomes
- The public service assigns managerial responsibility for results (…)
- The public service holds public servants accountable for their actions

(White Paper on Human Resource Management in the Public Service, 1997, SA cited by Hilliard in Farazmand, pp 180)

Just as sound management tools that may or may not work in a different environment, sound slogans shall lead to no significant change unless underpinned by real commitment and materialized in redesigned activities.

As we saw previously, the performance appraisal system developed and implemented in Hungary in 2007 was highly respected by HR professionals as a greatly designed tool that combines the best practices (management by objectives, mutually agreed goals, constant follow up, and individual development etc.) and nicely supports the various goals a performance management tool might target. Nevertheless we also saw the chasm between theory and practice: the fall of a conceptually brilliant system via poor execution, implementation, cultural problems – plus the lack of commitment that would have helped to minify the damage caused by other factors.

The unrealistic objectives set for the central government to achieve shows, the politicians tried to take the easiest route by shorting the period for confrontation, which has left no room for learning-curve mistakes. (Hilliard, 2002) Expecting a perfect implementation after stating the challenging nature of the problem was unrealistic, still, even the first – half – year brought monetary and administrative consequences. A year or two without materialized stake might have had led to decreased resistance or better acceptance. (Baranyai, 2010)

Wiser temporary eases nevertheless wouldn't be enough to lean on. Essential prerequisites of effective performance appraisal were missing. The fact that 'performance' had no culture in the public sector, which meant embryo-stage performance management and non-existent performance standards was only the tip of the iceberg HR-wise. Managerial skills required further development, so the basic administration and job analysis. Not to mention the high, and in MoET's case, the extremely high, turnover rate. Compensation plan is seniority-based and the efficiency of career planning is questionable.

However, if I confront the classical purpose of performance appraisal with the motivation of an average Hungarian public servant, who quests for security plus lower income rather than high salaries, solid career progression and risk in the private sector, *the failure of the PA implementation is far too evident: performance appraisal was nor essential, nor urgent nor in changing the public perception of public service nor in the creation in better HR management and working conditions*.

The mistake the Hungarian government made in HR reform as a whole follows the same logic as the failure in the actual implementation. We were obsessed by 'appraisal' and the way it must be perfectly done or which rating we will receive instead of pursuing the ultimate development goal of performance evaluation. (Bache in Timpe, 1988) Without negating the importance of strategic HRM, by concentrating its attention on 'fancy' strategic problems, the

Hungarian government blurred the value of technical-looking questions and we were trying to fix something that was not yet broken. This is not the desired responsive HRM that solves the problems at hand.

Knowing the Hungarian legislation and being aware of the discrepancies listed above, the problems of the Hungarian political system cannot be disregarded. Consensus seeking is the last attribute of the party's behavior, which approach has undermined all the meaningful reform attempts since the transition and modification of Civil Service Act would require all-party consensus.

Fundamental changes in culture are even more complicated to solve than the governmental HR challenges, but each and every small step will help us to get closer to the desired stage.

'To understand the systems view, start with the basics.'
Kahn

Instead of appraising therefore I recommend *reviewing and systematic, comprehensive preparations.* Current HR practices should be given a serious rethink, afterwards Governments needs to identify the real critical problems and work out development plans accordingly.

If they find motivation and compensation of civil servants a severe problem, I *recommend beginning with the redesign of the base pay structure and career planning with respect to market pay and practices* as performance pay systems (normally) only represent a small portion of a civil servant's annual compensation. In Hungary civil servants' base pay is only competitive for fresh-graduates (with or without the year end bonuses), while career advancement is moderately coupled by pay raise. Therefore if we believed PA will raise attractiveness for young talents, we have built the concept on sand pillars. Performance appraisals may only be introduced when all prerequisites hold, but due to the measurement

problems I would not recommend it in policy making institutions as measuring the least tangible activities would require exceptional skills from all organizational members and systematically.

In any case when performance appraisal is introduced, I recommend an in-depth audit of the current situation to ensure the accuracy of a painstaking feasibility study that pays attention on individual responses and potential impact beyond PA practices. Learning-curve mistakes must also be permitted; therefore the implementation process should have a planned leeway, an appropriate time frame for acceptance. Careful planning still ends in painful implementation process in the private sector too, therefore proper preparation can not be sufficiently emphasized.

