

**STATEMENT TO THE PUBLIC SERVICES PANEL OF
THE HKSAR LEGISLATIVE COUNCIL ON CIVIL
SERVICE REFORM**

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Ladies and Gentlemen:

Introduction: the Need for Reform

There is a clear need to reform the Hong Kong civil service. The public demands reform. Civil service management practice overseas is well ahead of our own practice. The public sphere is not immune to the pressures of globalization and international competition. Hong Kong's competitiveness depends in part on the capacity of its public sector. At its core is the civil service. The government recognizes this challenge.

The problems of the civil service are long standing. They did not just emerge on July 1, 1997. Economic good times led us to ignore many of them. With the Asian economic crisis, however, they have been magnified. Negative growth, deflation, and high unemployment have shocked the community and placed the problems in stark relief.

The problems are of several different sorts. First, political leadership is timid and lacks a strategic vision. It continues to be mostly reactive, failing to anticipate. To a certain extent this is because political leadership in Hong Kong is placed in the hands of amateurs who lack a popular mandate.

Second, the policymaking capacity of the government is not as strong as it could be. The problem manifests itself in failures to anticipate

problems and failures to co-ordinate policy across departments and bureaux. These are long standing problems that have been raised since the mid-1980s. Examples are the current right of abode controversy which was raised in some circles outside government nearly a decade ago, and environmental protection.

Third, policy implementation often lacks co-ordination and those charged with implementation sometimes do not see the 'big picture' or are unable or unwilling to communicate the 'big picture' to their subordinates. Examples were the lack of co-ordination during the avian flu crisis and current discipline problems in the urban and regional services departments.

Fourth, although we have had some success at changing the culture of front line staff in the civil service, other parts of the civil service sometimes behave as though they are owed their jobs. Back room operations in some departments appear to have been little touched by reform. Trading fund departments are an important exception.

The civil service reforms contained in the Civil Service Bureau's consultation document address only some of these problems. In terms of what is needed, the reforms then are relatively limited.

Objectives of Reform

The objectives of reform should be to improve the efficiency and *effectiveness* of the public sector. To do this, however, we need more than the reform of the civil service that is laid out in the consultative document.

First, we need a more clearly articulated strategic vision of where Hong Kong is going that places us in the context of the rest of China, the region, and the world. We need a political leadership with the will and legitimacy to unite the community to realize the vision. This requires

reform of our political institutions, and in particular, a directly elected chief executive.

Second, we need a thorough going review of the role of government in society that asks: 'What should the government be doing?' Generally, government should only carry out those functions that cannot be provided by the private sector (such as many market regulatory functions and law enforcement, fire protection and so forth) or those necessary functions that the private sector is unwilling to provide. Although we are justly proud of our relatively small government, why does the government still employ tennis coaches and museum curators? Appropriate steps are now being taken to privatize housing management. Further shrinking the size of government is possible and desirable. Shrinking the government would bring more activities previously carried out by government into market competition. Government must ensure, however, that citizens receive high quality service, that privatized or contracted-out services are strictly monitored, and that civil servants themselves understand and accept these policies.

Third, political accountability to the people of Hong Kong and administrative supervision of the civil service are still relatively weak. In part this is because of our undemocratic political system that reserves so many seats in the legislature for special interests. In part it is because of inertia and a desire not to rock the boat because of our fear of instability. Political accountability can be increased by a popularly elected legislature and ministerial control of the civil service. A politically accountable civil service is a more effective civil service. Increased supervision can also be increased by more regular and frequent auditing of government departments.

Fourth, we can improve the policy making and implementing capacity of government by reforming the administrative officer grade. In

particular, the government can examine the extent to which specialist streams can be established within the grade and the length of time in post can be increased. The proposed reform to recruit more people from the private sector directly into senior positions from outside the civil service is entirely appropriate.

The civil service reforms are to some extent, informed by practices in the private sector. This is entirely natural, especially because the civil service operates in a market economy. Government managers should be looking outward to understand the best human resource practice.

