

## Does the public sector HRM system strengthen staff performance?

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An important objective of any Human Resource Management (HRM) system in Government is to motivate staff to perform well. This GET Note looks at several HRM levers that Governments have at their disposal to influence staff performance. In particular, some of the most common levers in the public sector include:

- Effective recruitment and retention of staff
- Strong staff engagement in the organization's mission
- Well designed incentives for staff to perform as well as "opportunities to perform"
- Tailored training and capacity building
- High quality performance dialogues with staff and effective follow up

In designing a HRM system that utilizes these levers effectively, this GET Note shows that it is more important to diagnose the root cause and understand the major issues of poor performance, before proposing reform actions. This paper proposes three important design questions for managers of HRM systems to assess whether they have a well designed HRM system.

1. Does the HRM system provide both 'external incentives' and 'opportunities to perform'?
2. Does the HRM system provide the right balance between short and long term incentives?
3. Are the broader, supporting aspects of the HRM system working effectively?

The note concludes by highlighting that even where the HRM system is well designed, careful consideration must be given to two further aspects: a) how to implement reforms to improve the design of the HRM system, and b) how to ensure that a well designed HRM system is operating effectively.

### I. HRM Levers to Improve Staff Performance

Governments have several powerful levers in Human Resource Management (HRM) to strengthen staff performance. Some of the most common levers include recruitment and retention of staff, staff engagement in the organization's mission, incentives for staff to perform / 'opportunities to perform,' training and capacity building, and the quality of performance dialogue with staff. There is a large body of evidence in each of these areas and this Get Note only provides a short synthesis of the main findings. Also, it is not the objective for this GET Note to provide a comprehensive analysis of the additional factors that influence staff performance beyond the most common HRM levers, such as organizational culture, internal motivation, tools, processes, organizational resources, and support systems.

In many countries, public sector employees are paid lower amounts than in the private sector. Hence it is important to go beyond financial incentives to explore levers to influence staff

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performance in the public sector, as there are likely to be other factors motivating public servants' behaviors and mindsets and preventing them from taking better paid opportunities elsewhere. Here we highlight five main levers that can be powerful in influencing long term public sector staff performance.

#### ***A. Recruitment and retention***

The performance of the public sector is strongly driven by its ability to attract and retain the right staff (Ketelaar and others 2007) at the right time. Identifying and recruiting the right staff in the first place is an absolute precondition for subsequent performance. This does not mean deterring any political involvement in certain types of appointments – but it does require that political involvement is tightly managed, and where there is greater political involvement in staffing there must also be greater external oversight of the recruitment process and stronger constraints on civil servants acting in ‘party political’ ways following appointment. Ensuring that talented staff remain is likely to have a greater impact on long term public sector performance than motivating individual senior civil servants with short term incentives to achieve targets. Retaining good staff through adequate compensation, terms and conditions is also a significant driver of performance. In many countries, there are also questions being asked about the importance of long-term versus short-term staff, and how to temporarily engage skillsets which may not be present or needed for a long term in the public sector (particularly expertise on new topics). New forms of recruitment approaches may be required for these.

#### ***B. Individual Engagement with Agency Mission***

Management arrangements should minimize absenteeism and keep staff “engaged” in the agency’s mission. The “engagement” of staff refers to their commitment to the entity and its objectives – it is a composite notion encompassing both commitment (“I like working here”) and organizational citizenship (“I am prepared to go the extra mile”) (Rafferty and others 2005). Engagement is increasingly measured as a proxy for likely effort (Gallup 2011) and while the growth of interest in the topic was driven by commercial consultancies and professional bodies rather than by academic studies (Rafferty and others 2005; Vance 2003), the components have a solid theoretical and increasingly empirical foundation. The most prominent use of the concept of engagement is in Canada. The regular survey of Canadian Federal Public Employees included additional questions in 2008 to construct an employee engagement model that will be used to evaluate each organization.<sup>1</sup>

#### ***C. Incentives for staff to perform / opportunities to perform***

The public sector utilizes a range of practices to motivate employee performance, which we group into two broad categories related to “External Incentives” (e.g., financial incentives), and “Opportunities to Perform” focusing on intrinsic factors (i.e. self directed work). Within “External Incentives,” a financial incentive may either act over the long term (e.g., deferred

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<sup>1</sup> See: <http://www.statcan.gc.ca/cgi-bin/imdb/p2SV.pl?Function=getSurvey&SurvId=4438&SurvVer=1&InstaId=16038&InstaVer=4&SDDS=4438&lang=en&db=imdb&adm=8&dis=2>

compensation) or in the short term (i.e. Performance Related Pay). Both external incentives and opportunities to perform are important, particularly for more senior managers rather than front line staff. While much recent attention has been placed on Performance Related Pay (PRP), it is evident that PRP does not work in isolation and that due consideration needs to be given to the range of practices/incentives that may contribute to improved staff performance in different contexts.

