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Teacher Policy Reforms in Sweden:

The Case of Individualised Pay

by

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1. Country context¹

The Swedish system for remuneration of teachers is unique from an international comparative perspective in that it does not involve fixed pay ladders, but is based on a decentralised individual pay scheme. Currently there is no ceiling but an agreed minimum salary after one year of probationary employment for newly qualified teachers. The system was implemented in 1996 following years of negotiations between the teacher unions and the local employment authorities. A major question to ask is how it was possible to abolish a pay system, which indeed had a very strong support among teachers and stakeholders? A centrally controlled system with fixed pay ladders had been considered necessary for maintaining similar pay and employment conditions across regions and municipalities in Sweden. Such conditions were further seen as important in ensuring equal opportunities in terms of quality of education.

In order to answer the above question it is important to realize that the move towards decentralised individualised pay should be seen in light of other reform initiatives geared towards decentralisation, deregulation and local independence. From such a perspective, it could be argued that the shift to an individualised pay scheme was an inevitable outcome in the change of governance structure. Individual based pay was already in force among other professional groups employed by the local municipality. It reflected a general trend in the public sector as a whole and teachers were thus late in switching over to this system.

The reason for introducing a decentralised and individualised pay system was to give the employers responsibility for pay setting in order to stimulate improvement in effectiveness, productivity and quality at the workplace. An important part of this reform was to improve the recruitment and retention of teachers and to link pay to performance.

The new system has now been in place for eight years with two consecutive collective agreements. An important question is then to what extent the intended outcomes have been accomplished and whether it is possible to discern any impact on quality, efficiency and equality, issues normally of concern for policy makers. It is interesting to note that over the course of time there has been a major shift in view points from teachers' perspectives from a very negative attitude towards a majority of teachers in favour of individualised pay. There is still some way to go before it is possible to reap the full benefit of this reform, but it is clear that the advocates of individualised pay have been able to mobilize enough support for it to stay.

This paper attempts to answer the issues raised above by providing an overview of the individualised pay system, how it functions, conditions necessary for its implementation and major obstacles still remaining. To provide an understanding for why it was decided on, the circumstances and other major reforms leading up to its adaptation will be discussed as well.

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Unions have played an important role in shaping labour market policies in Sweden and not any less in the case of teachers. Some 80 percent of the work force is unionised and over 90 percent of teachers belong to a union. It is fair to say that it would have been very difficult to push through an individualised pay system without their contribution. Thus, a great deal of attention in this paper will be devoted to the role of unions in the adoption of the individualised pay for teachers.

The content of this paper is based on reviews of government and union documents and interviews with representatives from the unions responsible for the bargaining and wage formation process, officials from local governments (municipalities), and school principals.

2. Major educational reforms during the 1990s

2.1 Decentralisation

During the last 15 years the Swedish educational system has experienced dramatic changes. A shift in governance from centrally controlled to local decision-making is probably the most important change, with huge implications for the nature and conditions of teacher's work. In short it implies that the Parliament and Government have overall responsibility for schooling, shape national school policy, set objectives and adopt instruments for implementation and evaluation, and the local municipal authorities have full responsibility for allocating resources, organizing and operating school services and ensuring that schools have the necessary staff (Ministry of Education and Science, 2003).

Budget constraints and the need to rationalize

The change in governance was decided on in early 1990s. It was preceded by several years of political discussions and reform efforts to deregulate and increase local responsibility in the public sector, with a view to enhance efficiency and allow for more local decisions in tune with the needs of citizens. This could probably be seen in light of a strong political commitment to egalitarian values entailing, among other things, the provision of more education for all regardless of geographical location and socio-economic background. This ambition, coupled with other welfare reforms, made the public sector grow very fast during the 1960s and 1970s. It was accomplished by allocating more resources for public spending, which was possible given the fact that the economic growth rate was high during this period. The slowdown in economic growth rate near the end of the 1970s made it more obvious to policy makers that an expansion and improved quality of social services could not be accomplished without improving the efficiency in the public sector. The budget constraint facing the public sector also affected the amount of resources that could be allocated to the educational sector. The salaries for teachers had stagnated and had declined relative to other professions with similar educational profiles. It was especially noticeable in comparison with the private sector.

Unclear division in managing teachers

There was yet one other condition related to teacher employment that was a major concern for politicians and policy makers, especially at the local level, and that was the unclear division of responsibility between the central government and local municipalities in managing

teachers. While the sole responsibility for teachers' employment conditions including working hours and pay were in the hands of the central government, it was up to the local municipality to ensure that schools were adequately staffed. In effect, the municipalities were in charge of running the schools, including provision of buildings, textbooks, transportation and meals, etc. They were further in charge of hiring all staff, including not only custodian and other support staff, but also teachers. However, they did not have anything to say when it came to deciding on employment conditions and salaries for teachers. For instance, they had little control over how to allocate teachers' instructional time in order to fit local needs. The central government indirectly controlled the number of teachers through fixing the number of contact hours together with a grant system that was linked to the number of teachers necessary to maintain this directive.

Diminishing resources and the need to accommodate increasing demand for high quality education called for rationalisation and improved efficiency. It was thus a strong political support for deregulation and more local control, given budget constraints and unclear responsibilities in managing teachers.