If the problem lies in accountability problems, where individual or organizational responsibility is ambiguous or where job that's done is not aligned with rhetoric, solutions better be found in the field of *deeper spheres of organizational culture* than in HR practices.

Before launching any advanced HR or reinvention practices I recommend governments to become fully aware of their current situation and link HRM with strategic planning, leaving sufficient time for changes bearing fruits. *Smaller steps, proper incentives will show higher return on investment on long haul than the promise of quick wins, that once not work out as planned will demolish the remains of credibility.*

As we saw in Chapter 4, solving performance orientation problem requires changes beyond PA and HR practices. While I have found the currently employed performance appraisal an ineffective tool to solve these problems, I believe performance management should be enforced in a different way as summarized below.

In the Hungarian case I have found a potential solution by targeting three factors at the same time as shown on the following chart.

- Transfer from personnel management to (strategic) human resources management

- Understanding of leadership role and development of necessary skills

- Understanding of performance-principle and long term orientation
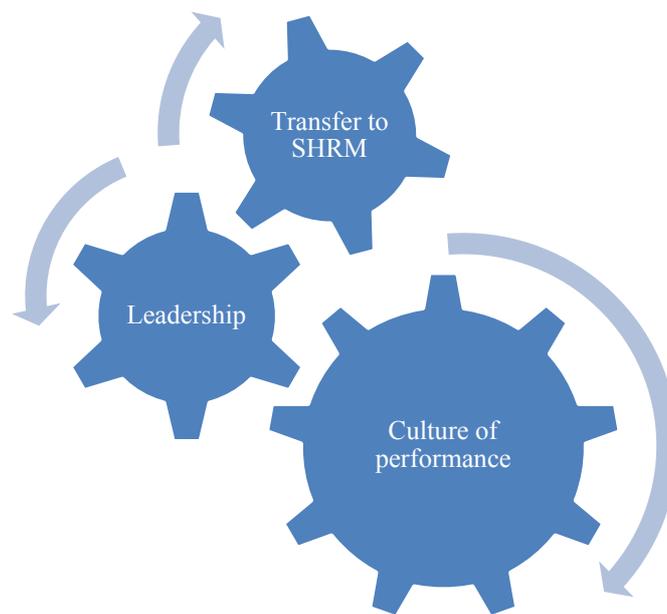
14. chart The way towards a performance oriented culture and better human resources management

As we saw, personnel management had various administrative problems.

Central public administration had no standardized job description; therefore resource management had not much to rely on. While the most serious problems are lying in deeper spheres of organizational culture, changes in administrative personnel management will filter down, therefore I would start the reforms here in the following sequence:

1. Dismiss the current performance appraisal system for civil servants in non-leading positions.

2. Standardize *job descriptions* in order to have an insight of real division of labor and individual responsibilities

3. *Job evaluation* as the next step will support the internal ranking of various jobs.

4. Based on these lists the public servant's *career ladder* should be reviewed in a way that assigns individual responsibility in a flat organization too.

5. New base pay system development in harmony with the career ladder and competitive with private salaries.

6. Parallel with Step 3 and Step 4, a comparative competency list will help to design

7. a development and training plan aligned with career planning.

Career planning already shows commitment towards professionalism and excellence, which supports extraordinary performance, while up to this point limited attention was paid on workforce preservation. Preserving talented individuals depends partly on managerial support, however leadership and management skills were set back as professional knowledge and political capital gained higher value.

Therefore as a second key element, I would spend time and efforts on further and coherent managerial training. In their case I would still employ MBO as a performance management tool integrating leadership development as a key part of their role.

As we saw, executives play an essential role in managerial development; therefore their commitment is essential in this long transformation. As development takes time, their work overload should be reduced, which leads us to the field of process reengineering.

Processes were redesigned multiple times after the transformation, but performance orientation and effectiveness was hardly employed as guiding principle. Program and project

evaluation based on long term strategic planning will bring changes in preliminary procedures and orient the system towards better performance. Besides a more categorical internal control, more definite external controls are needed – controlling the budgeted number of employees on at public offices on these criteria too.

Aligned with the findings of the thesis, realization of this plan requires three-four political terms before they bring significant change in culture – both in public organizations and in the Hungarian society.

Public servants are the foundation of the administration's success, therefore either they treated as valuable resource or not, HR management problems can not be ignored.

