Towards a strategic model of employment reform in developing countries: explaining and remedying experience to date

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Abstract   The article argues for the importance of employment reform as a subject for international HRM scholarship. Employment reform has been one of the most significant, but also most neglected, recent initiatives in international HRM. Explanations by the World Bank and IMF for the poorer than expected outcomes of reform to date emphasize the importance of political commitment. They are compared with explanations for the similarly poor outcomes of downsizing in industrialized country organizations, which emphasize strategy, diagnosis, incrementalism and provision for retrenchees. Further clarification is provided by the results of field interviews in Ghana, Malaysia, South Africa, Sri Lanka, Uganda and the UK. The article argues for a strategic approach to employment reform, one based on diagnosis and drawing on HRM expertise. It should take account of process factors in reform, make provision for the ‘victims’ of reform, loosen the link between employment reform and pay reform, and refine the role of donors in supporting reform. HRM practitioners and scholars have an important contribution to make to developing a new approach.

Keywords   Employment reform; downsizing; developing countries; World Bank; international HRM.

Introduction: the significance of employment reform

This article is about one of the most important human resource initiatives to be taken on the international scene in recent years, one entirely unrelieved by the application of HRM specialist knowledge. This is the phenomenon of what has usually been called ‘civil service reform’ or, more narrowly and accurately, ‘employment reform’ in developing countries. Reform in this context refers to those deliberate measures that developing (and industrialized) country governments have taken to alter the employment and payment of their staff, typically in the context of some larger programme of macro-economic reform. ‘Reform’ is often a euphemism, since in practice the most prominent measure has been job reduction, with which civil service reform has often been synonymous (Pronk, 1996).

Industrialized country scholars may have been mesmerized by the emerging strategic HRM model (Devanna et al., 1984; Guest, 1989), the more so following the recent appearance of bullish claims about its almost miraculous impact on organizational performance (Delaney and Huselid, 1996; Patterson et al., 1998) and the assertion by one of its principal advocates that it is a universal model, more or less guaranteeing
improved organizational performance anywhere (Pfeffer, 1994). But the fact is that it is job reduction that towers over the HRM landscape in the public sector of developing countries. The evidence is wholly unreported in the HRM literature, a dereliction which this article aims to rectify (though see Redman and Keithley (1998) for a study of Poland), but it is a matter of record. Between 1987 and 1996 the World Bank assisted no fewer than sixty-eight developing and transitional countries with reform programmes (Nunberg, 1997). China, the world’s most populous nation, embarked in 1998 on a reform programme designed to cut the number of its civil servants by half – in other words, by a projected four million people (The Economist, 1998); and similarly dramatic reports from individual countries, such as Ghana and Uganda (McCourt, 1998a), are also available. Even in industrialized countries, the scale has been dramatic: staff-retrenchment programmes were carried out between 1987 and 1992 in the public sectors of twenty-two of the twenty-seven member countries of the OECD, making it by some distance their most widespread human resource initiative (OECD, 1994).

Aims of this study

This article presents an integration of the rather far-flung literature that bears on employment reform in developing countries and on downsizing in industrialized country (mainly North American) organizations. It also incorporates material from field interviews in six countries. Analysis leads on to brief suggestions for future research and tentative proposals for the design of reform.

The reform literature

A review of the literature on employment reform in developing countries is largely a review of what World Bank and IMF staff have had to say on the subject. It is impossible to exaggerate the dominance of the twin Bretton Woods institutions over the reform debate. Their Washington headquarters are veritable research factories, and the leverage which their lending powers give them in the field (both institutions are lending institutions first and foremost) means that, when they evaluate the success of reform, it is largely the success of their own prescriptions that is being evaluated; and their perspective inevitably influences what they study (Caufield, 1997). By contrast, the capacity of developing countries to undertake their own research is weak. An HRM specialist wishing to understand, let alone influence, the conduct of reform must therefore engage with the Washington literature.

As country after country embarked on reform after Ghana’s bellwether programme began in 1982, a blueprint emerged in which a reduction in the size of the civil service, typically expressed as a conditionality or ‘structural benchmark’ in a World Bank or IMF loan, was specified in the context of a reduction in overall government expenditure whose aim was to restore macro-economic stability and facilitate growth (Lindauer and Nunberg, 1994). Crucially, in other words, this was – and remains (Nunberg, 1997) – a cost-driven model of reform. Recognizing that the alleged overstaffing which reform was supposed to rectify had often been at the expense of lower wages, the blueprint included provision for the savings from retrenchment to be used to raise wages for the survivors, especially the higher-paid for whom salary decompression was indicated, since their salaries were said to have fallen relative both to their juniors and to their private-sector counterparts. (Stevens (1994b) provides a textbook example of how all this was to be done in practice.)

Clearly other analyses were possible. At the macro-economic level, for instance, development activists have pointed to the effect of foreign debt on government finances
(Brown, 1998). Others have prioritized improved revenue collection rather than cutting government expenditure as a way of balancing government income and expenditure (Dia, 1996). Nonetheless there was a presumption that government was overstuffed in any case (Nunberg, 1997), and, as one of the Bank’s staffers put it, ‘That no government or little government was better than big government’ (Chaudhry, 1994: 199).