#### ***D. Training and capacity building***

Many studies show that providing opportunities for employees to learn through access to training programs, scholarships, and other educational programs increases employees' incentives to gain new skills and use these to perform better. Such opportunities also include providing travel awards and paid leave. Such non-monetary opportunities and rewards are perceived to carry more value than the equivalent cash value. Employees consider such opportunities and rewards to be “worth the effort” since receiving rewards are often associated with the higher public recognition from their colleagues/others and give a higher sense of accomplishment. In addition, a number of countries have established tailored training programs for their Senior Executive Service (e.g. Canada, France, Italy, Korea, Netherlands, New Zealand, Spain, UK, and the US) and some have made executive training programs a prerequisite for entry (e.g. India, Singapore).<sup>2</sup>

#### ***E. Performance Dialogue with Staff***

The key purpose of performance management systems is to provide feedback to staff concerning their perceived contribution to agency objectives. The most productive use of performance measurement is to contribute to a purposeful dialogue between staff and their supervisors on how an individual contribution can be enhanced. Although in some cases, performance information can be used for rewards or for control, this is generally of lesser value than using it to inform a dialogue about obstacles or progress (Ketelaar and others 2007; O'Donnell 1998). Thus it is critical to consider the extent to which staff are able to participate in a purposeful performance dialogue – and the part which performance appraisal plays in that.

There are several other categories of actions available to HRM managers, but we have found that the levers above have been most commonly used in public HRM systems.

## **II. Diagnostic questions on the effectiveness of the HRM system**

There are multiple reasons why a public sector agency may be perceived as having poor staff performance. This could include insufficient resources, poor management alignment on agency objectives, insufficient innovation and new ideas in the agency, or poor execution abilities in an agency. Hence it is critical to identify the root cause of the perceived poor staff performance, before making recommendations on reforms to redesign the HRM system.

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<sup>2</sup> See GET Note “International Experiences with Senior Executive Service Cadres” April 2012.

Three basic questions could be used to guide this diagnostic assessment for some of the root causes:

***HRM Design Question 1:** Does the HRM system provide external incentives and opportunities to perform?*

Two key levers available in designing public sector performance schemes are *external incentives to perform* and *opportunities to perform*. External incentives can be long-term, influencing behavior over a career, or short-term performance incentives, providing rewards or deterrents in the next salary payment or contract renewal. Opportunities to perform are the space for self-directed work, a key enhancement to intrinsic motivation, and adequate resources including, for managers, reasonable confidence that they can obtain results via the staff that they direct. Both external incentives and opportunities to perform are important, particularly for senior public sector managers. Highly incentivized managers without the opportunity provided by space for creativity and the ability to drive or lead their agencies towards better performance is a recipe for frustration. Equally, providing those opportunities to managers lacking drive is a wasteful endeavor.

**Figure 1: Range of options when considering whether the HRM system provides external incentives and opportunities to perform**

Are there external incentives to perform?	Are there opportunities to perform?
<ul style="list-style-type: none"> <li>• Short term               <ul style="list-style-type: none"> <li>○ <i>Financial</i></li> <li>○ <i>Non financial</i></li> </ul> </li> <li>• Long term               <ul style="list-style-type: none"> <li>○ <i>Financial</i></li> <li>○ <i>Non financial</i></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Space for self-directed work</li> <li>• Resources to do the job</li> </ul>

***HRM Design Question 2:** Does the HRM system provide the right balance of short-term and long-term incentives?*

Extrinsic motivation is harnessed by incentives which provide rewards, or punishments, for tasks completed. Intrinsic motivation is fostered by allowing time for staff to find their own path to meeting organizational goals rather than instructing them on the details. Broadly speaking, long term incentives can harness both extrinsic and intrinsic motivation – but not strongly. A series of promotions, a gradual increase in salary, and recognition from peers can provide valued external incentives for staff and can also provide sufficient space, free from micro-direction, to allow intrinsic motivation to find expression. Short term incentives provided by performance pay or the renewal of a contract can provide powerful extrinsic incentive for staff, but they can also undermine intrinsic incentives by making staff feel that they are only valued for their performance and that duty or a work ethic are not valued or needed in this particular workplace.<sup>3</sup>

<sup>3</sup> See for example (Gneezy and Rustichini 2000) and (Stazyk 2010).

