ASSESSING PERFORMANCE-ORIENTED HRM ACTIVITIES IN SELECTED OECD COUNTRIES

A Review of Ten Years of Modernisation: The HRM Perspective

Human Resources Management (HRM) Working Party Meeting
OECD Headquarters, Paris, 7-8 October 2002

This paper has been prepared by Christoph Reichard, University of Potsdam, Germany.

For further information, please contact Deok-Seob SHIM
Tel: +33 (0) 1 45 24 17 58, Fax: +33 (0) 1 45 24 17 06, E-mail: deok-seob.shim@oecd.org

JT00132002

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format
Assessing Performance-Oriented HRM Activities in Selected OECD Countries

by
Christoph Reichard, University of Potsdam, Germany

INTRODUCTION: THE ROLE OF PERFORMANCE FOR EFFECTIVE PUBLIC MANAGEMENT

1. “Performance” is one of the key terms of modern public administration. Most of reform proposals speak in one or another form of strengthening performance or of introducing new performance measures/instruments into public sector organisations. “Performance” has, however, quite different meanings: From a process view, performance means the transformation of inputs into outputs for achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (“economy”), between effective cost and realised output (“efficiency”) and between output and achieved outcome (“effectiveness”). Thus, performance is equivalent to the famous “3 Es” (economy, efficiency and effectiveness) of a certain activity or program.

2. Performance management is the dominant reform issue of NPM-related public sector reforms in most OECD-countries. It is concerned with a clear output-focus and with the use of different performance-related concepts and tools of measuring and managing performance (see OECD 1997a as an example of several OECD papers on performance management, see also Reichard, 1998). Although not new, the issue of performance has gained new relevance in the context of NPM reforms. Performance indicators play a role in evaluating efficiency ratios or policy results, performance budgets or accounts have replaced traditional financial statements, performance agreements, appraisals or salaries are an indispensable element of modern HRM. Public sector reformers relate three different objectives with performance management (OECD 1997a, p. 26f):

- improving management and service delivery;
- strengthening accountability and control;
- realising savings and financial cutback.

3. Depending on the relative dominance of each of these objectives, performance management may be designed quite differently and may apply quite different concepts and instruments.

4. Performance orientation in public sector organisations took place in two major phases. The first phase is the “input-output-move”, i.e. the change of the dominant steering logic from input control to an output focus (in Germany, this phase is still valid, most actual reforms deal with output or “product” measurement). The second phase is characterised by a broader view at outputs and outcomes, i.e. on setting and measuring political outcome targets and their achievement (see as actual publication: van der Molen et al, 2002).

5. Performance management within public management reforms is predominantly focusing at the organisational level of a public sector entity. As mentioned above, they deal particularly with the “3 Es” and they apply concepts and tools of financial management, of quality assessment and of policy evaluations. The dominant logic of performance management at the organisational level is as follows:
• setting performance objectives and targets (MbO, MbR, etc.);
• measuring the actual performance (performance indicators etc.);
• performance-oriented contracting with internal or external partners (contract management);
• performance budgeting and accounting (inclusion of performance data in budgeting and accounting documents);
• performance monitoring and controlling (e.g. benchmarking).

6. Although the issue of performance is also well-known at the individual level of an organisation and in the context of HRM, the actual performance management systems usually do not integrate performance issues of the two levels. To some extent, this can be explained with the limited relevance of HRM topics in public management reforms, particularly in the first decade of public management reforms (Pollitt/Bouckaert 2000, p. 71ff.).

7. This is the main issue of this paper: What happened in the field of HRM-reforms with regard to performance management? To what extent did reformers link performance-related reforms at the organisational level with such at the individual level? What lessons can be learned and which are future challenges for performance-oriented HRM?