From a Western point of view, the favoured reform instruments are a mixture of familiar and unfamiliar. Certainly, the familiar tools of voluntary and compulsory redundancies figure among them. But other options have included the elimination of ‘ghost workers’, a colourful phrase which refers to the practice, widespread in sub-Saharan Africa (Nunberg, 1994), of interpolating fictitious names into a payroll so that wages can be diverted fraudulently. Since such practices can occur only when a payroll is in disarray, reform is predicated on first carrying out a payroll census (Stevens, 1994a).²

Dealing with the impact of reform on its victims is not an integral part of the blueprint. Severance packages have been seen as too generous (Abed et al., 1998), possibly at the expense of needier groups in society (Graham, 1994). Nunberg (1997) adds that the informal and agricultural sectors have a robust capacity to absorb retrenchees, even in the absence of any severance packages (though the Bank’s own research in Ghana presents a more complex picture in which some employees were definitely impoverished: see Alderman et al., 1994). Attempts to supplement compensation packages with retraining, counselling or other measures are seen to have been ineffectual (Alderman et al., 1994). The effect of reform on civil service performance is also outside the blueprint, and is rarely mentioned.

The outcomes of reform

How do the World Bank and the IMF evaluate the performance of reform, even in their own terms? It has been disappointing. Abed et al. (1998) report an annual 0.5 per cent drop in numbers in twenty-two countries assisted by the IMF, but also an annual 1 per cent decrease in real wages, suggesting that wage cuts played a critical role in reducing the wage bill – the exact opposite of what the blueprint envisaged. By 1995 the World Bank had rated 40 per cent of its own civil service reform projects as unsatisfactory at completion (Nunberg, 1997). Lienert and Modi (1997: 32) conclude that ‘most sub-Saharan African low-income countries have made only limited progress towards achieving the objectives of civil service reform’, and Schiavo-Campo (1996) contends that elsewhere too there is much to be done.

Why the failure? Nunberg (1997) baldly lists factors identified in World Bank project evaluation reports. Pride of place goes to lack of political commitment and ownership by reforming governments. Other factors listed are political and economic crisis, lack of administrative and financial (Abed et al. (1998) add institutional) capacity and flawed project design and project staffing, along with two factors which relate purely to the role of donor agencies: poor donor co-ordination and Bank-country dialogue.

The Bank/IMF explanation of failure may be a little sketchy, but the remedial proposals are assured. Countries should consolidate the existing reform programme, tightening and extending it, but should also supplement it with a ‘second generation’ of reform measures (Abed et al., 1998; Lienert and Modi, 1997; Nunberg, 1997; Schiavo-Campo, 1996). These would include wider staffing issues such as pay and appraisal, but also systemic factors such as the link between the personnel and finance functions in government, the introduction of a strategic approach, modulated to take account of differences between countries, and an emphasis on increasing government ownership

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of reform. Only Nunberg addresses the part that donors have played in the failure of reform. Her remedy is to establish a critical mass of ‘top flight professionals’ at the World Bank’s centre.

In short, the Washington reaction to the failure of their own reform prescriptions is ambivalent: the earlier approach is not repudiated – some argue that it has not gone far enough – but it now coexists uneasily with a growing sense, not fully articulated, that something is needed to supplement it, possibly work on systems, institutions and strategies.

**Triangulating the Washington analysis:** the Western experience of downsizing

Let us now try to triangulate the Bank/IMF analysis of reform. The other two sides of the triangle from which we view the phenomenon are the (mainly North American) experience of downsizing in the private sector and the results of some field research. We now consider the former.

American studies of downsizing are fragmented, the data on which they are based is sometimes anecdotal, and their analysis sometimes lacks explanatory depth. Nor, of course, do they address some of the specific problems of reform, such as the role of donors. Nonetheless they are relevant because of the scale of downsizing – IBM’s reduction from 406,000 to 202,000 jobs between 1986 and 1995 (*The Economist*, 1996) is hefty, even if not quite on the Chinese scale – and because their fresh perspective discloses some surprising similarities.

**The Western experience: corroborating and qualifying the Washington analysis**

There are four similarities with the Washington analysis in the explanation of downsizing outcomes. A first, and fundamental, similarity is that the American experience is also frequently one of failure, as Redman and Keithley (1998) point out. Following downsizing, the financial performance of Fortune 100 companies tended to worsen rather than improve (De Meuse *et al.*, 1994), productivity targets – and even simple cost-cutting targets – were often not met (Bennett, 1991; Henkoff, 1990), and workers’ morale and trust were perceived to have suffered (Henkoff, 1990; Peak, 1996). Second, the importance of ownership of downsizing is stressed (Cameron, 1994). Third, the importance of the cost dimension is recognized: Greenhalgh and McKersie (1980) point out that downsizing could paradoxically increase costs, at least in the short term, because of severance and other costs.

**Strategy** Finally, the American studies strongly emphasize the importance of a strategic approach, explicitly contrasted with the cost-driven approach. Again and again, writers point to the failure of organizations to approach downsizing in the context of a strategy for improving organizational performance, one whose elements include restructuring, performance appraisal and articulating a vision of where the organization wants to go. In such a strategy, downsizing arises as simply one component in an integrated package of measures which will enable the organization to realize its vision (Cameron, 1994, and Roach, 1996, are representative). Henkoff sums up: ‘Downsize if you must. But don’t expect a pay-off unless you do so with a well-thought-out strategy’ (1990: 34).

**Qualifying the Washington analysis** While these studies clearly corroborate the Washington analysis at several points, they also qualify it in two respects. First, there is the way in which the strategic and the cost-driven approaches are held in opposition:
the downsizing literature strongly suggests that the cost-driven approach is unlikely to succeed even in reducing costs, never mind improving performance. Second, the striking similarity between the failure of reform and of downsizing paradoxically calls into question the major element in the Washington explanation of reform failure, namely political commitment and government ownership. The suggestion arises that the failure of reform may have at least as much to do with the process of reform itself as with the commitment of the reformers.

