Chapter V
Managing people as a strategic resource

Adopting a holistic approach to reform

What actions should governments take to manage their staff better? The present chapter discusses some of the key elements of a strategic approach to HRM reform in the public sector. The report recommends that governments consider the development of an HRM strategy that builds on the best attributes of three broad models or schools in public administration: traditional public administration; public management, including NPM; and responsive governance. Each one of the three models has particular strengths and highlights core values that are relevant to address contemporary HRM challenges in the public sector.

Interestingly, some of the early and most enthusiastic adopters of the NPM model, such as Australia and New Zealand, have in recent years rediscovered the virtues of traditional public administration, in particular, the value of the principles of impartiality and merit. The public management model has also contributed important principles, tools and techniques to HRM reform, particularly in the area of performance and results-based management. And recently, the governance paradigm has brought to the fore new approaches and concepts to make public administration more responsive to the demands of citizens and other stakeholders. Each model therefore offers important attributes that can be harnessed to improve HRM in the public sector. The report suggests that the unifying principles of such an HRM synthesis could be impartiality, professionalism and responsiveness.

As the starting point for the development of a synthetic HRM framework for the civil service, the following components were identified in chapter I:

- A politically impartial, professional and merit-based civil service;
- A core “guardian” agency, exercising strategic leadership and monitoring a system of dispersed management rather than operating through bureaucratic controls;
- A strong focus on results-oriented management in the public service through the use of effective performance standards and indicators as well as promotion criteria giving greater weight to relative efficiency (rather than relying only on seniority);
- Tough, objective anti-corruption rules and agencies;
- Legislative provisions and professional norms that facilitate making the civil service open to external scrutiny; and
- Systems and skill sets that provide high levels of communication capacity through being networked by the effective deployment of information technology.

The above-mentioned components are intended to serve only as an illustration of how governments can develop an HRM synthesis that meets their own specific needs and priorities in order to fully harness the ability of staff to contribute to the achievement of national development goals. The HRM synthesis is a guidepost, something for governments to compare
themselves against, rather than a blueprint. Wholesale overnight reform based on a blueprint rarely occurs and is probably undesirable even where it does, as discussed in chapter II.

Table 5 highlights selected HRM features of the three models. While the report advocates that developing countries would be well advised to put in place first a well-functioning career-based civil service before embarking on more complex legal and institutional reform, there are many possibilities of revitalizing civil service management by selectively infusing features of the public management and responsive governance models into traditional public administration.

Governments that have put in place a traditional public administration system, for example, can make it more responsive by adopting measures such as the following: subjecting senior officials to 360-degree accountability; strengthening performance measurement and reporting; introducing organizational learning into the public service; re-focusing on values that promote citizen-centred delivery of services; and strengthening labour-management relations. Such incremental but strategic reform measures can undoubtedly make a difference in enhancing the responsiveness of the public service to various stakeholders in society without undermining the core tenets of traditional public administration.

In the same vein, governments can enhance the professionalism of the public service by infusing some of the best features of the public management model into traditional public administration.

Table 5.

**Selected HRM features of the three models of public administration**

<table>
<thead>
<tr>
<th>Civil service system</th>
<th>Public administration</th>
<th>Public management</th>
<th>Responsive governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Closed and bounded</td>
<td>Open and decentralized</td>
<td>Open and regulated</td>
</tr>
<tr>
<td></td>
<td>Career civil service</td>
<td>Position-based system</td>
<td>Core career civil service; other posts position-based</td>
</tr>
<tr>
<td></td>
<td>Tenure</td>
<td>Fixed-term</td>
<td>Tenure and fixed-term</td>
</tr>
<tr>
<td>Institutional arrangements</td>
<td>Independent central personnel authority</td>
<td>HRM decentralized to line ministries</td>
<td>Lead HRM regulator; decentralized HRM</td>
</tr>
<tr>
<td></td>
<td>Personnal administration</td>
<td>Human resource management</td>
<td>Strategic HRM and development</td>
</tr>
<tr>
<td></td>
<td>Unified pay system</td>
<td>Individual contracts</td>
<td>Unified and performance-based pay system</td>
</tr>
<tr>
<td>Career advancement</td>
<td>Seniority-based</td>
<td>Performance-based</td>
<td>Range of competencies</td>
</tr>
<tr>
<td>Pay policy</td>
<td>Qualifications and experience-based</td>
<td>Job-based criteria with performance element</td>
<td>Job-based criteria with performance element</td>
</tr>
<tr>
<td>Performance management</td>
<td>Professional ethics</td>
<td>Performance agreement</td>
<td>360-degree accountability</td>
</tr>
<tr>
<td>Human resource development</td>
<td>Functional skills</td>
<td>Competencies</td>
<td>Competencies and relational skills</td>
</tr>
</tbody>
</table>
administration. This may include greater emphasis on the professionalization of HRM, including integration of staff management into strategic organizational planning processes in the public service; recalibration of the pay policy to better link it to underlying labour market conditions; introduction of competency-based staff selection and training; and setting service quality standards in the public sector.

Whatever components governments identify as priorities for their respective HRM synthesis, they would generally be well advised to follow a holistic, yet gradual, approach to HRM reform in the public sector. In an ideal world, governments would work through the items of a holistic framework in a logical order. However, in keeping with the notion of “starting from where you find yourself”, a government may choose, for example, to begin with performance management as a way of making managers aware, for the first time, that they are responsible for the performance of staff, as Morocco did; or with job reduction because of an overriding need to bring spending on staff into line with government income, as Cambodia and many other developing countries and transition economies have done; or, indeed, with any human resource issue that is a current priority.

**Building an effective HRM institutional framework**

**Legal and regulatory reform**

Traditionally, the primary objective of laws and regulations governing public servants has been to shield staff from political, ethnic, religious and fiscal interference as well as to protect the public from an arbitrary, or even biased, delivery of services and administration. Apart from stipulating which functions should be granted civil service status (an ever-contentious issue), laws and regulations, importantly, define the role of the civil service in the management of public affairs and the values and principles that should guide civil servants in the exercise of their duties, and establish their rights and obligations.

Some of the most comprehensive reforms of legal frameworks in the public sector in recent years have taken place in the former Eastern bloc countries. In the Soviet era, civil servants in these countries were subject to ordinary labour law. The break-up of the Eastern bloc, however, spurred major administrative and civil service reform. Initially, civil services were primarily reorganized in accordance with employment models based on private law before statutory mechanisms were adopted in the late 1990s and the early years of the new century. The latter development, in particular, was facilitated by the prospect of accession of many former Eastern bloc countries to the European Union.

At the same time, several developing countries have opted to confine the status of civil servants to the core bodies of government while relying on more flexible employment arrangements to manage, for instance, teachers in the educational sector. Yet in developed countries, the purviews of statutes are often long established. Thus, with continuity ensured, the main aim of reform has generally been to introduce greater flexibility into “how” public policy goals are achieved. In some cases, this has led to greater use of fixed-term employment contracts in the public service, particularly when it has been deemed important to recalibrate staff competencies in priority sectors in order to make the public service workforce more responsive to the needs of citizens.

Whether governments need to establish or amend legislation governing civil service employment, the present report advocates that embedding the principle of merit is essential.
Even though various forces have coalesced to complement how merit is ascertained or balanced with other values, such as diversity and representation, the traditional definition and application of merit are still valid but may in many instances need to be modernized. The development of a modern definition of what constitutes a merit-based career civil service should be accorded priority in many developing countries.

The 2003 Public Service Modernization Act in Canada is an example of how merit can be determined by law. Previously, merit in the Canadian civil service was defined through case law and precedent, which resulted in a process-driven appointment regime. Historically, merit meant selecting the best-qualified person among applicants. This changed with the Public Service Employment Act (PSEA) in 1992, where merit was broadened to also include measuring qualifications against a set of standards. The recent changes brought about by the 2003 Act are described in Box 11.