The school management system

The devolution of authority from the central to the local municipalities was formally accomplished in 1991 through two acts (Government Bill 1989/90:41 and Government Bill 1990/91:18)^{2,3}, whereby the first let the local authorities assume full responsibility of teacher's employment condition and salary and the second act spelled out the principles for division of responsibility between different actors in the system. Teacher remuneration was still based on a fixed pay scheme, which was not abandoned until 1995. The principle of governance became the one of managing by objectives, which means that the state exercises control by setting objectives and controlling outcomes. The local authorities then decide, within the framework adopted by Parliament and the Government, how education is to be organized and provided, and what resources to allocate for this purpose out of the overall budget. At the same time the system of state funding for education changed from a system based on the number of teachers to a sector grant that allowed municipalities to distribute the resources for different purposes across schools. However, this system did not survive for very long, and in 1993 the money previously earmarked for education was incorporated into a general block grant, which allowed municipalities to freely distribute resources across its different areas of responsibilities.

The role of unions in the change of governance

The teacher unions initially fiercely opposed the change of authority fearing that employment conditions would be worsened if the municipalities were to be given more power. Centrally regulated employment conditions would ensure equality across the country, which would be jeopardised with local governance, since the local government was perceived as being more subjective as a decision making body.⁴ Given the power of unions, what made them accept the proposed change in governance? To understand this we need to look at the situation for

² Prop. 1989/90:41. *om kommunalt huvudmannas kap för lärare, skolledare, biträdande skolledare och syofunktionärer.*

³ Prop 1990/91:18. *Ansvar för skolan.*

⁴ This view was also shared by the government (see Prop. 1988/89:4, *om skolans utveckling och styrning*).

teachers prior to the reform. As mentioned earlier, teacher salaries had lost its real value during the 80s and with limited resources there was little hope to see an improvement in the near future.

Furthermore, despite political ambitions to narrow the gap between different categories of teachers, in late 80s there were still differences in status and employment conditions, such as salaries and regulated working time between different categories of teachers, e.g. primary education and vocational education teachers versus teachers in secondary education. This was by some viewed as unfair and by others justified on the grounds that teachers certified for upper secondary education had more years of schooling and were teaching in subjects that required more time for preparation. Those holding a more egalitarian view claimed that the amount of preparation time for teachers in lower and upper secondary education was not the same across the different subjects. Thus, those who were critical of the current system favoured a change in employment conditions to make it more similar for all teachers. The unionised teachers either belonged to the teacher unions of the Confederation of Professional Employees (TCO) or the teacher unions of the Swedish Confederation of Professional Association (SACO). The teacher union of TCO was the Swedish Teachers' Union (Läraryrbundet)⁵ and the National Union of Teachers in Sweden (Lärarnas Riksförbundet) was the teacher union of SACO. While the Swedish Teachers' Union have mainly represented primary school teachers, preschool teachers and recreation leaders, the members of the National Union of Teachers have been lower and upper secondary education teachers. Today the Swedish Teachers' Union has 220, 000 members while the National Union of Teachers has about 80, 000 members.

Given the situation, it is fair to say that the union mainly representing primary school teachers and pre-school teachers, i.e. the Swedish Teachers' Union had a strong bargaining position. They were in a position of bargaining for significantly improved conditions. In fact, prior to the decentralisation their demands for fewer hours of instruction for primary school teachers and the same ending salary for primary school teachers as for those working in upper secondary education were approved. It could be argued that their demands were probably accepted given the egalitarian view in Sweden. However, even secondary education teachers got a dramatic pay raise (25 percent on average in just couple of years) at the same time, which was probably sufficient to convince both unions and their members to accept the devolution of authority of teachers' pay and working conditions to the local government. Although the shift in governance did not occur without frictions, in fact, the period around late 1980s is considered to be one of the most turbulent areas in the history of educational policy; it should be noted that both unions, at least at the central level, had come to realise that there was no point in trying to stop the reform initiative given the strong political support for this to happen.

Winners and losers in the shift in managing teachers from the central to the local government

Given the approved claims for less instructional time and higher ending salary, it is generally perceived that teachers in primary education were clearly the winners in the early face of decentralisation when the local authorities assumed full responsibility over teachers' working conditions. Several representatives from the teacher unions argue that teachers in upper

⁵ There was yet another teacher union part of TCO for vocational education teachers (Fackläraryrbundet), which later merged with the Swedish Teachers' Union (Läraryrbundet).

secondary education, especially older teachers in math and science benefited less from the change in governance since they did not experience significant improvement in their working conditions despite more years of schooling and longer preparation time required for teaching in upper secondary education.

2.2 The shift from a fixed pay ladder to individualised pay

The shift in responsibility from the state to the local municipalities did not involve a change in the pay system. It was not until 1995 that the system with a fixed ladder was replaced by an individualised pay scheme. This was the result of several talks and discussions between the Swedish Association of Local Authorities (SALA), the union representing the employers, i.e. the country's 290 local municipalities, and the two teacher unions.

The approval of an individualised pay raises a number of questions. First, why did the change from fixed pay to an individualised pay become an issue in the first place? Second, why did the unions come to accept it given the previously expressed lack of confidence in the local government's ability to make unbiased decisions? In addition, an abandonment of a fixed pay scheme would entail a loss of security for teachers since there would be very few guaranteed raises.

