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# Managing the Civil Service

Reform Lessons  
from Advanced  
Industrialized Countries

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Barbara Nunberg

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Barbara Nunberg

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Washington, D.C.

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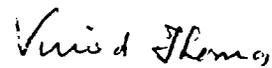
## FOREWORD

Throughout the world, the contribution of public sector institutions in promoting sustainable and equitable economic growth is receiving increasing attention. As Lewis Preston noted in the foreword to a recent World Bank publication, *Governance and Development*, "Efficient and accountable management by the public sector and a predictable and transparent policy framework are critical to the efficiency of markets and governments, and hence to economic development."

The civil service plays a particularly important role in ensuring that the public sector functions in an efficient and effective manner. The East Asian experience has underscored the critical contribution of the civil service in fostering rapid development. These and other successful economies rely upon a number of fundamental management practices and principles to ensure that their ministries are full of competent, motivated staff, such as merit-based recruitment and promotion, incentive-based competition, competitive remuneration, and well defined career paths.

These principles are likely to produce beneficial results under a wide variety of institutional settings. But systems that work well within a particular setting or political milieu need to be adapted to the particular conditions of a country.

By examining the ways in which successful countries are able to recruit, retain and motivate talented staff, and reflecting carefully and critically about the lessons for reforming nations in their experience, Barbara Nunberg's paper offers a step in the right direction. In light of the Economic Development Institute's goal of engaging policymakers and academics in the debate on development issues, as well as our interest in the area of governance and public sector management, we are pleased to publish this paper, *Managing the Civil Service: Reform Lessons From Advanced Industrialized Countries*.



Vinod Thomas  
Director

Economic Development Institute  
February, 1995

## ABSTRACT

This paper examines current civil service management (CSM) practices in advanced industrialized countries to provide guidance for developing and transitional country governments that face the dilemma of how to recruit, retain, and motivate appropriately skilled staff at affordable costs, given a limited human resource base.

Advanced industrialized country administrations are following two distinct paths to improving CSM. Some countries, such as the United Kingdom, are engaged in sweeping "managerialist" reforms to decentralize civil service functions and make them more responsive to the client public. By introducing complex financial reporting systems, managers have increased autonomy; some functions are spun off into semi-autonomous agencies operating on an increasingly commercial basis.

By contrast, other industrialized countries, such as Singapore, have retained more traditional, largely centralized civil service structures, pursuing only incremental improvements in specific aspects of CSM.

The paper speculates about what is likely to work best in developing and transitional country administrations:

- **Centralized civil service management models provide the best starting point for most of these reforming countries because decentralized agency systems require technological and human resources beyond their capabilities. Some better-endowed countries could use certain agency-type features selectively. Such administrations could establish strategic plans to move toward a fuller agency system as their institutional capabilities increase.**
- **Reforming countries face trade-offs in choosing which CSM functions to strengthen first. Two functions — personnel establishment control and staff recruitment — are essential for civil service performance and should receive top priority.**
- **Senior Executive Services have proved difficult to design and implement in advanced countries, but many flaws can be corrected in adapting them to reforming countries, where there is often an urgent need to groom higher-level staff.**
- **Assuming minimal, essential levels of personnel establishment and budgetary control, unified pay and classification could be relaxed in reforming countries, following the lead of increasing numbers of advanced countries.**
- **Given the urgency of other CSM tasks, lower priority should be assigned to reform involving performance pay, the benefits of which have yet to be demonstrated in the public sectors of developed countries. The management requirements and costs of installing performance pay systems can be considerable and employee resistance may subvert such efforts. But performance-related promotion systems, even if imperfectly implemented, can help move reforming country civil service values toward standards of competence and merit.**

## I. INTRODUCTION

As the link between efficient public administration and the state's ability to play an effective role in economic development is more acutely perceived, the reform of civil services has become a major goal of World Bank lending. Pursued mainly in the context of structural adjustment, civil service reform has thus far meant programs to contain the cost and reduce the size of government under the weight of dramatic fiscal constraints. It has emphasized public employment cuts and the revision of civil servants' pay structures. These early downsizing efforts, though necessary to reverse long term trends of government expansion and decay, have constituted only the initial phase of the reform process. Where successful, such initiatives have resulted in a "leaner" but not necessarily "meaner" state; a state, that is, which can competently formulate policy, implement programs and deliver services.

In the era of reform, shrinking states will have to do more with fewer but, it is hoped, better human resources. Indeed, the need to recruit, develop, and motivate competent cadres to carry out core government functions becomes especially pressing as the public sector contracts, focusing its attention on a limited number of critical activities. Sustaining adequate government performance in these areas will depend on improvements in *civil service management* (CSM) -- narrowly defined here as the management of staff for the core public service -- over the medium and long term.

Unfortunately, the increased demand for better human resource management in the public sector comes at a time when basic personnel management in many developing and transitional country administrations is in a state of collapse. Lacking suitable rewards and sanctions, civil servants are often unmotivated and demoralized. They are frequently ill-equipped and insufficiently or inappropriately prepared to do the jobs required of them. In many countries, qualified personnel are difficult to recruit and retain because the private or overseas labor markets offer better alternatives. Mechanisms of authority and often probity have broken down.

That developing and transitional country civil services might in the foreseeable future achieve efficient, much less effective, delivery of services to the client public has become an increasingly elusive goal. At present, these governments possess only limited means to confront their problems. Many reforming country administrations have inadequate systems of establishment control, personnel information management, and manpower planning. They cannot provide sufficient incentives to motivate staff performance. Appropriate career development and training programs for civil servants are mainly non-existent.

Although Bank operations have begun to address some of these problems, efforts to date have been ad hoc and experimental in nature, constrained by a limited knowledge of what constitutes "best practice". Technologies used in these programs have tended to be drawn from a narrow range of advanced country models, in some instances applying outmoded or unsound techniques, unrepresentative of leading-edge civil service management approaches. Because rapid changes are taking place in global thinking about the management and motivation of human resources for both the private and public

sectors, and because reforming country programs must be able to assess the latest wisdom on these issues, it is particularly vital to scrutinize CSM assistance strategy at this time.

This paper seeks to provide some guidance for Bank borrowers on how to manage their civil services better. It does so by surveying successful or promising experiences in advanced and newly industrialized countries. The objective is to identify models or elements therein which might be usefully applied and adapted to reforming country administrations for improved government performance.

Two caveats should be duly noted. First, a strict construction of the notion of "best CSM practice" is simplistic. Despite significant global commonalities, the diversity of successful personnel administration approaches, even in apparently similar environments, belies the possibility of a standardized model. Differences in socio-cultural, economic, and political endowments significantly affect what is feasible in a given country, thus undermining attempts at uniformity. The search should be for "good" management practice suitable for particular country conditions. Second, the human resource focus of CSM used in this paper represents an attempt to narrow the scope of an already overwhelming topic. The links between personnel practices and other aspects of administration, especially financial management, are, of course, intricate.<sup>1</sup>

The paper analyzes the implications for specific CSM functions of two (ideal) types of administrative systems: a traditional model of centralized, hierarchical, administrative control and a "reform" model that, utilizing sophisticated information management mechanisms, devolves greater financial and personnel responsibilities down the administrative line and relies increasingly on market signals to orient civil service management behavior.

The advanced industrialized country experience with these two broad models is examined in the hope, if not the hypothesis, that the selective introduction of successful and/or innovative CSM approaches could actually enable some reforming countries to "jump-start" their own process of administrative development. The paper represents a first cut at assessing the real prospects for such acceleration. It relies heavily on conjecture, as persuasive cross-national comparisons of the impact of different CSM systems on government performance are non-existent, because much of what is being carried out in the name of the "reforming" administrations is of extremely recent origin and has still to be properly evaluated, and because judgments about the potential viability of CSM approaches in reforming countries derive more from accumulated operational wisdom rather than empirical studies of feasibility.

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<sup>1</sup> Organizational, structural and, for lack of a less irritating term, "process" aspects of civil service management are also important (and too often ignored in Bank work) but could not be reasonably accommodated in the scope of this study. The terse reference to the political (and socio-cultural) dimensions of civil service reform is not intended to underestimate the centrality of these variables, but rather to acknowledge that these are in themselves vast topics, the subject of extensive literatures; it was not possible to address them seriously in this review. Finally, despite the paper's human resource focus, the rubric, "civil service management" is used in place of the more precise "civil service personnel management" on grounds of linguistic economy.

The objective of this exercise is emphatically not the analysis of reforming country experience with civil service reform. Such experience should be assessed systematically in studies with that express purpose. The assumption here is that the reader is familiar with developing and transitional country administrative concerns and is seeking sources of fresh ideas for addressing them.

The paper is organized as follows: section II provides a brief overview of some global trends in advanced-country civil service management. Section III highlights, in specific countries, successful practice that holds potential for Bank borrowers, sometimes couching options in the context of current debate. The focus is on key elements of personnel management systems. For each element, the discussion narrows to suggestions for the possible application or adaptation of these approaches to developing and transitional countries. The final section offers general conclusions and points to directions for further work.

## II. GLOBAL TRENDS IN CIVIL SERVICE MANAGEMENT: THE CONTEXT OF REFORM

Significant changes have been occurring since the mid-1970s in advanced industrialized country public administrations. Governments have sought to reshape rigid, hierarchical, nineteenth-century bureaucracies into more flexible, decentralized, client-responsive organizations, compatible with late twentieth century technological and economic requirements. For some countries, reforms have been sweeping, representing programs of radical, systemic transformation. Other countries have pursued more modest strategies of incremental improvements in specific aspects of civil service management while conserving the basic core of administrative structure and practice.

The cases in this study can be situated along a continuum of change between these two poles.<sup>2</sup> New Zealand, Australia, the U.K., and Sweden cluster at the systemic, reformist end of the scale while the Asian cases, the U.S., and Germany have taken more incrementalist approaches. France, the Netherlands, and Canada fall in the middle. Differences in emphasis notwithstanding, some basic commonalities characterize global civil service management in the last two decades. To convey the contextual background for the subsequent discussion of specific CSM approaches, a brief sketch of the broad thrust of industrialized country administrative reform is provided below.

### *Rethinking Civil Service Management: Currents of Reform*

Disillusionment with uniform, centralized control of civil service management began to pervade advanced country civil services in the 1970s and 1980s. Such controls were initially introduced by governments as a means to assure impartial (mainly uniform) application of personnel policies, to professionalize public service cadres, and to rout out patronage and corruption.<sup>3</sup> Having largely achieved these aims, however, governments were increasingly coming under pressure to improve administrative efficiency and to render faster, better and more responsive services to a client public whose requirements were becoming more diverse. Under greater fiscal strain and facing intensified, wide-ranging citizen-customer demands, tightly controlled, uniform, centralized bureaucracies were attacked for failing to provide effective service delivery at affordable cost. Countries thus embarked on a search for ways to reduce civil service expenditures and at the same time to improve performance standards in government. Several trends in civil service management reform emerged from this quest. In distinct phases, these reforms -- variously denominated the "new public management movement" or the "new

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<sup>2</sup> Examination of public personnel management approaches in 11 OECD and NIC countries formed the empirical basis for the study. In addition to key informant interviews, relevant secondary materials were reviewed.

<sup>3</sup> See, William Mosher and J. Donald Kingsley, *Public Personnel Administration*, Harper and Brothers: New York, 1941, for a history of early civil service reform. Successful professionalization and sanitation of the civil service in many countries in the late nineteenth through mid-twentieth centuries also coincided with rising levels of educational attainment, legal and constitutional reforms, wider suffrage and the strengthening of mechanisms of parliamentary oversight and accountability. These parallel achievements must be recalled when contemplating emulative administrative reform in today's developing and transitional countries.