The promotion of integrity is of equal importance in the public service. It is not hard to identify the institutional arrangements that most successfully promote integrity and combat corruption. First, there should be a coherent set of laws with criminal, civil and administrative legal provisions that penalize corruption in the public service. These provisions should be clear and impose sufficient penalties to serve as a deterrent and a basis for enforcement. In the case of

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**Box 11**

**The Public Service Modernization Act—Canada**

The principles of non-partisanship and merit have always been fundamental to the vision of the Canadian public service. Merit is the basis for all appointments in the public service. However, the term has never been articulated in legislation and has therefore been defined mainly through case law and precedent. This lack of a clear definition of what constitutes merit has resulted in a very cumbersome, process-driven appointment regime, which has inhibited the ability of the public service to recruit and promote staff effectively.

The public service in Canada, as elsewhere, is facing many human resource management (HRM) challenges, including an increasingly competitive labour market; demographic changes in terms of both age and representation; the growing need to invest in staff development, to improve labour-management relations and to sharpen accountability lines; and the gradual deterioration in the image of public sector employment, which has made it more difficult for managers to recruit and retain talent.

Against this backdrop, the Parliament of Canada adopted in November 2003 the Public Service Modernization Act (PSMA). The Act, which will come into full force in mid to late 2005, will bring about the biggest changes in HRM in Canada in more than 35 years. It consists of four pieces of legislation: the Public Service Employment Act; the Public Service Labour Relations Act; Amendments to the Financial Administration Act; and Amendments to the Canadian Centre for Management Development Act. The new law also establishes the Public Service Human Resources Management Agency of Canada, which is charged with the implementation of the HRM reform agenda.

The PSMA aims to achieve four main objectives:

- Make the staffing regime more flexible to facilitate hiring the right people when and where they are needed with built-in safeguards;
- Foster more collaborative labour-management relations;
- Promote more focused, better-integrated learning and training of employees at all levels; and
- Articulate more clearly the roles and responsibilities of the Treasury Board Secretariat, the Public Service Commission, Deputy Heads and their managers.
bureaucratic corruption, they should include both a set of internal disciplinary measures that, among other things, can result in dismissal and loss of pension rights and designated administrative units to carry them out. Second, administrative rules and procedures should be clear and transparent to inform citizens of their rights, responsibilities and standards of service. Such transparency, followed by accountability of public servants for their performance, favours citizen and business engagement and serves as an effective measure to promote professionalism and curbing of corruption. To facilitate public feedback, avenues of public complaint and redress should also be made available.

In sum, a clear legal framework is the indispensable foundation for HRM in the public sector. The framework should provide continuity in the management of staff yet at the same time provide adequate flexibility for the government of the day to modernize the application of key principles and concepts, as required by the demands of the evolving public sector environment. When drafting legislation, governments should at least pay attention to the following key questions:

- Which possible policy option is preferred?
- Should this option be realized through legislation rather than by non-legislative means?
- Which authorities should put the legislation into effect?
- What is the basic approach to be adopted in the legislation?
- What legal and administrative mechanisms are necessary to put that approach into effect and make it workable?

Because of the strategic role of civil servants in maintaining state institutions over time, statutory or some other form of institutional protection is necessary, particularly in developing countries. In an impartial, professional and responsive civil service, the appointed officials must also be subordinate to the politicians whom the people have elected. At the same time, it is also appropriate to distinguish the political from the administrative sphere.
Broadly speaking, politicians should “steer but not row”: establish the policy framework, set targets where necessary, but then let the officials get on with the job of implementing the policy and meeting the targets in a professional and responsive manner. For their part, officials should implement policies faithfully, within reason, and not seek to create a rival power base.

It may also be necessary to specify the remit of basic institutions in the national Constitution, and to amend the Constitution when those institutions have proved to be inadequate. The experience of Sri Lanka exemplifies this well. In 1972, the Government removed the independence of the Public Service Commission (PSC), the body responsible for civil service staffing, placing it under the Cabinet in an attempt to make civil servants less remote from citizens and more responsive to development objectives. This, however, led to the politicization of public appointments and deterioration in the quality of the public service. In 2001, in a remarkable exercise in self-denial, all the major parties united to support a constitutional amendment that restored the independence of the PSC. They also consented to the appointment of commissioners who were determined to make that independence a reality even if it meant standing up to politicians.

Central government: assigning the HRM leadership role

When governments discuss where to put responsibility for human resource management, they often do so in terms of how much authority the centre should have relative to line departments and agencies. However, governments also need to decide on the appropriate division of responsibility between the central departments and agencies themselves. In many of the countries that have not devolved HRM responsibility to line ministries and agencies, the respective roles of government ministries look broadly like those in table 6.

This structure is particularly close to the Commonwealth model, especially with respect to the role of the Public Service Commission (PSC), but even non-Commonwealth countries such as the Republic of Korea and Thailand have a similar arrangement in place. PSCs are often attributed to the Westminster model, while in most francophone countries, the responsibilities of the PSC are generally devolved to individual ministries, approximating the mixed French system.

One important element that this idealized version omits is the organization of public servants in many countries into cadres or corps, each with its own parent ministry. For the most part, cadres and ministries correspond fairly closely. Thus, most members of the education

Table 6. Responsibility for HRM in central government agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Prime Minister</td>
<td>Overall government policy</td>
</tr>
<tr>
<td>Ministry of Finance</td>
<td>Pay and pensions</td>
</tr>
<tr>
<td>Ministry of Public Service</td>
<td>Deployment and conditions of service for public servants</td>
</tr>
<tr>
<td>Public Service Commission</td>
<td>Appointment, promotion, transfer and discipline</td>
</tr>
<tr>
<td>National Administrative Staff College</td>
<td>Training and development</td>
</tr>
</tbody>
</table>
corps work in schools, under the authority of the Ministry of Education. However, members of
the administrative cadre may be posted to any ministry even though their promotion and trans-
fer are nominally controlled by the Ministry of Public Service. This creates the potential for con-
flict between the “parent” ministry and the ministry in which the administrator actually works.

It is easy to see how this structure can lead to a fragmentation of HRM from a strategic
point of view and to its being a source of conflict among the different agencies. In the
structural adjustment era when many governments were trying to reduce staff numbers,
Ministries of Public Service were often seen by their finance counterparts as a Trojan horse inside
government, acting as an informal trade union to frustrate the aims of reform.3 Thus, staff in
the Ministry of Finance in Ghana, for example, made no secret of their view that their coun-
terparts in the Ministry of Public Service were the biggest single threat to the success of reform.4

Again from a strategic HRM point of view, the remedy would appear to be sim-
ple: bring all these functions together in a single strategic agency, possibly the Office of the
Prime Minister or something similar. Some governments have moved in this direction. It was
part of the reason why the Government of the United Kingdom abolished the Ministry for
the Civil Service in 1979 and moved its responsibilities into the Cabinet Office. There is
probably no government that has taken that argument to its logical conclusion, however. In
particular, ministries of finance everywhere are reluctant to surrender their power over the pay
of public servants, which consumes a large proportion of public expenditure.

The path-dependent character of public administration, discussed in chapter II,
is another reason why well-established bodies with a tradition of competence, such as national
administrative staff colleges, retain their pivotal position even though their very existence
weakens the strategic thrust of government.

The universal lesson is that the principles underlying an impartial, professional,
and responsive public service need to be institutionalized, promulgated and protected by a
prestigious, powerful guardian agency (or set of agencies) at the centre of government. Such
an agency should aim at promoting and replicating a set of values and behaviours through
guidance and advice on civil service employment policy; developing ethical codes; and exer-
cising special oversight of recruitment, promotion and performance appraisal of civil servants
and career planning for senior levels of the core civil service.

The lead government agency for HRM would often be the Office of the Prime
Minister and, in some cases, the Ministry of Public Service or its equivalent. The coordinat-
ing agency needs to put into place a suitable structure for consulting other central agencies—
and possibly also line ministries—in order to develop an HRM policy. In recent years, the
Ministry for the Civil Service in Morocco has held occasional *tables rondes* (round tables),
bringing together representatives from a large number of agencies. Such an initiative is a use-
ful first step towards setting up a more regular coordinating structure.

