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PERFORMANCE-RELATED PAY AND PERFORMANCE APPRAISAL IN CROATIAN CIVIL SERVICE: LEGAL REGULATION AND POSSIBLE OUTCOMES

Abstract

In 2024, important changes to the legal regulation of human potential management in Croatian civil service occurred. Specifically, the new Civil Servants Act was enacted, replacing the previous Act in force for almost 20 years. Parallely, the new Law on Salaries in the Civil Service and Public Services was enacted, introducing performance-related pay in Croatian civil and public service. The paper aims to analyse the new regulations regulating civil service, including the bylaws, and discuss possible outcomes. Methodologically, the paper relies on the legal analysis of the existing regulations, but empirical data from the survey conducted in December 2023 among civil servants are also presented. These data show that civil servants in Croatia want the introduction of PRP, but challenges such as the limitation to the number of civil servants receiving the highest performance appraisal grades, the lack of training on the new performance appraisal system and the lack of the developmental usage of performance appraisal, can jeopardise the outcomes of the reform.

Keywords: civil service, performance-related pay, performance appraisal, legal regulation, Croatia

I. Introduction

Performance-related pay (PRP) is a well-known and well-implemented public management instrument. PRP indicates that at least part of civil servants' pay depends on his/her work performance, and such performance has to be measured.¹ PRP is used in the private sector, but since the beginning of the 1980s and the emergence of the influential doctrine of new public management,² it also

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¹ OECD. *Performance- Related Pay Policies for Government Employees* (OECD, 2005), p. 27.

² This administrative doctrine advocated for the use of methods and techniques from the private sector in the public sector (Hood, C. "A Public Management for All Seasons", *Public*

began to be implemented in the public sector. Since then, it has been known in the civil service of many European countries.³ PRP is dependent upon the performance appraisal of civil servants. Namely, performance appraisal is indispensable for awarding or non-awarding performance-related pay. However, performance appraisal can be used for other purposes, such as the development of civil servants, in-service training, career progression, etc. Therefore, the existence of performance appraisal does not mean that the country has implemented PRP for its civil servants, but the existence of PRP requires the existence of a performance appraisal system.

This paper deals with the introduction of PRP in the Croatian civil service and modifications to its performance appraisal system. Namely, by the end of 2023 important changes in Croatian civil servants' regulations happened with the adoption of the new Civil Servants Act (CSA),⁴ which changed part of the performance appraisal system, and Law on Salaries in the Civil Service and Public Services (LSCSPS)⁵ which introduced PRP.⁶ After this legislative changes, the Government started the preparation of new bylaws, including the new Decree on Civil Servants Work Performance Appraisal (Decree).⁷ This paper aims to discuss these legal changes, with a particular focus on the possible outcomes.

Administration, 69, n. 1 (1991), p. 3–19, <https://doi.org/10.1111/j.1467-9299.1991.tb00779.x>). It was highly influential in the 1980s, but its influence begun to diminish in the 1990s when the negative consequences of such a doctrine begun to emerge (Koprić, I., and Marčetić, G. Kriza socijalne države, reforma javne uprave i hrvatsko upravno osoblje, *Hrvatska javna uprava*, 2, n.1 (2000), 44-58, <https://hrcak.srce.hr/197742>). Since the end of 1990s new administrative doctrines, such as Good governance and Neo-Weberian state appeared (Pollit, C. and Bouckaert, G. *Public Management Reform: A Comparative Analysis - New Public Management, Governance, and the Neo-Weberian State* (Oxford University Press, 2011)).

³ The increase in the usage of PRP can be seen in ten-years timespan. Namely, in 2007 there were 15 EU countries implementing PRP in their civil service and in 2017 this number increased to 22 countries,

Staroňová, K. *Performance appraisal in the EU member states and the European Commission* (Government office of Slovakia & EUPAN, 2017), https://www.eupan.eu/wp-content/uploads/2019/02/2016_2_SK_Performance_Appraisal_in_the_EU_Member_States_and_the_European_Commission.pdf, accessed 10th October 2024, p. 55.

⁴ Official Gazette n. 155/23, 85/24.

⁵ Official Gazette n. 155/23.

⁶ This paper deals only with civil servants, i.e. servants employed by the central state administration to whom the Civil Servants Act applies (those working in the ministries and state administrative organizations, judiciary (excluding judges and judiciary staff), penitentiary system, specialist services of the Croatian Parliament, President of the Republic of Croatia, Government, Constitutional Court and different Ombudsmen, State Audit Office and other bodies in charge with state administration tasks, art. 2 CSA). This excludes local and regional servants as well as public servants working in public services since different regulations apply to them. Additionally, this paper deals only with civil servants, excluding employees working on technical and auxiliary jobs in central state administration and not having the status of civil servants.

⁷ Official Gazette n. 127 /24.

Methodologically, the paper relies on the legal analysis of Croatian laws and by-laws. Still, empirical data from the survey conducted in December 2023 among civil servants are also given. The second chapter of the paper gives a theoretical overview of PRP and performance appraisal in civil service. The third chapter explains the new Croatian systems of PRP and performance appraisal in the civil service, while the fourth chapter presents some empirical results and discusses the legal changes. The last chapter is devoted to concluding remarks.