REQUIREMENTS OF A PERFORMANCE-RELATED HRM SYSTEM IN THE PUBLIC SECTOR

8. The main purpose of integrating performance-orientation into HRM is to promote commitment for “performance” within the public workforce. Public servants are expected to strive for high performance (i.e. for positive results of their activities with regard to economy, efficiency and effectiveness) and to achieve the performance targets set by their superiors. Such a performance-orientation of the workforce can be realised by appropriate concepts and tools of HRM:

• effective recruitment and selection procedures (attracting and selecting “high performers”);
• education and training concepts and instruments, including management development and leadership training for building necessary skills and attitudes of performance management (Reichard, 2002);
• attractive motivation and incentive systems which motivate for performance;
• adequate job placement which allows the utilisation of existing potentials and capacities of personnel (including regular rotation etc.);
• stimulating leadership behaviour of managers (including adequate recognition of the performance shown by subordinates);
• frequent performance-based reviewing and appraisal of task-fulfilment (including feedback to subordinates);
• rewarding good performance with material and immaterial rewards (including performance-related pay);
• promotion and career development of employees with positive performance.

9. As can be seen, HRM offers several interfaces to link performance with personnel management functions and instruments.
10. The performance orientation of public servants is depending on adequate ability of an individual employee and on his/her willingness to show performance (see figure 1).

**Figure 1: Aspects of performance orientation of public servants**

- **ability**
  - transparency of performance (targets, inputs, costs, outputs, outcomes)
  - qualification of personnel

- **willingness**
  - performance motivation (performance-related incentive structures)
  - performance-related rewards and sanctions

11. With regard to the motivational side of performance orientation of employees it may be useful to distinguish between motivation for performance management and motivation by performance management. In the first case it is the question which incentives are relevant to strive for high performance. In the second case it is rather the other way round: achieving set targets and having a sense of achievement may be an important intrinsic reward for people with a high achievement motivation. For HRM, both aspects are equally relevant. In practice, we often observe scepticism or resistance of bureaucrats against concepts and instruments of performance management, e.g. against unknown benchmarking practices.

12. Stimulating incentive systems play a major role to motivate employees for performance orientation. There is clear empirical evidence that public employees – at least in industrialised countries – want a pluralist incentive system (“cafeteria-system”) which offers a broad choice of extrinsic and intrinsic incentives and rewards. Several civil service systems, however, do not realise this requirement, they are still predominantly based on material incentives (job security, social benefits etc; take the German case as an example). It is useful to distinguish at first between two different purposes of incentives:

- motivation for joining the civil service (e.g. for young graduates);
- motivation for job performance (after recruitment).

13. Incentives are quite different in both cases: a positive image of government (or of a single unit), attractive job conditions and career perspectives, a competitive compensation will be stimulating incentives in the first case. Satisfying job contents, fair compensation, good climate etc. might be more stimulating in the second case. Life-long tenure – as an example – can be attractive for the job-entrance-decision of an individual (especially for risk-avoiding people) but it will definitely not be a performance-related incentive for an employee possessing already tenureship.
14. There is evidence that performance motivation of public employees can be stimulated by the following most relevant types of incentives (see also recent surveys from Denmark, mentioned in OECD 2001, 6):

- job contents (job enrichment), particularly with regard to adequate relevance, size, scope and difficulty of tasks, decision-making competencies, room for independent action, job variability, ownership;
- work conditions and environment (e.g. co-operative climate, team work, low hierarchical pressure, flexible working time etc.);
- leadership behaviour\(^1\): stimulating leadership functions, e.g. recognition of work, social consideration, information, participation, delegation, career development etc.;
- attractive and promising career development perspectives with clear training arrangements and a visible, reliable career path;
- fair and performance-related compensation (see below for details).

15. Satisfying job contents and challenging development perspectives seem to be the most motivating incentives for public employees. Traditional public administration is usually poor in offering stimulating job contents, particularly because of over-bureaucratised regulations and narrow decision-making competencies which limit the job autonomy of civil servants. In contrary, it was formerly quite attractive regards to career perspectives (clear and secure promotion steps). With NPM both has changed in most countries: contents are now more stimulating because of more “freedom to manage”, but career paths are more unsecure. In many public sector organisations, however, there is still much room for “job enrichment” by deregulating procedures and offering more challenging job opportunities. Job contents are still the “motivator number one” in public administration.