**Central and line agencies: establishing the division of HRM responsibility**

Devolution of management responsibility to line agencies is a central part of the new public
management (NPM) formula for managing public services, and it is reflected in the practice of
many industrialized countries. In the United Kingdom Civil Service, for example, delegation
has been a gradual process that began in 1964 when the recruitment of clerical staff was
devolved to departments. The central Civil Service Commission still continued to approve
appointments, but the need to seek approval disappeared in 1983. In 1991, all recruitment
below Grade 7 (a middle-management level) was also devolved, and in 1995, the cut-off point was further raised to Grade 5 (a senior-management level).

In addition, the centre has progressively delegated power over pay and grading to departments. The role of the United Kingdom Civil Service Commission is now merely to issue standards of conduct, make appointments down to Grade 5, hear appeals, commission selection audits and promote best practice within departments by issuing guidelines on selection. Within United Kingdom line agencies, managers are responsible for selection, discipline, performance rewards and career development. HRM units have come into their own as contributors to departmental personnel strategies and policies and providers of support services to line managers. These units are responsible for pay and ranking below Grade 5, succession planning, auditing and monitoring line performance, and providing advice on selection, discipline and training when managers need it. Thus, after a full quarter century of gradual devolution, the idea of a uniform, centrally managed civil service is coming to an end in the United Kingdom. It is professional peer pressure rather than central controls that now maintains the integrity of staffing in the public service.

Devolution may be appropriate, however, in countries that implement it gradually and where the mechanism of professional peer pressure is able to operate. In countries where containing nepotism and favouritism is a priority, improving recruitment quality and responsiveness is best dealt with through a central staffing structure, as reflected in the two-stage model of reform outlined in chapter II. In fact, in countries where respect for the rule of law and a culture of transparency are not ingrained, where, on the contrary, nepotism and favouritism are rampant, effective central control may be the only viable option.

Increasingly, as governments have begun to question the value of the NPM model, there has been an acknowledgement that too rapid decentralization of HRM functions may lead to a decline in the professionalism of the core civil service. The diminution of the role of the central personnel agencies with their service-wide responsibilities has also meant that some significant support systems for the maintenance of the civil service ethos have been neglected.

Box 12

The role of ICTs in facilitating decentralized HRM—Cameroon

Prior to 2002, the management of state personnel in Cameroon was centralized in two ministries: the Ministry of Public Service and Administrative Reform (MINFOPRA) for career development of staff, and the Ministry of Finance and Budget (MINFIB) for pay and pension. This management arrangement, however, had gradually resulted in significant delays in the processing of staff records; weak accountability for both individual and organizational performance; and the swelling of the wage bill, owing to poor mechanisms for verifying the actual number of staff.

The centralized nature of the personnel management system also meant that other ministries, while responsible for the work performed by the respective staff, had little or no say in matters relating to promotion, advancement or penalty in case of poor performance. It was also very difficult to determine with accuracy the total number of state employees, with conflicting figures coming from MINFOPRA and MINFIB, creating uncertainty for the wage bill.

The Government therefore decided to embark on a new programme to strengthen HRM in the public sector. An important part of the reform agenda was to devolve HRM to the ministry level. To facilitate this process, the Government developed the integrated computerized state personnel and payroll management system, known by its French acronym SIGIPES, as the hub for all personnel and...
More recently, as discussed in chapter IV, the emphasis on deregulation of HRM functions has been criticized for imposing new, more burdensome constraints on managers because of its unintended consequences. In the United Kingdom, abolition of central personnel controls and the creation of autonomous agencies within the civil service were accompanied by new forms of regulation that led to an increase in the number of regulators and a growing trend towards codifying previously unwritten norms and conventions.

Together, these developments have highlighted the need for a balanced approach to HRM reform, such as recommended by participants at a UN/DESA workshop, “Building the Human Capital in the Public Sector”, held at the Fifth Global Forum on Reinventing Government (Mexico, November 2003). The meeting concluded that “while the delegation of recruitment of staff from central agencies . . . has generally proved effective, the existence of adequate oversight and quality control mechanisms in this area is essential to avoid abuses and malpractices”. This remains a key organizational challenge for governments, including those that have gone down the NPM path.

Professionalizing human resource management

HRM units: towards strategic specialization

Our lessons learned showed a need for more collective and horizontal approaches to all aspects of managing the Public Service. This is reinforced by the fact that people are the critical capital of a modern, knowledge-based organisation. As we are faced with competition for knowledge-workers in an environment where significant retirements are anticipated for private and public sector organizations, a strategic plan is required for future success.

—Government of Canada

Every government needs to develop a policy statement that defines how staff management will contribute to the achievement of its overall strategic objectives. This statement will not
change overnight—an intrinsic characteristic of strategy is that it is not easily reversible—but it is likely to change when a new party with its own objectives or “manifesto” (to use the language of politics) comes to power. Indeed, it may change even if the governing party is returned to power following an election to the extent that the party presented a new manifesto to the electorate in order to win a fresh mandate. To be of any value, a strategy must be seen as important; it must not be easily reversible; and it must involve the commitment of government resources over a significant period. The time and effort lavished on it are justified only if it is not automatically discarded every time a government changes hands.

A strategy must be comprehensive and consistent. From the mid-1990s onwards, South Africa’s Department of Public Service and Administration worked out very detailed blueprints to give flesh to its ambition to “transform” the public service from a command-and-control bureaucracy to an instrument for providing services to citizens. Often, however, public HRM strategy, just as in the private sector, can be piecemeal and emergent. An example is Botswana’s strategic decision in the late 1990s to become a pay “follower” rather than “leader”, that is, to follow the pay norms that were evolving in the private sector rather than to set its own pay rates in some rational but isolated way. In either case, the government needs to recognize the enormous benefits of managing its staff strategically so that they are contributing to achieving the government’s overall political and development objectives.

Whatever HRM strategy a government chooses to adopt, it will need to provide professional HRM support to the managers who make staffing decisions. Such support is necessary because those decisions are complex and there is a body of professional good practice that will enable managers to make them in a better way. Nevertheless, while many governments have professional, and sometimes very prestigious, cadres or corps in some areas, with members who include graduates of elite academies such as France’s École nationale d’administration (National School of Public Administration), the HRM function is commonly discharged by generalist administrators, often coming under an administrative cadre, corps or similar structure.

In the early 1990s, a study of the way that governments managed their staff in three African countries—Kenya, United Republic of Tanzania and Zimbabwe—found that staff responsible for human resources played a restricted, bureaucratic and reactive role, confined by and large to routine decisions about staff entitlement to pay increments and the like, very many of which could be “read” off the administrative regulations governing staff behaviour. They had little or no real input into strategic decisions about staff management, let alone decisions on how to achieve the overall core objectives of government. The study noted that this style of HRM derived from three factors:

- The “cult of the generalist”, which the independent governments had inherited from the former colonial powers, whereby HRM was seen as a simple, non-professional aspect of general administration;
- The inflexible, centralized approach to staff management discussed earlier, which was designed to contain the ever-present incidence of favouritism and corruption by restricting the discretion of line agencies and managers; and
- The absence of alternative HRM models and HRM specialists.