A word of caution is in order, however. The private sector is also home of some of the worst human resource practices, including nepotism and relying on personal connections to get ahead and along, practices that violate the merit system. Private sector practices include secrecy and arbitrary and unilateral personnel decision making. Accordingly, I strongly endorse the words of our Financial Secretary when he pointed out that in reforming our civil service we must take into consideration the special character of the public service. It is special and we must never forget this. Because it relies on public funds, it must be accountable, open and transparent. Because it provides so many essential services, services that have a major impact on the lives of our community, it must be staffed by dedicated and public spirited people who are, nonetheless, closely supervised.

Civil Service Reform

Generally speaking, I strongly support the reforms proposed by the government for the civil service. There are many very positive elements contained within the consultative document. They include the following:

a) Contracts -- easy in/easy out. The government proposes to make it much easier to enter and leave the civil service. A much smaller

permanent establishment composed of those who have proven themselves to be high performers is proposed. Government will be able to hire fresh talent at all levels, not only at currently defined 'entry levels'. This can only improve civil service performance. When they leave, civil servants will be able to take their benefits with them, which should encourage mobility.

b) Compensation. The government does not propose to change its basic principle of compensation, namely that pay should be sufficient to attract, retain, and motivate suitable staff to accomplish the tasks of government. I applaud this decision. The principle is the most basic principle for determining civil service compensation. It means, however, that where there are no vacancies, probably civil service pay is too high. We should be vigilant to set pay levels at market rates.

The government's proposals for performance-based pay call for experimentation and flexibility. This is entirely appropriate. Given the problems of performance-based pay for individuals, the government is right to be cautious here. I would encourage government to consider some kind of performance based pay for programmes and departments, especially of trading funds where performance can be more easily measured. A certain percentage of the pay of each employee of the programme or department could be based on overall performance of the programme or department, where this can be clearly measured. Further, the government's move toward the 'total remuneration' concept, that encashes as many benefits as possible, is entirely appropriate

c) Discipline. Clearly improving the discipline of some parts of the civil service and building commitment is required. This will be difficult in a period of rapid change. Changing the culture of the whole civil service, not just front line officers, is absolutely critical here. Of course articulating a vision is important. But also important are more frequent

auditing of civil service activities, on the one hand, and consulting civil servants and providing effective grievance channels, on the other.

d) Performance management. I applaud the government's moves to improve the performance appraisal process. Government must, however, separate the process of determining an individual's evaluation ('outstanding', 'excellent', 'satisfactory' and so forth) from the process of determining an individual's rank (top 10 percent, next 20 percent and so forth). Experiments with forced choice and review panels are entirely appropriate. Perhaps experiments with mechanisms to provide '360 degree feedback' (feedback from peers, subordinates, clients, and superiors), which should not be linked to pay but rather to improving performance, could also be considered. Even more attention than is currently the case should be paid to evaluating the performance of teams, groups, and programmes.

Conclusion: Pitfalls of Reform

As the government considers reform of the civil service a few words of caution are in order.

First, government should adopt a strategic vision in reform and avoid 'short-term-ism'. Some of the reforms proposed in the consultative document, such as the greater reliance on fixed-term contract staff may be appropriate for an economy in recession. When the economy recovers, will the government be able to compete for the best talent? This consideration should not deter us from reform, however. We must be aware that fine-tuning civil service packages is a continuous process. Government should be flexible enough to anticipate these changes and make them as needed. Such flexibility has not been a characteristic of civil service management thus far.

Second, government should consider how important is public service as a career. There are clear benefits to employing civil servants for a career: they have more experience, for example, and experience is important. By giving so many staff permanent and pensionable terms, we have perhaps gone overboard on this, thus far. We should balance the needs of the community and the government for experienced officials with the need for infusions of new ideas and practices from the private sector.

Third, government should consider the value it places on a committed public service. Building commitment during an era of change is not easy. Consultation and consensus building are therefore required. I understand that these are now underway.

Finally, as government considers civil service reform it should consider the larger picture in which the reforms are placed. If we truly want to improve the *effectiveness* of government, constitutional and political system change are also necessary. Let us not shirk our responsibilities on this score.

There are glitches in performance-based wage schemes, says John Burns

The paying game

IN the wake of the Asian financial crisis and Hong Kong's poor economic performance, it is not surprising the public holds the Government and, in particular, the civil service, responsible.

Perhaps the most serious of the criticisms levelled against the civil service is that neither Hong Kong's economic condition nor the performance of the civil service warrant the high levels of pay it currently enjoys.