**Figure 1**  
**Civil Service Employment in Selected OECD Countries, 1979-1990**

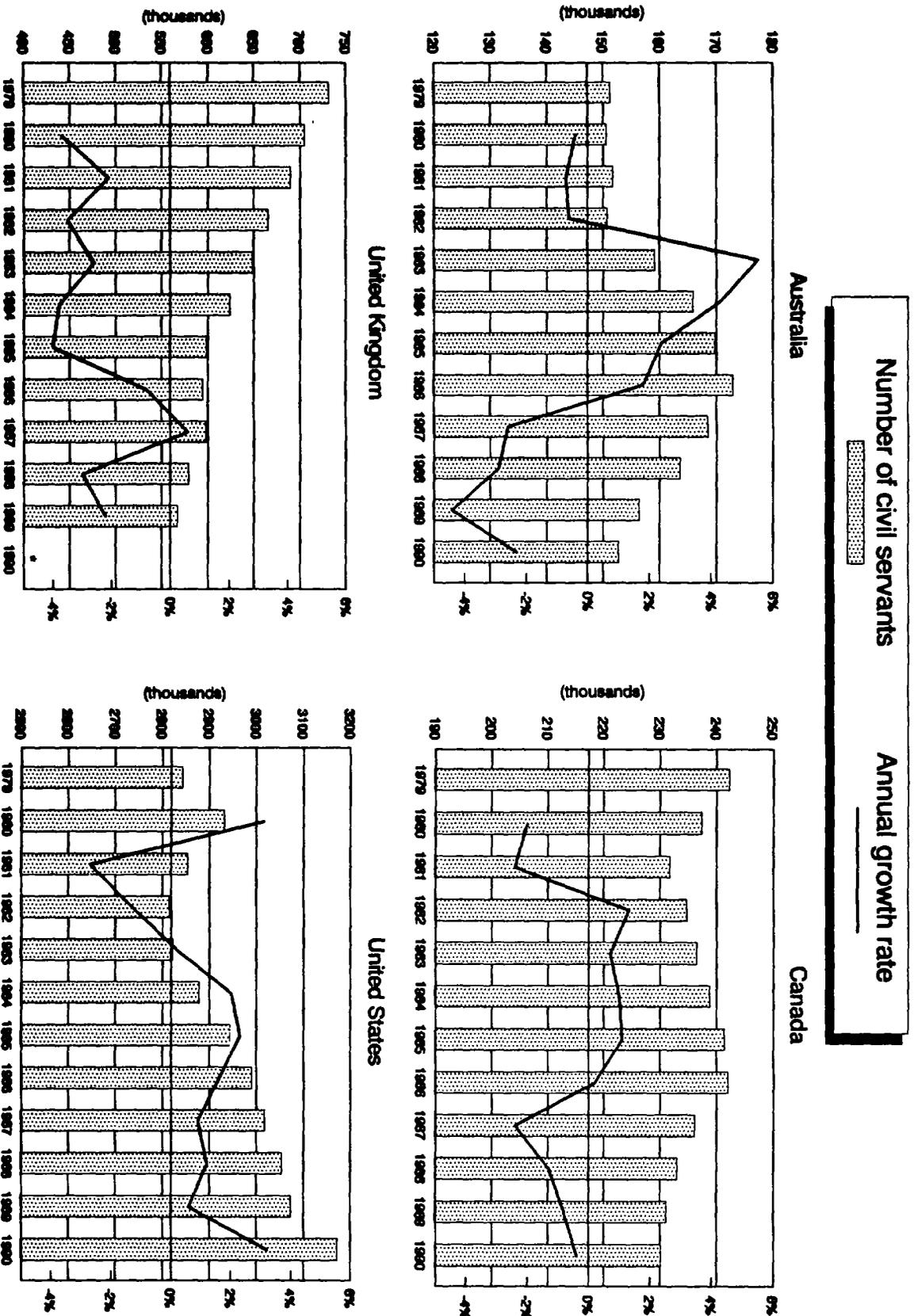
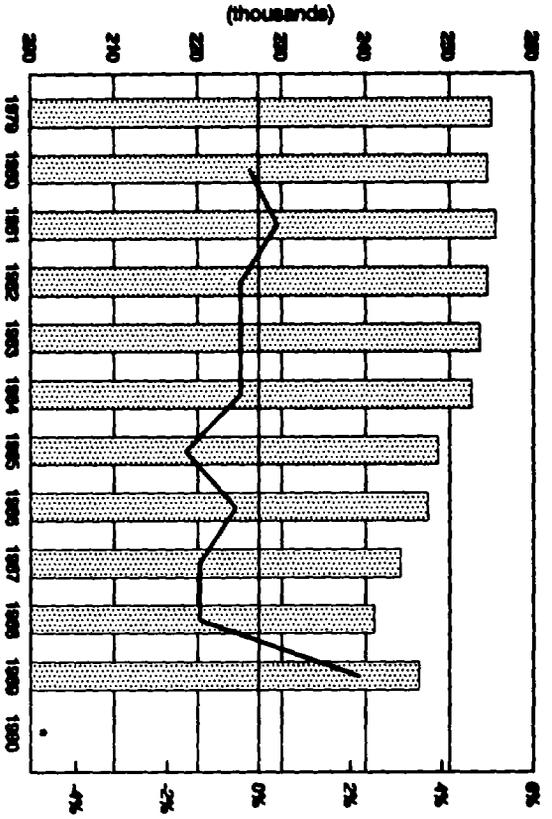
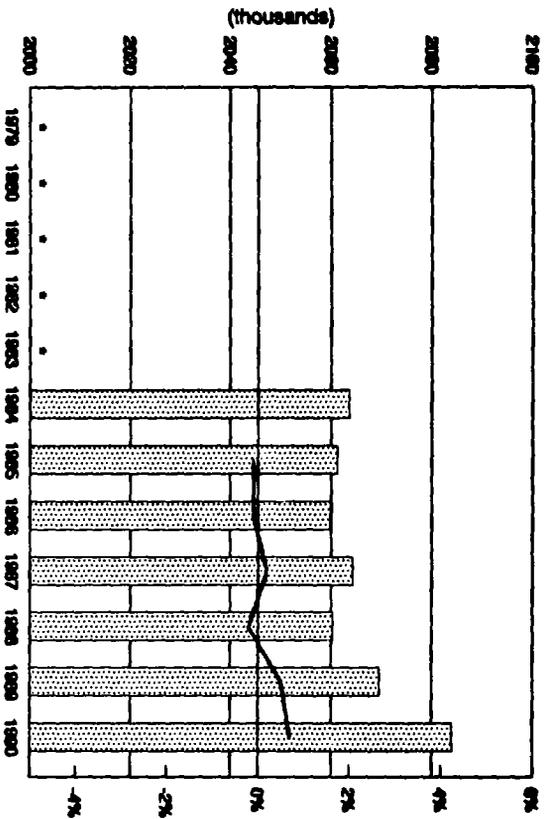


Figure 1 (continued)

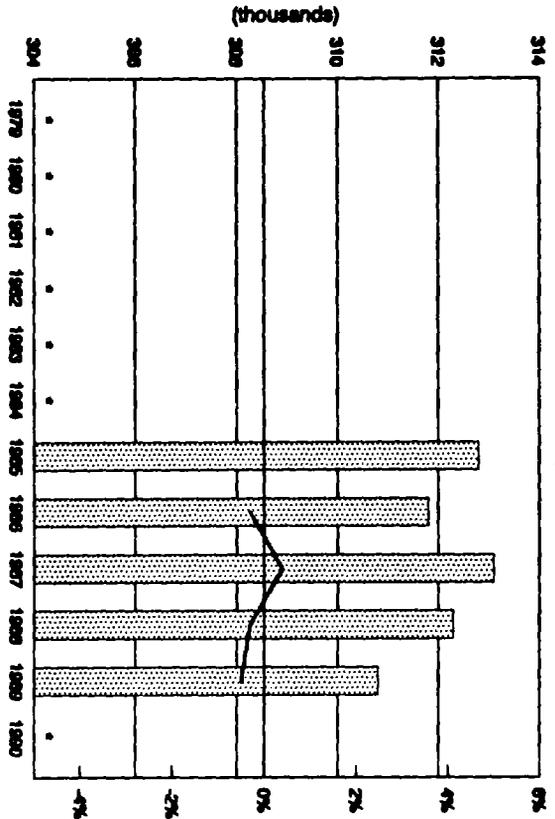
Sweden



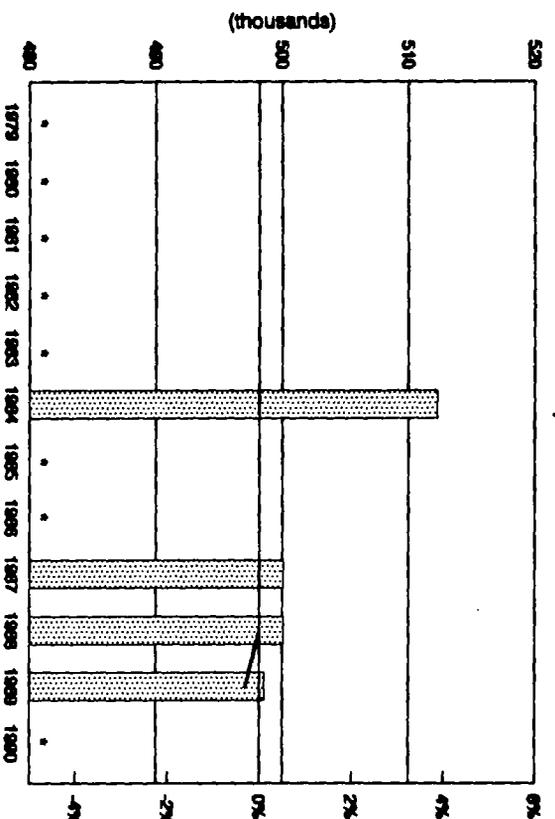
France



Germany

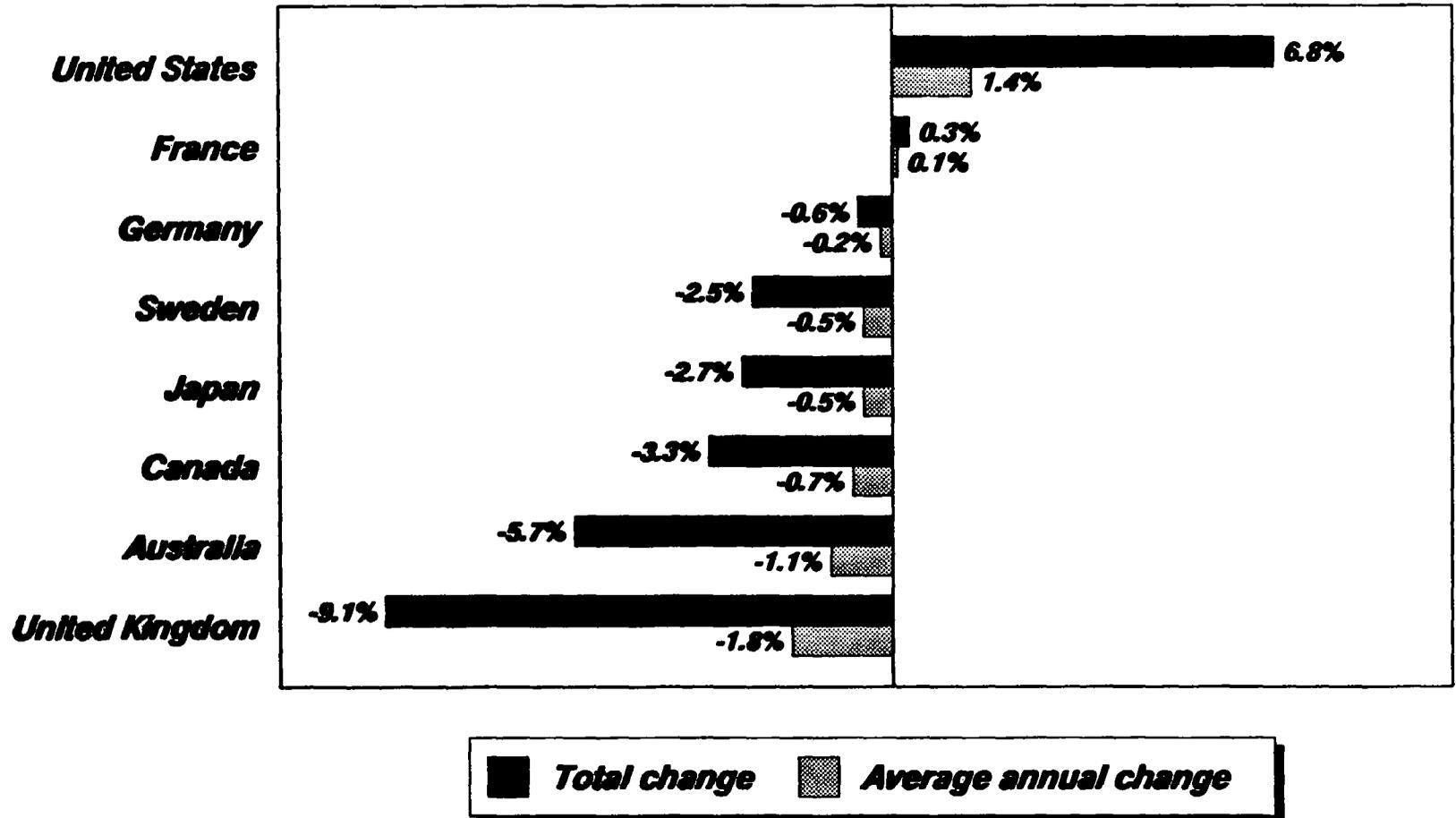


Japan



Note: Data unavailable for years marked with an asterisk (\*).

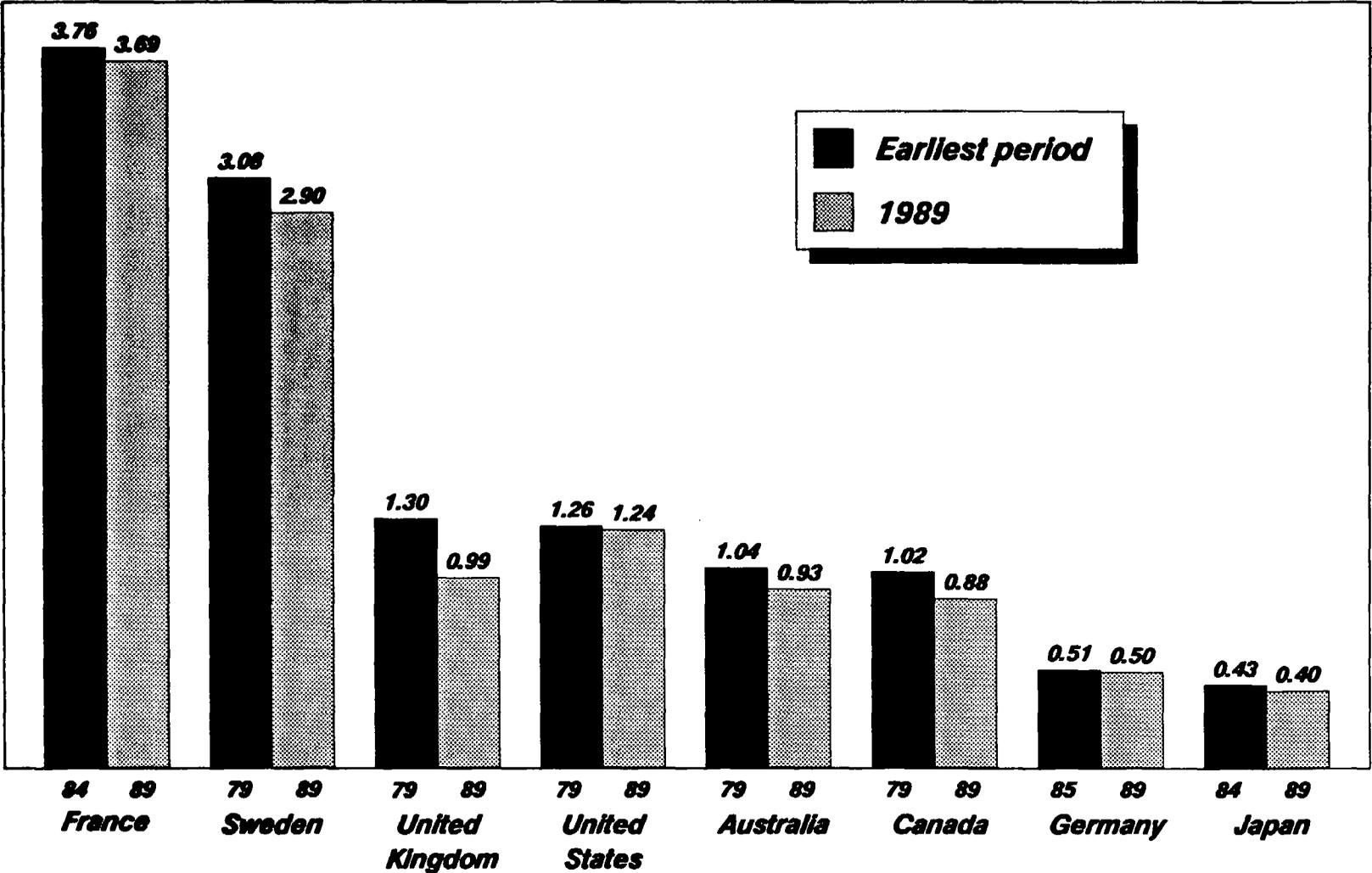
**Figure 2**  
**PERCENTAGE CHANGES IN CIVIL SERVICE EMPLOYMENT**  
**FOR SELECTED OECD COUNTRIES, 1984-89**



Note: Changes in Germany are based on 1965-89 time period.

