

## Executive summary

The global financial and economic crisis is keeping several countries in the spiral of low growth, high unemployment and lower potential output, putting public finances under heavy fiscal restraint and undermining political credibility and stability. Countries are beginning to head towards a crisis of perceived government incompetence, which could damage the credibility and trust in public institutions and make it harder for governments to address other priorities due to the lack of legitimacy. Thus, a key challenge for countries is to come up with a comprehensive, long-term strategy for growth that finds the right balance between revitalising economic growth and consolidating public finances. Government should have a leading role in defining the strategy for growth, in partnership with the public service.

There is a need for growth-friendly structural reforms that will strengthen recovery in a balanced and sustainable manner. A combination of structural and fiscal reforms appears the best strategy to reduce the risk that the weak growth observed in many OECD member countries in the post-crisis period will become stagnation. However, if economic recovery and growth are to be sustainable and social development achieved, OECD member countries also need to establish a strong, efficient, and effective central administrative system. Recovery and growth-enhancing strategies require appropriate institutions of governance and forms of public management to deliver on development goals. Building adequate governance structures “normally” involves restructuring through public management and administrative reform.

Experience suggests that administrative reform aimed at rationalising government structures in order to improve the efficiency of the public service is crucial for sustaining economic growth. Apart from bringing direct benefits to entrepreneurs and ordinary citizens, it is the necessary basis for successfully pursuing other reforms. The reform challenge is twofold: governments have to restructure public management and administration to make them more effective and efficient for service delivery, while at the same time ensuring that reforms contribute to fiscal consolidation plans by reducing public expenditure.

Efficiency and effectiveness in government's performance depend on the talent of public employees and the quality of their knowledge and skills. Hence, many of the recent public management reforms involve a delegation of responsibility for human resource management and a strengthening of the performance orientation of public governance and public management. Although those issues are critical for the sound functioning of the public service, the issue of **management** is generally not addressed. At a time when managers have to do the right things right and with less, the management function must unleash the talent available in the public workforce and make use of it in an efficient and effective manner. Line managers and supervisors need to improve and adapt their "people management skills" in order to get more out of their staff and build the kind of team spirit that can see organisations through a time of uncertainty.

The quality of people management is in fact a determinant of government performance. Fiscal consolidation plans normally involve reductions in staffing levels and in compensation of public employees, a situation that can have a significant impact on the motivation, engagement and commitment of public servants – which of course affects the quality of service delivery.

Improvements in the quality of people management, particularly among line managers and supervisors, are crucial – not only for more effective delivery, but also for greater local accountability. Middle managers and supervisors across the public service generally lack the necessary skills to get the most out of their staff; to manage conflict, absence and performance; or to ensure that public servants are trained on the job to improve service delivery. Thus, any reform initiative to improve productivity in the public service, or spending cuts to drive efficiency, should be accompanied by a substantial push to improve the quality of people management.

## **Restructuring the public workforce**

Getting the size and allocation of the public service workforce right is an ongoing challenge for OECD member countries. While many of them find restoring fiscal balance the most immediate problem affecting decisions about public service numbers and costs, it is by no means the only issue. Governments need to ensure that their public services are configured to be delivered as effectively and efficiently as possible. The current economic, financial and demographic context demands careful workforce planning and strategic management of human resources, to ensure that the public service maintains the capacity for service delivery.

The workforce impacts of many structural, organisational and budgetary reforms remain under-analysed. This needs to be redressed given the current policies to reduce the size of the public workforce and/or reallocate staff. Better integration of workforce planning and strategic human resource management with budgeting and structural reforms will improve the information available to governments when making policy choices as well as implementation of workforce adjustment measures.

Today, over three-quarters of the member countries that responded to the 2010 “OECD Strategic Human Resource Management Survey” indicate that they are engaged in or are planning reforms that will decrease the size of the public service workforce. Measures reported include longer term strategic restructuring of the public service as well as shorter term cost reduction measures such as workforce downsizing operations, partial or total recruitment freezes, or freezes on departmental operating budgets.

In most cases, it appears that cost-cutting measures are not being taken in isolation. There seems to be an appreciation that sustainable savings require sustainable public service reforms. Several countries are implementing reforms of employment and human resource management policies, making working practices and redeployment more flexible, or carrying out strategic reviews of public service activities. Some countries are undertaking significant restructuring of the public service – including, for example, shifting more staff into front-line services and achieving staff reductions and savings on administrative budgets through setting up shared services.