More recent studies have shown that this narrow role remains especially widespread in developing states, and not only in the above-mentioned African countries.
Which model of the HRM function will best enable governments to manage their staff so as to achieve their key objectives? One widely accepted model for an organization where it is line managers who take day-to-day staffing decisions—referred to here as “strategic specialization”—outlines the following roles:

- **Strategy expert:** the strategic HRM role;
- **Work organization expert:** the professional role where HRM staff are experts on activities such as selection and training and are able to advise line managers on how to design a selection procedure or a training course and so on;
- **Employee champion:** the “spokesperson” role, relaying employees’ concerns about working conditions to senior managers (for example, a concern that a downsizing programme will unreasonably increase the workload of the staff who stay behind); and
- **Agent of continuous transformation:** the organization development role, acting as an adviser on change management processes, such as the stages that a public agency should go through when it implements a skills development programme.\(^\text{10}\)

Staff who play these roles will need to be specialists, advisers, consultants or business partners. They will need to have both a solid understanding of the environment in which the organization operates and the ability to deliver services efficiently. The typical career trajectory of the generalist public servant, who may previously have been a district officer and who can expect to become the chairman of a statutory board later on, is inadequate. Governments will need to invest in the training of their own administrators or appoint HRM specialists from the outside, if needed, in order to manage the staff effectively. HRM specialists also need to be taken seriously by senior officials and politicians if they aspire to influence the strategic management of human resources in the public sector.

**Competence frameworks: setting the standard for performance**

_It is my hope that competencies will provide us with shared language for talking, in concrete terms, about high performance and managerial excellence. I believe that a shared view of the standards we are striving to achieve will assist us in our continuing efforts to prepare the Organization to meet the challenges of the 21st century._

—Kofi Annan\(^\text{11}\)

The application of an integrated competence-based model is important to good HRM practice in the public service. By promoting a consistent approach across all HRM activities, the framework helps to ensure that the management of human resources contributes effectively to achieving the government’s objectives (sometimes called “vertical integration”) and ensuring that the HRM whole is greater than the sum of the individual activities (sometimes called “horizontal integration”). An important objective in the development of such frameworks in the public service is to promote a shared language as it relates to performance standards and expectations.
A competence framework developed by the Irish Civil Service illustrates this idea. Its authors point out that “When we talk about developing competencies we mean the development of the necessary behaviours and attributes as well as knowledge and skills required to do our jobs well in a way in which we realise our potential and provide the highest quality service to our customers”. The Irish model places the competency framework at the centre of civil service management. The framework describes seventeen behavioural competencies, which have been identified as relevant in the current civil service environment. Once such a framework has been developed, it can be used across a range of HRM activities (table 7).

Human resource development provides an example of this use. A competence framework similar to the one used in the Irish Civil Service has been employed at INTAN, the civil service staff training college in Malaysia, as a basis for developing the management skills of senior officials. In such a training programme, officials are asked to state whether particular competences constitute a strong or weak area for them. If they feel that a particular competence is an area that they need to develop, they are asked to state which steps they will take to do so.

It should be noted that a competence framework can be used in both public agencies that appoint staff from outside to quite senior positions (“lateral entry”) and agencies that promote from within. In the former system, competencies can be the basis for such appointments from outside; but equally in the latter system, competencies offer the criteria for developing the internally appointed person who may need skills for the new position—skills that were not acquired earlier in the person’s career.

**Table 7. A competence framework for HRM**

<table>
<thead>
<tr>
<th>HRM Activity</th>
<th>Use of competence model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merit-based appointment</td>
<td>Acts as “person specification” framework to give criteria for selection</td>
</tr>
<tr>
<td>Pay and rewards</td>
<td>Used in “job evaluation” to give basis for pay and grading</td>
</tr>
<tr>
<td>Performance management</td>
<td>Provides framework for managing staff performance</td>
</tr>
<tr>
<td>Job reduction</td>
<td>Helps government to identify priority jobs and jobs that are no longer needed</td>
</tr>
<tr>
<td>Human resource development</td>
<td>Enables managers and jobholders to identify “performance gap” between existing competence and job requirements</td>
</tr>
</tbody>
</table>

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**Merit-based appointment: getting the best person for the job**

*The natural aristocracy [the grounds of which are virtue and talents] I consider as the most precious gift of nature for the instruction, the trusts, and government of society.*

—Thomas Jefferson

As highlighted in chapter II, a merit-oriented, career-based civil service is a key factor in explaining public sector performance. Several studies have corroborated this and have also attributed economic growth and poverty reduction to the institutional features of merit-based appointment and career stability. While building meritocratic civil service is of universal
importance to performance, it also means tapping into talent in under-represented groups to ensure that the public service adequately represents all relevant segments of society, as discussed in chapter IV.

Merit can be defined as “the appointment of the best person for any given job”; it is the thrust of the French Napoleonic ideal of "une carrière ouverte aux talents". Thus, in a pure merit system, all public appointments, from top to bottom, are made following a competition based on merit rules that are publicly understood and can be challenged if a breach is suspected. While the definition itself is trite and uncontroversial, there are four situations where the application of the merit principle runs counter to the practice of many administrations.

**Exceptions to merit and competitive recruitment**

Probably no administration operates a pure merit or competitive recruitment system as defined earlier, but by definition, it is the “best person” who will provide the best quality of service to the public. It is therefore of critical importance that the public service be able to attract a fair share of the best talent in the labour market. The exceptions that follow implicitly assert that recruiting the "best" may not always be the highest priority of the government. This assertion requires a case-by-case justification.

- **Elected officials.** First and obviously, some officials are elected, not appointed.

- **Political appointments.** Those elected officials may hand pick some political advisers. There may be relatively many of them, as in the United States, or relatively few, as in the United Kingdom, but in most cases, they should be narrowly confined to senior staff who are working directly for politicians, thus posing a challenge to administrations where there are many political cadre posts. It also needs to be borne in mind that some civil service systems with a large number of political appointees, such as in France and the United States, may be very merit-oriented because of the selective and competitive nature of the recruitment process.

- **Affirmative action.** Several administrations, including those of Malaysia, Northern Ireland and the United States, have used “quotas” and the like in public appointments to speed up the advance of members of a disadvantaged group such as women, or certain ethnic groups, such as the indigenous majority in Malaysia or the Catholic minority in Northern Ireland. A closely specified quota system can have democratic legitimacy, but alternatives that preserve merit are possible.

- **Internal appointments and transfers; local managers’ discretion.** Most administrations have restricted certain promotion posts to existing staff in order to minimize transaction costs and to provide career development opportunities. In the same way, local managers may have discretion to make some appointments.

- **Other appointments.** Succession plans, secondments, reallocation of duties, subcontracting to employment agencies, etc. are other ways in which administrations customarily fill some individual jobs.
It is probably reasonable that merit should be overridden in some such cases: it would be perverse, for instance, to abolish in the name of fairness a transfer system that was introduced to minimize corruption. However, with the obvious exception of elected officials, there should still be a commensurate procedure that preserves merit as far as possible. This should preferably represent a minimal adaptation of the normal procedure so that transparency is preserved to the extent possible. However, the above-mentioned factors are often in tension with the merit principle, requiring difficult judgements in particular cases.

There are also circumstances in which merit is flouted rather than overridden and where the simple need is to bolster it. One is financial corruption, but there are also other obstacles, such as political patronage (clientelism) and nepotism; various forms of discrimination; faulty definition of the “merit principle”; and politicization of the public service.

**Ingraining the merit principle**

Where the merit principle is ingrained and policed by professional peer pressure, the role of institutional arrangements can be downplayed (in modern management-speak, culture is performing some of the functions of structure). Thus, in the United Kingdom, the central recruitment function has actually been privatized and all operational functions have been devolved to line departments. The case for other countries to go at least some distance down the same road has been forcefully argued although once again, a decentralized structure is not always appropriate, as discussed earlier in this chapter. However, other institutional arrangements should also be considered, such as:

- Establishing a central staffing agency (discussed above in the context of the legal framework);
- Legal provisions (hence, for instance, Poland’s perseverance with the drafting of a civil service law through several changes of government);
- Separation of the political and administrative spheres;
- Setting up an “elite” senior service (as in Argentina); and
- Drawing up an internal code of conduct.

The arrangements suggested here above will not abolish patronage overnight; indeed, they are constantly threatened by the very pressures that they seek to contain. However, the evidence of countries such as Singapore is that their persistence at least establishes a zone that can be used as a base for extending the influence of merit.