II. Performance-related pay and performance appraisal in the civil service - a theoretical overview

PRR is a managerial instrument used to reward the performance of civil servants. PRP is also one of the payment types that are possible in civil service. The usual type of payment is the use of fixed base pay which is then augmented based on civil servants' seniority (the longer one remains in the service, the higher the pay he/she will get), without performance increments.⁸ This was a regular type of pay for most civil servants before managerial changes in the 1980s.

Afterwards, managerial reforms brought about the PRP. PRP is dependent upon performance appraisal - if a civil servant obtains the beforehand set results, he/she is entitled to a performance reward. Further development brought about the notion of competencies. Namely, it became clear that civil servants' performance cannot be measured just as the results obtained but also other elements, mostly civil servants' competencies (i.e. teamwork, communication skills, analytical capabilities, information management, etc.) need to be taken into consideration.⁹ Following this line of reasoning, many countries have developed a comprehensive competencies framework for their civil servants.¹⁰ An example of a country having such a competency framework is Belgium in which there are general competencies divided into different levels and these competencies need to be possessed by all civil servants at the respective level (the higher the civil servants' position, the higher the level of competency he/she needs to have).¹¹ Some authors even talk

⁸ Berman, E.M, Bowman, J.S, West, J.P. and Van Wart, M. *Upravljanje ljudskim potencijalima u javnoj službi* (Mate/SAGE, 2019), pp. 263-267.

⁹ OECD, *Performance- Related Pay Policies for Government Employees*, p. 50.

¹⁰ Marčetić, G., and Ivanković, J., "Novi kompetencijski model kao poluga za unaprjeđenje javne uprave Republike Hrvatske", in *Privlačenje i zadržavanje ljudi u državnoj upravi i lokalnoj samoupravi Republike Hrvatske*, ed. Barbić, J. (Hrvatska akademija znanosti i umjetnosti, 2024).

¹¹ Giljević, T., and Lopižić, I., "Zapošljavanje u hrvatskoj javnoj službi", in *Modernizacija statusa javnih službenika - rješenje ili zamka*, ed. Marčetić, G., Vukojić Tomić, T., and Lopižić, I. (Institut za javnu upravu, 2019), p. 46.

about pay that is dependent solely upon civil servant competencies.¹² In this type of payment, the focus is on improving civil servants' competencies and skills, not on measuring the obtained results. The improvement in the competencies results in payment increases.

Finally, there is a possibility that civil servants' pay will be linked to the success of their organisation.¹³ In this payment type, civil servants can receive performance increments only if their organization obtains the required performance results. This type of payment connects the entire performance management process. Namely, performance management requires the measurement of organizational outcomes and outputs and the use of such information for different purposes (most notably for learning, steering and control and giving account).¹⁴ The measurement of organizational performance allows the setting of objectives and measurement of single organizational departments' performance which then forms the basis for measuring individual performance. If the general organizational goals stem from strategic plans and are connected to the organizational budget, the whole strategic management system is in place.¹⁵ This type of payment allows PRP only to those organizations, and their civil servants, which have obtained the required organizational performance goals. Although the scale of organizational-departments-individual performance should be logically connected, often the focus is solely on individual performance, not taking into account the organisational dimensions and this type of payment is not often used.

There are two main forms of PRP: merit increments (increases in the base pay) and performance bonuses (on-time payments), each with different advantages and disadvantages.¹⁶ However, PRP can also present itself in the form of changes in career grades (civil servants advance to the higher payment level because of performance appraisal).¹⁷ PRP is usually awarded to individual civil servants, although there is much talk about the usage of PRP for awarding team performance.¹⁸ Additionally, PRP can be awarded only to top civil servants or to

¹² Berman, E.M, Bowman, J.S, West, J.P. and Van Wart, M. *Upravljanje ljudskim potencijalima u javnoj službi*, p. 270-272.

¹³ Ibid, pp. 272-274.

¹⁴ Van Dooren, W., Bouckaert, G., and Halligan, *Performance management in the public sector* (Routledge, 2015).

¹⁵ Manojlović, R., "Strategic Management and Performance Measurement – A Connected or Disconnected Duo? Evidences from Croatian Public Administration", *Central European Public Administration Review*, 15, n. 1 (2015), pp. 12–13, <https://doi.org/10.17573/ipar.2017.1.01>.

¹⁶ OECD, *Performance- Related Pay Policies for Government Employees*, pp. 55-56.

¹⁷ Staroňová, K. *Performance appraisal in the EU member states and the European Commission* (Government office of Slovakia & EUPAN, 2017), p. 56.

¹⁸ Marčetić, G., and Manojlović, R., "Plaćanje prema radnom izvršenju državnih službenika u teorijskoj i komparativnoj perspektivi", in *Modernizacija statusa javnih službenika - rješenje ili*

all civil servants, with the use of PRP for managerial positions showing better results.¹⁹ Lastly, PRP can be used as a form of punishment for civil servants, whose pay is diminished because of bad performance appraisal.