Efficiency concerns

Referring to the first question, why it became an issue in the first place, the local municipalities were already in a better position of running the schools at the time when they assumed full responsibility over the management of teachers. However, a change in the governance structure did not imply more resources to the educational sector. In fact, in the early 1990s Sweden experienced a downturn in economic growth, with the highest unemployment rate since the Depression. The increasing number of school-age children as well as old people was an added stress that posed a real challenge for the local municipalities. Thus, there was an apparent need to improve the efficiency in all sectors by better use of available resources. Teacher salaries were a major part of the school budget, but both teachers' working hours (strictly controlled) and salaries were decided in central agreements, which the municipalities considered to be major obstacles in the optimal use of existing resources and thus in achieving higher productivity. The issue of assuming control over teachers' working time, although not elaborated in this paper, was and is still a big issue for the employers' association as well as for the unions. The regulated working hours in the central agreement has been relaxed somewhat since then. To be precise, the local municipalities had a vested interest in an individualised pay as an incentive or instrument to reward effective teachers, which would, in their view, make the valuable teacher resources better utilized.

What made the unions reach the final agreement to introduce individualised pay?

There is a strong consensus among the teacher unions, the employers' association and independent researchers on why an agreement was finally approved. The reasons can be described in terms of (1) change in the direction of cooperation among teacher unions; (2)

deadlock in the negotiations between SALA and the teacher unions; (3) decision to take charge of school development.

Change in direction of cooperation among teacher unions

After disagreeing quite heavily before municipalities assumed full responsibility of managing teachers, the two teacher unions became partners around 1992 and decided to cooperate on important issues instead of trying to oppose each other. This was a major turn which gave them much more bargaining power over the employers association. The issue of individualised pay was raised already then, but the members (teachers) were not ready to embrace such a change, fearing that the subjectivity of the local government would dictate employment conditions, which would play out differently across municipalities.

Deadlock in the negotiations between SALA and the teacher unions

The economic crises and the municipalities demand for increased control over working hours as well as individualised pay did not leave much incentive for the employers to raise teacher salaries. The prevailing situation in the early to mid 1990s can be described as a deadlock or a status quo situation in which there would be few possibilities to improve the development of teacher's salaries without accepting the municipalities claim for individualised pay and local control of teachers' time. The teacher unions also hoped that an individualised pay would lead to a wage drift, thinking that the wages determined locally would collectively increase beyond what is promised in the agreement centrally.

Unions decide to take charge of school development

Perhaps the most important and interesting point was the joint declaration signed by teacher unions that their role was to promote and be in charge of school development (The Swedish Teachers' Union, The National Union of Teachers in Sweden and the Swedish Association of Local Authorities 1996)⁶. This is because unions often are perceived as opposing change and striving for maximising their members own utility without taking into consideration the need of students, parents and society (See, for example, Hoxby 1996). The agreement that was signed broke new ground since it focused explicitly on the need for a development and change process in the school system and since the parties clearly stated that they share responsibility for the development of school education and the attainment of the agreed objectives. It should also be said that during the early 1990s the teacher unions in Sweden had come to realise that in order to improve salaries and employment conditions of teachers they had to improve the image of teachers by convincing society of the important role teachers play in ensuring high quality education. One could argue that the increased importance given to education in social change and economic development in recent times has given the teacher unions a window of opportunity to improve their bargaining position by more aggressively exercising influence over school development and quality improvement.

Furthermore, the system of managing by objectives has given teachers a broader mandate when it comes to deciding on how to achieve goals and guidelines set by the national government. Systematic monitoring and evaluation of school results is a key element in this

⁶ On the Threshold of the 21st Century, the Swedish Association of Local Authorities.

system. All schools and local authorities must prepare quality statements in which their performance is evaluated in relation to the national objectives (the Swedish Ministry of Education 2003). The teachers in such a system are more directly responsible for educational design and innovation, which is yet another important condition that offers an opportunity to demonstrate the importance of teachers in ensuring good quality education.

2.3 The agreements

Description

The conditions of employment for teachers as regards to pay and working time are governed by agreements between the employer's organization (SALA) and the teacher unions. In 1996 SALA and the teacher unions concluded a five-year agreement, which entailed dramatic changes in teacher working time⁷ and pay conditions. The centrally agreed salary scheme with fixed pay ladders was replaced by an individual based pay system determined locally. The first five-year agreement was succeeded by a second agreement, which is currently in force but will expire in the beginning of 2005. The first agreement was meant to be a transition from the old system of centrally regulated working time and fixed pay ladder, which had a long-standing tradition within the school culture. The agreement was intended to provide local stakeholders with the opportunity to figure out and to decide how to deal with the new changes and let them agree on what solution would be appropriate to achieve the objectives of the agreement. A major part of this was to decide on local priorities in school development and how to relate these to means of rewarding effective teachers (Svanborg and Sammeli 2004).

Moreover, the first agreement (ÖLA 2000)⁸ contained several yearly guarantees when it came to teacher pay raises and these were revised twice a year. The first one was more general, whereas the second revision was meant to give the employer a chance to reward teachers that had made an extra effort or contribution to school improvement. It was agreed by all parties that the second revision would lead to a 10 % additional increase in teacher pay collectively over the five-year period. It has been argued that this was also one of the conditions that persuaded the teachers to agree to accept individualised pay. The first agreement contained an agreed minimum salary after one year of probationary employment as well as an agreed minimum salary after 5 years' employment. The guaranteed salary after 5 years' employment was relaxed in subsequent agreement.