The Western experience: extending the Washington analysis

Cameron’s study: success factors in downsizing In other respects, the American studies take the explanation into new territory. In probably the most perceptive study, Cameron (1994) found that increased participation by the workforce, systematic prior analysis of tasks and personnel and, to a lesser extent, use of a gradual, incremental approach were statistically associated with downsizing success. (More detail on prior analysis and incrementalism is given below.) He identifies HRM expertise as an important element, acting as a bridge between organization-level staffing decisions and their operational implementation (see also Kozlowski et al., 1993).

Diagnosis Prior analysis of tasks and personnel – diagnosis for short – appears crucial. Whetten and Cameron (1994: 272) found that failure to diagnose led to ‘a protracted implementation process often marred by multiple false starts’. Identifying the causes of overstaffing is an important aspect. As one US company’s general manager commented, ‘Costs exist for a reason. If you don’t take the reasons away, the costs will return’ (Henkoff, 1990: 27). Moving to the public sector, Rose (1985: xiii) argues similarly that the size of the public workforce is the result of past programme commitments perpetuated in the present. The inference is that, in order to control staffing numbers, it is necessary to understand the policy-making process, since that is where the root of staffing size lies.

Incrementalism The importance of incrementalism is highlighted in the separate but related literature dealing with the phenomenon of ‘turnaround’, which refers to programmes for the recovery of sickly firms (e.g. Slatter, 1984). Arogyaswamy et al. (1995) have presented a two-stage model of corporate recovery, where emergency actions to cut costs lead on to strategic planning for the future, generating stakeholder support and strategic development of the organization’s staff (see also Pandit, 1996).

Victims of downsizing As we saw, the Washington analysis is sanguine about the fate of retrenchedees. The fate of their American private-sector counterparts is the subject of many articles in the downsizing literature. In contrast to the reform studies, American retrenchedees, operating in a robust economy, are seen to have suffered financially, with severely reduced earnings which persist for as much as six years after retrenchment (Stevens, 1997). Retrenchedees suffer in other ways too: the negative impact of unemployment on health and well-being is an established fact (Argyle, 1989).

Employers have concerned themselves with their employees’ fate for a mixture of expedient, legal, and ethical reasons. First, it is expedient for employers to treat victims decently, since survivors whose retrenched colleagues had been badly treated reacted by working less hard (Brockner et al., 1987; Ting, 1996). Second, employers are of course obliged to obey the law, for instance by giving the notice which the law now requires in the United States, and to honour employment contracts which have the force of law.
Third, many employers go further than the law requires on ethical grounds (Brytting, 1994), doing their best to avoid redundancies altogether, or to mitigate hardship when redundancies are inevitable. Methods used include giving adequate notice, outplacement and job search advice, staff counselling and involvement of trade unions (Perkins, 1987; Sutton, 1987).

Inappropriate reasons for downsizing  If the gains from downsizing are uncertain at best, why do organizations keep doing it? An innocent explanation is that they are playing follow-the-leader: downsizing companies have tended to imitate fashionable models (McKinley et al., 1995). Sometimes the model is their own previous practice: Henkoff (1990) found that one of the best predictors of whether a firm will downsize is whether it has downsized before. Echoing the preference for smaller government in the Washington analysis, there is also a preference for ‘lean’ staffing structures as a good thing in themselves (Peters and Waterman, 1982). More darkly, Downs (1995) and Tomaney (1990) have argued that, in the private sector, managers may benefit financially from downsizing or may use it to consolidate their power over workers; while Klein (1997) and Ruggles and O’Higgins (1987) have argued that in the public sector it advances a right-wing ideological agenda.

Downsizing and pay  Finally, it is worth mentioning that pay, an integral part of the reform package, is barely mentioned in the downsizing literature. The Western equivalent of salary decompression, where some egregious CEOs have received generous pay increases at the same time that their staff were being sacked, has not impressed Western public opinion, becoming an issue in elections in both the USA and the UK (The Economist, 1996).

Learning from the reform and downsizing studies: tentative conclusions

Recognizing the limitations in the data, we can still draw some tentative conclusions. Both the reform and the downsizing studies agree that ‘common-sense’ cost-reduction approaches have frequently failed even to reduce costs, let alone improve performance. They also agree on the importance of a strategic approach, and of the commitment of the reformers. The reform studies emphasize the role of donors. The downsizing studies emphasize the importance of diagnosis, and of the process factors of incrementalism, communication and participation. They also emphasize the role of the HRM function in brokering the reform process, and they point to the distortion caused by doing reform for inappropriate reasons. On the other hand, the sources are contradictory on the relationship between cost reduction and strategic approaches, on the care of the victims of reform, and on the importance of pay as a reform element.

Triangulating the Washington analysis: findings from field research

Countries studied: an overview

In order to understand reform outcomes better, semi-structured interviews were held with government, trade union and donor officials in Ghana, Malaysia, South Africa, Sri Lanka, Uganda and the UK. Countries were chosen to give a geographical spread of low-income, middle-income and high-income countries which have significant reform experience. Interviews took place between March 1997 and May 1998. Government officials comprised heads of the civil service or their nearest equivalent in four of the five developing countries, and relevant senior officials in the Ministries of Finance and
Public Service, or their equivalent, and in local or provincial authorities. In the UK, where published documentation is more extensive, interviews were confined to staff of the Cabinet Office, one executive agency, one Health Trust and one local authority.