There are different reasons for a country to decide to adopt PRP. Based on OECD reasons why certain groups of countries adopt PRP,²⁰ three basic reasons for its adoption can be singled out: a) motivational purposes - stating the idea that PRP will increase civil servants' work motivation and thus overall organizational performance, b) leadership and accountability purposes - stating that PRP will increase the autonomy and accountability, mostly of managerial civil servants, and they will be held accountable for the results produced, c) development purposes - stating that the introduction of PRP will change the entire human potential management process and allow for personal development and growth of civil servants. The evidence suggests that PRP does not have a substantial impact on civil servants' motivation.²¹ However, evidence also suggests that PRP can have a positive indirect effect if it is introduced and used as a managerial tool to change human potential management practices, especially to allow civil servants' development. The Finnish experience shows positive results when PRP is used to change management practices and to allow civil servants' development and training.²²

Therefore, evidence suggests that PRP works best when its primary goals are developmental ones and not purely material rewards and sanctions. This is closely connected with the performance appraisal which is indispensable for awarding any type of performance-related awards. Performance appraisal can be defined as the systematic monitoring of civil servants' work performance, whether that performance is understood as achievement of the stated results, competency development or assessment of civil servants behaviours. Performance appraisal is one of the most used managerial instruments, even more widespread than PRP,²³ but it can produce both positive as well as negative effects. Some authors such as R. Boyne even state that "most performance appraisal schemes absorb significant amounts of management time and resources, have little if any positive effect on performance (and may have unintended negative effects) and make almost

zamka, ed. Marčetić, G., Vukojičić Tomić, T., and Lopižić, I. (Institut za javnu upravu, 2019), pp. 134-135.

¹⁹ Ibid, p. 135.

²⁰ OECD, *Performance- Related Pay Policies for Government Employees*, pp. 12.

²¹ Ibid, p. 74.

²² Ibid, p. 75.

²³ Hammerschmid, G, Van de Walle, S., Andrews, R. and Bezes, P., ed. *Public Administration Reforms in Europe. The View from the Top* (Edward Elgar Publishing, 2016), p. 221.

everyone unhappy.”²⁴ However, the same author states that “.. where appraisal can be useful is in involving employees and providing feedback on performance and development opportunities. Appraisal is also seen as important for public accountability purposes and is unlikely to be done away with”.²⁵ Thus, it seems that performance appraisal is here to stay and it produces the best results when it is used for civil servants' development.

Consequently, there are two performance appraisal types: incentivizing and developmental. The first one is connected with external rewards and sanctions, PRP being the most notable use of this type of performance appraisal. The second one uses performance appraisal for organizational development, not looking at the rewarding or sanctioning of civil servants but looking at their development to benefit the organization in the long term.²⁶ Although the above-mentioned evidence suggests that performance appraisal, as well as PRP, should be used primarily for developmental purposes, the research conducted by Hajnal and Staranova²⁷ shows that the incentivizing use of performance appraisal is still the dominant one. Namely, in their research they found incentivizing use of performance appraisal in seven examined EU countries, followed by a symbolic use applied in six countries. Symbolic use means that performance appraisal is being conducted but the appraisal is not used for any real purpose, whether incentivizing or developmental. The authors found that there is only one country (Ireland) and the EU Commission that use performance appraisal primarily for developmental purposes and only two countries (Germany and Netherlands) that use it for both incentivizing as well as developmental purposes.

Since not many countries use performance appraisal primarily for developmental purposes, Ireland can be chosen as a rare example. In Ireland, no quantitative performance indicators and standards are used and performance evaluation is closely connected to the well-developed competency framework for civil servants.²⁸ The performance evaluation is conducted electronically, under the guidance and supervision of the National Shared Services Office (NSSO), a

²⁴ Boyne, R., *Re-visiting performance appraisal: can the Performance Management and Development System (PMDS) be made to work?* <https://www.ucc.ie/en/media/academic/government/otherdocs/No41byBoyle.doc>, p. 2.

²⁵ Ibid.

²⁶ Marčetić, G., *Upravljanje ljudskim potencijalima u javnoj upravi* (Društveno veleučilište u Zagrebu, 2007), p. 226.

²⁷ Hajnal, G., and Staranova, K., “Changing patterns of individual performance appraisal systems for civil service in European Union countries: toward a developmental or an incentivizing model”, *International Journal of Public Sector Management*, 34, n. 7 (2021), pp. 756-757, <https://doi.org/10.1108/IJPSM-02-2021-0051>,

²⁸ “PAS Civil Servants Competency Model”, accessed 15th October 2024, https://www.publicjobs.ie/documents/PAS_CS_Competency_Models_2017.pdf

statutory government office.²⁹ Using the electronic system, every civil servant has to insert his/her goals and competencies associated with each goal. Optionally, each civil servant can insert his/her learning needs, career development and feedback he/she wishes at this stage. These elements are being controlled and approved by the superior civil servant. There is a mid-year review in which the mid-year goal progress and self-assessment have to be provided by the civil servant and controlled by his/her superior and the end of the year review in which the civil servant provides his/her goal progress comments and assessment summary and the supervisor comments on all these assessments, including the comments on civil servants career development part of the assessment and makes the final assessment.³⁰ Therefore, the system relies both on self-assessment and supervisor control and puts great emphasis on developmental needs, career development and the use of a competency framework.