⁷ The previous working time system, according to which the teaching duty was centrally regulated for various categories of teachers, has been phased out. In the new system teachers' working time is divided into two components, i.e., regulated and unregulated working time. The agreed regulated working time comprises 1360 hours distributed over maximum 194 working days per year. During this time teachers must be at their employer's disposal, which normally means they must be in school. Unregulated working time is the time during which teachers decide themselves what to focus on. It corresponds to 407 hours per year. It is primarily intended for preparation and follow-up, spontaneous contacts with pupils and parents, and personal development. All other duties should be performed during regulated working time. The reason for these changes was the need to eliminate obstacles towards a more flexible approach to pupils' learning. Prior to 2000 central agreements regulated the number of lessons, i.e., the teaching load, during each school year.

⁸ Svenska kommunförbundet: ÖLA 2000, Stockholm Kommentus Förlag. 1996.

The second agreement (ÖLA 00)^{9,10}, which entered into force on April 1, 2000, is a further development of the first agreement. The new agreement differed from the earlier on two accounts: (1) there are fewer guaranteed amounts in terms of a raise¹¹ (2) the link between performance and pay was more clearly spelled out in the sense that the agreement firmly stated on what grounds pay setting should be based. First of all, teacher salaries should be linked to the objectives decided by the local government with regard to political goals and the need to recruit and retain effective teachers with consideration taken to budget constraints. Secondly, the salaries should be an instrument in encouraging higher levels of productivity and efficiency in achieving stated goals. Thus, the agreement stressed the importance of establishing well defined criteria for evaluating teacher performance. Third, the agreement emphasised the increased responsibility of different levels of local managers including school principals and those working in municipal administration. The devolution of responsibility to the local level entails that it is up to each municipality in collaboration with the local stakeholders to decide on what criteria to use that would be most appropriate in achieving local goals. The school principals are also rewarded on the basis of the attained results, e.g., to what extent the school has been able to deliver whatever the local municipality requires.

While the purpose of the first agreement was to give the municipalities and schools a chance to adjust to changed conditions, the second agreement expects more in terms of implementation¹². That brings us the question of implementation and how the wage formation and pay setting is carried out.

3. Implementation and remaining obstacles

Within the framework of the agreement, the local municipalities and the stakeholders have the right to choose one out of two procedures for wage setting, either through a dialogue between the teacher and closest manager (often the school principal) in charge of determining the wage (the dialogue procedure) or through ordinary negotiations, which means that the local trade unions are actively involved in negotiating the salary for their members. Often this implies that the local parties agree on the total share of the municipality budget that should be allocated to teacher salaries and sometimes how it should be distributed across different schools and individuals. When the dialogue procedure is used, the local trade unions have less influence and the main responsibility is placed on the closest manager. The procedure for pay review according to *the dialogue procedure* should be as follows: the employer presents the rationale behind planned pay review before presenting a pay review proposal to an individual

⁹ Svenska kommunförbundet, Arbestgivarförbundet KFF (2001): ÖLA 00, Stockholm: Kommentus Förlag, 2001.

¹⁰ Svenska kommunförbundet, Svenska Kommunförbundets redogörelse för ÖLA 00 med Lärarnas Samverkansråd, Stockholm: Kommentus Förlag, 2001.

¹¹ This entails a minimum salary after one year's employment, which is lower than what is actually offered to beginning teachers; 4 + 2 percent in first two yearly revisions and a general salary increase of minimum 20 % in total for the country as a whole for the five-year period; this means that in some municipalities there will be more while in others less.

¹² However if one party, either the central or the local trade/teacher union, is dissatisfied with the development of local negotiations, notice may be given to terminate the agreement.

employee, the employer passes it thereafter on to the local trade union of which the employee is a member. If the trade union does not call for local negotiations, the employer's proposal is accepted.

Since the purpose of individual based pay is to link salaries with objectives and performance, both SALA and the teacher unions at the central level agree that the preferred procedure is the one that encourages a dialogue between the teacher and the closest manager. However, realising that not all municipalities have reached a point where the unions and the municipality administration feel confident enough to delegate full responsibility to the closest manager, SALA and the teacher unions have agreed to allow the option to conduct the pay review through an active involvement by the local trade unions and the local municipality officials. Judging from how the central agreement (ÖLA 00) is formulated and through the interviews with representatives from the trade unions and SALA, it is understood that the ultimate goal is to grant more authority to the closest manager in the pay review process. This could perhaps be seen as an obvious evolution in a highly decentralised system for educational decision-making in which the school principals are being held more and more accountable for the overall performance of the school. Nevertheless, the unions will probably still play an important role in making sure that the pay review is conducted in a fair manner with agreed upon criteria as a basis for decision. In fact, in a large number of municipalities the pay review is based on a combination of a dialogue between the teacher and the closest manager and the involvement of local union representatives to at least endorse the proposed salary changes (see the monitoring report from Lärarnas Samverkansråd, 2004)¹³. According to this report only 1/3 of the municipalities have chosen the closest manager/teacher dialogue procedure and one out of three is still using the traditional model of negotiation and the remaining 30 percent is using a mixture of the two models.