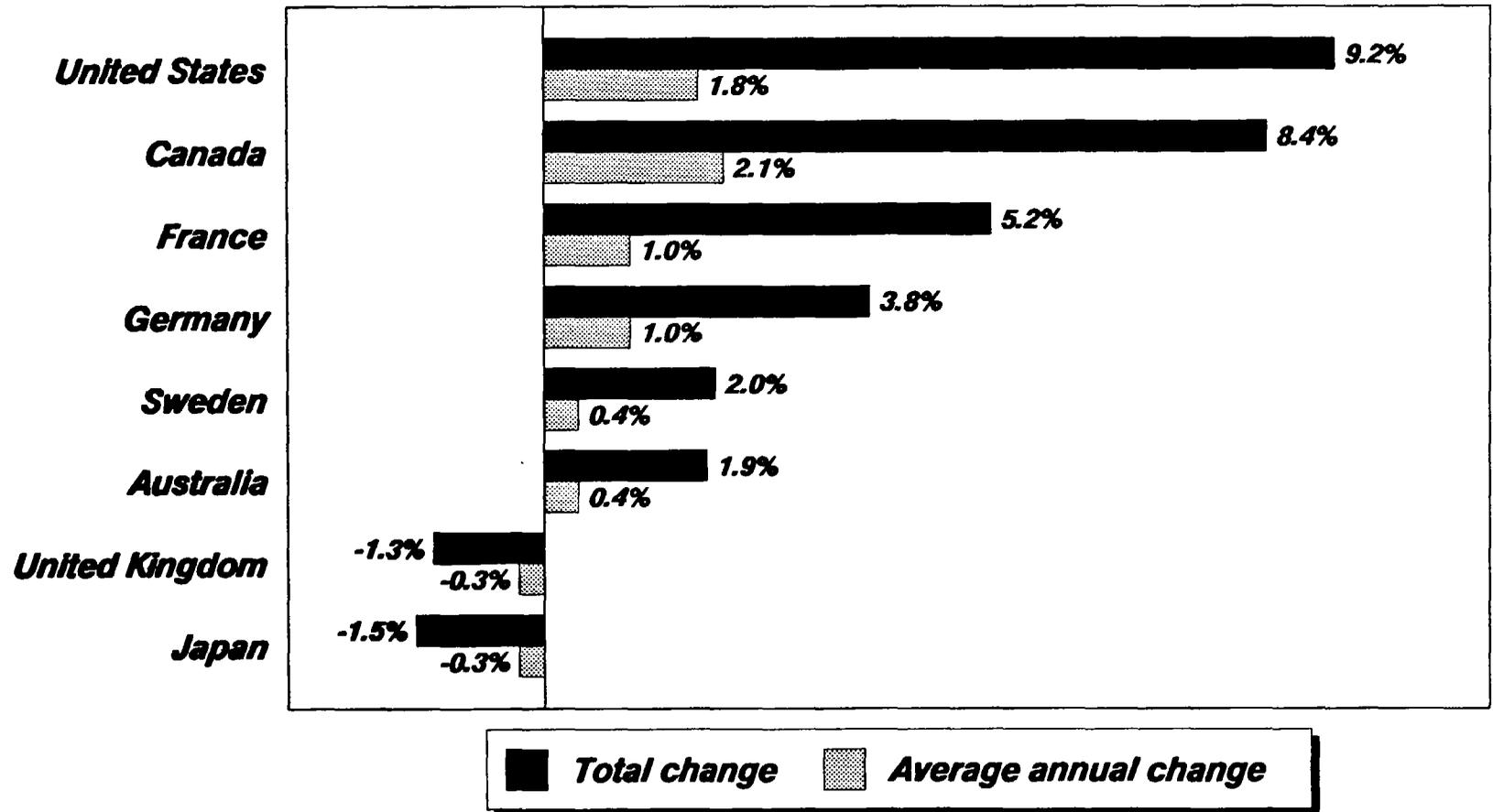
Source: CECPS

**Figure 3**  
**Civil Servants per 100 in the Population in Selected OECD Countries**



Source: CECPS

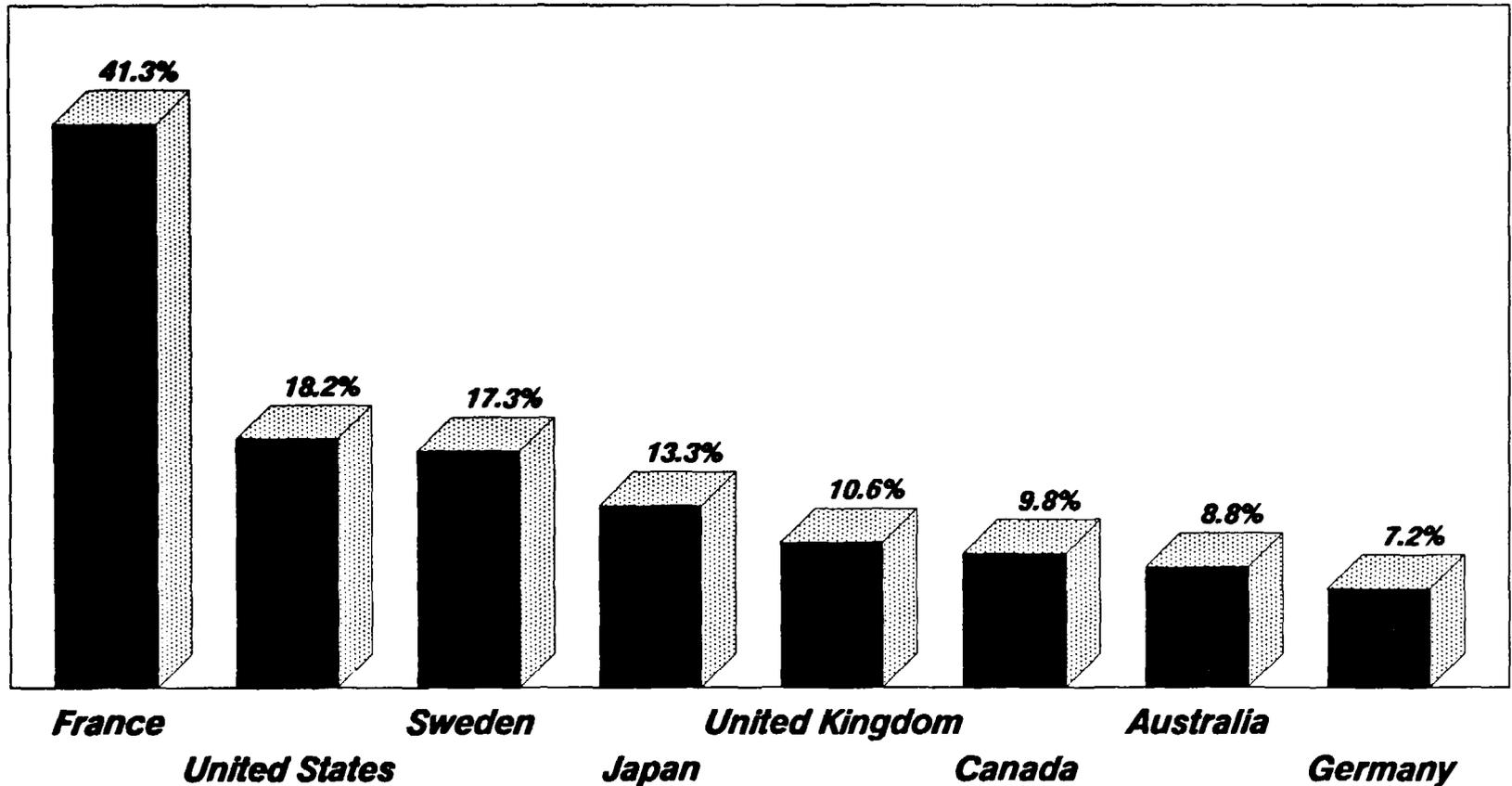
**Figure 4**  
**PERCENTAGE CHANGES IN GENERAL GOVERNMENT**  
**EMPLOYMENT FOR SELECTED OECD COUNTRIES, 1984-89**



Note: General government employment encompasses personnel at the central, regional and local levels. Changes in Germany refer to 1985-89 and those in Canada to 1984-88. With the exception of Australia, public enterprise employees have been excluded.

Source: OECD

**Figure 5**  
**Civil Service Employment as a Share of General Government Employment**  
**in Selected OECD Countries, 1989**



Note: General government employment encompasses personnel at the central, regional and local levels.

With the exception of Australia, public enterprise employees have been excluded. Share for Canada refers to 1988.

Source: CECPS and OECD

managerialism" -- moved swiftly from one country to another, manifesting a kind of global demonstration effect.

The first reform phase, commonly called "cutback management," consisted of measures to curb public spending and civil service staffing in response to fiscal constraints. Downsizing exercises were implemented in a number of countries, including Canada, the U.K., Australia, New Zealand, Japan, and the U.S. Cutback management was essentially neutral between left- and right-leaning political regimes. Labor governments in Australia pursued it as avidly as did staunch conservatives in the U.K. and the U.S. Staff reductions were mainly achieved through recruitment slowdowns or freezes, natural attrition, early retirement, reorganization and/or privatization of government activities, and, to a lesser extent, through involuntary employment reductions. Some examples of cutback management include the United States' Reduction-in-Force program of the early 1980s, a Japanese program to reduce civil service staff by five percent between 1986 and 1992, the Dutch government's downsizing exercise reducing civil service personnel by two percent per annum in the mid-1980s through a privatization and efficiency audit program, and the U.K.'s reduction of civil service staff by 22 percent between 1979 and 1989. While cutback management programs brought about reductions in public employment in a number of countries (See Figures 1, 2 and 3), government spending reductions nonetheless proved difficult to sustain, largely due to the overwhelming burden of entrenched transfer payment systems.<sup>4</sup>

Recognition of the limits of cutback management in effecting sustained cost-containment and efficiency improvements led to a broader reform approach, one which emphasized more cost-efficient utilization of "inputs" in the provision of public services. Input-focused reforms swept through a number of advanced industrialized countries, including New Zealand, Australia, and the U.K. In the latter, they were embodied in the Financial Management Initiative (FMI).<sup>5</sup> Building upon a series of "efficiency scrutinies" begun in 1979 to identify potential budgetary savings through audits of individual government departments, the FMI was officially created in 1982 as a program designed to introduce innovative, computerized financial information management systems. The program sought to make the budgetary process more transparent and thereby more accountable to higher management and political levels. Department heads were to be given responsibility for efficient use of resources. Departments were subject to cash limits and, with improved information management, were held accountable for control of running costs.

FMI reforms were largely confined to better management of financial inputs through strengthening of information technology. Devolution of responsibility was limited

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<sup>4</sup> Christopher Hood, Andrew Dunsire, and Lynne Thomson, "Rolling Back the State: Thatcherism, Fraserism and Bureaucracy", in *Governance: An International Journal of Policy and Administration*, Vol. 1, No. 3 (July 1988), pp. 243-270. Also, as Figures 4 and 5 suggest, civil service employment reductions only tell part of the story. General government employment (including central, regional and local figures) also need to be analyzed.

<sup>5</sup> The U.K. experience is presented here to illustrate the nature of agency reform programs. While it differs in numerous respects from other agency models, it also shares many traits in common with Australia, New Zealand, and Sweden, and has served as a model for particular aspects of reform in other countries, including France and Canada.

to the top level departments. These improvements, concentrating mainly on financial inputs, proved necessary but insufficient to the task of making government performance more efficient and responsive. Several years into the reform process, the need to deepen reforms by increasing flexibility and devolving still more responsibility and accountability to lower managerial levels was perceived. In the U.K., these more fundamental reforms were taken up in what came to be called the Next Steps Program.<sup>6</sup>

Initiated in 1988, Next Steps has sought to relax further central financial and management controls and to devolve more responsibilities to the line managerial level. In a variant on similar reforms being implemented in Australia and, even more radically, in New Zealand, the Next Steps administrative reform has spun off various central government functions to newly formed executing agencies. The reform is fashioned loosely after the Swedish administrative model, in which semi-autonomous agencies have operated for centuries with minimal central controls. While policy functions are retained in central departments, agencies are charged with service delivery and, through the person of their chief executive, are held responsible for efficient use of inputs and the achievement of performance targets. The ministers to whom they report are ultimately responsible for program outcomes. Organizational culture in agencies is supposed to shift accordingly to emphasize efficiency and service. These new administrative relationships between agencies and parent departments are embodied in what is known in the U.K. as the framework agreement.<sup>7</sup> Implicit in the agency reform movement is a challenge to the traditional notion of a unified civil service. Too large and unwieldy to be managed as one organization, government as envisaged by Next Steps architects and other agency reform proponents is instead a collection of interrelated but separately functioning businesses.<sup>8</sup>

Agency reforms are still at a very early stage.<sup>9</sup> Many uncertainties remain, including questions about the degree to which agencies should be held accountable politically, whether the central financial authorities will cede enough autonomy to

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<sup>6</sup> The analogues to the FMI-Next Steps reform sequence in Australia were the Financial Management Improvement Program and Public Service Reforms. In New Zealand, the Financial Management Reforms, the Corporatization Program and the State Services Act took reforms even further.

<sup>7</sup> Framework agreements establish the policies and aims of the government and the agency; the respective roles of the minister, permanent secretary and the chief executive; the financing available to the agency, the estimates process and the degree of financial flexibility permitted; the annual operational or business plan, the annual performance agreement negotiated with the agency, indicating performance targets, indicators and monitoring arrangements, and staffing policies (e.g., creation of new posts, pay flexibilities). Similar agreements exist in New Zealand and Australia. Although there has been discussion of introduction of formal contractual agreements in Sweden, currently arrangements are more informal.

<sup>8</sup> *The Economist*, December 21, 1991, pp. 66-67.

<sup>9</sup> Actually, the Swedes are revisiting and reforming their own system in light of reforms taking place in other administrations.

agencies to allow the concept to work, and whether the focus on performance targets, unit costs and individual agency independence will erode the traditional public service ethos.<sup>10</sup>

While agency reforms are being pursued fully in only a few countries, many of the "new managerialist" principles driving them are informing other, less comprehensive reforms in civil service management elsewhere as well. A number of "incrementalist" administrations are also undertaking management improvements which reflect an emergent view of government as a service delivery conglomerate. These improvements draw on a range of private sector management approaches, including: organizational mission, corporate planning, customer responsiveness, performance incentives, and the use of new advanced computer technologies.

To what degree should traditional administrative controls give way to managerialist/new public management approaches to managing the civil service? This question is at the heart of the ongoing public administration debate in advanced industrialized countries. In the meantime, developing and transitional country administrations must make choices about how best to develop their own civil service management systems. This question must be answered by looking at specific CSM functions, determining their priority in the overall task of administrative development for a given country, and assessing what practice will work best under which conditions. Without proffering definitive solutions, the following sections try to analyze approaches that have proved useful in advanced countries and to extrapolate lessons for likely successes in adapting them in reforming contexts.