It is essential that workforce adjustment measures be carried out within a sound framework of strategic workforce planning. While some countries have longer term workforce strategies in place that seek to balance fiscal discipline with demographic pressures and ongoing improvements to public service capacity, it is not clear that governments everywhere are focusing adequately on these matters in the current context of cutbacks, or that the workforce planning frameworks in place are adequate.

The review of current and past measures that have or had an impact on the size and allocation of the workforce makes clear the need to consider the workforce implications of public service reform or innovation from the outset – both in terms of anticipated staff reductions or redeployment – so as to maintain the trust and morale of employees. Experience suggests that workforce reduction and reallocation measures should be part of broader reforms, not stand-alone. There seems to be scope to improve the use of a combination of instruments to manage the workforce; a combination can help reduce the disadvantages associated with any one instrument.

Countries appear to be continuing with reforms to improve the productivity and capacity of the public service while implementing cutbacks. However, there is a risk here that the focus will shift to seeing staff as costs rather than as assets. The challenge is to implement workforce productivity improvements that recognise the balance between costs and the quality and continuity of service. In addition, countries need to plan for the impact of ageing populations on the public service, and to pay greater attention to future skills needs. Governments have instruments at their disposal such as workforce planning, assessment of future capacity and human capital requirements, and development of strategies and means to address future needs that remain largely underused in many countries.

For adjusting the size and allocation of the workforce, there appears to be considerable scope to make human resource management (HRM) and employment provisions in the public service more flexible but without undermining HRM rules that prevent patronage and corruption. There needs to be better evaluation of how structural reforms (outsourcing, creation of arm's-length agencies, movement of staff to sub-national levels of government, and privatisation or corporatisation) have affected the size of the workforce and the production costs of publicly funded goods and services over the long run. A better evaluation of how the workforce aspects of such reforms are best managed is also required.

The use of automatic productivity cuts to drive more efficient staffing (not only staffing levels but also redesign of work and other changes in how services are delivered) remains under-analysed. Past experience indicates that major-scale downsizing is the most problematic option for workforce adjustment. Assessments have pointed to a variety of negative effects on the capacity of the workforce as well as on trust and morale, and questioned the longer term sustainability of staff reductions achieved in this way. If downsizing undermines the continuity of services, there is also the risk of loss of trust on the part of citizens. If governments feel they have no option but to embark on such programmes, they need to be aware of these risks and take steps to minimise the adverse effects. Experience suggests that close attention to managing the human aspects and use of strategic planning to assess workforce requirements in advance of implementing cuts are essential elements.

Recruitment freezes are probably the most detrimental approach to downsizing, because they are indiscriminate and they limit the ability of organisations to restructure and re-skill. Redeployment arrangements in the context of staff reductions can help to retain skills and experience as well as manage the industrial relations aspects of downsizing.

OECD member countries will need to continue to make their workforces more competent, flexible and adaptable in order to have a competitive, innovative and inclusive public sector. Demographic changes and fiscal pressures provide both the challenge and the opportunity for getting staffing levels, competency requirements and broader HRM policies right. While the economic crisis has focused attention on costs, investment in the skills, leadership and management capacity of the public service is crucial for dealing with current and emerging challenges. A key issue for member countries is how to maintain and improve public service capacity while producing savings.

## Managing competencies in the public service

OECD member countries are more frequently focusing on competency management in the public service, mainly because of its potential for providing leverage for change functioning as a communication tool, and increasing the employability of public servants.

In order for competencies to be used as a strategic HRM tool, they need to be integrated into a competency model or framework. The senior civil service in particular seems to be considered a special target group for competency management in the public sector. Competency frameworks generally contain behavioural rather than technical competencies. They focus particularly on public service values such as commitment and integrity, which can indeed play an important role as core competencies.

Overall, competency frameworks are designed through a process of trial and error. Responsibility for the implementation of competency management lies mainly with the agencies or departments. However, they are guided and advised by a central HRM body. Competency management for the most part concentrates on recruitment and selection, training and development, succession planning, and career guidance. Their use in performance evaluation and for remuneration purposes remains limited.

For implementing competency management, it is necessary to have a roadmap that brings together certain guidelines. Five steps are identified: *i*) deciding to introduce competency-based management; *ii*) organising, planning and communicating the shift; *iii*) identifying competencies and developing competency models for the specified target groups; *iv*) integrating competencies into various HR processes; and *v*) revising and updating the competency management system on a regular basis.