**How to identify merit**

Both macro- and micro-issues are important in selection: there is little point in having elaborate institutional arrangements if the content of the selection process is unimproved. Merit is not self-evident, and justice must be seen to be done. Administrations often give effect to these truisms through a system of university-style competitive examination, as in Pakistan and the Republic of Korea, or by scrutinizing educational qualifications, as in Singapore. Such methods are fair and command public confidence. However, they do not recognize merit because the link between what is tested and the requirements of work is weak (one meta-analysis found only a very weak statistical relationship between qualifications and job performance).

On the other hand, sophisticated commercial selection tests widely used in Western countries are not available for sale in most developing countries and transition economies, and recreating them would require a critical mass of organizational psychologists, which very few
developing countries possess. Moreover, such methods would not be justified for the bulk of public appointments, including manual appointments (manual and senior professional jobs are equally important in this context). Fortunately, other methods, both valid and practicable, are available; good practice is not the preserve of the wealthy.

In the light of research and organizational practice, a good appointment procedure will have these eight elements (it should be noted that the list includes competence development, a second example of how this activity is pivotal in HRM):

- A job analysis leading to a written statement of the duties of the job (the job description) and the competences that the jobholder will need (the competency framework or person specification);
- An advertisement disseminated to eligible groups, including a summary of the job description;
- A standard application form;
- A scoring scheme based on the person specification;
- A short-listing procedure to reduce applications, if necessary, to a manageable number;
- A final selection procedure based, again, on the person specification and including a panel interview;
- An appointment procedure based on the scoring scheme; and
- Notification of results to both successful and unsuccessful candidates.

An “assessment centre” procedure, comprising a number of selection methods that include an interview and written or oral activities, as appropriate, remains the gold standard of public selection. It is used in several countries that have borrowed from the United Kingdom model. Recent research shows, however, that the validity of the maligned panel interview can match that of the assessment centre, provided that it is structured, based on job analysis, conducted by trained interviewers and culminates in an appointment that reflects panel members’ independent scores. However, using at least a second method at the final stage gives a different, and sometimes corrective, view of the candidate.

Merit practices are by no means universal even in industrialized country governments. Moreover, appointments are not made in an organizational vacuum and are affected by the general climate and practices that surround them. This said, strengthening appointment on merit is one of the simplest, most powerful ways in which governments can improve their effectiveness, as repeated throughout the present report.

Developing a pay policy: attracting and retaining talent

When government compensation falls, both in absolute terms and relative to alternative remunerative activities, civil servants adjust to the new situation. Changing demographics and other labour market factors, such as growing competition for talent from the private and non-governmental sectors, are increasingly making the recruitment and retention of quality staff a critical issue in the public sector. Adequate pay is widely considered a key component in improving and sustaining the motivation, performance and integrity of public servants. Conversely, low salary levels result in absenteeism, alternative
and additional employment, corruption and low productivity. Thus, the development of a pay policy is an integral part of strategic HRM in the public service.

Yet, beset by budgetary constraints and embroiled in negotiations with unions on the one side and with donors on the other, it is easy for governments to forget what pay is for. The goal of a pay policy should be to pay public servants enough to attract and retain competent people. Sustaining performance and motivation of public servants should also be an important consideration in the development of a pay policy. For example, wages above the equilibrium level and where sufficient labour market flexibility is guaranteed are likely to increase the opportunity cost to staff of reducing productivity. Higher wages can therefore promote performance-orientation of the civil service.

Botswana is one example of a country that used pay as a key lever to attract and retain quality staff in the public sector. The Presidential Commission on the Review of the Incomes Policy in 1990 was crucial in this respect. The Government allowed market forces to determine pay rates and also acted to “decompress” salaries so that the ratio between the highest and lowest paid civil servants widened substantially between the 1980s and 2002. Its pay rates are now among the highest in sub-Saharan Africa.

That Botswana was able to undertake substantial pay reform in the public service is undoubtedly owing in some part to the country’s endowment of natural resources—in this case, diamonds. Yet Botswana is not the only developing country blessed with a substantial endowment of valuable natural resources. A number of other developing countries have similar natural resource endowments but have not been able to improve the conditions of service for public employees. What seems to have made the difference is the strategic and effective management by public institutions of the revenue generated as well as genuine leadership commitment to reform.

Although developing a pay policy is inevitably political and delicate, governments and international donors often succumb to a particular naivety. It is to suppose that governments can achieve anything that they want if only they have the determination to do so. Yet political and fiscal constraints dictate that most governments of developing countries cannot deliver a purely rational and ideal pay reform. As discussed in chapter II (box 3), President Soglo of Benin had been a World Bank Regional Director, but he was unable to follow through on his desired pay reform in the face of opposition from public service unions and Members of Parliament, leading ultimately to his defeat in the presidential election in 1996.

It does not follow that governments are obliged to “roll over”, giving in to political lobbies such as public service unions. Instead, a government must strike a fine balance between what is ideal and what important stakeholders will countenance and sustain a programme of gradual reform over several years. Every government needs to take political as well as fiscal constraints into account when it comes to salary decisions in the public service. Since the process is always heavily affected by politics and the scarcity of resources, the luxury of an optimal policy does not always exist.

A pay policy does not determine affordability; rather, affordability is a constraint imposed by the budget. Expenditure on wages should not be budgeted without taking other government expenses into consideration. For example, exhausting the budget on wages and salaries to teachers and doctors may leave little room for the procurement of books and medicine. What is important is to achieve the optimal mix of spending in terms of strategic objectives compared to simply setting a target for expenditure on wages alone.

**Key elements of a strategic approach**

A pay policy should be strategic in the sense of “satisficing” stakeholders, while at the same time thinking ahead. The alternative is to be “reactive”, with the government at the mercy of interest...
groups whose muscle often has little to do with their contribution to meeting government objectives. Thus, a government needs to start with an appropriate strategy given the circumstances. In a political environment, a delicate balancing act must be performed by juggling key priorities and interests of stakeholders as well as equity and motivation when developing a pay policy. A pay strategy will generally involve the following:

- Bringing pay into line with government’s overall policy objectives. This includes identifying any groups of staff (e.g., primary school teachers) that are currently under- or overpaid in areas to which the government wants to give priority. This is how pay contributes to achieving government’s strategic objectives;
- Determining the basis for pay and, in particular, the appropriate mix of the following primary as well as secondary factors:
  
  **Primary factors:**
  - Affordability (i.e., budget constraints)
  - Job content, possibly informed by "job evaluation"
  - Establishing an appropriate "compression ratio" between highest and lowest earners; and
  - Striking a balance between pay, other benefits (including pensions) and allowances. It is important to recognize that non-monetary remuneration, such as housing, and promises of benefits to be paid in the future, such as pensions, are a current expense; otherwise, civil service pay will be grossly underestimated.

**Balancing equity and motivation**

Governments are in general obliged to have a political commitment to equitable pay even where market or performance factors may not justify it. Under some circumstances, however, maintaining equitable pay is simply not tenable. First, pegging equitable pay to a “minimum living wage” may seem like the “right” decision, yet in countries with extremely low per capita income, this equals paying a premium for lower-level staff, which comes with the risk of bloating the public service. Second, even with wages level with or lower than market wages, a “bottom-heavy” public service paid equitably may crowd out other vital government spending plans. Thus equitable pay is not plausible without a “rightsized” public service.

Motivation, on the other hand, includes using pay differentials to give staff an incentive to seek higher-level responsibilities. Civil service systems have traditionally based salary scales on formal qualifications and job content rather than market factors. However, in recent years, particularly with reference to the NPM model, governments have become aware that they need to link salaries to market wages in order to attract and retain the talent necessary to improve and sustain public sector performance. When income inequality among staff is deliberately increased, senior management positions become more attractive than was previously the case. This is achieved through “salary decompression”, which means increasing the ratio between the top and bottom salaries. The higher the ratio, the more decompressed the salaries, and vice versa. The assumption when decompressing and at the same time holding expenditure constant is that lower levels of staff are overpaid while the higher echelons are underpaid.