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<sup>10</sup> As will be discussed at various points in this paper, the jury is still very much out on the effectiveness of agency reforms in their countries of origin. The difficulties in assessing the merit of these programs are compounded by the familiar presence, informally noted by some observers, of the Hawthorne effect, whereby the introduction of *any* environmental change stimulates performance improvements over the short-run, but may not necessarily have enduring positive impact. Some of the most fervent advocates of the agency model may be affected by this phenomenon. See, *The Economist*, *ibid*.

### **III. GOOD CIVIL SERVICE MANAGEMENT PRACTICE: ELEMENTS OF A SUCCESSFUL APPROACH**

This section focuses on those civil service management functions which, it is argued, are priority items on reforming country administrative agendas. These functions constitute a minimal set of essential tasks that must be well executed if government personnel are to perform professionally and effectively. The discussion therefore concentrates on three principal areas of civil service management.<sup>11</sup> It begins by examining the organization and management of the system itself, including questions of how to structure institutions for crucial maintenance functions like establishment control. The focus then shifts to the quality of human inputs. This involves programs for recruitment of personnel as well as development of elite cadres through senior executive schemes.<sup>12</sup> Finally, the discussion centers on incentives and their relationship to staff performance, concentrating on pay, classification, and performance evaluation.

#### **Organizing Civil Service Management: Institutionalizing Establishment Control and Planning**

Choices about optimal organizational structures for civil service management and the assignment of responsibilities for key personnel functions are both critically important to successful administrative development in reforming countries. Civil service reforms springing from fragile, uncoordinated or politically impotent institutions typically founder in transitional settings, while those with a stronger institutional base of support have a better chance of succeeding. This section analyzes some of the organizational qualities of well-functioning personnel systems in advanced industrialized countries and then suggests which features might be most useful in establishing a solid institutional foundation for CSM activities in reforming administrations. The discussion begins with the organizational arrangements for overall personnel policy and management and then concentrates on the institutional set-up specifically for establishment control and planning, a vital CSM activity.

Two basic models of CSM organization predominate in developed administrations. One is a model of centralized control allowing a limited degree of deconcentration. The other is a system with increasing decentralization, flexibility and delegation of CSM authority to the line level. For the cases studied, the Asian countries, France, Germany, the Netherlands, and (to a lesser degree) the U.S. and Canada conform to the first model, while the U.K., Australia, New Zealand, and Sweden either now fit or are moving toward the second.

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<sup>11</sup> The choice of CSM areas is dictated by the importance of the function to government performance in reforming countries, and by the extent to which innovative or interesting approaches have been identified in advanced industrialized countries. Many important CSM functions and innovations will unfortunately escape these criteria, but, in the interest of manageable scope, could not be treated here.

<sup>12</sup> The subject of training, admittedly important to the development of civil service cadres, is not treated here in order to limit this paper's breadth.

In addition to a high degree of control and professional standardization, centralized systems of civil service management display a number of common traits. First, for most modern administrations, centralization implies not a single, central monolithic organ controlling all system personnel movements, but rather some degree of shared personnel authority exercised by several entities at the central level. The arrangement is often tripartite, usually with powers divided among a policy guidance body, an oversight agency which helps ensure fair and meritorious practices, and a financial control *cum* monitoring organ. Such systems create checks and balances, ensuring redundancy<sup>13</sup> and fairness, and curb excessive concentration of authority for civil service management. They work best when limited to a very few organs with clear division of labor and good mechanisms for coordination. Singapore is an illustrative case. Authority for public personnel functions in Singapore is divided among the Ministry of Finance's Budget Division (which handles manpower control), its Public Service Division (which develops policy, coordinates implementation and is responsible for pay and grading, training and productivity improvement), and the Public Service Commission (which approves higher-level appointments and disciplinary actions). Singapore's success can be contrasted with less functional arrangements elsewhere. In the U.S., where clear lines of responsibility are not drawn, and in Canada, where personnel policy organs proliferate, centralized power-sharing arrangements have frequently led to fragmentation and policy confusion.<sup>14</sup>

Successful centralized models elevate the status of the personnel function in government by making key CSM organs directly responsible to political authority, often with designation as principal agents for major system reforms. In Japan, for instance, the Management Coordination Agency, part of the personnel "troika" in central government, operates under the direct authority of the Prime Minister, coordinating CSM policies and ensuring their direct responsiveness to political requirements. The Japanese attach prestige to the personnel function by placing deconcentrated personnel divisions near the top of line ministry hierarchies and identifying personnel officers as "high fliers" with good prospects for eventual appointment to elevated government positions.<sup>15</sup>

In the interest of bureaucratic flexibility and more rapid operations, some centralized systems delegate selected personnel management authority to deconcentrated

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<sup>13</sup> See Martin Landau, on the need for redundancy in successful organizations "Redundancy, Rationality and the Problem of Duplication and Overlap", in *Public Administration Review* 29, 4 (July-August): 346-58, 1969.

<sup>14</sup> In the U.S., powers are divided among the Office of Personnel Management, Office of Management of the Budget, and the Merit System Protection Board, with functions still being disputed among the three, calling attention to the lack of coordination in the system and the consequent difficulty in achieving needed personnel reforms. Critics of the Canadian system highlight the fragmentation of CSM policy among six official and non-official institutions: the Treasury Board, the Treasury Board Secretariat, the Public Service Commission, the Privy Council Office, the Auditor General's Office, and the Public Policy Forum. See, Colin Campbell, *Government Under Stress: Political Executives and Key Bureaucrats in Washington, London, and Ottawa*, Toronto: University of Toronto Press, 1983, pp. 228-255.

<sup>15</sup> France and Sweden have also made recent efforts to elevate the personnel function to higher status. To support CSM reforms in France, the General Directorate for the Public Service, once an appendage of the Prime Minister's Office, became part of a free-standing Ministry of Public Service and Reform in the late 1980s. The head of the Ministry was upgraded to Cabinet Status. In Sweden, the Ministry of Public Administration was formed in 1983 to spearhead the public sector renewal program.

levels. For example, routine personnel information management, especially for lower-level staff, might be handled by departments, subject to central policy guidelines and safeguards. Still, the hallmark of this model is the retention of close, central supervision of functions with crucial implications for the financial soundness of the service, such as establishment control and planning.

In contrast to these traditional systems, several countries are developing an alternative model of decentralized civil service management. This model increases the decisional autonomy of line managers on most personnel matters, leaving only broad policy guidelines to be worked out at the center.<sup>16</sup> Such decentralization is most advanced in New Zealand and Sweden. Sweden's central personnel "troika" -- the Ministry of Public Administration, the National Audit Bureau, and the Agency for Administrative Development -- performs minimal oversight, sets policy guidelines, and promotes and disseminates sound and innovative practice. These oversight functions aside, and although pay guidelines are still determined centrally, responsibility for the majority of personnel tasks now rests with 100 semi-autonomous agencies and 13 small policy ministries have responsibility for the majority of personnel tasks. In New Zealand, a central agency, the State Services Commission, is assigned only a quality control and oversight role. It advises government departments on policy and standards, monitors the performance of departments and chief executives, oversees the new Senior Executive Service and oversees the selection of candidates for appointment to chief executive positions. Most aspects of personnel management, including recruitment, promotions and dismissals, position classification, manpower control, and almost all training are now handled by executive departments which, under the purview of small headquarters departments, carry out the bulk of government functions.

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<sup>16</sup> While moving toward a more flexible, increasingly decentralized structure of personnel management in the public sector, Australia has not moved toward full "agency" autonomy in CSM, but rather retains departments headed by Department Secretaries. Within running cost ceilings, though, the Department of Finance has delegated establishment control to the departments, which, in fact, have responsibility for most operational aspects of personnel management, with the exception of the Senior Executive Service over which the Department of Finance retains control of numbers and levels, while the Public Service Commission exerts quality control and assures due process. In addition, responsibility for efficiency scrutinies was moved recently from a central Efficiency Scrutiny Unit, formed in the footsteps of the U.K., to the departmental level, but reportedly, this has led to their demise.

The U.K. is also operating with a decidedly hybrid system in the midst of reforms unfolding through the Next Steps Program described earlier. At present, CSM powers are distributed much as in the centralized systems in a tripartite division of labor among the Treasury, with responsibility for all financial aspects of personnel administration including pay, pensions, manpower control and labor negotiations; the Office of the Minister for the Civil Service, which, as part of the Cabinet Office under the Prime Minister, develops personnel policies and guidelines for recruitment, staff appraisal, promotions, training and career development, and controls senior management appointments; and the Civil Service Commission, an independent body attached to OMCS which oversees senior recruitment. In addition, the Prime Minister's Efficiency Unit supervises departmentally executed efficiency audits and continues as a driving force behind further CSM changes.

Increasingly, departments and, as they develop, agencies are being given more flexibility for managing lower and middle-level staff, and on a limited basis, professional and technical staff at higher levels. While pay bargaining and the staffing of the vast majority of high level positions continue to be centralized, the process of decentralizing many personnel management functions is underway through the Next Steps Program. The Framework Agreements negotiated between the departments and Treasury are starting to provide Chief Executives with personnel management flexibilities suited to the particular activities and needs of their agencies. Eventually, the civil service is expected to retain only a small policy core staff managed by the center with considerable autonomy for personnel functions at the executing agency level.

In principle, decentralizing CSM functions allows managers to tailor staffing to real requirements with more flexibility. The absence of central controls means these decisions can be made rapidly and in response to local market conditions. Note, however, that decentralization of personnel management functions, even where it has been taken farthest, is being implemented in the context of elaborate, technologically sophisticated systems of information and financial management, utilizing complex and expensive computer software and hardware in order to maintain tight reins on running costs. Technical training of staff throughout the government has been necessary just to run these systems. In addition, good financial and personnel management skills must be present down the line in order to make such arrangements work. Managers must be prepared to make a range of financial and personnel decisions, and line staff need sufficient technical capability to administer routine personnel movements. Capacity to feed appropriate information back up through the system also needs to be present at decentralized levels. The importance of these types of organizational issues is illustrated clearly in the exercise of such key functions as establishment control.

### ***Establishment Control: Organizing Crucial Functions***

Recent experience with public sector reforms in developing and transitional countries clearly shows that building sound establishment control and planning practice is a necessary condition for the success of other civil service management improvements.<sup>17</sup> Among the advanced industrialized country cases examined for this study, the centrally organized civil services appear to perform these tasks effectively.<sup>18</sup> They generally ensure a high level of system coordination, providing policy makers and planners with the necessary degree of information and control both to stabilize public employment during fiscal crises and to design manpower policies for the longer term.

Centralized models usually operate tight monitoring systems through which nationally determined staffing levels are enforced via a coordinated effort of the central personnel authority and the Finance Ministry. Relying heavily on staff audits or inspection techniques, governments in Japan, the Netherlands, France, Singapore and Korea have all sought to impose government-wide ceilings on staffing levels and to utilize forward planning to contain public employment. Japan's centrally controlled system, for instance, has since the late 1960s facilitated government staff reductions. Working in concert, the Management Coordination Agency enforces ministerial employment ceilings

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<sup>17</sup> See Barbara Nunberg and John Nellis, "Civil Service Reform and the World Bank," PRE Working Paper 422, 1990, and Louis de Merode, "Civil Service Pay and Employment Reform in Africa: Selected Implementation Experiences," World Bank, 1990, for confirmation of this point.

<sup>18</sup> Data which would provide definitive bases for comparison of different approaches to establishment management are not easy to come by. The goal of any system should be to ensure adequate stability and forward planning of "appropriate," -- i.e. neither too high nor too low -- staffing levels in order to avert emergency retrenchment programs. Sufficient time series on civil service numbers with reasonable comparability across countries (i.e. with consistent definitions of what constitutes the civil service) are not available, however, and thus comparative indices of stable establishment management are difficult to construct.

mandated by law, while the National Personnel Authority adjusts civil service recruitment targets. Since 1968, these ceilings have gradually been lowered, enabling the Japanese to move beyond personnel stabilization to net reductions.<sup>19</sup>

A centralized model has also proven highly useful in Singapore's manpower control program. The Ministry of Finance's Budget Division sets staffing levels in its manpower plan, and ministries must obtain the Budget Division's approval to add staff. This enforces the government's zero-growth policy (begun in 1988), with the Budget Division and the Public Service Commission working in concert to control recruitment. To support central efforts, the capacity to plan and monitor staffing levels has also been developed at the ministerial level. With training provided centrally in staff review techniques by the Management Services Department and the Auditor General's Office, all public agencies carry out comprehensive programs of manpower scrutinies to identify superfluous functions and staff.

Other highly centralized systems include Korea and France. Through tight control of department manpower levels, regulation of recruitment and periodic staff inspections, Korea has kept public employment constant since 1980 at four percent of the labor force. France maintains establishment control through the budget, carefully setting the number of officials in each salary scale and establishing fixed percentages for the number of officials who can be promoted from one salary scale to another. The key mechanism to adjust civil service numbers is recruitment restraint.

Having achieved these successes, some centralized systems of manpower control are now relaxing their reins a bit, ceding limited discretion over staffing levels to departments and line managers in the interest of greater flexibility. In Canada, for example, the Treasury Board Secretariat allocates person-years to departments and only controls the number of senior managers. Departments and agencies have gotten increased autonomy in distributing person-years among different levels of staff, and they can make special appointments amounting to 10% of their base complement of positions.

Other countries have moved even more deliberately toward a distinctly decentralized manpower control model, using running cost controls as the key determinant of optimal staffing levels. These systems impose across-the-board spending limits but are indifferent as to the level of staff expenditures within recurrent spending categories. Typically, such systems require "micro-management" of information inputs, with regularized reporting at short intervals to the finance authority responsible for overall system monitoring. While the U.K.'s Next Steps program is moving government in this direction,<sup>20</sup> Australia and New Zealand have progressed farthest down the decentralization

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<sup>19</sup> In Japan, multi-year forecasting is facilitated by the high staff retention rate and the lifetime nature of public employment.

<sup>20</sup> The present establishment control arrangements in the U.K. continue to give the central Treasury control over the number of staff in the top three grades. But Treasury now only monitors departmental staffing levels for the other grades to ensure these fall within running cost expenditure plans. With the assistance of Treasury inspectors, departmental staff inspection teams carry out functional reviews to detect overstaffing and grade drift. Since 1979, the Prime Minister's Efficiency Unit has worked with the departments to organize efficiency audits which identify surplus staff as part of broader reviews of departmental operations.

road. Individual departments or agencies have decisional autonomy over manpower levels, subject to central running cost monitoring. In Australia, line departments may freely substitute between staff and equipment expenditures.<sup>21</sup> Significantly, this delegation has been accompanied by a transfer of central monitoring authority from the now defunct Public Service Board to the Finance Ministry, thus tightening central controls through improved technologies. In the Australian case, staffing levels have declined steadily since the mid-1980s, due, some claim, to consistent and firmly applied cash limits. New Zealand's establishment arrangements are similarly decentralized. Departments report staff strength to Treasury on a trimester basis. Manpower levels have been reduced by 25%. One cause of this reduction, it has been reported, is the newly acquired ability of managers to customize staffing levels to actual requirements.