There are some general requirements that a successful performance appraisal system should satisfy. It should be a) fair and b) simple, clear, and understandable for usage, and it should promote c) civil servants' participation in the process.³¹ When used for PRP purposes, there are additional requirements that the performance appraisal system should fulfil. OECD states that performance appraisal should a) rely more on goal setting than standard criteria for a job, b) the rating should not be too rigid, c) the system should provide for the dialogue between manager and civil servant, d) feedback should be provided, e) transparency needs to be assured, f) there should be coordination with the unions and employed, g) managers should be prepared and trained, h) there should be adequate time left for the introduction and monitoring of the system.³²

When looking particularly at Western Balkans countries, Staranova states, among others, that the a) performance appraisal system should connect individual performance appraisal with the overall performance management system (the connection between organizational-departmental-individual performance appraisal), b) performance appraisal should be institutionalized for all senior civil servants and potentially political appointees as well, c) communication between appraiser and appraisee should be improved (with the introduction of text-based ratings, higher civil servants participation), d) competency framework should be introduced that should allow for better determination of competencies for single

²⁹ "NSSO - Who we are", accessed 15th October 2024, <https://content.nss.gov.ie/en/corporate-information/who-we-are/>

³⁰ "Stages of ePMDS", accessed 15th October 2024, <https://content.nss.gov.ie/en/services/stages-of-epmds/>

³¹ Manojlović, R., "Preduvjeti za funkcioniranje sustava upravljanja radnim izvršenjem službenika", in *Upravljanje kvalitetom i učinkovitošću u javnoj upravi*, ed. Koprić, I., Džinić, J., and Manojlović, R. (Institut za javnu upravu, 2016), pp. 297-300.

³² OECD, *Performance- Related Pay Policies for Government Employees*, p. 15.

jobs, d) other sources of performance information apart from senior manager appraisal should be introduced, e) the direct link between poor performance and job termination should be eliminated, f) the focus should be on development issues with the introduction of development plans for each civil servants.³³

Therefore, performance appraisal and PRP are two continuously evolving managerial instruments, with no universally prescribed rules for their ideal functioning. However, the evidence found so far suggests that the developmental purpose of performance appraisal is highly recommended, and countries should pay closer attention to it if the system is about to work.

III. Introducing performance related-pay and changes to performance appraisal in Croatian civil service

3.1. Historical development

Croatian civil service has a long history of performance appraisal, although without real results. The first system of performance appraisal was established in 1994. During this period, no real performance criteria were elaborated but the superior civil servant could only select one of the four performance appraisal grades. In 2001 the new Act on Civil Servants and Employees³⁴ entered into force and the new Rulebook on Civil Servants Performance Appraisal³⁵ was adopted. This Rulebook divided the performance criteria into three groups with each of the criteria further elaborated in elements with the superior civil servant appraising each of the elements. The final grade was formed numerically, by summing up all the points obtained for single elements. The general evaluation of these two first two periods state that more than 90% of civil servants received the two highest grades, performance appraisal did not play any important role in civil servants' careers and it was not used and therefore it was not an indicator of civil servants' work performance or quality.³⁶

In 2006 the Civil Servants Act³⁷ came into force, followed by the Rulebook on the Special Report on Civil Servants Work and Efficiency. However, the lack of objective criteria and the lack of competency assessment were among the main

³³ Staroňová K., Ahmetovic, D., Ivanova, M., Qeriqi, H., Radevic, R., Shundi, A. and Vlajkovic, V., *Individual Performance Appraisal of Employees in Central Public Administration in Western Balkans* (ReSPA Publications, 2018), pp. 39-40, 52-54, 61-62.

³⁴ Official Gazette n.27/01.

³⁵ Official Gazette n. 18/02.

³⁶ Marčetić, G., *Javni službenici i tranzicija* (Društveno veleučilište u Zagrebu i Konrad Adenauer Stiftung, 2005), pp. str. 313–314

³⁷ Official Gazette n. 140/05., 142/06, 77/07, 107/07, 27/08, 34/11, 49/11, 150/11, 34/12, 49/12, 37/13, 38/2013., 01/15, 138/15, 61/17, 70/19, 98/19, 141/22.

complaints towards this performance appraisal system³⁸ which led to its reform with amendments to the Civil Servants Act and the adoption of the Decree on Procedure and Criteria for Civil Servants' Appraisal³⁹ in 2011. These acts formally established the full system of performance management. The superior civil servant had the task of continuously monitoring the performance and stimulating the civil servants' development thus, theoretically speaking, both the incentivizing and developmental purposes of performance appraisal were visible. There are five performance appraisal grades with the Decree elaborating the performance appraisal criteria divided into three categories (general, special and criteria assessing the personal behaviour and respect of the official duty). Each criterion is elaborated in different elements. The Decree requires superior civil servants to list the goals and tasks of each civil servant in his/her evaluation form. The final performance appraisal grade is formed taking into consideration all the criteria but without precise rules on the formation of the final grade.