**Figure 2: Implications on staff when considering introduction of short and long-term incentives**

		<b>Maximizing extrinsic motivation</b>	<b>Maximizing intrinsic motivation</b>
<b>External incentives to perform</b>	<b>Long-term</b>	Can provide motivation	Can provide motivation
	<b>Short-term</b>	Can provide powerful motivation	Can demotivate

*HRM Design Question 3: Are the broader, supporting aspects of the HRM system working effectively? In particular:*

- How effective is recruitment and retention of staff and critical skills?*
- How engaged are staff in the organization’s mission, or does the organization’s mission need to change to reflect a society’s or Government’s changing priorities?*
- Is there adequate training and capacity building in the organization, relevant to the skills that the organization requires, and are staff motivated to attend these trainings?*
- Is there a high quality of performance dialogue with staff, including meaningful follow up?*

Even if a HRM system has both external incentives and opportunities to perform, as well as an effective balance between short term and long term incentives, there are still several critical supporting aspects that also need to be in place to ensure long-term staff performance. These include attracting and retaining the right staff (or ‘raw inputs’), harnessing the power of the agency’s mission to drive performance and a ‘sense of purpose,’ building the right skills to help staff to address shortfalls in their performance and finally ensuring that there is meaningful follow up with high-quality, well-structured performance dialogue between staff and their supervisors.

If some of these supporting enablers of the HRM system are not in place, it will be very challenging for reforms on long-term or short-term incentives, or on creating opportunities to perform, to be effective.

### **III. Further Implications on Implementation and Operationalizing an Effective HRM System**

#### ***A. Can incremental improvements be made?***

Before considering major system redesign or incremental improvements, it is important to understand where existing arrangements are falling short.

When long-term career systems are failing, the typical sources of problem are erosion of pay and grading structures, with major disparities between job families and high vertical compression with little difference between remuneration at the top and the bottom of the pay scales. Other typical problems are poorly designed or opaque career paths, providing little incentive for staff to work for the long haul, weaknesses in recruitment and retention arrangements which diminish the significance of merit and competence within the process and, most importantly, promotion decisions which have become degraded to pure seniority or, worse, patronage.



When short-term performance based systems fail, the usual suspects are inadequate rewards, poor or subjective metrics, excessive focus on individual rewards in a context that has historically favored group working and, most particularly, a system that emphasizes rewards over and above dialogue. Recent experiences in Malaysia (Manaf 2010) and in Australia (O'Donnell 1998) highlight the common need for redesigning performance-related pay schemes.

***B. Even with a well designed and well implemented system, what questions need to be asked to ensure the system is operating effectively?***

There are additional questions to ensure that once a HRM system is well designed and effectively implemented, it continues to operate effectively. It is not sufficient to just design and implement a HRM system well, but a HRM leader needs to be prepared to constantly adjust the system as the public sector faces different pressures.

Hence it is important to regularly keep track of performance issues within the public sector and ensure the HRM system remains fit for purpose.

#### **IV. Conclusion**

In recent times, we have seen many countries rushing to design a new HRM system and introducing measures such as Performance Related Pay in the hope that this could improve staff performance. This paper shows that Governments need to spend an equal period of time understanding both the root causes of poor performance as well as thinking through the implementation and operationalizing of a new HRM system, in addition to the design of a good HRM system.

There is not a 'one size fits all' desirable HRM system, and neither are well-designed HRM systems likely to remain static. It is critical that HRM managers are able to respond to changes in the institutional and societal environment and adapt the HRM systems to changing long-term trends and priorities.

The way that people are managed in a public organization is core to the effectiveness of that institution. Many HRM systems are outdated or use only a limited range of tools. For HRM systems to continue being relevant and effective in the future, adoption of new levers is necessary. In considering future redesigns of HRM systems, perhaps HRM managers should reflect on a quote from one of the authors of the US Declaration of Independence and former US President, Thomas Jefferson:

*"I am not an advocate for frequent changes in laws and constitutions, but laws and institutions must go hand in hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance also to keep pace with the times. We might as well require a man to wear still the coat which fitted him when a boy as civilized society to remain ever under the regimen of their barbarous ancestors."*

Thomas Jefferson (1816)

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