***Lessons:***

The advantages of centralized civil service management organization -- enhanced control, coordination, capacity for longer-term strategic planning, and generally greater political access for the personnel function -- probably favor such arrangements in many reforming countries, where civil service management lacks just these attributes, and questions of flexibility and responsiveness are important but secondary concerns. The advanced industrialized country experience shows, however, that centralization does not imply (as frequently evolves in reforming contexts) a center composed of a single, mega-ministry of personnel management or public administration, or an omnipotent Ministry of Finance. Stability and coordination is often achieved through a triumvirate of personnel organs which can check each other, allowing for sufficient system redundancy and backup of key functions. Operating through well-institutionalized coordination mechanisms, these organs share responsibilities for policy formulation, merit protection, maintenance of standards, and financial monitoring.

Strong, centralized systems exhibit some degree of deconcentration or delegation to personnel units within line ministries. The degree of delegation depends on two variables: the importance of the function and the technical and institutional capacity at the deconcentrated level. In centralized advanced country CSM systems, control over most personnel functions remains at the center, but delegation of routine maintenance functions to line entities is increasing, sometimes with ongoing support from central authorities.

As a general principle, centralized organizational models probably represent the prudent course for reforming country administrations, typically characterized by serious skill shortages below high bureaucratic levels. Although a few reforming countries with greater personnel management potential might reasonably choose *selective* deconcentration as do some advanced countries, even the most limited delegation would require serious assessment of both human and infrastructure requirements and existing capacity throughout the system, as well as careful planning for future training and investment.

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<sup>21</sup> The conversion factor used to effect this substitution in the Australian case, however, is not based on absolute parity between staff and equipment: \$1.25 staff dollars equals \$1.00 equipment dollars, reflecting overhead costs such as superannuation, etc., which have the effect of inflating total staffing costs. (John Baker, personal communication, 1/92.)

For crucial functions such as establishment control and planning, the case for reforming country centralization is that much stronger. Ubiquitous concerns about fiscal restraint and the poor track record of so many reforming countries in restraining civil service expansion underscore the need to keep civil service numbers in tight check through central, uniform controls.<sup>22</sup> While decentralized CSM models emerging from agency reform experiences may offer the future possibility of enhanced flexibility and line manager accountability, they also increase system susceptibility to fraud, patronage and corruption -- clear and present dangers to many reforming country administrative establishments. And implementing decentralized establishment management arrangements requires tremendous management capabilities and technical capacity. In most advanced industrialized countries, staff have needed significant training to come up to speed. Indeed, to the extent that such capacity does not exist down the line, the tendency of central organs to "micro-manage" through excessive information requests can actually result in an even greater burden on the center than in an initially centralized system. It goes without saying that the skill *cum* technical gaps in most reforming countries are likely to be that much greater.

Management of establishment levels appears to have been particularly successful -- meriting close scrutiny and emulation by reforming countries -- in the Asian countries. They have installed "smart" programs of forward manpower planning that enable governments to avert overstaffing crises before they happen. The relatively low and constant number of civil servants in Japan, as compared with other OECD countries in recent years, attests (with the aforementioned data caveat) to the effectiveness of this system (Figure 3). Planning has been carried out on a government-wide basis but with considerable input from intensively trained line ministry personnel. Such training (in the case of Singapore, training administered by central Ministry staff for specific tasks) can offset the potential risks of an overly rigid, centralized system, providing more balanced participation from the periphery. Increasing the skills of line staff may also set the stage for agency-type reforms which could come later, at least in countries where the technological infrastructure and overall skill levels are relatively high.

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<sup>22</sup> This does not mean that some aspects of establishment control such as staff inspection or reporting cannot be shared by decentralized units, however.

## **Improving the Quality of Human Resource Inputs: Recruiting and Building Leadership Cadres**

### **Recruiting the Best and the Brightest**

The recruitment and initial placement of civil servants are crucial determinants of the enduring quality of the civil service.<sup>23</sup> The importance of recruitment is well understood in successful advanced industrialized country administrations; in contrast, relatively little attention has been given to this critical area in the Bank's own civil service operations in developing and transitional countries. Cultural traditions, labor market behavior, and educational capacity all obviously condition the kind of recruitment system which evolves in a particular country, but some common practices and some promising innovations have emerged in advanced industrialized civil services. As above, the aim of the following discussion is to cull advanced country experiences for lessons applicable to these reforming country civil services.

Recruitment systems in advanced industrialized country civil services break down into two principal ideal types, with real cases falling between them: 1) closed entry, rigid hierarchical systems with limited inter-class (and often inter-departmental) mobility and highly selective entry requirements; and, 2) more open systems with lateral entry, greater vertical and sometimes horizontal mobility, and more flexible entry mechanisms. Japan, Korea, Singapore, Germany, the Netherlands, and France fall roughly into the first category. The U.K. is in a transitional position. The U.S. (to a degree) and, increasingly, those countries subjecting recruitment to market considerations, including Australia, New Zealand, and Sweden, conform generally to the second.

Closed systems (sometimes called "mandarin") rely heavily on selective recruitment to maintain high performance standards. They perpetuate the notion of a "chosen elite" in government service. Competitive recruitment takes place in a centralized context and is usually ensured by rigorous entrance examinations or high scores on general educational tests. Examinations are often coupled with other selection mechanisms, such as intensive interviews, assessment centers or academic degree or certificate requirements. Frequently, recruits are pre-selected through single "feeder" institutions in the higher educational or training system. Often these highly competitive selection criteria are used to lock qualified recruits into a closed system to which admission is only possible at the entry level. Entrants go directly into a particular class of service, usually on a "fast track." Entrance into lower classes is based on less rigorous but still standardized examination or educational criteria, and movement among classes is very restricted. Elite cadre entrants are generalists, not technical specialists, and they are inducted into a corps (often an inter-ministerial personnel group serving as the basic managerial cadre for the civil service) or career stream, not hired for a specific job.<sup>24</sup>

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<sup>23</sup> Recruitment has traditionally had important consequences for public sectors where separation of non-performers has been difficult if not impossible. To the extent that some governments may be moving toward impermanent contractual employment arrangements, recruitment mistakes may be correctable and therefore less daunting.

<sup>24</sup> To the extent that the French corps system may also be related to professional specialization, it deviates from this ideal type.

They may be easily rotated, if not throughout government as a whole, then at least within the particular ministry directly hiring them. Throughout the recruitment and training process, elite cadres undergo intense socialization to internalize core civil service values.

The two countries most nearly embodying the mandarin ideal are Japan and France. The backbone of the Japanese system is an extremely competitive examination with supporting interviews to select staff for each of three career tracks: higher, middle and lower civil services. With virtually no exceptions, recruits enter a track for life; no mobility operates among bureaucratic classes. Because of the high social status traditionally afforded to government service as a profession, large numbers of applicants compete for relatively few places.<sup>25</sup> Civil servants are recruited directly into individual ministries, where they remain throughout their careers.

One feeder educational institution -- Tokyo University, established in the nineteenth century expressly for public service training -- produces the lion's share of higher civil service recruits. Most recruits are law-generalists, selected for their potential for higher management posts.<sup>26</sup> The assumption is that supplementary technical training can be provided later, if needed, by the recruiting ministry. Personal as well as professional and academic attributes are recruitment criteria.

The French also rely on competitive examinations to determine entrance to the exclusive feeder training institutions for elite civil service cadres, the Ecole National d'Administration (ENA) and other specialized "grandes ecoles." ENA students complete a one-year professional internship followed by 15 months of course work. Although the government is starting to open ENA admission to functionaries already in service at lower grades with less elitist backgrounds, their chances of succeeding on the competitive entrance exams are, in practice, low. The system's exclusivity remains intact.

Some countries have modified this model, intensifying pre-service preparation through practical internships. For example, Singapore recruits elite cadres into a rigid class hierarchy but relies on general educational credentials and interviews. It also uses two-year, probationary, pre-service, fast-track, "cadetships" with rotating ministerial assignments to train and socialize the mandarin class. The German practicum is another internship program combining on-the-job training and course work for potential elite recruits before admission to service.

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<sup>25</sup> On average only 1 in 19 examinees pass the level I exam (for the higher civil service), 1 in 9 the level II exam, and 1 in 7.5 the Level III exam. Each year about 1300 applicants pass the Level I exam, but only about 700 (54%) are appointed by the ministries. The number of applicants taking the entrance exams is reported to have fallen in recent years due to the growth of the Japanese economy and competition with the private sector, as well as eroding prestige of the public service.

<sup>26</sup> The predominance of Tokyo University graduates becomes even more pronounced at the highest levels of government. Critics maintain that the "clique" of high-ranking civil servants with Tokyo University degrees have used their influence to block promotions of graduates from other schools. A few ministries have recently moved to promote some graduates from other universities to top management positions, but it is too early to tell whether this represents a major policy shift. In addition, new recruits increasingly come from more diversified backgrounds with degrees, for example, in engineering and public administration. See, Paul S. Kim, *Japan's Civil Service System: Its Structure, Personnel and Politics*. Westport: Greenwood Press, 1988.

With the expansion of private sector opportunities and the comparative erosion of public sector salaries in some countries, top graduates need to be wooed more aggressively to join elite government corps. Several countries use scholarship bonds. These are training or educational benefits provided in exchange for promises of time in service. In Singapore, bonds are used to recruit scarce technical skills. In France, entrants to "grandes ecoles" are also bonded in return for an enforceable (i.e., penalties for evaders) commitment to a specified period of government service.

In addition to these recruitment mechanisms, governments use other instruments to attract people with scarce skills. Market supplements or recruitment bonuses are used for specializations in short supply. In Japan, bonuses are now offered to recruits in remote geographical areas as well as for hard-to-recruit professions. In addition, more flexible working and leave conditions are offered to scientific personnel on entry.

In contrast to the mandarin systems, some countries favor an alternative, more open model of civil service recruitment. They emphasize flexible, decentralized, sometimes market-oriented practices. The U.S. system stands in stark relief from elite models, for example, permitting horizontal entry without age restrictions and allowing considerable inter-class mobility, though inter-*agency* mobility is rare.<sup>27</sup> The U.S. also has moved toward more flexible hiring practices, replacing its centralized, competitive entrance examination for entry level staff with profession-specific exams and in some cases non-competitive procedures affording individual managers considerably more discretion in hiring.<sup>28</sup>

Decentralized, flexible recruitment is gaining ground in the agency reform administrations as well. Although the U.K. retains its highly centralized recruitment system for the higher civil service, inducting elite-trained generalists into its fast-stream Administrative Trainee Program, some flexibilities are being introduced on a limited basis

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<sup>27</sup> The non-hierarchical qualities of the U.S. system contributed, along with steady erosion of real pay since the 1960s, to a civil service leadership vacuum, motivating the creation of the Senior Executive Service program, discussed later in this paper.

<sup>28</sup> More flexible hiring practices were introduced in the U.S. through the Civil Service Reform Act (CSRA) of 1978 which aimed to balance the need for greater managerial flexibility in personnel decisions with protection of the merit principle. Some observers worry, however, that by decentralizing many aspects of personnel management, CSRA may have encouraged more frequent use of the buddy system and nepotism in recruitment. This potential for abuse is exacerbated by the suspension of the Professional and Administrative Career Exam (PACE) program and the widespread use of "Schedule B" recruitment procedures which allow managers to dispense with competitive exams when hiring college graduates or through "name requests" which allow managers to place a known candidate's name on a vacancy short-list, if he meets minimal qualification requirements. When surveyed, managers preferred Schedule B arrangements, as it gave them more control from central intervention in hiring. But results of a Merit System Protection Board survey in 1989 revealed that 1/3 of rank-in-file federal employees reported that they had been denied a job because someone else had benefitted from personal connections. See Carolyn Ban and Harry C. Redd, "The State of the Merit System: Perceptions of Abuse in the Federal Civil Service," *Review of Public Personnel Administration*, 1991.

at lower levels, thus giving greater discretion to Department and agency heads.<sup>29</sup> Many departments have begun recruiting directly from the market, using pay flexibilities within central guidelines.<sup>30</sup>

Recruitment reforms in Australia have also sought to decentralize the hiring process and make selection fairer and more openly competitive. Departments rather than central authorities now handle recruitment of university graduates for higher level positions. Some departments, such as Treasury, run their own internship programs as a recruitment tool. Although many higher level staff are selected on a service-wide basis through the Senior Executive Service, heads of Departments are now appointed on a time-limited, contract basis. Many high level positions are publicly advertised, and departments are legally obliged to weigh various selection criteria, including professional qualifications, experience, and personal qualities. Panel interviews and reference checks are used to approximate private sector recruitment procedures.

Devolution of recruitment authority has progressed farthest in Sweden and New Zealand. In the former, agencies develop their own procedures in conformity with national guidelines. Most use examinations, interviews and professional job descriptions. The central government personnel agency runs a head-hunting unit that assists ministries and agencies in the recruitment of high-level managers. In addition, market salary supplements are paid to key personnel in hard-to-recruit professions.

In New Zealand, recruitment has become increasingly decentralized. Department chief executives select and appoint their own staff, subject, once again, to central guidelines. Agency staff positions are advertised, and market salaries may be offered. To ensure the political neutrality of chief executive appointments, the State Services Commission assembles interview panels with representatives of the business sector and other elements of the non-government community to select chief executives. Chief executive job descriptions are cleared with the individual Minister and the Cabinet. Chief executive positions are advertised nationally within and outside of public service, but so

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<sup>29</sup> Recruitment for high-level positions and the higher civil service's fast stream – the Administrative Trainee Programme (ATP) – remains under the control of the Office of the Minister of the Civil Service and its Civil Service Commission. The process for recruiting Administrative Trainees (ATs) is very selective and involves examinations—only 10-20% of the applicants pass this stage—and interviews and group work exercises at an assessment center. This recruitment process still seeks out elite-trained generalists. Members of professional and specialist groups are not admitted to the ATP fast stream, and as a result, they are largely prevented from rising to the top civil service management positions. ATs are given rotational assignments during a two-year probationary period, which is followed by a 16-week course at the Civil Service College. The AT stream provides the policy core for the U.K. civil service. But as Next Steps reforms progress in the U.K., this policy core is likely to shrink in relation to the executing agency staff.