As table 8 shows, some countries opt for a more egalitarian pay structure, whereas others operate with a larger pay differential between the highest and the lowest grades of the
civil service. In theory, an egalitarian pay structure is more attractive to the lower echelons of the civil service, whereas pay structures with greater decompression are considered conducive to recruiting and retaining talent that would otherwise possibly switch to the private sector.

**Scope of perquisites**

Most people would agree that Cambodia, Guinea and Mauritania, where the average salary ratio between the highest and the lowest grade was only two, needed to “decompress”. However, governments need to take allowances and in-kind benefits into account as well. For example, Uganda’s moderate compression ratio in the mid-1990s changed to 1:100 after non-monetary allowances and benefits were included.29 This is often the case in varying degrees, especially in developing countries. In Zambia, for instance, Permanent Secretaries earn 50 times as much as

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**Table 8.**

**Selected pay-scale compression ratios, 1991–2003**

<table>
<thead>
<tr>
<th>Country</th>
<th>Early</th>
<th>Late</th>
<th>Reference period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>..</td>
<td>2</td>
<td>2002</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>5</td>
<td>7</td>
<td>1991–2001</td>
</tr>
<tr>
<td>Gambia</td>
<td>8</td>
<td>7</td>
<td>1992–2003</td>
</tr>
<tr>
<td>Guinea</td>
<td>..</td>
<td>2</td>
<td>2002</td>
</tr>
<tr>
<td>Madagascar</td>
<td>3</td>
<td>5</td>
<td>1997–2002</td>
</tr>
<tr>
<td>Mali</td>
<td>7</td>
<td>6</td>
<td>1994–2003</td>
</tr>
<tr>
<td>Mauritania</td>
<td>2</td>
<td>2</td>
<td>1993–2002</td>
</tr>
<tr>
<td>Pakistan</td>
<td>9</td>
<td>10</td>
<td>1994–2002</td>
</tr>
<tr>
<td>Peru</td>
<td>..</td>
<td>3</td>
<td>2002</td>
</tr>
<tr>
<td>Senegal</td>
<td>5</td>
<td>4</td>
<td>1994–2001</td>
</tr>
<tr>
<td>Suriname</td>
<td>6</td>
<td>3</td>
<td>1997–2002</td>
</tr>
<tr>
<td>Timor–Leste</td>
<td>4</td>
<td>4</td>
<td>2002–2004</td>
</tr>
<tr>
<td>Togo</td>
<td>4</td>
<td>4</td>
<td>1991–1999</td>
</tr>
<tr>
<td>Tonga</td>
<td>..</td>
<td>7</td>
<td>1997</td>
</tr>
<tr>
<td>Uganda</td>
<td>4</td>
<td>5</td>
<td>1995–1997</td>
</tr>
<tr>
<td>United States</td>
<td>6</td>
<td>6</td>
<td>1994–2004</td>
</tr>
<tr>
<td>Yemen</td>
<td>..</td>
<td>3</td>
<td>1998</td>
</tr>
</tbody>
</table>

**Sources:**

UN/DESA, based on IMF Country Reports, World Bank reports and national statistics.

**Note:**

The compression ratio is calculated as the ratio between the mean of the highest salary grade and the mean of the lowest salary grade, where possible.
the lowest-paid people in the civil service when in-kind benefits (housing, cars, telephones, etc.) are taken into account. However, excluding such benefits, the difference was only fivefold. In many developing countries, allowances and in-kind benefits play a substantial role in remunerating employees in the public sector, which is why getting the right balance between pay and benefits and allowances is so important. An initial step in pay reform is to consider monetizing these benefits in order to curb the abuse of open-ended privileges and entitlements of public officials. In 2002, Nigeria adopted a monetization policy in order to check the spiraling costs of providing benefits in areas such as accommodation, transport, food, utilities, servants, leave, medicine, furniture, vehicles and drivers. The costs of providing these amenities had become so substantial that they left little room for funding of other government priorities, for instance, capital projects. Yet, as recent developments in Nigeria show, monetizing benefits is not a free lunch, at least not in political terms. Even though non-transparent remuneration is inefficient and inequitable, “increasing transparency prematurely is likely to generate uncontrollable and unaffordable pressure for equalization of benefits and across the board pay increases”.

Moreover, where “moonlighting” and corruption prevail, it is likely that senior civil servants will earn more from these sources than their juniors, once again moderating the effect of salary compression. It should be noted that salary decompression is likely to be gender-negative, as senior public servants are disproportionately male. A comprehensive pay reform needs to take all these factors into account and not simply the “headline” salary rates, which, although a starting point, usually give an incomplete picture of actual earnings of senior public servants. It also must be borne in mind that the multiplicity of sources of earnings of senior officials also increases the costs of administering the government payroll system.

In most developed countries, allowances and in-kind benefits play a small or rather limited role in the total remuneration of staff. In the mid-1990s, for example, the base salary of public servants in France and Germany accounted for 70–90 per cent and 75–95 per cent of total remuneration, respectively, and in the Nordic and Anglo-Saxon countries, it accounted for almost 100 per cent of the total.

Although providing incentives for such things as seniority or assignments to unattractive postings has merit, developing extensive additional, customized pay schemes and supplements comes at a price. In Peru, for example, only 41 per cent of all salary payments were charged to the formal payroll in recent years. The remaining part of the wage bill was covered by over 40 different salary supplements, whether in cash or in kind. As a consequence, employees in the same salary grade and performing more or less the same functions were at risk of receiving very different wages. The net result was that the internal cohesion of salary grades in the civil service in Peru became abnormally distorted, with even the maximum remuneration of the lowest grade higher than the maximum salary recorded for vice-ministers in exceptional cases. In a response to these adverse effects of customized supplements, the Law for the System of Public Employment Remuneration was being adopted in 2005.

**Competitiveness of public sector pay**

Of equal if not greater importance is the competitiveness of public sector pay vis-à-vis that of the private sector. It is commonly held that pay in the public sector is much lower than pay in the private sector. However, this conclusion may not apply to all grade levels in the public service. For example, while public sector salaries in Latin America and the Caribbean generally tend to be lower than those offered in the private sector, this may not apply to posts requiring a low level of skills. While senior managers in the public sector are often paid substantially less
The more skills a post requires, the larger the pay differential with the private sector.

Parity is not unheard of for unskilled positions. The experiences of Latin American and Caribbean countries also indicate that the more skills a public sector post requires, the larger the pay differential with the private sector.

These findings are not confined to Latin America and the Caribbean. Examples from such diverse places as Guinea, Pakistan and the former Yugoslav Republic of Macedonia illustrate the need to look at both the compression ratio and the pay differentials between the public and private sectors in order to perform a balanced comparison of salaries at all levels. In Yemen, for instance, the compression ratio in the government was only 1:3 in the late 1990s. In the same vein, senior managers in the private sector received salaries that were nine times higher than those of their counterparts in the public sector, while compensation at the support services level in the private sector was three times higher than that in the public sector although this comparison did not include the low wages paid in the informal economy. Under such circumstances, attracting and retaining the best talent become highly unlikely.

Sometimes pay differentials between the public and private sectors can even seem absurd when illustrated by examples. In Mozambique in the early 1990s, for instance, pay differentials were so skewed that a janitor employed by an international organization earned a salary that was the equivalent to that of a director in the public sector. By the late 1990s, however, this ratio had improved so that a driver employed in the private sector earned the equivalent of a lecturer's salary at a public university. Nevertheless, if one took into consideration the apparent differences in living standards, payments associated with “moonlighting” and corruption or what has often been referred to as “secondary remuneration” played a significant part in raising total income.