The countries studied were also chosen to include examples of both success and failure as defined in the reform studies which we have reviewed. Thus Ghana, Malaysia, Uganda and the UK had made substantial reductions in the number of their employees or carried out substantial staffing reforms; South Africa and Sri Lanka, at time of writing, had not.

The costs of reform

Our interviews suggest that the failure of reform may be even more serious than the reform studies report. Even Ghana, Uganda and the UK, which have been represented as success stories, had serious problems in containing staffing costs. Thus, while Ghana’s civil service numbers fell by 26,766 between 1987 and 1992 (albeit against a target of 45,000), payroll expenditure at the beginning and the end of the reform period were almost the same (Burton et al., 1993). Unlike Ghana, the UK did meet – indeed exceed – its early job reduction targets: by 1985 total numbers had already dipped below 600,000, a target they were expected to reach only three years later. But there too, staffing expenditure did not decline commensurately, instead rising somewhat through the early 1980s (Dunsire and Hood, 1989). Numbers employed in Uganda fell sharply, but have risen slightly again; and the overall paybill actually rose from 2 per cent to 3.6 per cent of GDP between 1989 and 1996.

Explaining reform outcomes: factors already identified

Clearly some of the elements of an explanation of reform outcomes are purely local. Sri Lanka threw a spanner in its reform machinery when it mistakenly extended the enhanced voluntary redundancy package to its regular retirees. South Africa did likewise, yoking a retrenchment target that was in any case unrealistic to a three-year pay agreement with trade unions. But I wish to concentrate on factors that are generalizable. We begin with factors that we have already identified in the reform and downsizing literatures.

Strategy

The early stages of reform in Ghana, Uganda and the UK were not strategic in the sense in which the reform and downsizing studies use that term. Number and cost reduction were geared to reducing overall government expenditure. Ironically, it was the two countries that have not succeeded in reducing numbers or costs which were most strategic. South Africa’s Department of Public Service and Administration has an elaborate HRM strategy, where a ‘transformed’ public service is harnessed to providing services to the previously disadvantaged majority population (Government of South Africa, 1995, 1997). Its approach to downsizing, which began as a classic cost-reduction exercise, has now been brought closer to the overall strategy through the adoption of a review methodology. Sri Lanka is implementing a package of measures which includes a rolling programme of management reviews of all its major departments, and the formulation of mission statements for each department to clarify its purpose (Government of Sri Lanka, 1998).

In general, political reluctance and official incapacity to think strategically acted as brakes on the development of a strategic view. Review methodologies had their own problems. Addressing whether a particular function was carried out efficiently was
useful, but still begged questions: whether the function was needed, whether it was duplicated by another agency, and its priority relative to other functions. This required action at the level of the civil service as a whole. Reports of the ubiquitous administrative reform commissions (Government of Sri Lanka, 1987; Government of Uganda, 1990), provided a strategic basis, but were sometimes confined to efficiency issues. Moreover, fundamental issues of strategy, as in Sri Lanka (McCourt, 1998c), were not always picked up by government. Malaysia went furthest in this respect, eliminating duplication between agencies, as in the case of the amalgamation of the Rubber Licensing and Rubber Research Boards.

**Political commitment and ownership**  The importance of commitment and ownership was not in doubt, being argued forcefully by Sri Lanka’s Cabinet Secretary among others (Wijesinghe, 1997). In Uganda, President Museveni’s personal commitment to reform was clear (Museveni, 1997). Prime Minister Mahathir showed his commitment by himself chairing all ten meetings of the committee which reformed Malaysia’s civil service pay (Government of Malaysia, 1991). More typically, perhaps, commitment was the outcome of an agreement among multiple stakeholders which had to be painstakingly constructed. ‘There was a hell of a consultation with the stakeholders’, as one South African official put it. His government, and that of Sri Lanka, were coalitions which included organized labour whose views were therefore important (World Bank, 1996).

Stakeholders’ support was affected by the nature of the programme to which their agreement was required. The South African government hesitated to embark on a radical programme which would have thrown many employees out of work in former homelands such as the Transkei region, causing hardship and possibly affecting the government’s electoral support; but they implemented a modified but still substantial proposal to eradicate ghost workers in the same areas – ghosts do not suffer hardship or, as a rule, vote in elections.

Donors had a role in creating or jeopardizing commitment. Where political commitment was already strong, as in Ghana and Uganda, donor involvement contributed to more sharply focused programmes. But in a more complex stakeholder environment, donors were apt to be heavy-footed, and even to create a focus for opposition to reform. South Africa politely rejected the ‘expert but inflexible’ advice proffered by British civil servants. The perception in Sri Lanka that donors, particularly the World Bank, were pressing for a harsh package of reform measures created a focus for opposition to reform, so that even an innocuous measure like performance appraisal could be portrayed as a World Bank imposition.

Donors were sometimes insensitive to governments’ actual reform priorities, as opposed to those which donors wished them to have. A proposed major restructuring of central-local relations in Sri Lanka was seen as an expensive irrelevance by one major donor. In the context of employment reform that was certainly true. But the plan was motivated mainly by a desire to confront the problem of Tamil insurrection by conceding greater autonomy to regions, and to Tamil areas in particular. Governments did not always agree with the Washington analysis of the importance of pay decompression. Even in Ghana, where the ratio changed from 2.2:1 in 1984 to 10:1 in 1991, decompression was moderated by across-the-board pay increases (Burton et al., 1993). Uganda was at least as concerned to improve the pay of its primary teachers, an aspect of its universal primary education policy, and to return overall civil service pay its 1960s level, as it was to decompress the pay of senior civil servants.6 These
corroborate previous findings of support among civil servants and the public for greater pay equality (Fosh, 1978; Robinson, 1990).