<sup>30</sup> In accordance with centrally-determined guidelines, departments are free to recruit through their own personnel units, request the services of the central civil service commission or use outside contractors. The government is currently creating a Recruitment Agency out of the CSC which will market its services to the departments and agencies. At the top of the agencies, there are as yet no fixed rules for the recruitment of agency chief executives but generally these positions are open to candidates outside the civil service and are advertised nationally. (The fact remains that most of the appointees still come from the career service, but this reform is still quite recent.) Chief executives are selected on the basis of management experience and are appointed to fixed terms. In some cases, the government will pay them salaries above civil service scales to capture highly attractive candidates in the market.

far most chief executives have come from the Senior Executive Service, the only remaining cross-departmental civil service core recruited centrally rather than by individual departments.

*Lessons:*

What are the lessons of advanced country recruitment experience for building professionalized civil services in reforming countries? First, reforming countries should pay at least as much attention to recruitment as do advanced administrations. The induction of good staff can compensate for numerous other system deficiencies; conversely, the absence of qualified cadres is difficult to overcome later. Reforming country CSM reforms, including those sponsored by the Bank, have not adequately addressed the need to improve the quality of recruitment practices (except with regard to hiring freezes to stem public employment expansion). Concentrated efforts in this area may yield higher payoffs than some other types of CSM assistance.

Second, while staffing constraints in reforming countries affect all levels of the bureaucracy, many countries correctly perceive the most urgent task to be that of filling higher level management and policy positions with qualified professionals. This need justifies adopting at least some features of the mandarin model, which emphasizes the selection and grooming of elite-trained cadres for higher positions. The mandarin model is attractive in spite of its disadvantages, including the approach's perceived violation of egalitarian values; low credibility of elitist credentials (due to inferior quality training and educational institutions); and the absence of qualified subordinate cadres, whose support is important to successful performance of the elite administrative class. These obstacles can be formidable, as witnessed by the numerous unsuccessful efforts to replicate the French ENA experience around the world.

Still, certain elements of the elite cadre approach have real advantages for reforming countries with limited human resource endowments, where selective rather than comprehensive efforts may be warranted. Creating a prestigious image for a small, well-chosen mandarin class can have favorable spillover effects in motivating other parts of the civil service. Moreover, a flexible, eclectic strategy, using only the most positive aspects of the mandarin model, and combining them with other approaches, may avert some of the aforementioned pitfalls. For example, the exclusive aspects of the mandarin model can be retained while the exclusionary ones mitigated by (1) allowing entry into the elite class or the feeder institutions at multiple points on a career path, (2) by ensuring equitable access from all parts of society into the elite cadre, and (3) by strictly enforcing meritocratic entrance criteria.<sup>31</sup> Such policies should be coordinated with establishment planning mechanisms to avert excessive entrants into feeder institution. This is necessary to minimize pressure for civil service employment expansion from swelling numbers of feeder institution graduates claiming entitlement to government employment.<sup>32</sup>

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<sup>31</sup> Perhaps such criteria could be expanded to include practical experience as well as academic achievement.

<sup>32</sup> The distortion of the French ENA system in several African countries legally entitled university graduates to civil service jobs upon receiving their degree, thus creating tremendous pressure to expand government employment beyond reasonable fiscal limits.

Other recruitment mechanisms used in advanced systems could also prove adaptable to reforming country needs. Bonded scholarships are already in use in some reforming countries. Difficulties faced by governments in raising civil service remuneration levels can be offset by such sweeteners designed to attract high caliber candidates to the public sector. Such programs could be expanded and targeted to specific skill gaps, as they are in Singapore. Needless to say, enforcement difficulties may be greater in reforming countries, and conditions of service upon return may largely determine the success of this type of instrument.

Deficiencies in reforming country education systems can be compensated by supplementary pre-service education programs, which, as the Asian experience shows, can be a highly efficient means to target civil servants with customized training. Pre-service internships or "cadetships" may serve the same purpose. The additional "probationary" mechanism used in the German system may provide an effective way of weeding out unsuitable employees before they become legally entrenched.

The mandarin preference for generalist recruits who can be molded to fit precise civil service needs can also be complemented in reforming countries by adjunct programs to recruit specialists with necessary technical skills at various bureaucratic levels. Relaxation and diversification of remuneration norms on a limited and carefully monitored basis may be necessary and desirable in reforming countries where such technical expertise is in short supply. Some of the more flexible, market-oriented approaches emerging from the agency reform countries might be instructive here. New Zealand and the U.K., for example, are emphasizing the importance of technical and management skills to supplement the existing policy orientation of civil servants. These reforms also stress the importance of going to the market to find such talents and of providing recruiters with the necessary discretion to compete in that market with regard to remuneration and benefits. These reforms also underscore the need to determine on a decentralized basis which skills are necessary and for how long, a flexibility which could be helpful in reforming country settings.

Introducing these types of market competition and challenging traditions of lifetime entitlements may indeed spur civil service performance, but prudent operationalization is required. Full adherence to decentralized, market recruitment models also poses risks in reforming contexts, especially when the "market" consists mainly of international donors bidding up the price of scarce professional talent, often resulting in a relentless brain drain from the public to the private - international sector. The introduction of recruitment flexibilities in reforming contexts also provides opportunities for favoritism and corruption, which are perhaps less likely when uniform standards are enforced.

This highlights issues related to the retention of a government-wide corps inculcated with a public service ethos. The tensions between the development of such a cadre and the thrust toward decentralization and relaxation of central recruitment norms

have still to be resolved in agency reform countries. The dilemma looms even larger in reforming countries where the supply of professional skills is so limited.<sup>33</sup>

Finally, the emphasis on elite recruitment should not lead to neglect of higher recruitment standards for middle and lower level civil servants. While recognizing that improving the quality of lower level staff is in many ways dependent on improving the capacity of the basic education system -- usually a long term proposition, -- tightening admissions criteria for all civil service entrants is something that can begin to be addressed now. A fundamental lesson, therefore, to be drawn from the industrial country cases is the importance of developing rigorous (but appropriately conditioned by individual country circumstances) standards for entrance examinations to improve recruit quality. Such testing attains even higher importance where educational credentials are difficult to rely upon, unfortunately the case in many reforming countries.<sup>34</sup>

### **Building an Elite from Within: Lessons from the Senior Executive Service Experience**

Recruiting new entrants into a prestigious higher civil service class through elitist, pre-service feeder institutions offers one strategy to meet the urgent need to build higher level management and policy capacity in reforming countries. Some reforming countries are investigating another: building an elite, professionalized, service-wide corps through the creation of Senior Executive Service (SES) programs. The SES experience is important to examine, because some civil service reform programs have installed such schemes without a full understanding of the intricate problems they involve. This section looks at the SES experience in several advanced industrialized countries, and considers the merits and feasibility of adapting similar arrangements in reforming administrations.

A number of advanced industrialized country governments have taken steps to isolate the management of senior personnel, providing more attractive incentives and conditions of service than those available to lower level staff. Senior Executive Services were designed, for the most part, to combat a common set of problems plaguing many higher civil services in recent years. These include: 1) wage erosion in comparison with the private sector and wage compression in relation to lower civil service echelons; 2) increasing marginalization of higher civil service cadres from policy and political decision makers because of the former's perceived lack of responsiveness to political agendas; 3) the absence of a public-spirited, interagency, service-wide corps or elite cadre; and 4) difficulty in attracting highly qualified professionals away from the private market. Governments have thus commonly sought to establish interdepartmental executive corps,

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<sup>33</sup> An extreme example of this pervasive dilemma is found in Mozambique where short supply of skilled professionals coincides with low government pay and artificially high salaries paid by international donor projects. See, Peter Fallon and Luis Pereira da Silva, "Public Pay and Employment Issues in Mozambique," World Bank, 1991.

<sup>34</sup> Attempts to apply uniform standards to civil servants have been made through some World Bank supported programs, such as the Economic Management project in Guinea which introduced competency testing to establish minimal requirements for civil servants. The implementation of this program proved difficult as it met with considerable resistance from entrenched employees. This experience underscores the need to apply rigorous selection criteria at the outset through the recruitment process, rather than relying solely on programs to raise standards at mid-career points.

sometimes through strengthening or perhaps diversifying existing elite cadres (as in France) and sometimes by trying to instill a public service ethos to counterbalance the atomistic tendencies of agency reforms (as in New Zealand).

Japan and France have made efforts to strengthen the elite corps of their civil services by broadening the experience and vision of corps members through increased interdepartmental mobility. Both countries have stepped up rotational policies to encourage movement of the top administrative classes among agencies. Both have sought to diversify the composition of the elite (through widening the net of recruitment beyond Tokyo University in Japan and through opening access to ENA beyond a small select group in France). In its efforts to strengthen its elite administrative class, Singapore introduced a superscale pay category above the general salary schedule and a separate career scheme for the top grades.

Perhaps the most intensively studied program is the U.S. Senior Executive Service, created in 1979 and administered by the Office of Personnel Management. Uniquely, the U.S. SES includes both career civil servants (90%) and political appointees (10%). The SES was created to improve the pay and status of senior officials; to create a service-wide senior personnel system with increased opportunities for mobility, management training and career development; and to reduce tensions between political appointees and career officials. Enhanced remuneration packages linked to performance evaluation criteria were to be traded off against secure civil service status, foregone upon entering the program. The U.S. concept differs from closed, elite models in that it is possible to rise through the civil service ranks to attain SES status or to enter laterally from outside government.

These objectives have frequently conflicted, and on most progress has been slow. Efforts to depoliticize the cadre have been resisted, with the number of posts filled by career SESers declining in relation to political appointees since inception. A service-wide senior personnel system with increased mobility opportunities has not yet taken hold, and the federal bureaucracy remains segmented into powerful agencies with separate cultures and loyal permanent officials. No formal mechanism for inter-agency assignments has been established, and management development and training for senior personnel has occurred only on a limited basis. Progress on the pay front also lagged. Inflation steadily eroded real pay between 1979 and 1990, but in 1991 legislation raised average SES salaries by 18 to 25 percent.

Despite these failings, SES critics have sought to strengthen rather than eliminate the corps, assailing the government's lack of sustained commitment as the root of its troubles. The 1989 Volker Commission, charging that the SES's problems stemmed mainly from underfunding and politicization rather than a flawed program concept, urged restoration of 1969 pay levels, assignment of greater responsibility and the provision of training to career officials, and reduction in the number of political appointees.

Canada has also tried to develop a new interdepartmental, corporate identity for senior managers and to increase their mobility throughout government. To build this corps, government consolidated all senior managers into the six-tier Management Category. While the number of staff in this category is controlled by the central

personnel authority, departments can decide whom to promote and recruit into this group. So far, the inertial power of the department-as-fiefdom system has thwarted mobility, but recently introduced management training and rotational assignment mechanisms have raised hopes of achieving program goals.

The desire to maintain a service-wide elite corps is strong, even in agency reform countries with an apparent commitment to decentralized staffing approaches. In this effort, some reforming administrations are wrestling with the inherent contradictions between private sector models and public service values. In the U.K., for example, questions have been raised about the role of the traditional corps of elite administrators now occupying key positions in gradually shrinking central departments vis à vis the new executing agency staff. The latter are hired increasingly on fixed-term contracts (mainly higher level professionals) and, it is intended, more and more at market-determined salaries. The central elite corps, on the other hand, has traditionally been revered for its policy skills; it continues to be dominated by recruits with Oxbridge humanities degrees. If the social, administrative, and functional cleavages between this core and the new staff in executing agencies are not resolved, policy and implementation could become dichotomized and uncoordinated.

In Sweden, the higher civil service faces the same tensions. While higher civil servants continue to be paid in compressed pay scales, senior managers in agencies are converting to fixed contracts, with individually determined pay. Thus heads of large agencies are sometimes paid more than highly ranked civil servants in central core ministries with agency oversight responsibilities.

New Zealand and Australia face similar quandaries. With the introduction of the "market economy model of management" in New Zealand, departments are increasingly hiring on fixed contracts at market competitive salaries. Conforming to private sector norms, staff loyalties increasingly lie with individual departments rather than the public service as a whole. In an attempt to "have it both ways," the State Services Act sought to combat the threat of departmental atomism and the potential erosion of the public service ethos through the creation of the Senior Executive Service (SES). A select, cross-department corps appointed by the individual chief executives, but with State Services Commission approval, SESers are retained on fixed-term contracts with centrally determined salaries for up to five years. SES members receive common training from the State Services Commission. The result is that SESers are sometimes earning less than other managers in the departments to which they are assigned. The SES concept, in consequence, is viewed with frustration and confusion.

Australia's Senior Executive Service was created in the midst of wide pay and grading reforms, isolating the top levels of the former higher civil service from lower echelons in order to decompress salaries and restore purchasing power to higher management levels through the introduction of a separate category of senior specialists. Salaries for department heads --not SES members-- are supposedly set according to market criteria (as opposed to rank or grade level) but cannot exceed ceilings set centrally for the SES.

Although many of the SES experiences are too recent to evaluate fully, so far efforts to build strong interdepartmental senior executive corps with appropriate remuneration and the capacity for independent responsiveness to high-level policy-makers have had only modest results. Preventing wage compression and erosion in the context of fiscal constraints has proven difficult, and the inherent tensions between market-oriented managerialism and a public-spirited service-wide cadre have yet to be resolved in reformist administrations. Still, in the main SES experiments have succeeded minimally in establishing self-contained corps with superscale pay categories, introducing separate performance criteria and cross-agency training programs, and laying the basis for inter-agency rotation. Significantly, governments with quite distinct approaches to civil service management appear to share a commitment to continuing the struggle to develop elite corps.

*Lessons:*

Should reforming countries create senior executive services to build and insulate an elite, professional cadre? While it is difficult to recommend the adoption by reforming countries of an instrument which has met with such mixed results in developed contexts, the dramatic dearth of qualified higher civil servants in many of these administrations argues powerfully for the adoption of some mechanism to groom and motivate a strong, cross-service executive class. In this case, reforming country civil services might profit more from the mistakes than the successes of advanced countries in designing their own SES programs.

For example, in order to keep professional standards high and to avoid abuses, SES programs should not include political appointees.<sup>35</sup> Conditions of service may be either with permanent civil service tenure or on a fixed-term basis. If they are the latter, terms should be long enough to ensure continuity, and the remunerative and career rewards must justify the extra risk assumed by prospective SESers in giving up civil service security. If SES members retain civil service permanency, salaries should be kept high through periodic review, and, if necessary, insulated from generalized erosion down the civil service ranks, since underfunding has been an Achilles' heel of SES programs in developed settings.

But SES programs must aspire to grander objectives than maintaining or restoring higher civil service salary levels or decompressing wages. Unfortunately, deteriorated pay conditions have kept some reforming country SES experiences narrowly focused on compensation issues. Other attributes of elite cadre development should not be ignored. SES programs should be comprehensive, offering targeted training, greater career opportunities, and high prestige, in addition to better remuneration.