The presence of high-paying donors and international organizations in developing countries and transition economies has also sometimes led to poaching of the relatively limited number of highly skilled staff in the labour market—staff who would otherwise occupy senior positions in the public sector, as experiences in Cambodia and Mozambique demonstrate. In addition, the topped-up salaries of staff in donor-sponsored Programme Implementation Units have often inhibited the “sunset” absorption of those employees into the public sector. In an attempt to address such problems in Bolivia, some multilateral and bilateral donors are financing a salary enhancement scheme in priority ministries.

Needless to say, there are examples that defy the general assertion of pay differentials in favour of the private sector. In Morocco, a recent study found that monetary compensation in the public sector is 8 per cent higher than in the private sector. However, if all non-monetary allowances are included in this comparison, the total remuneration of civil servants in Morocco would be between 1.5 and 2 times higher than that in the private sector. This, the study concludes, may explain the significant queues for employment in the public sector in Morocco, particularly by skilled workers.

In general, one should expect higher remuneration in the private sector than in the public sector because of job security, often-generous pension benefits and a higher shirking rate in the latter. Hence, it should not necessarily be the aim of governments to match compensation in the private sector across the board. Instead, governments should aim to provide compensation that meets at least minimum living standards for employees at lower levels and at the same time provides incentive for senior managers to stay in the public sector by sufficiently decompressing salaries.

Should higher wages be deemed necessary, government will ideally be hoping for economic growth that is respectable enough to finance the increases. However, even if growth is low, there may be some scope for improving tax revenue collection. Setting up autonomous...
revenue collection authorities seems to have improved revenue collection in several African countries, including Mozambique and South Africa. Uganda offers a dramatic example: after the establishment of the Uganda Revenue Authority, tax revenue increased nearly five times between 1991 and 1996.\textsuperscript{30}

The practice of assigning the responsibility for collecting (certain) taxes to autonomous entities, generally known as tax farming, is said to minimize government administration and result in more efficient tax collection.\textsuperscript{31} The primary advantage of this system is considered its ability to generate more gross revenue than direct government collection. The problem, however, is that this kind of tax collection tends to become overzealous with resources over-employed since costs borne by taxpayers, for instance, are not taken into account. This in turn would require government expenses on close monitoring, which would have the potential to offset the initial gain.

Alternatively, government may find money from existing budgets. If, for instance, Sri Lanka or Uganda can reach a lasting settlement with insurgents, spending on security can be cut and savings might be redirected to increasing wages. If this is not possible, however, government is thrown back on the structural adjustment-era remedy of cutting some jobs in order to pay more to the people who really matter.
Managing people as a strategic resource

Table 9.
Wages and salaries in federal versus unitary states

<table>
<thead>
<tr>
<th>Country</th>
<th>State</th>
<th>Percentage</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Federal</td>
<td>8.4</td>
<td>1997</td>
</tr>
<tr>
<td>France</td>
<td>Unitary</td>
<td>15.9</td>
<td>1997</td>
</tr>
<tr>
<td>India</td>
<td>Federal</td>
<td>9.4</td>
<td>2001</td>
</tr>
<tr>
<td>Chile</td>
<td>Unitary</td>
<td>19.4</td>
<td>2001</td>
</tr>
</tbody>
</table>

Source: UN/DESA, based on World Bank, World Development Indicators.

Note: Wages and salaries are displayed as a percentage of total central government expenditure.

does the recording of transfers to lower levels of government as an important component of central government expenditure in federal states. Second, even when states are structured along the same lines, divergent approaches to the classification of public sector employment often pose another daunting challenge for cross-country comparison. This problem is sometimes further aggravated by the frequent reclassification of sectors as a result of administrative reform. Recent developments in service delivery, such as outsourcing, have further skewed the picture when comparing data on employment and wages in the public sector in different countries.

In conclusion, the availability of accurate, reliable, valid and comprehensive data on employment and wages in the public sector is becoming more and more important for the strategic management of human resources. Therefore, it is recommended that governments consider developing better methodologies for collecting and analysing data on employment and wages in the public sector at both the national and global levels.

Performance management and appraisal: supporting and developing staff

Appraisal systems are a lot like seat belts. Most people believe that they are necessary, but they don't like to use them.  

For some governments, such as Morocco, introducing performance management and appraisal is the first step in HRM reform. This is because performance management is a way of telling managers in the public sector something that they may not have heard before: they are responsible for the performance of the staff who work with them, and it is the managers’ job to manage them by setting objectives that relate to the overall strategy, monitoring their performance and giving them support, feedback and the opportunity to develop.

The experience of managing performance in developing-country governments shows not only what effective performance management can look like in practice but also how different it is from the traditional practice of many public agencies. At one extreme, the Zambia Electricity Supply Corporation (ZESCO) Ltd., with a new manager committed to improving service quality, had a thorough performance management procedure. In the context of a strategic mission statement with which staff were familiar and of detailed job descriptions for individual posts, objectives were set annually with the participation of individual employees. An annual appraisal meeting lasting at least two hours centred on the supervisor’s draft report on the employee’s performance. The fact that discussion was often heated showed that
it was serious. The emphasis was on improving performance through praise and encouragement and on tackling poor performance, initially through counselling but possibly in the end through dismissal: ZESCO, unlike many public agencies, had effective power to hire and fire.

At the other extreme, in the late 1990s, the Ministry of Health in Guatemala had no formal performance management system whatsoever. Even monthly service delivery reports (e.g., of immunization coverage) and supervision visits to staff in the field often did not take place, partly because of lack of resources. Similarly, up to the mid-1990s, Zambia’s only mental health referral hospital relied on an “annual confidential report” system, where reports were written by line managers, typically with no communication with their employees, and forwarded to some central body where they were notionally used for promotion decisions. As a result, there was no sense of a culture of performance in the hospital; on the contrary, staff were often absent from their posts.

It is striking that ZESCO did not link performance management to pay decisions. Establishing a link has its supporters, but it is immensely difficult to make performance-related pay work. Malaysia has possibly gone further than any other developing country, having introduced a system of annual performance-based bonuses in the early 1990s. Early in the new century, however, it decided to step back from it, partially substituting a system of training course-based assessment for the manager’s judgement. This was in response to complaints of manager bias made by the civil servants’ trade union over a ten-year period, sometimes with an ethnic component.

There is also evidence from the government of at least one industrialized country that performance-related pay can damage performance and motivation rather than improve them. However, in a career public service, there is less difficulty in linking performance management to promotion through mechanisms that many countries have always had even if the link has been tenuous in practice.

As with other HRM practices, there are contextual factors to which governments need to adapt the textbook “good practice” models. One of them is the willingness of politicians to let managers get on with the job and make their own hiring and firing decisions. A second contextual factor is the reaction of public sector trade unions. Attempting to impose a performance management system on staff may be counterproductive. One reason why performance management was moribund in the Zambian teaching hospital was that the Government, faced in 1997 with the threat of a nationwide strike by health service unions, had taken back the power to hire and fire that the 1995 Health Act had given to hospitals. Union opposition to the performance-related pay element of a new scheme proposed in the late 1980s was also the reason why Mauritius still had no effective performance management procedure over ten years later (box 10).

**Rightsizing: getting staffing back on track**

The present report offers a positive agenda for human resource management in the public sector. However, governments must face the fact that from time to time, they will need to reduce spending on staff. Even after recognizing that reducing spending is by no means the same thing as laying off staff, as is explained later on in the report, the need to reduce spending is not always well judged. Governments, such as in the United Republic of Tanzania, have discovered that there may be more scope to reduce government deficits by focusing on improving revenue collection than laying off staff. In this respect, rightsizing resembles other areas of activity where shifts in tactics might be required to achieve results.
Managing people as a strategic resource

There are three reasons why contraction is probably an inevitable feature of the landscape of government. First, many of the economies from which governments obtain their revenues follow a cycle of “boom” and “bust”, veering from growth to stagnation or even recession. Second, governments, especially in poor countries, are affected by external shocks, such as a rise in the cost of oil or a bad harvest. In Morocco, where GDP has tended to track rainfall levels, the late King Hassan once remarked that “faced with a choice between an intelligence report and a weather forecast, I will put the intelligence report on one side”.