Although formally speaking the full system of performance management was in place, the results in practice show that the system was not used for any real purpose apart from awarding a few extra days of leave. Therefore, there is no talk about either incentivizing or developmental use of performance appraisal. Additionally, the great majority of civil servants received the best grades and there was no real connection between organizational goals and single civil servants' goals which disabled the development of a complete performance management system.⁴⁰

As for the PRP, already in 1994, the possibility for civil servants to receive a reward for outstanding work performance was introduced, but the decree which should regulate these rewards was never enacted,⁴¹ so there was no systematic PRP in Croatian civil service.

3.2. New legal regulation

The situation regarding PRP and performance appraisal changed in January 2024 with the new Civil Servants Act (CSA) entering into force. In parallel, the Law on Salaries in the Civil Service and Public Services (LSCSPS) was adopted and PRP was introduced. The new Decree on Civil Servants Work Performance Appraisal (Decree) was adopted at the end of October 2024.

³⁸ Ministry of Public Administration, 2016 in Marčetić, G., and Manojlović, R., "Plaćanje prema radnom izvršenju državnih službenika u teorijskoj i komparativnoj perspektivi", in *Modernizacija statusa javnih službenika - rješenje ili zamka*, p. 158.

³⁹ Official Gazette n. 133/11. This Decree will be last used for performance appraisal for the 2024 work, while in 2025 the new Decree enters in force.

⁴⁰ Marčetić, G., and Manojlović, R., "Plaćanje prema radnom izvršenju državnih službenika u teorijskoj i komparativnoj perspektivi", in *Modernizacija statusa javnih službenika - rješenje ili zamka*, pp. 159-160.

⁴¹ Ibid, pp. 158-159.

According to the LSCSPS, civil servants have the right to receive a salary increment for work performance (art. 19). This increment is dependent upon civil servants' performance appraisal. There are five performance appraisal grades. Receiving the highest grade (the grade "excellent") allows the civil servants to collect six points for the yearly performance evaluation. Receiving the second-best grade (the grade "very successful") allows them to collect four points. The grade middle-grade, "successful" amounts to two points. The second-lowest grade "satisfactory" does not allow the collection of any points and requires additional education or the transfer of civil servants (art. 87 CSA). The lowest grade of "unsatisfactory" leads to the termination of the service (art. 87 CSA). When the civil servants collect 12 points, he/she is entitled to a salary increment of 3% of the basic pay.⁴² This 3% increment happens every 12 points obtained, to a maximum of 120 points or 30% of salary increments. However, the LSCSPS limits the number of civil servants allowed to receive the highest performance appraisal grades, stating that only 5% of civil servants in each body can receive the highest grade and 15% the second best (art. 29 LSCSPS). That means that 80% of civil servants in each body have to receive the middle-performance appraisal grade (or lower). To ensure the respect of these provisions, in each body, a Committee for the review of performance appraisal grades has to be formed with the task of examining the two highest performance appraisal grade proposals and ensuring their compliance with the set quota (art. 29 LSCSPS). Since the new appraisal system, which will allow the collection of points, will be applied to the 2025 performance evaluation, the first performance grades prepared according to this system will be ready in 2026. This means that the first salary increments will be possible in 2027 for those civil servants obtaining the top grade (entering the 5% quota) for two consecutive years.

Apart from the salary increments, the LSCSPS introduces the possibility for civil servants to receive one-time bonuses for outstanding work results. However, the bonus is not directly connected with the performance appraisal since the provision (art. 30 LSCSPS) states that the criteria for the bonus will be determined by the minister's rulebook. The head of the body determines the amount of bonus but it cannot exceed the non-taxable amount of monetary reward set according to the tax regulation⁴³ and the total amount of bonuses paid cannot exceed the 0.2% of expenditure for civil servants' salaries and work in the previous years. The list of civil servants receiving such a reward has to be published on the bodies' web pages (art. 30 LSCSPS).⁴⁴

⁴² The basic pay includes also the seniority supplement (art. 19 LSCSPS).

⁴³ Which is 1.120 euros, Art. 7. Rulebook on the Income Tax, Official Gazette n. 10/17, 128/17, 106/18, 1/19, 80/19, 74/20, 1/21, 112/22, 156/22, 1/23, 3/23, 56/23 and 143/23.

⁴⁴ Since not directly connected with performance appraisal and performance appraisal grades, this type of one-time bonus is not discussed in detail this paper.