The explanations for not following *the dialogue procedure*, according to evaluations carried out by the unions, are a lack of trust between the different local parties (unions, school management, local administration and politicians) and unclear division of responsibilities in regard to what should be done in terms of setting the overall salary budget and general objectives, which more or less boils down to a lack of understanding on how to interpret the agreement. One conclusion to make is that it requires broad discussions and consensus among the different local stakeholders for a successful implementation of the preferred procedure.

It is, however, stated in the central agreement that the municipality and local trade unions must decide before the annual pay review process begins, which procedure to follow for their members. It is technically possible that the unions will opt for different procedures for their members. It should be mentioned that if either the employers association (SALA) or the trade union prefer ordinary negotiations, ordinary negotiations take precedence over *the dialogue procedure*.

Regardless of the procedure, dialogues with the closest manager as regard to performance as a basis for pay have been more common whereby teachers feel that they can express their views as well. Managers are better prepared for these meetings using documents supporting their views. However, oftentimes these meetings have focused too much on performance without

¹³ Uppföljning av ÖLA00 Djupstudie i 20 kommuner 2002-2004 Slutrapport, Lärarnas samverkansråd, september 1994.

linking performance to pay conditions. It also happens that the salary has already been set by the time these talks take place.

There are currently no studies that have been able to classify municipalities according to different demographic and socio-economic conditions with regard to the wage formation procedure. The unions have made some attempts to look at different characteristics of municipalities but have not been able to identify any particular factors. It appears to be more a matter of personal opinions of those in charge, not necessarily linked to any particular political affiliation. However, this could be a topic for later research.

Development of criteria and evaluation of teacher performance

An important issue in implementing an individually based pay system is how to evaluate performance. In a system for educational decision-making described as managing by objectives, accountability is an important aspect. According to the directives given in the agreement, the criteria for wage setting should consider local objectives and priorities, which to a large extent reflect those set by the Government and the Parliament. A prerequisite for evaluating teachers is then that the process of local goal setting and the procedures for self-evaluation are well established. This is an ongoing process, which seems to be improving according to the National Agency of Education. However, there is still some ways to go before well functioning procedures for self evaluation is in place in all municipalities. As indicated above, there are very few guidelines issued at the central level as how to evaluate teacher performance. Instead the idea is that each municipality in collaboration with the local stakeholders should define their own criteria linked to what needs to be accomplished locally. Most municipalities have established some kind of evaluation tools sometimes at the central municipality level with the expectation that schools should further refine and develop these at the school level. In several municipalities, local stakeholders, municipality officials and school principals have jointly developed criteria for evaluation of teachers. The criteria commonly used are quite vague and only state what is expected from teachers in terms of participation in school wide development and in the development of teaching methods, collaboration with other teachers, encouraging student involvement and their desire to learn, and provision of feedback to parents. Although it is clearly stated in the agreement that teachers' pay should be linked to results, teachers are often, as can be inferred from above, evaluated on the basis of degrees of effort and commitment rather than in relation to what they have achieved in terms of stated objectives. However, one of the municipalities examined had developed elaborate evaluation tools for teacher performance, which include both extensive criteria and clearly defined instructions on how to grade each of the criteria on a scale from 1 to 5. The areas subject for evaluation in this municipality include behaviour towards pupils; contribution to a school climate receptive to democratic values and differences in opinions; support of pupils' development of their self esteem, motivation of pupils to learn and the ability to adjust teaching methods to the need of individual and groups of pupils; collaboration with other teachers and contribution to school wide development and finally, the extent to which the teacher actively pursue professional development and share new knowledge with other colleagues.

In the same municipality some criteria had also been developed to judge the overall performance of the school. These include areas for school development agreed upon in the

central agreement (ÖLA 00), such as the extent to which the school has an effective organisation for supporting collaboration among teachers, encouraging professional autonomy, team responsibility, and the introduction of new teachers as well as maintaining a good school climate, encouraging teacher development and student influence and, finally, to what extent the school is successful in managing resources and conducting self evaluations. As in the case of the instrument for teacher evaluation, the school level evaluation is graded on a scale from 1 to 5, with clearly spelled out criteria for each grade. On the basis of this evaluation the schools may be allocated an extra amount to be distributed to the teachers and personnel working at the school in addition to the regular pay review. The development of the evaluation tools had been a joint effort by municipality officials, local union representatives and principals. Although the local trade unions are involved in the wage formation process, the school principals in the municipality referred to above have significant influence in deciding the individual teacher's pay. In this particular municipality there had also been a massive effort to provide training in using these instruments and in the concept of individualised pay for all managers at different levels in the educational sector.

4. What has been accomplished by a shift in pay scheme?

As an instrument for recruiting and rewarding effective teachers

The main intent with the adoption of an individual based pay for teachers was to provide the local management with an instrument for recruitment and reward of teachers with a view to enhance performance, productivity and quality of education. The question is how successful has the individual-based pay been in terms of achieving these goals? One way of looking at this is to see if there have been any changes in the dispersion of the wage structure. It is expected that an individualised pay system should lead to an increased dispersion as teachers are being rewarded differently according to their performance. By reviewing data on teachers' salaries it becomes evident that this has not occurred; the spread between the bottom 10 percent and the upper 10 percent has actually decreased for the country as a whole since the new system came into force 1995 (Data source: The Swedish Teachers' Union and the National Union of Teachers in Sweden). A major reason for this is that the demand for teachers has exceeded the supply of teachers in recent years, thus forcing many municipalities to raise the entry-level salary for teachers.