**Diagnosis**  ‘The first redundancy exercise was a disaster’, said one Ugandan official, while a Sri Lankan union official commented that ‘1990 [the date of the first redundancy exercise] failed because it was too hasty’. Like American companies, governments tended to reform (publicly) in haste, only to repent (discreetly) at leisure. Rising costs alongside falling staff numbers is one example, but there were others: expensive and ill-targeted voluntary retirement packages in Sri Lanka (World Bank, 1996) and South Africa; the first batch of retrenchees in Ghana believing that they would be rehired when the economy recovered; and their counterparts in Uganda dismissed on the basis of grotesquely unreliable appraisal reports.

Governments and donors alike appeared unwilling to admit that they did not fully understand public staffing, though its complexity (World Bank, 1996), and the customary absence of reliable data at the beginning of reform, made misunderstanding almost inevitable. Thus targets for staffing cuts were usually arbitrary, to be over- or undershot to equal amazement. Uganda’s initial target for staff reduction of 34,000 jobs appeared stretching before its discovery of no fewer than 42,000 ghosts (Government of Uganda, 1994). Numbers were to decrease eventually by about 150,000, or almost 50 per cent. Ghana’s initial annual job reduction target of 15,000 jobs was revised downwards after the surprise discovery of 11,000 ghost workers (Burton et al., 1993).

**Process factors: participation, HRM expertise and incrementalism**  The Ugandan official who commented that ‘The whole reform process was welcomed, but the way it was handled is now detested’ highlighted a pervasive failure to deal adequately with process factors. Thus, for instance, the participation of employees and their trade union representatives was occasional at best, even though it appeared to have positive effects where it did take place.7 The Civil Servants’ Association in Ghana ‘gave its blessing’ to reform; a UK official went so far as to say that the unions were his key change agents, and that pushing through job reductions would have been ‘one hundred times’ more difficult without them. In other cases there was no participation. The civil servants’ union was not recognized in Uganda at the start of reform. In Sri Lanka the management side did not consult unions: ‘Government believes we are hostile to reform,’ said one union official, ‘but we support reform. If reform is constructive and in the interests of the country, we support it.’

Employment reform is a staff management issue. HRM expertise is indicated, but is generally in short supply in developing countries (Taylor, 1992). Only in South Africa was there evidence of an ability to take a strategic HRM view of overall staffing issues (Ncholo, 1997). It is arguable that HRM expertise might have helped avoid the fiasco in Uganda where appraisal reports were the basis for redundancy decisions, with the result, in the words of one official, that ‘50 per cent [of retrenches] were victimized, through tribalism or because they were supporters of Obote or Amin’.

The complexity of reform meant that following an incremental approach which built on developing experience would be important, and all the countries studied did so to a greater or lesser extent, though more by accident than by design. The most impressive example was South Africa, which progressed even during the period of our research from a crude number-cutting approach to a sophisticated review methodology. In an already strong strategic context, they telescoped eighteen years of UK experience (on which they drew heavily) into eighteen months of learning and policy redesign.
Generally there was little evidence of a deliberately incremental, process approach based on a frank admission of ignorance.

**Victims of reform** Despite the sanguine view of the reform studies, governments worried a great deal about the hardship that their reforms might create. There was genuine remorse among Ugandan officials over the harsh terms on which their first retrenched had been dismissed. At the time of writing South Africa had not embarked fully on reform, partly because of fears about its potential impact on poor regions like the Eastern Cape. Officials’ concerns were echoed by trade union representatives in Malaysia and Uganda. Their accounts of loss of status in villages, marriage break-ups and the like are anecdotal, but echo Western accounts referred to earlier.

While the value of financial help to victims was taken as read, our interviews corroborated the reform studies’ finding that resettlement plans such as Ghana’s were often ineffective – but for specific reasons. Ghana’s provision of retraining and business start-up help (Government of Ghana, 1987) started a year late, at a point where the sensible retrenched would already have made his or her own arrangements. Uganda’s never started at all, foundering on the mistaken assumption that banks and the Ministry of Labour would be willing to participate. One British government agency, embroiled in union negotiations, woke up to the importance of making arrangements only when its retrenched were about to leave.

Thus a generally poor record of implementation leaves room to argue that more skilful measures could still have helped. To take one example, communication with employees was clearly necessary to alleviate employee anxiety about the threat of retrenchment. Uganda’s first retrenchment exercise, said one official, was ‘shrouded in secrecy, and the news that they were to be retrenched came as a shock to most retrenchedes’.

**Inappropriate reasons for reform** Ostensible job reductions were sometimes the result of transferring staff from one part of the public payroll to another, muddying the waters for anyone wanting to produce a reliable estimate of numbers: one government adviser (actually a donor-financed expatriate) commented on the publicity value of such ostensible but insubstantial ‘reductions’ when dealing with donors. Government officials in the UK were instructed by ministers during the 1980s to present the transfer from central to local government of staff responsible for housing benefits payments as a reduction in the central government workforce. Contracting out of public services in the UK has had the largest impact on numbers in recent years (Cabinet Office, 1996). It seemed reasonable to infer the influence of the ‘small government’ ideology in such measures, especially where they did little to reduce the cost of government.