INTEGRATING ORGANISATIONAL AND INDIVIDUAL PERFORMANCE

16. As already explained, it is a deficit of current public management reforms that measures to strengthen performance at the corporate or unit level are not adequately linked with performance measures at the individual level of HRM. The main challenge of matching the two levels is to safeguard the commitment of all members of an organisation to achieve performance objectives. The performance of the organisation or of the respective unit should become a relevant objective of every individual member of it. And the organisational performance must be linked with challenging incentives which are attractive for all members of the organisation.

17. In practice, however, concepts and instruments of performance management are usually discussed separately with regard to individual and to organisational performance improvements. Experts of human resource management focus on concepts and tools of achievement motivation, of performance assessments, of performance-related pay etc. Reformers in the mood of NPM doctrines usually recommend concepts and instruments of performance measurement and management, i.e. performance indicators, performance budgeting and accounting, performance-related reporting systems etc. The bridge between the two layers is relatively narrow and unstable (for some more arguments of linking both aspects see Behn, 1997).

\(^1\) According to the above mentioned Danish survey, 43 % of personnel considering job changes want to leave because of poor leadership; see Aijäjä 2001, p. 16.
18. The following table (figure 2) explains, how performance-related management functions at the organisational level – structured along the phases of the management process – can be linked with HRM functions and instruments at the individual level.

**Figure 2: Matching HRM functions to performance management functions**

<table>
<thead>
<tr>
<th>Phase of management process</th>
<th>management activities and instruments at the level of organisational performance</th>
<th>management activities and instruments at the level of individual performance</th>
</tr>
</thead>
</table>
| Strategic and operative planning | Strategic performance planning:  
• mission statement  
• priority setting  
• program planning | • communicating the mission and the corporate identity of the organisation (“Leitbild”)  
• participation of employees  
• intrinsic motivation (job enrichment, delegation of authorities etc)  
• training and development of employees  
• job specifications  
• participation of employees  
• performance agreements  
• extrinsic motivation - incentive systems (PRP etc.)  
• active leadership |
|  | • operative performance planning:  
• goal setting  
• (output) budget formulation  
• setting performance indicators |  
|  | • measuring and interpreting performance (indicators)  
• cost accounting | • measuring individual performance  
• time measurement (of staff, for different products) |
|  |  
|  | • monitoring & evaluation  
• performance comparisons/benchmarking  
• evaluating outputs and outcomes  
• reporting | • feedback activities from superior  
• allocation of rewards (e.g. PRP)  
• recognition by superiors; performance assessment  
• participation of employees |

19. Matching of organisational and HRM concepts and tools is particular relevant in the planning phase of the management process. Performance-related goal setting and individual performance contracts should be narrowly correlated. Views and experiences of employees should be taken into consideration in
the process of priority setting, of program planning and of budget formulation. Performance indicators should be broken down to the individual level. Job profiles and responsibilities of the employees should be designed according to their present and future abilities and based on the concept of intrinsic motivation and job enrichment.

20. A comprehensive and timely information of the employees about future programs, events and activities is a relatively simple step towards matching organisational and individual performance. Transparency of tasks and challenges is a major prerequisite of individual performance improvements. Qualification and development of employees is another prerequisite: They must be well prepared for executing their tasks and for achieving the (performance) targets. This needs clear job profiles as well as adequate training measures.

21. The core business of performance management is goal setting, transformation of goals into performance indicators, and the measurement and interpretation of goal achievements and related corrective actions. These procedures have to be directly transformed into individual performance incentives and rewards which have a positive motivational effect and which direct the individual behaviour of the employees to the performance targets of the respective organisational unit. There is some evidence that a broad mix of intrinsic and extrinsic incentive elements, i.e. job enrichment, delegation of authorities, co-operative leadership and a fair performance-related compensation is to be expected as a positive precondition of inducing performance-oriented commitment among employees.