The relatively high salaries offered to incoming teachers do not concern the trade unions since they believe that this will eventually raise the pay level for the whole teaching force. This is because teachers in the system may use this as an argument for their own pay raise. According to the teacher unions, there are some cases where teachers already in service have benefited from high entry salaries offered to incoming teachers. In such municipalities there has oftentimes been a strategic decision to put effort into recruiting and retaining good teachers by offering financial incentives. As pointed out by the interviewed union representatives, this requires that the school principal has significant influence over the amount that can be allocated for salary purposes. This is not often the case; the principal is typically constrained by a fixed budget that may not allow for both offering high entry salaries and raising salaries for those teachers that deserve a significant increase.

Another reason for a tighter wage distribution could be that the highest paid teachers are, to a large extent, leaving the teaching profession due to retirement. If the amount freed up is not distributed among the remaining teaching force when older teachers are leaving the dispersion may diminish. Furthermore, there is some evidence that older teachers who, in general, have reached a relatively high wage level, have not obtained the same increase as those with lower salaries (Data source: the Swedish Teachers' Union), which could also contribute to a more narrow wage span. This is for the country as a whole, which does not mean that it has been the same all over Sweden. The reasons provided by school principals and representatives from SALA and the teacher unions are that younger teachers sometimes (not always) are more dynamic and are willing to accept changes more easily, and are eager to take part in school wide development and are not only focused on student learning in the classroom. Since these attributes are regarded important when wages are determined younger teachers may be favoured in the process. However, yet another reason that should not be underestimated is the prevailing notion of egalitarianism, with a compressed wage structure. This is a belief deeply rooted in the culture, which makes it difficult for local management and school principals to reward certain teachers without feeling obliged to reward other teachers in subsequent negotiations. This may not be an obstacle in countries with a more accepted view on differences in the distribution of income.

It is perhaps a strange coincidence that since the introduction of individualised pay, shortages of qualified teachers, e.g. those lacking full teaching credentials, have increased from 7 percent in 1995 to 20 percent in 2003 for primary and lower secondary education and from 10 percent to 20 percent in upper secondary education (Data source: Swedish National Agency for Education). However, shortages of teachers should not be attributed to the introduction of individualised pay but rather to the business cycle. As mentioned earlier Sweden experienced in the early 1990s a downturn in the economy, which forced municipalities to lay off teachers. When the business cycle turned in 1995 the municipalities could hire more teachers but they also had to compete with the labour market outside the educational sector, which offered opportunities for teachers, especially in science and technical subjects. It is also reasonable to suspect that the labour market situation for teachers prior to 1995 did not encourage potential students to enrol in teaching training institutes, which may also have contributed to shortages of teachers. As the labour market conditions improved during the latter part of the 1990s the interest for becoming a teacher increased, as evidenced by a relatively higher number of applicants to teacher training programs.

Shortages of teachers have been particularly pronounced in the largest cities and surrounding suburban areas and some sparsely populated areas. In some of these areas the entry-level salaries for teachers have been close to 50 percent higher than in municipalities at the bottom of the salary scale (Data source: The Swedish Teachers' Union). Before the reform the salaries were the same regardless of geographical area. Thus, has locally determined individualised pay been an effective tool to deal with teacher shortages? In general it is difficult to say since until very recently there have been pronounced shortages of teachers in areas where the pay has been relatively high. However, a comparison of the evolution of the proportion of qualified teachers with entry-level salaries shows some degree of correlation within larger labour market areas. This could be interpreted as if individualised pay, at least to some degree, has been effective in reducing shortages in a few areas. This has also been pointed out by some of the municipality officials, stakeholders and school principals interviewed for this project.

Moreover, there is some evidence that schools and municipalities within larger labour market areas have been forced to compete with each other by raising wages for teachers already in the system. It is interesting to note that the proportion of teachers moving to a nearby municipality has doubled since 1995 and in some areas the number is much higher (Data source: Statistics Sweden). It also happens that teachers come back to the same school or municipality after some time demanding a higher salary than what had been possible by remaining at the same school. In order to avoid this type of situation some municipalities have now decided on a policy that will not allow the hiring authorities to compete by offering a higher wage than what is considered normal for that municipality.

Since there has been a shortage of teachers in more or less the whole country and in particular within the larger cities the possibility to compete by offering different salaries may reduce shortages in one area at the expense of even a greater shortage in areas from where teachers are leaving. For the region or the country as a whole this could lead to a more or less a zero sum game. One exception could be that the salaries for teachers adjust to the local wage rate, which helps municipalities with a high wage level to compete for qualified teachers.

One important outcome of the locally determined individualised pay is that it provides those in charge of recruitment an opportunity to be more selective when hiring new teachers. Given the fact that the hiring managers, often the principals, are responsible for the performance of the school he or she is eager to hire the best candidate. Some of the school principals expressed that individualised pay is important in this respect. But equally important is the fact that school principals are held accountable for the performance of the school, which is a result of decentralisation and not because of individualised pay. Prior to decentralisation teachers were more or less assigned to a school on the basis of some standard merits. According to some of the principals interviewed the teachers hired recently seems to be driven more by economic incentives and see the teaching job as any other job whereas the older teachers became teachers for ideological reasons and may have higher expectations on themselves.