There will be difficulties in identifying competencies, constructing the competency framework, and ensuring the commitment and participation of senior and middle management as well as employees. However, the main

problem with competency management lies in implementing it throughout the organisation. Overall, OECD member countries experience problems implementing centrally developed HR tools in their agencies. This leads to marked variation among the agencies with respect to the extent and intensity to which competency management is being implemented.

The future competencies that are needed to address 21<sup>st</sup> century challenges can be identified and clustered into four groups of competencies: creative thinking, flexibility, co-operation, and strategic thinking. These future competencies imply “change management” and seem especially relevant to leadership positions. Planning for them is the next step in securing a competent workforce, now and in the future.

## **Fostering diversity in the public service**

Diversity in the public service has become a top political priority across OECD member countries, as it may help achieve political and social government objectives such as social mobility, equity and quality in service delivery. There is a growing tendency to see diversity as an asset rather than a problem. If the civil service is to be efficient and effective in delivering public services to a socially, ethnically, culturally and economically diverse society in a personalised way, it needs among other things to consider a diverse workforce as an added value. However, achieving diversity is a long-term, confidence-building process. It requires dealing with discrimination and enhancing equality in public employment where merit should prevail. There must be a common vision on the type of public service governments want or need for the future.

Diversity can be described not only as the mixture of backgrounds and competences but also as valuing and using people’s competences, experience and perspectives to improve government efficiency and effectiveness, and to meet public servants’ professional expectations.

Fostering diversity could help strengthen trust in government by portraying it as responsible, responsive, and legitimate. Moreover, diversity may improve government’s capacity for strategic workforce planning, ensure regular updating of the HRM system, contribute to efficiency gains, and increase staff innovation. Diversity may also help improve understanding of community needs, enhance public service quality, and contribute to social mobility. Thus, diversity principles should be part of any public management reform, as diversity initiatives cannot succeed as an isolated strategy.

Implementing diversity policies can run up against a number of challenges, many of which relate to unclear or complex regulatory frameworks, a lack of financial resources, rigid human resource management systems, and cultural barriers. However, diversity's main obstacle seems to be the lack of real or concrete evidence regarding the benefits it can bring to government performance. Thus, implementing diversity programmes demands a long process of confidence building so as to obtain support from public managers, public servants, and citizens.

For a diversity policy to be successful, it should be coherent and intelligible to all stakeholders. In order to ensure cohesiveness, commitment, and a whole-of-government approach, diversity policies can be formulated as a joint effort of government organisations. Diversity also demands strong and committed leadership to motivate people, promote institutional adaptation, and maintain the impetus for reform through persuasion, negotiation and influencing people's values and culture. A government-wide vision would help link diversity initiatives with broader strategic reform objectives. Moreover, integrating equality and diversity into workforce planning helps to identify the diverse skills, knowledge, experience and different ways of thinking that are needed to drive government strategies forward.

Diversity policies are usually formulated under a top-down approach. The central HRM body acts as a focal point for promoting diversity policies, as it is responsible for developing the strategy, monitoring progress, promoting the benefits, linking diversity issues to strategic workforce planning, and providing guidance and support to line ministries and agencies for the implementation of their own diversity policies. A key element is to achieve the right balance between central government co-ordination and delegated responsibility for implementation. It would seem that the creation of "collaborative networks" could help foster dialogue among the key actors, promote the exchange of information, and allow feedback on the general guiding principles, including suggestions for improvement.

Discriminatory practices that may permeate all stages of the HRM process need to be addressed. Making the recruitment process fairer, more transparent and more flexible to attract talented people with a mix of backgrounds, experience and perspectives is paramount. Improvements to the recruitment process should aim to: *i*) diversify the communication channels, to reach a wider audience; *ii*) motivate people to apply for vacancies in the public service; *iii*) relax the selection process and criteria to make them more inclusive but still focused on analysing skills, qualities and competencies required for the job; and *iv*) facilitate the integration and retention of new recruits to the workplace.

OECD member countries face difficulties in evaluating workforce diversity policies and programmes due to unclear objectives, lack of strategic planning and vision, and poor-quality data on workforce diversity. Experience suggests that diversity policies and programmes should be assessed on a regular basis under the umbrella of a long-term evaluation framework, clear conceptual foundations, and a methodology for data collection and analysis. One of the biggest challenges is to make reform sustainable, as benefits are very likely to emerge slowly and be less apparent to the outside world. Thus, leadership and commitment at all levels are critical.