When it comes to the performance appraisal system, as in the previous period, the formal purpose of performance appraisals is both incentivizing as well as developmental as the CSA (art. 97) states that performance appraisal grades are used for determining the a) training needs of civil servants; b) conditions for advancement, c) performance increments, d) conditions for assigning a civil servant to work outside the civil service, e) conditions for using paid study leave and f) deciding on punishments for breaches of official duties. The old CSA contained the explanation of the five performance grades, however, the new CSA leaves this matter entirely to the bylaw and only contains provisions on the performance appraisal procedure (art. 95-96). According to them, the performance appraisal grade proposal is given by a superior civil servant and the civil servant has the right to remark on such a proposal. This remark has to be discussed with the superior civil servant who then sends the performance appraisal grade proposal to all civil servants superior to him. Each of them has the right to propose a different grade, with the senior civil servant directing the organizational unit proposing the final grade. The final decision is made by the head of the body or the person she/he appoints. If the civil servant is not satisfied with the final grade, she/he can use legal remedies provided by the general Labour law.

The Decree on Civil Servants Work Performance Appraisal sets the three stages of performance appraisal: a) planning of civil servant's goals, b) performance control - which should be done mid-yearly and yearly and c) final performance appraisal grade. In the performance appraisal process, the Evaluation form, composed of eight different sheets, is used and sheets should be filled in different periods, the first one already in mid-January of each year. For each civil servant up to five key yearly goals should be stated and agreed upon. The performance appraisal is conducted taking into consideration a) general criteria (effectiveness; accuracy, precision and reliability in task performance, adherence to deadlines; problem-solving capabilities) which apply to all jobs and workplaces, b) special criteria which depend upon particular workplace (degree of innovativeness, creativity and self-initiative, written communication; oral communication; digital literacy; collaboration capabilities) and c) criteria for a civil servant at a managerial position (organization and job management; decision-making capabilities; motivational capabilities; conflict solving and interpersonal relationship improvement capabilities; ability to set procedures and control their execution). The civil servant is assessed against every criterion, receiving points for every element (10 points for the lowest assessment, up to 40 points for the top assessment). The points received for every criterion are then summed and multiplied by the coefficient for positions. Namely, for civil servants not in managerial positions higher importance is given to general criteria and therefore the number of points obtained for this criterion is multiplied by 0.7. This criterion is multiplied by 0.5 for the managerial position, where higher importance is given

to two other criteria. The final performance appraisal grade is calculated using a special formula that gives the total points. The Decree contains a table with the range of points that account for each of the four performance appraisal grades (lowest up to the second best). For the highest performance appraisal grade (“excellent”) the civil servant needs to have enough points for the second best grade plus additional exceptional work results (execution of tasks in larger quantity, innovativeness, creativeness, helping the development of his/her field of work, participation in reform projects) which need to be explained by the evaluator. The Decree introduces the possibility for civil servants to prepare their self-evaluation form in which additional information, such as information on tasks, obstacles encountered in the work, opinions on one's work and the influence of superior civil servants and other civil servants on such work can be explained. If prepared, such self-evaluation has to be provided to the superior civil servants before the final evaluation and taken into consideration.

IV. Discussing legal changes

Four research topics will be considered when discussing legal changes and their possible outcomes.

1. *Type of PRP*

The new Croatian system formally introduces both types of PRP - salary increments and bonuses. To assess whether civil servants consider PRP as appropriate, results from research conducted in December 2023 can be taken into consideration.⁴⁵ Namely, in this research civil servants were asked which type of salary they prefer. The respondent could choose multiple answers and Table 1 contains the six most frequent combinations of answers, receiving at least 5% of answers.

Table 1: *Preferred type of salary*

Preferred type of salary	N. respondents	%
fix salary (plus the increments based on seniority and inflation)	156	37,8
fix salary (plus the increments based on seniority and inflation) fix salary plus the increments based on performance appraisal fix salary dependent upon new competencies	41	9,9

⁴⁵ The research was part of the project “*Attracting and retaining people in Croatian civil and local service*” which was financed by the Faculty of Law University of Zagreb and University of Zagreb (2023-2024). Some of the most important project results can be found in Barbić, J. ed. *Privlačenje i zadržavanje ljudi u državnoj upravi i lokalnoj samoupravi Republike Hrvatske* (Hrvatska akademija znanosti i umjetnosti, 2024). One part of the project consisted of questionnaires about the factors that attract and retain people in public administration. The questionnaire was sent through two big unions and the Association of Cities of the Republic of Croatia, obtaining a response rate of 1005 servants. Here, only the results related to central state civil servants will be presented.

fix salary (plus the increments based on seniority and inflation)	38	9,2
fix salary plus the increments based on performance appraisal	38	9,2
fix salary (plus the increments based on seniority and inflation)	26	6,3
fix salary dependent upon new competencies	23	5,6

Source: author.

As noticeable, civil servants want to have a fixed salary, which means income security is crucial in public administration. This was confirmed in the same research since job security and salary regularity proved to be the two most important attracting and retaining factors. Since bonuses are given yearly and civil servants cannot count on them, salary increments, which, once obtained, remain a part of civil servants' salary seem to satisfy the desire for security better.