Third, new technology makes it possible to reduce the number of people needed to carry out standardized tasks, such as sending out tax demands. Indian photographer Raghubir Singh’s classic 1970s image of Calcutta’s Writers’ Building, the bureaucratic heart of the West Bengal state government, with its serried ranks of pen-pushers toiling beneath towers of yellowing files, is no longer representative of public administration in either industrialized or developing countries.

A strategic approach to rightsizing

In cases where a government judges that rightsizing would mean reducing the number of staff, how should it go about it? There are three principles to keep in mind. Effective rightsizing will:

- Be strategic, that is, it will start from a strategic view of where government or an individual department is going and a sense of the implications of strategy for staff employment;
- Actually deliver savings, and not merely a crude reduction in the number of employees; and
- Minimize hardship to employees.

Despite the impression that rightsizing means an exclusive focus on the “bottom line” (something of which finance ministries and certain donor agencies have occasionally been guilty), this is an area to which the strategic model outlined in this chapter also applies. Something approximating a consensus has developed that “turning around” an organization is a two-stage process where emergency action to stem decline leads to strategic planning for the future: what has been called a “recovery strategy”.

Rightsizing is a process that starts with the overall development strategy and HRM plan of the government or the individual department. A management review is conducted within that strategic context and used to generate a re-profiling plan, where appropriate, one that includes measures to minimize hardship to employees, if needed (the phrase “where appropriate” signifies that retrenchment is not a necessary outcome of a review). The voluntary retirement scheme introduced by state-owned banks in India between November 2000 and March 2001 is an example of a successful experience with rightsizing (box 13).

Concurrently with the rightsizing process, governments need to pay attention to specific process measures since they constitute a continuous concern. These include measures to generate ownership of and commitment to the programme, and consultation and communication with staff and their representatives. The appropriate pace of the programme, which the timetable in the strategy action plan will address, is another process issue. Once the strategic framework is in place, the next step is to try to avoid making job reductions altogether through the following measures:

- **Remove ghosts.** Uganda thought that its initial target for staff reduction of 34,000 jobs was tough until it discovered no fewer than 42,000 ghost workers on its books (i.e., fictitious names included in a payroll, allowing someone falsely to receive a salary).
Enforce retirement ages. Uganda discovered several thousand staff still working beyond the official retirement age;

Initiate recruitment freezes combined with natural wastage;

Delete empty posts. These are established posts that have been vacant for some time;

Carry out human resource forecasting in order to anticipate a declining need for staff in some areas or a declining ability to pay for them;
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• Seek "functional flexibility" through "multi-skilling". In this vein, Ford Motor Company in the United Kingdom, for instance, took action to reduce the number of separate job categories from 516 in 1986 to 45 in 1988;

• Set up a redeployment procedure so that staff in a redeployment "pool" must be considered first before a post is advertised in the normal way. It is important to avoid such "pools" being abused as a dumping ground for staff who have fallen from political favour, such as senior civil servants identified with the party previously in power;

• Organize retraining to convert, for example, a redundant administrator into a computer programmer; and

• Anticipate redundancy by having procedures in place that will enable government to deal with the problem systematically. Such procedures take time to develop, especially where trade unions must be consulted. They should be drawn up as a part of day-to-day HRM practice. In one British local authority, the redundancy agreement drawn up as long ago as 1977 enabled the authority to reduce jobs over a period of several years without making compulsory redundancies.

If, after all that, a government still finds that it needs to reduce jobs, it should consider the following steps, arranged in order of political difficulty:38

• Introduce part-time and flexible working hours;
• Appoint new staff on temporary contracts;
• End guaranteed entry. Some governments, such as that of Benin in West Africa, have had a scheme for automatic entry into the civil service for all graduates. Given an increased number of graduates, this is probably no longer appropriate in most countries;
• Suspend automatic advancement. Similarly, some countries have had a system of automatic, seniority-based promotion which, apart from its salary implication, weakens the link between promotion and merit;
• Introduce voluntary redundancy. This is often welcomed by staff, and quotas can be achieved faster than government might expect (as in the United Kingdom). However, it can be expensive: in Ghana, it consumed two per cent of total government expenditure over the first five years of reform;
• Privatize/contract out. This will bring staff numbers down but may not reduce spending: a contracted-out service is not necessarily less costly, as discussed earlier in the report;
• Freeze salaries; and
• Implement compulsory redundancy.

A striking feature of the above list is that compulsory redundancy, despite the popular image, is only the last item on a long list, and it may never be reached if the government
manages to achieve sufficient savings through other means. On the other hand, if redundancies are needed, then any responsible employer will take care to minimize the hardship caused to the staff who are affected (box 14).

### Rightsizing the right way—Uruguay

Uruguay is a welfare state whose citizens enjoy one of the highest standards of living outside the industrialized world. The country’s public sector is faced with numerous challenges, including a disproportionately large civil service. Since the Constitution makes it very hard to dismiss a civil servant, downsizing of the public service had become a very tenuous proposition. Things were further complicated as public employees were often hired based on political connections, which led to the constant creation of new public agencies and divisions, often with little regard for the cost implications. Owing to the oversized public service, the salaries of professionals were also very low, resulting in many qualified employees working only a few hours a day in the public office and spending the rest in a private sector job to supplement their income. According to a government survey in 1995, the people supported public service reform, but only if it would not result in layoffs and social conflict.

The public sector modernization strategy adopted by the Government of Julio Maria Sanguinetti in 1995 followed a two-stage approach that emphasized incentives and voluntary participation instead of job cuts. The Government invited the executing agencies within the central administration to define their core competencies and to identify activities that could be eliminated, transferred to more qualified agencies or even outsourced to private companies. If the restructuring plan was approved by the Executive Committee for the Reform of the State (set up with a $115 million loan from the Inter-American Development Bank), the agency was offered a reward. It was given access to special funds to cover the severance, early retirement or transfer costs of redundant employees. These funds also included technical support, business training and small loans for civil servants who opted to start their own private businesses. Each agency was allowed to keep the savings generated by the restructuring, which could be used to raise the salaries of the remaining staff, invest in training and equipment, and pay performance-based bonuses.

The results of this approach to downsizing were quite spectacular. Out of the 108 executing agencies that participated in the programme, 82 (representing some 80,000 public employees) successfully restructured their operations. A total of 9,221 redundant positions were identified during the restructuring exercise, with more than one third of the staff concerned receiving training and assistance in finding private sector employment. As of 2002, the leaner public service was saving Uruguayan taxpayers $56 million per year; $25 million was going to the national treasury, while the rest was being returned to the restructured agencies to fund the various incentive programmes. The entire downsizing exercise took less than three years to implement and by the end of the process, the number of public agencies had been reduced by 46 per cent. The most remarkable achievement was that during this phase, not a single strike or labour dispute took place. A fundamental factor contributing to the success of the programme was the involvement and full support of the agency chiefs, who saw this exercise as an opportunity to recruit highly qualified staff and to give a pay rise to deserving employees who would otherwise be tempted to join the private sector. The programme also carried political credibility as it was embedded in the national budget, giving the Government adequate time to implement the reforms instead of wasting precious time in political wrangling to generate the required financial resources.

Following the success of the first phase of reform, the Government is embarking on a second phase that will focus on improving the actual performance of the public service. All public agencies, for example, will be required to carefully define their products and services and to come up with specific performance indicators and goals, with public funds in the next budget to be granted on the basis of organizational performance.

**Source:**

See Bibliography.
Generally speaking, once government has consulted unions and others on its plans, it is probably well advised to concentrate assistance in the size of the lump sum and pension that retrenched employees receive: there is evidence that people make better decisions about how to use such a payment than government will make on their behalf. Advice and information are also important to remove misconceptions and to prepare staff for the change. Retraining schemes to help retrenched employees to acquire new skills are desirable in theory but can be expensive, difficult to administer and poorly targeted so these employees receive little practical benefit.

Notes


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