22. What are the major elements of a performance-related HRM concept which is closely linked with an overall performance management system of a public sector organisation? Experience from reform programs shows that such a concept should consist at least of the following elements:

- a clear mission statement and corporate identity of the respective organisation, based on participation of staff;
- a pluralistic incentive system (see the above mentioned elements);
- performance-based training and development measures;
- a participative process of goal setting, program formulation, budgeting and evaluation of outputs/outcomes;
- translation of performance indicators into individual performance agreements with a clear focus on individual accountability;
- performance-related leadership behaviour (feedback, recognition of work);
- measurement of the individual results of employees;
- performance related job appraisal and rewarding of good performance (performance-related-pay).

EXPERIENCES WITH PERFORMANCE-RELATED HRM REFORM INITIATIVES IN SOME OECD COUNTRIES

23. In most of the actively reforming OECD Member states there are some common trends of their civil service systems with impact on performance of the public sector (see OECD 1996, 1997 and 2001 for details; some empirical evidence can also be drawn from a 7-country-study on “Central State Government Reform”; Jann/Reichard, 2001). At first, there is a general tendency of normalisation of personnel systems, i.e. of a convergence of public and private labour regimes and conditions. Public personnel systems tend to become more and more similar to private sector personnel systems. This is closely related with a reduction
of traditional privileges of civil servants (tenure, status etc.). Normalisation on the one side allows more rotation between public and private sector and gives room for applying private sector-based HRM concepts. On the other side, public employees are still inadequately paid compared to the private sector. Thus, several governments complain about increasing recruitment problems, particularly regards to high-potentials and special professions like IT-specialists.

24. Another trend is the decentralisation and devolution of personnel competencies from central cadre authorities to individual ministries or agencies. This gives public sector organisations more flexibility to manage their human resources and to react on specific sectoral or regional developments of the labour market.

25. Three variants of performance-related HRM instruments are of particular relevance in the personnel systems of several OECD countries\(^2\):

(a) **Performance agreements** between heads of departments/units and individual employees: such agreements include clear targets and performance indicators, sometimes also budgets. They are subject of negotiations between the two sides and will finally be set-up in a written document. Agreements are based on corporate or unit plans and budgets (\(\rightarrow\) link between organisational and individual performance!). As a key element of NPM, they are part of a system of internal management contracting between the different levels and sectors of an organisation. Agreements will be the basis for the yearly performance reviewing (see below). Countries with practical experience with performance agreements are among others: USA\(^3\), Canada\(^4\), U.K.\(^5\), New Zealand, Australia, Germany.\(^6\) Such agreements seem to be of particular value for strengthening the goal commitment of senior civil servants (most of the countries are applying performance agreements at least for their senior officers). Advantages of individual agreements are seen in a higher clarity and feasibility of goals and targets, in better alignment with the daily operations and in increasing individual accountability (see US country report p. 7 as example). However, agreements sometimes are formulated in a very vague form and do not necessarily produce the amount of commitment expected (see some lessons from Canada in the respective country report, p. 11).

(b) **Performance appraisals**: together with regular feedback activities, superiors are forced to undertake a (at least) yearly appraisal\(^7\) of the performance of their subordinates. The appraisal should be closely linked with the performance agreement: the superior should assess to which extent the individual was able to achieve the agreed targets, and what the reasons are why certain goals could not be achieved. This statement should be coupled with giving feedback about necessary adjustments and improvements regards to performance, and with recognising the performance of the assessed individual. Consequences for training and/or task adjustments will also be part of the reviewing process. In


\(^6\) A just published empirical study presents experiences from Germany: Tondorf et al 2002.

\(^7\) Some governments even introduced “mid-year development reviews”: see the case of UK.
accordance with the existing incentive system, the superior should also explain the granting of monetary or immaterial rewards. Such performance appraisals are common in several civil service systems, e.g., in the USA, the UK (see the above mentioned country reports for lessons of experience), and according to the OECD country-cases of 1996 also in Australia, Belgium, Canada, Denmark, the Netherlands, Norway, Spain, Sweden and Switzerland (partly only for senior staff or only voluntarily). Performance appraisals are not always a helpful instrument, they suffer from some typical deficits:

- difficulties to measure performance and goal achievement (particularly in sectors close to policy-making or in delivering immaterial services);
- difficulties to allocate fair judgements to individuals, due to a tendency of leniency (superiors are in conflict between maintaining loyalty of their subordinates and allocating fair grades to them; and they solve this conflict in favour of their subordinates: lenient grading is the result);
- difficulties to “punish” low performers, i.e., to allocate sanctions to them (e.g., reduction of job classification, removal etc.), due to civil service regulations. However, we have to realise that “performance measures are only relevant if there are consequences for over- or under-performance against targets” (OECD 1997, p. 22).