**Explaining reform outcomes: additional factors**

Unsurprisingly, some generalizable factors emerged from our interviews which do not appear in the reform or downsizing studies, and we now deal briefly with them, in a rough order of priority in terms of their effect on numbers and costs.

**The insignificance and expense of redundancy** Contrary to the popular image, and to the reality of downsizing in Western private-sector firms, compulsory redundancy was a small, sometimes even trivial, component of overall job reduction. In Uganda, only 15,000 of the 160,000 job reductions came through compulsory redundancy (Government of Uganda, 1996). In the UK, a senior official estimated that not more
than 1,000 annually of the 250,000 job reductions between 1976 and 1996 came in that way. Elsewhere proportions are unclear, but redundancy was at most only one of a range of measures (Nunberg, 1994).

Despite this, reform was expensive, with the lion’s share of costs going on severance payments. While the UK makes an impressive bid for the record with the eight billion pounds spent on making coalminers redundant between 1979 and 1992 (Wass, 1996), elsewhere too the cost was sizeable. Ghana’s severance programme cost an average of 2 per cent of government expenditure in its first five years (Younger, 1996); Uganda’s had cost US$18.6 million by 1995 (Government of Uganda, 1996).

Recruitment control Public recruitment is a complex area in itself, with tight central control by a central recruitment agency coexisting with discretion for local managers to make lower grade and temporary appointments. Failure to control ongoing recruitment was a major reason why numbers did not drop by as much as expected in Ghana (Burton et al., 1993).

Controlling staff numbers and controlling costs There was a frequent insensitivity to costs, with the pervasive assumption that, if numbers fell, costs would follow suit. Waters already muddied by movement of staff from the core civil service to agencies and the like were further muddied by increased expenditure on other budget heads, notably on consultants. Many of these were recycled civil servants who had ‘taken the package’: ‘Last week the government disposed of the Transport Board. The people may get golden handshakes and then come back in again! I wouldn’t be surprised,’ said a senior Sri Lankan official. In the UK, this problem was solved by moving to a simplified budget structure, removing the incentive for ‘manpower substitution’. But experience in South Africa and the UK showed that this required basic budget reform for which detailed preparation would be needed.

Controlling numbers was sometimes socially regressive. The temptation was to reach a numerical target by focusing on lower-echelon staff, of whom there are many, even though the cash saving may not be greater than focusing on a much smaller number of higher-echelon staff. ‘Getting rid of a support person . . . is worth as much as getting rid of a Permanent Secretary!’ one official in Uganda exclaimed. It is striking that, for this very reason, the Uganda Civil Servants’ Union had a clear preference for a cost-based approach.

Co-ordination Co-ordination was crucial, but difficult. At the same time that the retrenchment team in the Ministry of Public Service in Uganda was working towards job reductions, colleagues on the other side of the building were carrying out a rolling programme of reviews whose net result was to recommend a staff increase! Rightsizing mechanisms were important. The key steering committee in Ghana, the Redeployment Management Committee, had cross-departmental membership with Finance closely involved (Government of Ghana, 1992). In Uganda there were three levels of committees: the Public Service Review and Reorganization Commission, the Civil Service Reform Co-ordination Committee, which was a committee of directors-general of departments, and the Implementation and Monitoring Board, which took operational decisions about rightsizing.

The problem of co-ordination was compounded by frequent mistrust between Finance and Public Service ministries. Despite the stress in the Washington analysis on the link between the two, Public Service has often been seen by Finance as a ‘Trojan horse’ inside government, acting as an informal trade union, especially on behalf of
senior civil servants (Corkery and Land, 1996). Thus, staff in the Ministry of Finance in Ghana openly declared that their Public Service colleagues were the biggest single threat to the success of reform.

**The political process and fresh commitments**  We pointed earlier to the importance of understanding why staffing costs arise, in terms of programme commitments. Embarking on reform does not mean suspending the normal political process, through which fresh commitments constantly arise. The number of prison officers in the UK (Cabinet Office, 1996) and of police officers in Uganda rose even while both countries were bearing down hard on staffing, reflecting law-and-order commitments. Government commitments often come with a staffing cost attached, which may (as in Uganda) be presented to the staffing ministry as a *fait accompli*.

Equally, governments generally tried to protect services which had a political priority, especially education and health (Burton *et al.*, 1993; Government of Uganda, 1994). But there was no *prima facie* reason why abuses such as ghosts would respect those areas. There was also a tendency for numbers to rise again, like a seat cushion, once pressure to reduce was relaxed; one reason being that managers sought to restore a *status quo ante* which they still saw as normal.

*Learning from the field: summary of findings*

Let us now summarize the findings of our field interviews. There was a general, though fitful, movement towards a strategic approach. Commitment was clearly important, but derived from an interaction between stakeholders and the nature of the reform programme. The latter reflected governments’ own reform priorities, as they developed through normal politics. In terms of process, employee participation was helpful where it occurred, and countries did take an incremental approach; this, however, would have been more coherent if it had been based on thorough diagnosis. Savings and overall impact were both lower than expected. This was because of an exclusive focus on the number of civil servants, exacerbated by poor co-ordination between the finance and staffing functions and the ideological preference for small government, together with weak recruitment control and disproportionate spending on the retrenchment of relatively few staff. Although the number of retrenchees was small, governments did make provision for the ‘victims’, though delays in implementation made it hard to judge its intrinsic efficacy.