Civil servants were also asked how high the supplements to the basic salary, which are dependent upon performance, should be. Table 2 shows that most civil servants consider supplements up to 30% most appropriate.

Table 2: *High of the supplements based on performance*

% of pay	N. of respondents	%
up to 10 %	37	9,0
11-20 %	99	24,0
21-30 %	100	24,2
31-40 %	50	12,1
41-50 %	31	7,5
more than 50%	42	10,2
I want only a fixed salary	38	9,2
I do not want to respond	16	3,9
Total	413	100,0

Source: author.

Therefore, the research results indicate that introducing PRP in salary increments of up to 30% of the basic pay was the right move. However, the new legal regulation does not deal with other types of PRP. For example, there is no notion of awarding PRP to teams. Hence, innovative approaches have yet to be adopted.

2. *Quota system*

The LSCSPS limits the number of civil servants able to obtain the highest performance appraisal grades and thus limits the number of civil servants who can receive salary increments in a short period. For most civil servants, the quota system will mean they can obtain salary increments only in six years (having the average performance appraisal grade six years in a row).

In research conducted as a case study at the Municipal Criminal Court in Zagreb,⁴⁶ opposition to the quota system was found. Namely, 47.4% of respondents stated that there should not be any quotas and 37.8% of respondents stated that the quota for the top-performing civil servants should be higher. This is also emphasized by the Unions of Civil and Local servants, which protested against these quotas stating that the new system will not have any motivational effect, but effect will be only disciplinary.⁴⁷

One condition for the proper operation of the PRP system is that civil servants must accept it. Establishing a high quota system before the implementation of the new system may negatively impact civil servants' motivation.

3. *Readiness of the performance appraisal system*

The prerequisite for the operation of the PRP system is a proper and functional performance appraisal system. In the previous periods, the performance appraisal system was not used for any real purpose, thus it was unable to produce real results. When asked if they consider the previous performance appraisal system as fair, in the same research conducted in 2023, 84.7% of civil servants stated that they do not consider the performance appraisal system fair. However, 68.3% think there should be a performance appraisal system. Therefore, the performance appraisal system is here to stay, but the question is whether the new system will be better, or fairer than the previous one. Although it is necessary to wait for its implementation to evaluate the results, the present situation presents some problems that can jeopardise the new system's success and produce unintended, negative outcomes.

Firstly, the new Decree which should regulate the performance appraisal was adopted only at the very end of October 2024, and it should be implemented in January 2025. This means there is not enough time for managerial civil servants to get acquainted with the new system and prepare for it, which can potentially create implementation problems. This is confirmed by the fact that one of the most important problems in the previous system was the perceived subjectivity of senior civil servants⁴⁸ and without proper training and education it is difficult to expect subjectivity elimination, regardless of the legal provisions or the set quotas.

⁴⁶ Manojlović Toman, R., Kožina, K., Matejaš Kereša, T., *Sudski službenici pod povećalom: analiza specifičnosti prema ostalim državnim službenicima* (forthcoming).

⁴⁷ <https://www.sdln.hr/prijedlog-uredbe-o-ocjenjivanju-ucinkovitosti-rada-drzavnih-sluzbenika-disciplinirati-ili-demotivirati/>, accessed 28th October 2024.

⁴⁸ Marčetić, G. Manojlović Toman, R., Džinić, J., *Tackling the challenge of employment and retention in the civil service - Research findings* (EUPAN Presidency Brief Report Croatia, <https://www.eupan.eu/wp-content/uploads/2020/07/EUPAN-Presidency-Report-Croatia.pdf>, accessed 29 October 2024), p. 20.

Secondly, the performance appraisal system should be simple, clear and understandable. The new system introduced in the Decree creates a complicated system with the weighting of the performance appraisal criteria. Such a system requires a longer period of civil servants' education and training to allow the understanding of the system and its proper implementation.

Thirdly, theoretical postulates⁴⁹ point to the fact that a competency framework should be introduced and competencies should be used when conducting a performance appraisal. The new CSA (art. 48) introduces the competency approach stating the competency model is the basis for human potential management, especially for human potential planning, assignment to workplaces, advancement and development. The competency model should be developed by the human potential departments in collaboration with managerial civil servants and job profiles have to be created. These job profiles should contain the competencies needed for particular types of jobs. Therefore, the CSA sets the basis for using the competencies in the performance appraisal process. However, the Decree does not connect performance appraisal with the job profiles and the competency framework but establishes a particular set of performance appraisal criteria. Although the criteria are congruent with many competencies, there is no real connection between the competency model and performance appraisal.

Fourthly, the performance appraisal system should connect individual performance appraisal with the overall organizational performance.⁵⁰ Although legally speaking there is such a connection in Croatia, in practice, until now individual goals were not connected with larger organizational goals⁵¹ so it is questionable whether the full system of performance management will now be created. This is especially doubtful taking into consideration that there is no talk about connecting the salary system with organizational performance, i.e. taking into consideration the achievement of the organizational objectives and allowing organizations achieving such results the possibility to additionally award their civil servants (for example by increasing the quota of civil servants entitled to higher performance appraisal grades in such organizations).