What can be said about using differential salaries as a means to improve quality and efficiency at the school?

From the information provided above, the individualised pay scheme seems to have functioned primarily as a labour market instrument than as a way of rewarding teachers on the basis of their performance. To obtain a better understanding on how individualised pay is used in practice, principals from two different municipalities were interviewed. The municipalities include the one referred to above, which has made a significant level of progress in developing criteria for teacher evaluation and educating those in charge of the pay review. Included is also a municipality, which has a high number of immigrant children and has the reputation of catering for students at risk. These two municipalities can be considered to be at the two extremes. The first one has one of highest proportion of qualified teachers in the country (around 90 percent), has a university offering teacher education and has not had substantial problems in recruiting new teachers and has therefore not been forced to offer high level entry salaries. In the other municipality the proportion qualified teachers are below the country average (75 percent), which is also one of the lowest numbers within the surrounding labour market area. The entry-level salary is high, which partly reflects the problem in recruiting teachers.

The principals interviewed in the municipality, which had come quite far in terms of developing criteria for evaluating teacher performance, were all very positive. The municipality officials and school principals interviewed believed that individualised pay had brought many positive changes in that it is now possible to reward and retain committed teachers and those who are very important contributors to school development and who motivate pupils and students to learn. At the same time it has become much more obvious which teachers are not performing up to the standards and in some cases these teachers have decided to leave the teaching profession after realising that they may not be in the right profession. Overall, the development of criteria for evaluation as a result of individualised pay has, according to these principles, been an effective instrument in setting up goals and prioritising what needs to be done in order to fulfil the stated objectives. It has also put more focus on the role of teachers, i.e., what teachers are supposed to do. The teachers' approval rate in this municipality was also very high based on evaluations and the low number of complaints. As mentioned above, there had been extensive training programs for all those involved in the wage review process in this municipality.

In the second municipality, which is facing more challenges in terms of recruiting and retaining teachers, the principals expressed mixed views. The principal from one of the schools considered individualised pay an asset in school development and in motivating teachers to do a good job in the classroom. As an example on how the individualised pay was used, the principal mentioned that a team of teachers had been rewarded for being able to raise the achievement level of some poorly performing students.

The principal from another school was less convinced of the benefits of the new system of rewarding teachers. A number of points were raised that suggested that rewarding teachers on the basis of performance is not that easy. The best teachers are not necessarily receiving the highest pay. The high salaries awarded to newly recruits coupled with budget constraints make it difficult to raise salaries for teachers already in the system. The category of teachers that have suffered the most, according to this school principal, is the group of teachers with 10-15 years of working experience. This group of teachers is often the best ones, experienced and still very active, but they have neither benefited from high entry-level salary nor have they reached the same pay level as their more senior colleagues. Teachers are also having a difficult time in accepting that some of their colleagues are doing a better job and thereby deserve higher salaries.

The interviewed principals, regardless of their view on individualised pay, all agreed that it is a rather demanding job to be a principal under the new system; it requires a great deal of confidence to be able to provide honest feedback and sufficient arguments when communicating the new salary to teachers.

What do teachers think about individualised pay?

When assessing the impact of the reform it is also important to consider the view of teachers. It is a well-known fact that in all educational reforms, which have an impact on teachers, it is crucial to gain their approval. Without their approval reform efforts may be futile. In the case of Swedish teachers, it has been a dramatic shift in the approval rate from the onset of the individual based pay from a very negative view towards a majority of teachers in favour of

such a system. According to a recently published study carried out by the Swedish Teachers Union¹⁴, more than 60% of the members of the largest teacher union are now in favour of individualised pay compared to less than one third in a similar study carried out in 1999. The study shows that the approval rate is higher (70 percent) among the younger teachers (below the age of 40), but even among those older than 50 years more than half is supportive of the new system. It is believed that the same results would be obtained if a similar study would be carried out among the members of the smaller teacher union.

To measure changes in efficiency and quality in the educational sector is very difficult, especially when it comes to controlling for different factors. By just looking at the way teachers perceive the new system and recognising that they are in favour of such system, one can at least claim that it generally motivates teachers to do a better job, which is likely to produce positive results. One interesting point that came up in the study is that teachers prefer to negotiate their salary raises without the interference with the local union, which is something that the unions acknowledge. This raises the question what the future role of unions will be when this procedure is fully implemented. One possible scenario is that unions will play more of a quality assurance role in making sure that the wage formation is correctly executed. One other possibility is that they will continue to be part of the process of school improvement, work on improving the public image of teachers, and finally continue assisting in the development of criteria for evaluating teacher performance and pay. Thus, it is likely that the teacher unions will increasingly take on the character of a professional organisation than merely acting as traditional union.

A final issue to consider is the equality of conditions across municipalities. There are some concerns that deteriorating resources currently happening in several municipalities will hamper the evolution of salaries. Without any leeway for increasing salaries, the system may lose its credibility. With this in mind, it is possible that unions will push for a minimum guaranteed wage increase at the municipality level in the next agreement currently underway.