26. Reviewing recent experiences with performance appraisals, two divergent tendencies are visible: Some countries – especially in continental Europe – are still busy to elaborate more perfectionist quantitative appraisal systems with highly differentiated performance criteria and quota systems. They seem to believe that a sophisticated appraisal instrument could be a means to overcome the above mentioned bottlenecks. Some other countries – particularly the UK – have departed in the opposite direction: they are reducing numerical scales and grades and they give more emphasis to verbal assessments and to soft methods (see the UK country report, p. 8).

(c) Performance-related pay (PRP): A majority of OECD countries has introduced PRP in its civil service, at most for all groups of employees/servants. Sometimes they offer specific and extended PRP schemes for their (senior) management staff. Some governments had great expectations related with the introduction of PRP. They proposed remarkable increases of work motivation, of job satisfaction and of performance. However, we know since decades from social science research about the limited impact of PRP on motivation and performance. PRP can have a positive influence on team climate and short-term satisfaction, because it recognises the efforts of high-performers and stimulates a climate of fairness of pay structures (pay as a “pacifier”). But the motivational power of pay is relatively modest (see different surveys where PRP is usually ranking not as a prime incentive). Thus, it is not surprising that governments are frequently reporting numerous critical and negative side effects of PRP (OECD 1997b, White, 2000, p. 274ff.):

- unfair measurement practices;
- intransparent regulations;
- unattractive/small bonuses;
- PRP restricted to a small proportion of high-performers, resulting in a majority of dissatisfied “loosers”;
- bonus distribution according to “equal share” principle;
- withholding of previously paid bonuses;
- deficits regards to team performance.

---

8 Even the introduction of a quota system (not more than x% of personnel graded with “excellent” or “good”) did not prove successful; as experiences with performance appraisals in Germany show.

9 See for example the above mentioned Danish survey.
27. Experiences from different countries – including results of the discussions at the Berlin OECD/BMI workshop from March 2002 – show that PRP will only be a valuable incentive/reward if it is embedded into an overall performance-based HRM context, if it is related with an appropriate administrative (performance) culture and if there is a clear, fair and accepted link between pay rewards and the actual performance of the employees. Thus, PRP will only be useful if it is based on an accepted and well-functioning concept of performance appraisal (see above). It remains as an open question whether PRP is more stimulating if a large proportion of staff is on the “winner” side or if PRP is a reward for a restricted small group of high-performers. Assessing the experiences with PRP in OECD-countries, it is a main impression that the motivational value of PRP has been overestimated and that there are quite a number of crucial problems and negative effects correlated with PRP. Thus, reformers should be more modest with expectations towards the impact of PRP on performance.

GENERAL ASSESSMENT OF THE RESULTS OF PERFORMANCE MANAGEMENT FOR HRM

28. With regard to performance-related management reforms at organisational level with an impact on HRM, the following initiatives should be particularly mentioned:

- **Performance budgeting:** the introduction of globalised output-budgets together with a flexibilisation of budget execution has considerable positive performance effects. The opportunities of carrying-over and/or transferring appropriations allow remarkable efficiency gains in public sector organisations. These effects have also some impact for HRM, as withheld amounts can also be spent for satisfying existing personnel demands – and thus having a positive motivational influence.

- **Performance contracting:** internal contracting as well as contracting between government and external partners (other public agencies, third sector organisations or for profit companies) has HRM impact: government employees have to be trained in new roles (managing and supervising contracts), and they have to be motivated to adopt the new roles and to co-operate with the new network of partners (see some empirical evidence in Clary el al, 2000). Furthermore, internal contracting can contribute to weakening hierarchical pressure and to stimulate partnership relations between (former) superiors and subordinates.