The steps above can be treated as individual reforms and taken one by one by the upcoming governments, however as Chart 14 shows, they are interrelated and – if properly executed – one will bring the other one with it.

In five years time, knowing the current stage, I believe political consensus is the maximum to be achieved in this area, but hoping the financial crisis had put enough weight on decision makers shoulders, the founding stones of the domestic program evaluation will be laid – based on the best benchmarks. I am hoping to see the reduced number of public organizations and servants in the next five years, so that in the next decade training results can be harvested.

Hungary has wasted too much time to have left alternatives for radical changes in public administration. Therefore I encourage the upcoming governments to stand the political consequences of reinvention as the country's interest calls for immediate and responsible action.

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Appendices

1) Annual Measures Plan 2007

Pillar/Priority	Measure	Implementation	Responsible	Q1	Q2	Q3	Q4	International recommendations, commitments made under the National Action Programme
5. OPERATION								
5.1. Split of tasks								
	Project to review public duties		Minister's Cabinet					
		Preparation of package of proposals (for the Office of the Prime Minister / State Reform Committee)			■			
		Drawing up schedule				■		
5.2. Human resources development								
	Human diagnostic project		Minister's Cabinet, State Secretary for Economic Coordination, Informatics and Human Resources					
		Adoption of internal report				■		
	Standardisation of job descriptions		Minister's Cabinet, State Secretary for Economic Coordination, Informatics and Human Resources					
		Creation of system for standardised descriptions			■			
	Up-to-date computer based human information system		State Secretary for Economic Coordination, Informatics and Human Resources					
		Development and introduction of "electronic deeds" (MIS connection)				■	■	
	Management Academy project		Minister's Cabinet					
		Adoption of management training programme (schedule)			■			
		Launching trainings			■			
	Review and re-orientation of training portfolio available to Ministry employees		Minister's Cabinet, State Secretary for Economic Coordination, Informatics and Human Resources					
		Adopted training strategy					■	
	New performance assessment system		Minister's Cabinet, State Secretary for Economic Coordination, Informatics and Human Resources					
		Formulation of organisational and individual sets of goals		■	■			
		Introduction of performance-based remuneration			■	■	■	
	Further development of fringe benefits system		State Secretary for Economic Coordination, Informatics and Human Resources					
		Amendment of Fringe Benefits Policy					■	

2) Complex evaluation calculation

Evaluation	'What?' Results				'How?' Behavior	Final evolution
	Managers		Non-managers			
	Specific goal points	Job description points	Specific goal points	Job description points	Competencies Points	Final Points
A	36 - 40	18 – 20	18 – 20	36 - 40	36 - 40	**90 - 100**
B	30 - 35	15 – 17	15 – 17	30 - 35	30 - 35	**75 - 89**
C	20 - 29	10 - 14	10 - 14	20 - 29	20 - 29	**50 - 74**
D	0 - 19	0 – 9	0 – 9	0 - 19	0 - 19	**0 - 49**

3) Performance evaluation sheet

Performance evaluation sheet

I. Personal data

Rater, ratee personal data – year of evaluation					
Ratee's name Date of birth	Position	Organization Organization Unit	Rater's name Date of birth	Position Organization Organization Unit	Duration of common activities

Confirmations	Goal setting interview confirmation	Semi annual review's confirmation	Year-end evaluation interview confirmation	
Stakeholders of performance appraisal	I have reviewed/ acknowledged the specific goals, tasks and development goals. (Rater/ratee)	The semi-annual evaluation interview took place.	The servant has reviewed the evaluation and received an extract.	
			I accept the rater's evaluation.	I make remarks about rater's evaluation.
Rated servant	Signature:	Signature:	Signature:	Signature:
	Date:	Date:	Date:	Date:
Rater *(manager)*	Signature:	Signature:	Signature:	Signature:
	Date:	Date:	Date:	Date:
Rater's manager *(executive)*			Signature:	Signature:
			Date:	Date:

Rewards received during evaluation period			
Description	Year	Month	Day

II. GOAL SETTING

Public servant's specific goals and tasks			
Ordinal Number	Specific goals/tasks	Results to achieve	Deadline Measurable milestone
1.			
2.			
3.			
4.			
5.			

n.			

Public servant's development goals			
Ordinal Number	Development goals	Results to achieve	Deadline
1.			
2.			
3.			
4.			
5.			
n.			