Winners and losers of individualised pay

Finally, are there any losers or winners as a consequence of introducing individualised pay? It was argued in the context of the reform, when the municipalities assumed full responsibility in managing teachers, that teachers in upper secondary education lost some privileges and benefited less than those teaching in primary education. The result of individualised pay seems to have favoured beginning teachers across the board at least in some municipalities. However, according to the teacher unions, the evolution of relative wages for all categories of teachers has been the highest since 1960s, and the evolution of relative wages for teachers since 1995 has at least kept pace with the average across all occupations (Swedish Ministry of Science 2003).¹⁵ In addition, due to seniority status at the age of 42 (on average), in 1995 many teachers had reached the highest step on the fixed ladder and could only expect an increase corresponding to the inflation rate. From these perspectives, there are no real losers, which I believe is part of the explanation why even older teachers seem to support individualised pay. As indicated by one of the interviewed principals, it is possible that the

¹⁴ Hur ska lönen sättas? En attitydundersökning bland lärare. Lärarförbundet, Augusti 2004

¹⁵ It should be mentioned, however, that teachers salaries have not regained the loss suffered earlier against employees with similar educational profiles working in the private sector or for the state.

teachers in the middle of their career might have been discriminated when switching over to individualised pay, especially in situations where the municipality have prioritised the recruitment of teachers and offered the new recruits high level entry wages.

5. Lessons learned

The decision to shift from a system of fixed pay ladders to a system of individualised and locally determined pay for Swedish teachers did not occur without frictions. From the point of view of the local authorities, individualised pay was seen as a way of gaining further control over educational resources, which would in turn lead to improved efficiency. By contrast, for the teacher unions and their members, the introduction of a locally determined and performance based pay was considered highly controversial. Anticipating a loss of security for teachers and fearing that local subjectivity would play an important role in determining individual level salaries, the unions were initially reluctant to approve individualised and locally determined pay. Given the situation with deteriorating teacher salaries and the fact that decentralisation trends in wage setting were apparent in the public sector as a whole since the 1980s, locally determined performance based pay seemed to be the only way out of the deadlock situation that marked the early to mid 1990s. However, if the two teacher unions had acted according to utility maximising principles such as pushing for higher salaries without offering anything in return, it might not have been possible to push through this reform and break the deadlock situation. The two teacher unions' strategic decision to team up and take charge of school development was a move that surely facilitated the abandonment of fixed pay ladders.

With regard to the implementation phase, the unions have never let go of the control over the process. This is evidenced by the entitlement provided in the agreement that allows the unions to decide locally whether to accept a wage setting process that gives more power to the closest manager. The active involvement by the unions in assuring that the process is carried out correctly is probably an important prerequisite for a smooth transition from a fixed pay ladder to a performance based pay. This may also have contributed to the currently great approval rate for individualised pay among teachers and stakeholders alike.

Apart from the crucial role of the stakeholder associations, there are some important lessons to learn from introducing individualised pay for teachers in Sweden. First, it is clear that it requires a great deal of know how among local stakeholders and among managers at different levels throughout the local educational sector. This is one of the obstacles Sweden is currently facing. Despite good intentions and careful planning in conjunction with the introduction of the new pay system, the need for extensive training of those involved is something that could have been better foreseen. In the first agreement the local stakeholders and municipality officials were left on their own to decide on how to respond to the changes the new system would bring. Although the current agreement states more clearly on what grounds reward of teachers should be based, it has become obvious through interviews and evaluations that far from everybody involved in the wage setting process understands how to interpret the agreement, let alone is prepared for evaluating teacher performance. Thus, one important lesson to learn is to how to deal with the issue of educating those involved prior to or at least

at the onset of the reform. Today this would also involve the formation of networks, through which good examples and problems could be shared and disseminated.

The second lesson to learn is that a reform that involves the devolution of authority from the central to local parties will inevitably lead to some degree of power struggle between different actors in the system, i.e. between politicians, municipality officials, local union representatives and school leaders. To avoid this type of situation it is important that the rationale for pay setting is openly discussed and that there is a broad consensus and trust among the local stakeholders and managers.

Third, a successful implementation of a performance-based system requires that there are clear incentives for those involved in the process. If the local authorities and the school level management are held accountable for the performance of the school and the utilisation of resources it is imperative that they will strive for maximising the performance of teachers. Thus, they will be inclined to embrace an instrument that can serve as an incentive for teachers to perform well. The decentralised nature of decision-making in the Swedish educational sector fits well into this case. It could perhaps be argued that in a decentralised decision-making system with local accountability, it is almost necessary to have some kind of instrument to encourage good performance. Financial incentives ought to be a powerful tool in this context.

Fourth, a related topic is the need to have clearly defined criteria on how to evaluate teacher performance, which in turn is dependent on clear objectives what the schools should accomplish. Some of the major challenges the municipalities in Sweden are facing are how to make the local goal setting and evaluation process work smoothly, to define criteria that reflect local goals and priorities, and to reward teachers not only because of their effort and commitment but also according to what they have accomplished. As mentioned above, one important outcome of introducing performance based pay is that it has forced municipalities and schools to think explicitly about what the school should achieve and what is expected from teachers when defining the criteria to evaluate teacher performance.

Finally, a significant issue in the implementation of individualised or performance based pay is the availability of resources. With limited resources there is a great risk that the system will lose credibility, especially if the ability to pay teachers varies across municipalities. This will have an impact on the equality of employment conditions and the possibility to recruit and retain teachers on equal grounds. A lack of resources is also problematic if a municipality or school has to deal with a shortage of teachers, while at the same time it has to use financial incentives to reward effective teachers.

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