- **Internal pricing and markets:** surrogate market forces can mobilise competitive forces in organisations. If internal service centres have to deliver their services to their internal customers – and if departments are free to purchase services from internal or external providers, this is definitely stimulating performance. However, we have to take into account that such practices may have a demotivating impact on risk-avoiding bureaucrats who fear to loose their workplaces.

- **Market competition:** Very similarly, competitive impulses can also be expected if public sector organisations are free – or have – to compete with external public or private providers to delivering services to their customers (e.g. in the former UK case of compulsory competitive tendering). Such pressures or opportunities for market competition will stimulate performance and will have positive influence on performance motivation of public managers or of employees in general.

29. Generally, we can conclude that there are several measures of performance management at organisational level which seem to have a distinct positive impact on the motivation and behaviour of public employees. The same is true with some of the HRM-related reform initiatives described above:

---

10 Take as an example the practices of Korea where 90% of public servants earn some kind of bonus (see Kim 2002 for details), compared with the German PRP system where only 10% (in future probably 15%) of civil servants are receiving a bonus.
performance agreements, appraisals and salaries are to be expected to have a positive influence on the performance motivation and the actual performance of public employees – at least under certain circumstances and conditions (see above).

30. One of the most striking changes in some of the reform countries is the remarkable cultural change related with performance-related management reforms (Jann/Reichard 2001, p. 100). Countries like the UK, the Netherlands or the Nordic states have been able to recruit new public managers with a well-established performance-orientation and to change the administrative culture of the existing staff towards performance values. From the view of a country with a highly traditional civil service like Germany, where change towards a distinct performance culture is difficult and unlikely, this cultural “revolution” seems to be the major success factor of introducing performance-orientation within the personnel system of the mentioned countries. Influencing factors are among others the style of education, recruitment and socialisation (which type of public servant/employee is to be recruited?), the dominant style of leadership, the influence of NPM doctrine, and a general collective value shift which took place in some of the civil service systems in the last years.

**FUTURE AGENDA, EXISTING CHALLENGES, OPEN QUESTIONS**

31. The major issue of strengthening performance-orientation is matching performance initiatives at the organisational and the individual level of public sector organisations. This can be done by applying as much as possible the logic of performance management (formulating clear and challenging targets, translating targets into performance indicators, measuring the results, taking necessary corrective actions and rewarding the actors) to HRM. Experiences from different countries show – as we have seen - that such a matching process is practicable. An important prerequisite of strengthening performance-orientation in HRM is to manage the necessary change to a performance culture – which can be achieved with far-reaching and comprehensive civil service reforms (recruitment, training, socialisation).

32. Personnel systems in nearly all of the OECD countries are facing shortages of human resources and skills due to future demographic changes (Äijälä, 2001). If they continue to follow the present way, it is likely that they will not be competitive in future labor markets. Thus, different HRM measures are indispensable to react early enough to these challenges: image campaigns, rotation between public/private sector, PRP, personnel marketing activities etc. However, some countries – e.g. Germany – are in a dilemma: they are still forced to downsize their personnel due to ongoing financial pressure, but they know that it would be necessary to react soon and in a proactive way for the provision of the future workforce.

33. Finally, some open and controversial questions remain with the issue of performance-orientation in public sector HRM. The preference of performance – particularly when based on quantitative efficiency-measures – may cause the neglect of other important administrative principles and goals, e.g. legality, responsiveness, equality, common good-orientation etc. It may furthermore cause an opportunistic and calculated job involvement and a reduction of traditional positive civil service values. And it may perhaps also stimulate an inclination of public managers to apply corruptive practices. Thus, we have to be careful when we undertake HRM reforms in the public sector – we have to balance necessary performance improvements with existing positive values of the public service, not least because these values may be important comparative advantages of a public personnel system.
References


Molen, Karel van der, A. van Rooyen, B. van Wyk (Eds.), Outcome-based Governance: Assessing the Results. Sandown (RSA) 2002.


OECD, Summary Record, HRM Working Party Meeting 2001 (9).