**Discussion: learning the lessons of reform experience**

This article cannot be more than a contribution to a continuing debate. As with developing country public administration generally (Polidano *et al.*, 1998), there are many gaps in our knowledge of employment reform. Data are often unreliable, and analysis has been scanty relative to the size of the phenomenon. Further research is desirable in a number of areas, including the relationship between employment reform and the macro-economic reform programmes to which employment reform has been so closely linked in the past, and the development of appropriate human resource management models (see also Nunberg, 1997). However, it is important to outline, tentatively, possible lessons for the design of reform.

**Strategic reform**

Reflecting on what other countries might learn from his country’s experience, one official in Uganda commented: ‘Think carefully about where you want to make
reductions, and why. Think about the shape of the service – where do we want to go – and have reductions follow from that.’

There is general agreement that reform should be more ‘strategic’, and that cost cutting is not a strategy in itself. Strategy cannot ignore costs, but affordability, taking account of performance in revenue collection and other factors, is one among other strategic elements. What then would a strategic approach look like? It is possible to point to some relevant experience in this area. Malaysia’s administrative reforms, which included some ‘rightsizing’ of the civil service, have been based on a conscious reform ‘philosophy’ in the context of the overall government objective of attaining developed country status by the year 2020 (Sarji, 1996). There is also the example of New Zealand’s well-known reforms, carried out in the context of a vision of a public service harnessed to achieving specified goals such as higher quality of life and higher employment (Boston et al., 1996: see especially Appendix 2). Among the countries studied in our research, South Africa and Sri Lanka show evidence of a movement towards strategy, as we discussed earlier. The UK has used ‘prior options’ reviews as a vehicle for introducing strategic management into its executive agencies (Office of Public Service, 1995). It is true that such strategic actions have sometimes been partial and reactive, as in New Zealand (Boston et al., 1995). However, it is still possible to extract from experience such as the above a strategic model of employment reform.

Strategy in this context means starting from first principles with a view about the fundamental tasks of the public service, one covering the extent and nature of the state’s involvement in economic activities and delivery of services. In the light of that view, a review is carried out of the alignment of the existing structure of government with strategic priorities. Review at the level of an individual department or service is a further stage, and the final stage is review at the level of the individual job or family of jobs. Thus job reduction ‘falls out’ of the strategic process – or job increase: strategy is neutral on this score. It follows from the experience of employment reform reported in this article that all of this should be done incrementally. This is in keeping with the strategic tradition that derives from Lindblom (1959) and Mintzberg (1989), which emphasizes the importance of just such an incremental, ‘emergent’ approach.

Such an approach, despite the growing support which it commands, may still appear unrealistic: Nunberg (1997), for instance, has reminded us of the failure of early ‘seamless web’ development models. But an emergent model of strategy, as opposed to classical ‘top-down’ blueprint models, may be attainable. Thinking strategically is at least as important as producing detailed, possibly unrealistic blueprints (Johnson and Scholes, 1997). Some governments do have the capacity to operate in that way: national movements such as Namibia’s and South Africa’s have come to power with a clear vision, and employment reform was actually part of the ‘Ten Point Plan’ with which Uganda’s National Resistance Movement came to power. Others probably do not at present, though even there a strategic approach could still be piloted in an individual department or agency, albeit with limited scope.

Strategy, by definition, is stable and addresses long-term issues (Johnson and Scholes, 1997). But what about urgent problems? Is it right, for instance, that ghosts should continue to haunt the payroll in the short term? Applying the turnaround concept of a two-stage recovery, there may still be a need for a first stage where glaring blemishes which do not have systemic implications, such as the elimination of ghosts and the enforcement of retirement ages, are removed. Such steps, as South Africa found with its ‘ghostbusters’ initiative in 1997, give government a tangible early success (Cameron, 1994) which public opinion is likely to support. They also buy time to carry out diagnosis and to plan strategy. But drastic measures to retrench serving employees
(which in principle can still arise) should follow, rather than precede, strategic planning. Identifying poor performers is not straightforward, as Uganda found, and identifying redundant jobs requires some process of job inspection or review. Moreover, the downsizing literature shows that hasty retrenchment without a strong justification has a catastrophic effect on the morale, and the performance, of survivors.

**Political commitment**

Commitment is crucial, but is best understood as the outcome of the interaction between reform stakeholders, on the one hand, and the nature of the reform programme to which commitment is sought, on the other. This echoes the view of the latest edition of the World Bank’s *Public Expenditure Management Handbook* that ‘In many respects, political will is a function of the quality of advice provided to politicians’ (1998: iii).

**Diagnosis**

Governments need to conduct a thorough diagnosis of political, economic, social and institutional factors (McCourt, 1998b). Such diagnosis will take time, and may seem a luxury that governments cannot afford. But without it reform is likely to be misconceived, and governments will end up starting again, with their stocks of political and financial capital heavily depleted. Specifically, diagnosis should allow for the adaptation of generic reform models to the circumstances of particular countries.

**Process factors**

Both downsizing studies and our own interviews point to the importance of an incremental, process approach, if only for the simple reason that hasty interventions in a complex and only partially understood system have so often been botched in the past. Structural adjustment programmes may need to be system-wide and immediate; institutional reforms need not be (Klitgaard, 1997). The participation of employees and their representatives in the design and execution of reform is desirable and possible, assuming reasonable good will – ‘Involve worker representatives from beginning to end’ was how one official put it.