Among solutions being proposed by the Government for re-aligning the salaries of Hong Kong's 189,000 civil servants is the adoption of performance-based pay.

It is an intuitively appealing concept. We all believe employees should be rewarded according to their contribution. Studies overseas indicate civil servants also subscribe to these values. And performance-based pay is the norm in the private sector.

Australia and the United States have adopted performance-based pay schemes in the form of bonuses: in Australia, senior executives receive bonuses of between five and 20 per cent of base pay, and some US state governments offer up to seven per cent of base pay.

Yet these experiments have not been successful. According to an evaluation of the Australian experience by the Organisation for Economic Co-operation and Development (OECD), "it cannot be stated with any confidence that performance pay has had any impact on the effectiveness of public sector agencies in Victoria [where the scheme has been implemented since 1982]".

In the US, an independent assessment concluded: "There is very little in the record ... to suggest it has

been a success." OECD studies of the attitudes of civil servants towards the schemes paint a similarly gloomy picture.

According to a 1994-95 survey of 965 middle level and senior civil service managers in 11 agencies in Australia, Denmark, Ireland, Britain and the US, "a majority ... believed performance-related pay schemes in their agency were generally ineffective in that they were not easy to understand, were not generally accepted by managers, and there was not a clear link between performance pay awards and the performance achievements of managers". Most managers reported they were not motivated by the prospect of receiving a performance award and they felt these were distributed unfairly and inequitably in their agency.

Why have the results been so poor? First, there are serious problems with public-sector performance assessments that no country has been able to overcome. Standards and evaluation criteria for many civil service jobs are vague and unquantifiable, especially for managerial work. Subjective assessments are common.

Second, for performance-based pay to motivate, managers must perceive that performance and pay are linked. That they do not, even where such schemes have been implemented for relatively long periods of time, is in part the result of budget constraints.

In Australia and the US, due to budget deficits and legislative budget-cutting, allocations for bonuses were often too small to motivate. Where merit pay budgets were fixed and one employee's gain was another's loss,

pay for performance schemes were found to be demotivating. Moreover, in these cases in practice very few managers had their pay decreased as a result of poor performance.

Third, because performance-based pay schemes usually isolate individual contribution they may demotivate if employees believe they have been unfairly denied a bonus.

Quite rightly, government officials have been cautious about the adoption of performance-based pay. Financial Secretary Donald Tsang Yam-kuen has made it clear that only if the current performance-appraisal system can be appropriately reformed will performance-based pay be considered in the longer term, while "we must not lose sight of the unique job nature of much of the civil service". A further implication of his statement is that such schemes may be appropriate for some grades and departments of the service, but not for others.

THE Hong Kong Government's performance-assessment system currently suffers from a variety of weaknesses. Overgrading is so serious in some departments, Public Services Commission head Haider Barma revealed recently that 60 to 70 per cent of staff receive the highest ratings. The system, then, is not able to discriminate effectively between satisfactory and outstanding performances.

The civil service reform consultative document released on March 8 proposes to strengthen the performance-appraisal system by relying on assessment panels rather than individual supervisors to grade staff. Removing the one-on-one nature of

current assessments should improve the grading.

The consultative document also recommends a forced choice method that would require the assessment panel to grade a certain percentage as "outstanding", a certain percentage as "very good" and so forth. But morale could suffer if the assessments were perceived to be unfair, or if the same people year after year repeatedly received "outstanding" bonuses. A probable result of such a system would be an informal agreement to rotate the "outstanding" grades (and thus the bonuses) among members of a larger group, as is common in some agencies of the US federal government. Such a practice, however, defeats the purpose of performance-based pay.

The Government's intention to move towards a "total remuneration concept" that encashes all benefits is entirely appropriate. Flexibility and experimentation are called for to determine the appropriate levels of benefit sufficient to attract and retain suitable staff.

In the longer term, the Government must consider additional policies that limit the size of the permanent civil service, such as contracting out or the privatisation of some tasks. But the Government must improve its ability to manage contracts and strengthen accountability over quasi-public bodies to ensure the public's interests are protected.

Still, a core civil service must be maintained that performs efficiently and that is managed effectively.

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