In addition, while it has admittedly proved difficult in advanced countries to achieve interdepartmental mobility for SES members, such mobility remains an important

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<sup>35</sup> Keeping the SES pure of political patronage and corruption is a particularly vexing problem in Latin America, for example, where politicized rather than professionalized civil services are the norm. Attempts to install a (very modified) SES arrangement in Peru with World Bank financing, for example, resulted in charges that the superscale salaries amounted to a slush fund for powerfully connected individuals.

goal for reforming countries. The objective is to develop broad policymaking skills and to prevent uneven distribution of scarce expertise in government, leading typically to strong professional enclaves in high profile ministries such as finance and conversely weak ones in less prestigious sectors such as education.

Finally, advanced industrialized country experience emphasizes the difficulties in "getting it right" on the first (or even the second) try. SES design is an ongoing process, and it should build in possibilities for reassessment and reformulation.

### **Managing Incentives for Civil Service Performance: Approaches to Classifying, Paying and Promoting Staff**

Reward structures are central to performance motivation for civil servants. This section analyzes several advanced country approaches to key aspects of civil service incentive systems. It poses the following questions: What are some successful and/or innovative approaches to classifying and paying civil servants in advanced industrialized countries? How should staff performance be assessed and linked to pay and promotion? What are the most constructive ways to assess staff performance? What strategies should reforming countries follow in light of advanced country experience?

#### **How to Classify and Pay Civil Servants: Traditional Standards vs. Flexibility**

Advanced industrialized government systems for classifying and paying public service employees range from traditional approaches, which emphasize centrally determined standards with little room for individual deviation, to increasingly flexible and decentralized approaches. The following discussion briefly reviews the established conventions, looks at attempts to introduce flexibilities into pay and classification systems, and then considers the implications for civil service requirements in reforming countries.

Traditional civil services have relied mainly on unified pay scales with automatic, fixed step increments based on seniority and determined on a service-wide basis. Sometimes public pay scales were derived from private sector comparator surveys; sometimes they were formed in the context of collective bargaining with trade unions. The basic elements of this traditional system still operate for the majority of civil servants in many advanced countries, including Japan, France, the Netherlands, Canada, the U.S., Germany, and Korea.

These systems classify positions according to differences in job duties and responsibilities and rank these positions into occupational groups. Each group has a unified salary schedule determined by the central personnel authority, often on the basis of cost-of-living analysis. Recommendations for service-wide adjustments are usually made on an annual basis. Each grade has a flat salary amount and contains a number of incremental steps. For each year of service civil servants receive one step increase. Employees typically have guaranteed job tenure and progress through increments automatically. Occasional variations in this system stem from the role of trade union negotiations in setting wage levels for lower level staff.

These systems pose a number of problems. They have usually been designed by technical experts in central personnel departments, not by managers who understand real line job requirements. Because traditional classification systems make it difficult for workers to exceed their job descriptions and develop new skills, they can discourage creativity and initiative. And because pay cannot be raised without promotion to the next grade, a "grade creep" phenomenon occurs.

Many countries are introducing modifications in traditional classification systems. Alterations represent attempts to moderate the rigid standardization of conditions of service to reflect more accurately actual differentiation among jobs and employees. This is being done through a variety of mechanisms. The increasingly popular practice of "broad-banding," for example, encourages flexibility. Broad-banding means recruits enter the service in a salary range rather than at a fixed point, as was traditionally the case. Moving up the ladder, increments are neither automatic (i.e. through seniority) nor fixed. Staff can therefore be rewarded more flexibly. In the U.S. an experiment with broad-banding is being applied to laboratory scientists through the Navy Demonstration Project, though efforts to extend the approach to the general civil service have met with some obstacles. As a rule, broad-banding is accompanied by classification simplification and a reduction in the number of grades and job categories. In Australia, where broad-banding is used selectively, the 1987 pay agreement with government unions replaced over 100 white-collar office classification structures with a single, broad-banded, 8-level system. This was a significant political accomplishment, as broad-banding is often opposed by unions fearing the erosion of standardized norms. In general, broad-banding is thus more easily implemented at senior levels.<sup>36</sup>

Broad-bands are being used in Australia's new Senior Executive Service and in the Swedish higher civil service. New Zealand's civil service reform program has succeeded in instituting broad-banding for all civil service employees.<sup>37</sup>

Pay and classification systems have been made simpler and more flexible through a range of other mechanisms as well. "Multi-skilling", for example, is being used in Australia to increase mobility and staff deployment flexibility for lower and middle-level jobs. Through departmental workplace reviews, tasks are redesigned to include a much wider range of skills requirements, and staff are given a broader array of training opportunities. Undertaken with extensive union consultation, multi-skilling is reputed to have increased job satisfaction and worker productivity significantly.

State governments in Australia have taken this flexible pay and work condition approach further. In New South Wales, innovations include greater use of permanent, part-time employment, and longer daily shifts traded off against shorter work weeks and job-sharing. These steps have in turn afforded managers more flexibility in paying staff.

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<sup>36</sup> Broad-banding also brings with it, however, the need to introduce appraisal-feedback systems in order to evaluate and classify staff properly.

<sup>37</sup> Chief executive and Senior Executive Service staff pay is set centrally on an individual contract basis. In place of the 40 to 50 fixed salary scales that existed prior to reforms, there are now only five salary ranges for lower level staff and two for professional and advisory staff.

New South Wales is also offering flexibilities through "cafeteria-style" super-annuation benefits which can be combined with and substituted for base pay to create individually customized remuneration schemes up to a pre-set ceiling.

Supplementing basic salary packages with non-wage allowances represents another move toward pay flexibility. In Japan, an elaborate set of allowances can comprise as much as 50 percent of an employee's total compensation package.<sup>38</sup> The merits of complicated non-wage allowance systems in third world countries are often justifiably assailed for their lack of transparency. But in advanced administrations, where public wage and employment policies are generally under control, allowances can be used as instruments for flexibility; that is, they can be allocated or raised in prosperous times and lowered or retracted in lean years. Salary policy in Singapore, for example, intentionally retains such allowances over the basic wage as a built-in adjustment mechanism which accommodates budgetary uncertainties.

Accommodating cost-of-living differences among geographical regions through "locality pay" is another form of differentiation. Locality pay is used on a limited basis in the U.K. (for selected agencies and through the London-weighting system), and in Sweden and Japan. Pay flexibilities to attract hard-to-recruit skills have also been tried on a limited basis in the U.S.<sup>39</sup>

Methods of pay determination also affect the degree of flexibility governments enjoy in setting civil service wage levels. In many countries centralized mechanisms set public sector pay according to the "fair comparison" principle; i.e., surveys of private sector pay inform service-wide wage settlements, usually negotiated with organized labor. Lately, governments have been attempting to build more maneuvering room into these pay determination arrangements. In the Netherlands, for example, the Ministry of Home Affairs continues to negotiate national pay settlements with the unions, but pay is no longer tightly linked to private sector wage movements through the previous system of semi-annual adjustments. France has established a new formula for improvements in salary structure when economic growth exceeds three percent in a given year. Similarly, Singapore now administers a "flexi-wage" system, adjusting pay with the economy's performance. In good years, the government pays middle and end-of-year bonuses to all civil servants. It also pays one-off incentive bonuses when economic growth exceeds threshold levels.

The locus of public pay determination also has implications for the correspondence between civil servants' salaries and local market conditions. Increasingly, civil service pay is set at more decentralized levels, resulting in more heterogeneous pay

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<sup>38</sup> These include an array of supplements which mirror those in the Japanese private sector: "city" cost-of-living allowances, "end-of-year" allowances (the 13th month salary) and "diligence" allowances.

<sup>39</sup> The new 1991 Federal Pay Law authorizes agencies to set up "triple-R" bonus programs for the recruitment, relocation, or retention of key personnel. Within Office of Personnel Management guidelines, agencies can establish their own procedures for the allocation of bonuses which can amount to as much as 25% of base pay. Triple-R recipients must agree in writing to stay on the job for at least one year.

outcomes. In some cases, this decentralization reflects the increased autonomy of agencies to hire at market rates. Sweden, for instance, has undertaken local market pay experiments in a few agencies. In other instances, decentralization signifies the erosion of labor's ability to engage government in centralized, across-the-board wage settlements; thus such settlements are negotiated at more disaggregated, decentralized levels.

While countries such as the U.K. and Australia are moving gradually toward decentralized pay determination, New Zealand has moved even more decisively down this road. With the State Services Commission's assistance, lower level staff salaries are now negotiated between chief executives and relevant unions at the departmental level. Managers' salaries are negotiated individually, with guidelines (and, for SESers, wage ceilings) provided centrally. Some anomalies have occurred: chief executive salaries and fringe benefits are on average higher than those of ministers. They do not yet match private sector comparators, however.

***Lessons:***

The following considerations emerge from this discussion of developing and transitional country pay and classification systems. First, for many reforming countries a powerful rationale for traditional, unified, fixed-increment classification and pay systems is that they appear to require less administrative intensity to install and maintain. Administrative simplicity is an important, perhaps overwhelming consideration for reforming country public sectors with extremely severe human resource constraints. Nonetheless, the reality in many reforming countries is that unified classification and pay structures are undermined and distorted by a range of informal circumventions (including allowances, grade creep, double employment, etc.) reflecting the naturally occurring differentiation in government bureaucracies. Moreover, innovations such as broad-banding can actually reduce the number of job classifications and simplify the grading structure in addition to providing needed flexibility in rewarding difficult-to-attract professional skills -- a major problem in many reforming countries. Similarly, multi-skilling may use scarce skills more efficiently by allowing broadly trained staff to move easily among a range of tasks.

In countries with highly mobilized labor movements, the relaxation of standardized norms and the decentralization of pay determination may meet political resistance. But Australia's experience suggests that close consultation with relevant trade unions can overcome this difficulty. The costs of nationally negotiated pay settlements to financially strapped reforming countries make this experience worth examining more closely.

As the New Zealand case suggests, decentralized classification and pay arrangements may also offer potential financial efficiencies and promote better line management. In reforming countries, mechanisms such as locality pay may facilitate a more efficient distribution of civil service employees to far-flung regions which normally have difficulty attracting personnel. But relaxation of centralized controls poses heightened risks in countries where the fiscal balance is delicate and political patronage

abuses are commonplace.<sup>40</sup> Thus, flexibility and decentralization should be promoted in direct relation to the strength of personnel institutions at the center, the degree of central control over establishment management, and the quality and enforceability of central policy guidelines.

Finally, advanced industrialized country wage policy models linking civil service pay and allowances with shifts in the macro-economy could be highly instructive to reforming country administrations that have traditionally used bonuses and allowances to compensate for deficiencies in the civil service remuneration package, or as political patronage or social welfare mechanisms. Singapore's strategic and conservative utilization of these instruments has enabled its government to defuse civil servants' salary expectations and has provided the necessary leverage to avert future financial strain.

### **Assessing Performance: Links to Pay and Promotion**

A topical issue in advanced country CSM reforms is how best to relate rewards to performance in motivating civil servants. This discussion focuses on the role of performance in paying and promoting civil servants. To what extent are performance-based pay and promotion conducive to improving civil service staff productivity? How are advanced countries tackling these questions, and what approach makes sense for reforming countries?

Although most advanced civil services were theoretically built on a merit system, remuneration policies traditionally have operated on the basis of automatic, seniority related increases rather than performance criteria. Despite increasing emphasis on performance-related pay and performance appraisal as an important tool in both public and private human resource management circles, it is noteworthy that some quite successful administrations do *not* stress performance in determining civil servants' pay. In Korea, France, and Japan, for the most part, pay is very little affected by individual performance.

In Korea, for example, civil service pay is mainly determined by seniority progression. Although pay does vary among individuals through the allocation of allowances, these are not awarded on the basis of performance criteria. Despite formal adherence to performance pay, informal social conventions undermine the recognition of individual as opposed to group excellence. Thus, an annual merit bonus, theoretically given to the top 15 percent of performers, is in reality distributed on a annual rotational

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<sup>40</sup> The Bolivian experience with decentralization of public sector pay suggests that systemic inequities and fiscal irresponsibility can result when central personnel organs relax control of government pay determination. In Bolivia, the chaotic, uncoordinated institutional set-up at the national level contributed significantly to the systemic disorder. See Barbara Nunberg, "Bolivia: A Review of Public Pay and Employment Issues", LAC divisional working paper, World Bank, 1990.

basis to each department staff member, regardless of performance. Each employee will thus receive a bonus at least once over a several year time-frame.<sup>41</sup>

Several governments have introduced some performance-based features into basically traditional pay systems. Singapore's salary scale, for example, consists of two elements: fixed annual increments based on seniority and minimally satisfactory performance; and "efficiency bars" officials must pass by examination to ascend the salary ladder. The Netherlands has also shifted to a modified fixed-increment system. Annual step increments can now be withheld from poor performers and a modified performance-pay system (introduced in 1989) covers all civil service employees. One-off bonuses for special achievements are also awarded.

Such one-off performance bonuses have also been used, to mixed reviews, for the U.S. Senior Executive Service. Bonuses may be useful in that they reward specific accomplishments in a targeted way without permanently increasing the wage bill through pay raises. Critics assert, however, that bonuses can ultimately have a deleterious effect on staff morale. Not getting a bonus, they argue, has negative effects outweighing the positive effects on those who do receive a bonus.

A few countries have moved to install full performance-pay systems in their civil services. This process in most cases is gradual, with coverage extending beyond a small elite core in only a few instances. The U.S. Performance Management and Recognition System (PMRS), introduced in 1984 for middle and higher-level bureaucrats, represents one of the more fully developed systems. PMRS has suffered from inadequate funding, and studies reveal that although employees perceive increased links between better performance and higher pay, no correlation has been established between PMRS awards and subsequent individual or agency performance.<sup>42</sup>

The U.K. is gradually moving toward a performance-pay system for all civil servants, although so far only higher civil servants as well as professional, scientific, engineering and other specialized personnel are eligible. For these officials, the annual within-grade increments depend on the ratings they receive in objectives-based performance appraisals. With diffusion of the agency model, some Framework Agreements have been designed by departments and agencies to develop their own performance-pay arrangements. Performance-related pay is an integral part of the more radical agency reform countries. New Zealand, for example, uses it for all staff levels.

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<sup>41</sup> This is possible, of course, mainly because, with extremely low employment mobility, employees are confident they will be in the same place in twenty years and that the system can be trusted to deal with them fairly. Informants interviewed for this study claimed that high-flier performers probably received such bonuses only slightly more often than their peers, but certainly not commensurately with their true performance. Although above average staff are identified by their superiors and groomed for choice assignments, this recognition is not explicitly linked to monetary incentives.