**Human resource management: developing new models of practice**

Employment reform, which by its nature should be exceptional and temporary, has become instead the regular condition of public staff management (Polidano and Hulme, 1999). But Maoist permanent revolution is destabilizing and distracting. Reform should eventually give way to normal human resource management, combining financial control of staffing (led by Finance) with procedures for managing performance (led by Public Service or its equivalent), even though the point at which that will happen is some way off in many countries. There is an urgent need for the development of HRM models appropriate to developing country governments. However, we have already noted the absence of an HRM specialist perspective from employment reform literature, dominated as it is by economists, with the World Bank in the lead. While HRM scholars have some work to do to understand the context of reform – control of ‘ghost workers’ does not appear as a subject on the average HRM course syllabus – there is also a pressing need to bring an HRM perspective to bear on issues like selection for redundancy and the design of redundancy packages and, more broadly, generating commitment to a reform programme. Single or multiple country
case studies would also be particularly instructive, especially if written by developing country scholars.

Victims of reform

Compulsory redundancy was a minor component in all the countries which we studied, so it may not be surprising that resettlement schemes were insignificant. But, where redundancy becomes significant, there are legal, expedient and ethical reasons why resettlement provision should be taken seriously. Financial compensation will remain the most important element, but the specific reasons for the failure of resettlement schemes in Ghana and Uganda suggest that there is room to design schemes for communicating with and counselling retrenchees, although retraining packages will be worthwhile only if they can be tailored to retrenchees’ diverse needs. As one Ugandan official put it, taking an unFashionably personal tone, ‘Handle people with extreme care and love’.

Loosening the link between employment reform and pay reform

Employment and pay reform are two sides of the same coin in the Washington analysis. Certainly measures to increase the transparency of remuneration, notably through monetizing benefits, are desirable, and pay, which has not recovered to 1970s levels in many countries, ought to rise (Chew, 1990). But privileging senior civil servants, in the teeth of public opinion, over other priority groups (such as primary teachers) is questionable, especially when including allowances qualifies the overall picture. Moreover, the linking of employment and pay reform implies that savings from the former will pay for the latter. But we have seen that savings have often not been substantial, and in any case other government functions such as primary education – or even foreign debt repayment – will make their own bids for what savings there are. Pay rises in Malaysia and Uganda were financed by economic growth, not by reform. The desirability of pay increases in the light of catastrophic pay decreases is clear, but unmet pay expectations may contaminate other aspects of reform if pay and employment reform issues are linked too closely.

The role of donors

The downsizing literature identified pressure from outside as a negative factor in building ownership. Donors should be careful that their efforts increase rather than detract from government ownership. They should also have the courage of their growing convictions, and move to support governments’ efforts to reform strategically. Admittedly, the difference between careful strategic planning and outright procrastination can be hard to detect on the ground, especially where they coexist. But donors should perhaps be more willing than hitherto to trust the government that chooses the gradualist strategic route. Resources should be brought into alignment: it is arguably more productive, at least in the first instance, to use aid to give governments the breathing space they need to carry out strategic reform than to fund the heavy costs of severance packages.

Conclusion: towards a strategic model of employment reform

In this article we have argued for the importance of employment reform in developing countries as a topic for the attention of HRM practitioners and scholars. We have summarized the Washington analysis of the progress of reform, and compared it with the (mainly) North American analysis of downsizing. In the light of those analyses we
have presented the findings of field interviews in a number of countries, and we have drawn out some tentative implications for the conduct of reform.

Most of the sources point firmly to the necessity of a strategy- rather than cost-driven model of reform, one which proceeds incrementally from a diagnosis that takes account of local factors. Yet such a model makes heavy demands on the capacity of developing country administrations, demands which many cannot currently meet. But the experience of those countries which are further down the reform road shows that, where reformers keep their concentration, and where donors help them to do so, capacity can develop through learning from experience. At any rate the failure of reform remains the context for our discussion. It seems reasonable to suggest that there is a need for a new approach rather than simply a recapitulation with increased determination of existing approaches whose success has been partial at best. It also seems reasonable to suggest that HRM practitioners and scholars, whose stock-in-trade is the development of strategic approaches to the management of staff in organizations, are in a strong position to work with their economist colleagues to develop that new approach.

Notes

1 This, however, is untrue of the literature on structural adjustment, of which employment reform is a subset in many countries (see, for example, Nelson, 1990). But that debate is outside the scope of this article.

2 Although choice of ‘instruments’ was a factor in both the downsizing literature and our field interviews, they are not discussed further in this article, which concentrates on the design of reform. Nunberg (1994) provides an inventory of instruments; see also McCourt (1998a).

3 We shall use this shorthand from now on to refer to the World Bank and IMF studies already quoted, although this is at the expense of some differences among the study authors.

4 ‘American’ is again a shorthand. There have been some useful European studies of particular aspects to which we refer, and national differences are important, for instance regarding the ease or otherwise with which the law allows employers to dismiss staff. But the study of downsizing is a virtual American monopoly, at least in the English language literature to which I have access.

5 McCourt (1998a) gives more detail on Ghana, Uganda and the UK; McCourt (1998c) gives more detail on Sri Lanka; McCourt and Sola (1999) deals with Tanzania, with particular reference to local government. Operational implications for donors are discussed in McCourt (1998b).

6 Pay compression can be more apparent than real. The compression ratio of 1:6.8 in Uganda changed to 1:100 after non-monetary allowances and benefits were included (Government of Uganda, 1994).

7 This was also true in Poland (Redman and Keithley, 1998).

References