Additional goals received during the evaluation period			
Ordinal Number	Additional goals	Results to achieve	Deadline Measurable milestone
1.			
2.			
3.			
n.			

III. EVALUATION OF MEETING THE GOALS
1. EVALUATION OF 'WHAT'

Ratee's annual specific targets for year.............., and their accomplishment				
Description of results are filled by ratee in self-evaluation				
Ordinal Number	Specific goals/tasks	Results to achieve	Deadline Measurable milestone	Description of results
1.				
2.				
3.				
4.				
5.				
n.				

Filled by manager before the evaluation interview				
Ordinal Number	Specific goals/tasks	Fulfilled	Partially fulfilled	Not fulfilled
1.				
2.				
3.				
4.				
5.				
6.				
n.				

Additional goals assigned during the evaluation period and their accomplishments				
Description of results are filled by ratee in self-evaluation				
Ordinal Number	Additional goals	Results to achieve	Deadline Measurable	Description of results

			milestone	
1.				
2.				
3.				
4.				
5.				
n.				

Filled by manager before the evaluation interview				
Ordinal Number	Additional goals	Fulfilled	Partially fulfilled	Not fulfilled
1.				
2.				
3.				
4.				
5.				
6.				
n.				

Partial evaluation of specific goals and tasks		
Grade	Points applicable	Points assessed by manager
A.	36-40	
B.	30-35	
C.	20-29	
D.	0-19	

Fulfillment of job description tasks	
Description of results are filled by ratee in self-evaluation	
Evaluation criteria	Description of results
Quantity of fulfilled tasks	
Quality of fulfilled tasks	
Meeting of deadlines (Responsibility for tasks assigned)	
Job attitude, individual job management	

Filled by manager before the evaluation interview		
Evaluation criteria	Excellent – Development needed	Job description goals partial evaluation
Quantity of fulfilled tasks	A - B - C - D	
Quality of fulfilled tasks	A - B - C - D	
Meeting of deadlines (Responsibility for tasks assigned)	A - B - C - D	
Job attitude, individual job management	A - B - C - D	points

2. EVALUATION OF 'HOW'

Work behavior, behavior evaluation based on competencies
Competency compatibility are filled by ratee in self-evaluation

Managerial competencies	Shows exceptional competency level	Shows high competency level	Shows anticipated competency level	Competency development needed
Strategic thinking	A	B	C	D
Subordinate development	A	B	C	D
Leadership techniques	A	B	C	D
Integrity	A	B	C	D
Empathy	A	B	C	D
Communication (persuasion)	A	B	C	D
Team work, cooperation	A	B	C	D
Innovation, creativity	A	B	C	D
Work behavior, behavior partial evaluation/points:				

Non-managerial competencies	Shows exceptional competency level	Shows high competency level	Shows anticipated competency level	Competency development needed
Applied professional skills	A	B	C	D
Integrity	A	B	C	D
Empathy	A	B	C	D
Communication	A	B	C	D
Team work, cooperation	A	B	C	D
Innovation	A	B	C	D
Problem solving skills	A	B	C	D
Client orientation	A	B	C	D
Responsibility	A	B	C	D
Performance orientation	A	B	C	D
Work behavior, behavior partial evaluation/points:				

3. Evaluation of development goals

Description of results are filled by ratee in self-evaluation				
Ordinal Number	Development goals	Results to achieve	Deadline	Description of results
1.				
2.				
3.				
4.				
5.				
n.				

Filled by manager before the evaluation interview				
Ordinal Number	Development goals	Fulfilled	Not fulfilled	In progress
1.				
2.				

3.				
4.				
5.				
6.				
n.				

4. Complex evaluation of 'WHAT' and 'HOW'

Complex evaluation of performance		
Grade	Points applicable	Evolved points
Exceptional performance	90-100	
High performance	75-89	
Anticipated performance	50-74	
Development needed	0-49	

Manager's complex evaluation in words (What, How, Development)

The evaluated servant's comments on partial and complex evaluation:

IV. PERFORMANCE TARGETS FOR YEAR ....

Assessed public servants suggestions, expectations about his/her carrier path:

The assessed public servant's and evaluating manager's suggestions about performance appraisal:

V. MANAGERIAL MEASURES

The rater's suggestions for manager with employment power related to performance appraisal and his/her decisions	
Possible managerial measures	Description

4) Simplified organizational chart, MoET, 2006-2008