Fifthly, the performance appraisal system should allow better civil servants' participation and use of different sources of performance information, not relying just on the superior civil servants' assessment. Positively, the Decree introduces the three stages of performance appraisal which could stimulate greater civil servants' involvement in the process. Additionally, the Decree introduces the self-evaluation

⁴⁹ Staroňová K., Ahmetovic, D., Ivanova, M., Qeriqi, H., Radevic, R., Shundi, A. and Vlajkovic, V., *Individual Performance Appraisal of Employees in Central Public Administration in Western Balkans*, pp. 54.

⁵⁰ Ibid, pp. 39-40.

⁵¹ Manojlović, R., "Preduvjeti za funkcioniranje sustava upravljanja radnim izvršenjem službenika", in *Upravljanje kvalitetom i učinkovitošću u javnoj upravi*, pp. 307-308.

as an instrument that has to be used in the performance appraisal process, if the civil servant decides to prepare it. These are important steps forward, but there is no obligation for civil servants to prepare such a self-evaluation form. Additionally, for now, there is no education for the managerial civil servants on the use of such self-evaluations so it remains to be seen how it will be implemented in practice. Lastly, methods such as the 360-degree review which allows additional sources of information, particularly for performance appraisal of managerial-level civil servants, have not been introduced.⁵²

4. *Developmental usage of performance appraisal*

The theoretical insights suggest that the developmental usage of performance appraisal is essential and should be promoted and developed. Although the CSA indicates that performance appraisal grades should be used for developmental purposes as well (art. 97), the same was stated in the previous period and they were not used for it. It is difficult to expect that they will be used for developmental purposes now when the PRP is introduced. In addition, although self-evaluation has been introduced, the art. 18 of the Decree does not mention the use of self-evaluation for developmental purposes such as determining the training needs nor is the developmental usage promoted in the Decree. Hence, the new Croatian legal regulation follows the path of many countries, and the incentivizing use of performance appraisal grades is the only one promoted. In this respect, the possibility of making steps forward and stimulating developmental usage has been neglected, which can lead to long-term consequences in the form of a lack of proper training, career planning and career development of civil servants. In a situation in which the population is ageing, which leads to the ageing of civil service, proper talent management and career development of present civil servants is essential, and it can be promoted by the developmental usage of performance appraisal.⁵³

V. Conclusion

The paper presents the legal regulation of the new system of performance appraisal and PRP in Croatian civil service. The new performance appraisal system

⁵² In addition to the five problems mentioned above, there are other problems with the new system of performance appraisal. One of them involves changes to the legal regulation of civil servants' protection in performance appraisal procedure. In particular, according to the new CSA (art. 96), when not satisfied with final performance appraisal grade, civil servants can only use the legal remedies provided by the Labour Law. In the previous period, administrative courts were the final instance, but now they lost such a jurisdiction. However, given the length limitation of this paper, this and other problems are not discussed in detail because they are not directly related to the theoretical overview presented in the chapter 2.

⁵³ OECD. *Ageing and Talent Management in European Public Administrations* (OECD, 2021), https://www.eipa.eu/wp-content/uploads/2022/04/Ageing-and-talent-management-in-European-pub-admin_OECD-Slovenia.pdf, accessed 30th October 2024.

should enter into force in 2025, although the bylaw for its implementation was adopted only at the end of October 2024. The analysis shows that PRP is something that civil servants want. However, the problem is the fact that only 5% of civil servants in each organization can obtain the highest performance appraisal grade and 15% the second best. Until now the performance appraisal system was not functional, most civil servants received the highest grades, and the grades were not used. Hence, the introduction of such high quotas before institutionalizing the new performance appraisal system can produce negative effects in the form of civil servants' demotivation and rejection of the system.

Therefore, the proposal would be to introduce the PRP system gradually, in three years. In the first year the new performance appraisal system should be explained to civil servants and extensive education and training should be provided. In this year, the points for performance appraisal grades should not be given, but the managerial civil servants should try to decrease the percentage of the highest grades. In the second year, the point for performance appraisal grades should be introduced, but without a quota for the highest grades. After the second year, an evaluation should be conducted and the percentage of the highest grades assessed. If the percentage is diminishing, the quota system should not be introduced. If the evaluation shows that the percentage of the highest grades is still too high, the appropriate quota system can be introduced.

Apart from the longer period for the system institutionalization and improvement to the performance appraisal system, a higher emphasis should be placed on the developmental usage of performance appraisal. Countries such as Ireland can guide how performance appraisal can be used for developmental purposes by introducing learning and career development feedback and closely connecting performance appraisal with the competency framework. It is probably not possible to pass to the full developmental usage of performance appraisal, but Croatia should at least strive to achieve the integral model and increase the developmental part of performance appraisal. Additionally, in the long term, other types of PRP should be institutionalized (for example PRP for teams) and the connection of PRP with the overall organizational performance could be made. All these proposals could benefit the overall perception of the system's fairness and thus its acceptance by civil servants.

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