<sup>42</sup> See James Perry, "Linking Pay to Performance: The Controversy Continues", in Carolyn Ban and Norma Riccucci, eds., *Public Personnel Management: Current Concerns -- Future Challenges*, Longman: New York, 1991.

Performance ratings and position in the salary range determine performance pay increases.<sup>43</sup>

A few examples of attempts to modify performance-pay schemes to reward group rather than individual performance are worth noting. The Agricultural Research Department in New Zealand allocates annual pay bonuses to divisions for distribution among competing work teams. Group awards are being used in limited parts of the French and Swedish administrations, and in the U.K. some Framework Agreements permit Next Step agencies to introduce alternative group performance-pay systems. The Vehicle Inspectorate Agency, for example, is currently experimenting with group bonuses. In the U.S., the Pacer-Share Demonstration Project managed by the Office of Personnel Management is using a productivity gainsharing system to distribute a portion of productivity savings to employees of McClellan Air Force Base.

The use of non-wage incentives to motivate civil servants is also emerging as a variant on performance-pay approaches. Cash awards to employees offering suggestions to improve the organization or enable savings are one such mechanism. In the U.K., for example, departments provide financial incentives to encourage staff to make helpful suggestions. When a suggestion is implemented, staff receive as much as 10% of the savings obtained during the first year.<sup>44</sup>

These variants aside, the deliberate movement in many advanced industrialized countries toward individual performance-related pay systems is proceeding despite unresolved questions about the costs and benefits of this approach. Though widely used in the private sector, the concept still represents a significant departure for most civil services. There are numerous claims for performance pay: it underpins the concept of accountability; it provides alternative mechanisms for staff rewards when promotion prospects are limited; it affords the public sector flexibility in competing with private markets for scarce skills; it builds civil servants' morale in an age of public sector bashing; it provides a rational means for allocating scarce personnel expenditures; and it provides a means, short of major public service pay adjustments, to redress private-public pay differentials and internal government wage compression.

Critics of performance pay point to a range of flaws. The most serious critiques claim that performance pay over-emphasizes short-term performance over long-term strategic objectives; produces more unmotivated losers than motivated winners; is plagued by measurement problems, biasing reward unrealistically toward quantitative and financial measures; encourages standardized norms that inadequately capture the differences in civil service jobs; and is management-intensive and costly.

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<sup>43</sup> Awards for administrative and support staff range from 2% to 10% of base salary; awards for advisory and professional staff range from 2% to 20% of base salary. There is no increment for poor performers. The chief executive's performance is reviewed annually by the State Services Commission against the terms of agreement that were negotiated during the previous year with the Minister. Like other higher civil servants, chief executives are on fixed-term contracts which may be terminated for unsatisfactory performance. In practice, however, contract termination happens rarely if at all.

<sup>44</sup> According to one survey, in 1981, these schemes resulted in average savings of over L760,000 in large departments with approximately 40,000 employees.

### ***Lessons:***

Despite the inconclusive debate cited above, it is difficult to reject the notion of remuneration structures that relate rewards to performance. But without clear evidence, governments may end up basing decisions to implement performance related pay systems purely on social preferences. For the World Bank and other international donors providing support in this area, the question still looms as to whether this should be a major component of technical assistance in civil service management. The hedged response is that it is probably worth pursuing in the medium or longer run, but is not likely to be a top priority currently. The practical argument against performance pay stems from its costliness and management-intensiveness.

It could also plausibly be argued that several industrialized country civil service management systems perform very well without performance pay, and that even its adoption in reforming administrations has been recent and gradual in nature, utilized for only small numbers of civil servants. Moreover, given limited resources, attention to performance pay may be seen as a trade-off against improvements in other parts of reforming country CSM systems. For example, nurturing a rigorous recruitment system or building a solid establishment control system may have greater medium-term returns than installing performance-pay mechanisms.

Finally, socio-cultural resistance to individual rewards undermines performance-pay systems in several advanced countries and could well do the same in some transitional contexts. This is less an argument for cultural relativism than a suggestion that recent efforts to shift rewards toward the kinds of group incentives described above may offer greater prospects for success and should be considered as an alternative instrument.

### **Performance and Career Advancement**

The difficulties in introducing performance-based pay notwithstanding, many advanced industrialized countries are making increasingly frequent use of *some* form of performance appraisal as a basis for career advancement and promotion. This experience may be worth examining for reforming country adoption. Most performance appraisal-based promotion mechanisms are imperfect, suffering from many of the same measurement problems as performance linked pay mechanisms. But in many reforming countries, the alternative bases for upward mobility, i.e., nepotism, seniority, and cronyism, are probably worse. Some approaches to performance-based promotion and some suggestions for reforming country applications follow.

Although all CSM systems examined here had some formal performance-promotion link, the degree of consistency between formal systems and the informal practices of career advancement varied. Traditional CSM systems exhibited a greater gap between formal and informal practice. Korea, Japan, and France were in this group. In Korea, a semi-annual official performance review rates employees on task performance, abilities, attitudes and integrity. The resulting performance rating contributes to but does not fully determine promotion decisions, which still consider seniority and training accomplishments as advancement criteria. In Japan, a formal system of confidential

performance reviews operates annually, but real practice mixes a complex set of considerations based on seniority, social relationships and merit.<sup>45</sup>

By contrast, other advanced industrialized administrations are emphasizing the centrality of truly operational performance appraisal mechanisms to their advancement systems. In the U.K., a relatively participative, objectives-based system has been in use for a few years. All civil servants are evaluated annually in Job Appraisal Reviews which become part of an Annual Staff Report. Supervisors interview employees to discuss progress made against previously agreed upon work objectives, and to define new ones for the coming year. They also identify training needed to improve job performance. Career development prospects are also discussed. An "open" section records the comments of both parties. Staff Reports are definitely used in promotion decisions in the U.K., as are interviews with candidates' former superiors. Although merit has long been the primary criterion for civil service appointments, this had traditionally been construed as some informal and subjectively determined combination of personal attributes and the quality of policy advice. Recent reforms have attempted to systematize evaluation and consequent promotion, increasing the importance of management skills to the success formula.

Singapore takes one of the most innovative approaches to performance evaluation and promotion. Promotion is largely merit based, with considerable staff mobility among different ministries over a career. The government has moved from a confidential evaluation system to a participatory performance appraisal system developed by the Shell Oil Company. The performance appraisal has two parts. One reviews and assesses past job performance; the other assesses the management and leadership potential --the so called "helicopter capacity"-- of the subject in an effort to identify and subsequently groom executive talent within the civil service. While not directly linked to specific promotions, the latter assessment predicts an individual's career trajectory. Though it runs the risk of becoming a self-fulfilling prophecy, this approach brings a helpful, forward-looking, strategic perspective to the career development and succession planning functions.

New Zealand has forged the tightest links between performance appraisal and promotion. Using private sector models, the government has introduced and applied to all employee levels a participative, objectives-based system. Performance is measured against objectives and standards agreed upon at the beginning of the review cycle. Individual objectives flow from the corporate mission statement and agency business plan which form part of the Framework Agreement between Agency and Minister in New

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<sup>45</sup> The intricacies of the Japanese system show how formal performance-based promotion systems are adapted to or distorted by dominant systems of social preference, resulting, in this case, in a rather functional arrangement. Members of a recruitment cohort progress more or less en masse up through the ranks. Distinctions among them are identified on the basis of informal evaluations agreed upon by various of their superiors, and these become the basis for decisions about assignments made at their grade level. This informal ranking does not lead to promotion above the cohort, however, which would signal a loss of face all around. Indeed, as each cohort arrives *ensemble* at the highest civil service grade, one cohort member is designated to the vice-ministerial level --the highest civil service post. By common consent and tradition, the entire group then resigns to assume positions in local government, run for the Diet, or move to pre-arranged sinecures in the private sector. Although mandatory retirement age is 60, this mass resignation takes place in the middle-fifties. This mechanism has two functions: it saves face by avoiding the embarrassment of one cohort member supervising another; and, through a "dignified" early retirement process, it provides mobility channels for more junior staff, preserving a youthful and vigorous civil service profile.

Zealand. The performance appraisal constitutes the building block of performance agreements between departments and ministers and is credited with strengthening accountability throughout the system.

A voluminous literature documents the difficulties in designing performance appraisal systems that accurately and fairly measure individual performance. Thus, questions about the utility of this instrument as the basis for decisions about career advancement abound. In particular, it is frequently asserted that performance appraisal cannot serve the dual purpose of staff assessment and career development, and that it is generally more appropriate to the latter. Finally, some critics see performance appraisal as a return to "Taylorism", breaking down human performance into artificially disaggregated, but ultimately immeasurable parts.<sup>46</sup>

***Lessons:***

The above critiques, however, constitute fine-tuning -- a luxury not always available to reforming countries. In reforming country administrations where standards have broken down, performance-based promotion systems can minimally offer countries broad guidelines for rewarding and promoting competence. This is useful even if informal behavior and preference patterns come to distort the formal system. As the Japanese case shows, a reasonable compromise between the formal and informal can yield a system which at least considers performance as one criterion for advancement.

The feasibility of performance-based promotion arrangements may depend on the conditions under which they are installed. Experience suggests that support from executive leadership, employee participation in the design of the system, and the timeliness of supervisory feedback to employees are key to the establishment of successful systems.

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<sup>46</sup> For views on this issue, see, Robert Glen, "Performance Appraisal: An Unnerving Yet Useful Process," *Public Personnel Management*, Vol. 19, No. 1, Spring, 1990; and, Charles Fox, "Employee Performance Appraisal: The Keystone Made of Clay," in Carolyn Ban and Norma Ricucci, eds., *Public Personnel Management: Current Concerns -- Future Challenges*, Longman: New York, 1991.

#### IV. CONCLUSIONS

This paper has reviewed established practice and emerging innovations in civil service management in advanced industrialized countries in order to glean lessons for developing and transitional countries. In some instances, discussion about alternative approaches revealed ongoing debates, leaving uncertain the optimal reform strategy. The position assumed here, though, is that even with imperfect information reforming countries must choose some reform path to improve the management of their civil services. Rather than definitive conclusions, the guidance offered here constitutes at most hypotheses and at least "hunches" about what is likely to work under reforming country conditions. Focusing on three principal areas of CSM, -- system organization and management, quality of human inputs, and staff incentives and performance -- the paper's main findings are summarized below:

- As a general reform principle, traditional, mainly centralized civil service management models provide the best starting point for many of the reforming country administrations. Agency approaches, requiring technological and human resource skills beyond the present capacity of many reforming countries, may, however, provide models toward which some countries -- especially the better endowed -- can strive. Certain selected elements of agency reform might even now be successfully emulated by some reforming administrations. But any countries contemplating comprehensive agency-type reforms need to assess seriously the degree to which the requisite human and technical requirements can be met and to think strategically about the necessary steps to acquire them.
- Strong centralized institutions are usually necessary to support fledgling civil service management functions in reforming countries. Shared power and good coordination among a limited number of organs at the center ensures necessary checks and balances. To the degree that capacity can be developed in line entities, some deconcentration is desirable however, for responsive, flexible personnel management.
- Certain CSM functions should be given higher priority than others. This wisdom is even more powerful in reforming countries, where resources are scarce and starker choices about allocation need to be made. Two functions emerged as central: recruitment and establishment control.
- Establishment control provides the foundation for all other CSM functions. In reforming countries where this function has historically been poorly managed, centralized models are advisable. Advanced industrialized country experience with strategic, forward manpower planning could be enormously instructive to many reforming countries.
- Programs to improve the rigor of recruitment standards should receive high priority in reforming countries. Despite serious pitfalls, some aspects of "mandarin" systems offer many advantages to reforming countries building

a professionalized civil service. They compensate for other system failings. Governments should take measures to moderate the elitist characteristics of the mandarin approach and, as appropriate, judiciously introduce market flexibilities to recruit scarce skills.

- Senior Executive Services, or similar programs to develop professional elite cadres, have proved difficult to design and implement in advanced industrialized countries, but many flaws can be corrected in adapting them to reforming country contexts where there is often an urgent need to groom higher-level civil servants. Such services may complement recruitment rigor. These programs must be carefully designed to include career mobility and training as well as remuneration features, and exclusion of political appointments is essential to their credibility.
- Assuming necessary minimal levels of establishment and budgetary control, unified pay and classification in reforming countries could arguably be relaxed, following the lead of increasing numbers of advanced countries. The common tendency toward circumvention of existing unified norms in many reforming civil services, along with the need to target scarce skills more directly with appropriate remuneration packages, reinforces this view.
- The benefits of performance *pay* remain to be demonstrated in industrialized country public sectors, and the management requirements and costs of installing such systems can be considerable. Resistance may subvert efforts to effect performance pay arrangements. Given these difficulties and the urgency of other CSM tasks for reforming country administrations, lower priority should be given to this reform at present. Performance-related *promotion* systems, on the other hand, even if imperfectly implemented, can help move civil service values toward standards of competence and merit.

### ***Suggestions for Further Work***

These conclusions represent best guesses for reforming country policy directions based on an initial, broad review of administrative experience in some advanced industrialized countries. The intention was not to carry out rigorous research but to begin to elevate the quality of Bank operational advice on civil service management by flagging topical issues in worldwide administrative reform. Naturally, this work has raised a series of questions that require systematic investigation in order to move beyond the realm of speculation. The following are a few suggestions for further inquiry:

- Rigorous comparisons of civil service performance across countries do not exist due to the absence of suitable methods for measuring civil service performance, the lack of comparable cross-national data on most questions, and the inherent difficulties in controlling for a range of intervening variables such as politics and culture. Research to develop a methodology for measuring civil service performance would be a valuable contribution in trying to determine which systems and approaches work best under which

conditions. Initial comparative work might begin by developing performance measures for a single, relatively simple function carried out by most central governments.

- Research on the relationship between pay and performance in the public sector is not well advanced, and often policies are adopted on shaky empirical bases. Further work on this issue, particularly in reforming country contexts, would be useful.
- The effect of private-public pay differentials on civil service management functions could not be determined in this project and would require significant data generation and collection. Comparative research might be worthwhile in this area.
- The relative effectiveness and efficiency of agency reform systems versus traditional civil services need to be studied rigorously before credible policy prescriptions can be extracted for reforming countries. Given the recent origin of many of the reforms, such research might be appropriately undertaken after a suitable period elapses.
- Given the urgent need in many developing and transitional countries to build governmental capacity, a more active form of applied research on civil service management topics might be an appropriate parallel approach to those suggested above. Pilot experiments could be carried out in reforming country administrative "laboratories" to examine the relative merits of, say, different recruitment, pay and classification, or performance appraisal systems on a comparative basis. While the actual "experiments" in one or another civil service management improvement in a particular country could be financed as a lending operation, the exercise could simultaneously be set up as comparative, cross-national research by undertaking baseline studies and establishing performance criteria for ex-post evaluation.

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