

WHY ARE HR AND PERFORMANCE MANAGEMENT IMPORTANT IN CENTRAL BANKS?

I. CENTRAL BANKS ARE IMPORTANT, AND EXPENSIVE!

The fact that each central bank is unique, and uniquely important to the country it serves, means that it has a special status. The central bank of each country is expected to have characteristics of stability, permanence, credibility, professionalism, discretion, influence and so on.

This costs money – mostly in the shape of the staff – and that is why HR and performance management are so important. Indeed, the HR department is uniquely well placed in many central banks to act as the ‘corporate glue’ that holds the organisation together, the ‘conscience’ that scorns those who fail to ensure that the staff are encouraged to perform well, and the ‘guardian’ of standards (of recruitment, performance, staff appraisal, the consistency of pay decisions, respect between staff at all levels and so on).

II. THE WORLD OF CENTRAL BANKING IS CHANGING

Having worked in the Bank of England for 31 years, the Central Bank of Swaziland for 2 years, and having provided consultancy and training in a further 20 central banks around the world over the past 12 years, I can say with certainty that the world of central banking is changing!

Central banks are now more focused on goals – monetary stability and inflation in the case of most, systemic financial stability and, for many, prudent commercial banking, and some aspect of economic growth or financial market development. To achieve these outcomes many central banks have made themselves more professional. They have given up many traditional functions such as branch networks, have abandoned the traditional concept of a 40-year career for staff, and have adopted flatter, less hierarchical management structures. This and a much greater focus on technical expertise and capability also means a need for greater people management and cross-departmental cooperation - but, at the same time, people management and team-working skills are not being given the same status, respect and

reward. HR departments that think and act strategically can help to get the balance right.

Clear, measurable goals have meant that performance management can be better focused – for example, achievement of an inflation target being a measure of effectiveness, its internal costs of achievement (ie largely staff costs) being a measure of efficiency, and, in some cases, the external costs of its achievement (eg unemployment) being a measure of equity. And such measures are often now more public and accountable, too. Flatter structures and more flexible approaches to recruitment and careers in central banks have provided HR departments with both challenges (eg managing staff cuts, dealing with poor performers, and coping with the need to give senior staff all-round experience of the bank in the face of increasing pressure to specialise in one function or another) and opportunities (eg closer partnership with busy line managers, training and development programmes with a clearer and shorter path to application and results, and the chance to pay good performers well).

Clarity of purpose and a focus on outcomes are the keys to good performance management

There is no doubt that any organisation with clear purposes and goals is in a better position to manage its performance. Combined with clear independence, and, often, a public declaration of accountability for achieving certain goals, this has made life different for modern central bankers. Inflation targeting for the Reserve Bank of New Zealand has really sharpened the focus of expected performance from their staff; having three Core Purposes for the Bank of England has helped to ensure that all activities are assessed and validated against their contribution to those Core Purposes.

A good test of success for HR support activities and performance management systems is how well those **inputs** produce the **outputs** that lead to desired **outcomes**. For example, the provision of training (an input) should produce recognisable skills (an output, to be applied to the person’s job) that result in better organisational performance (an outcome). Similarly, the introduction and maintenance of

a performance management or staff appraisal system would have low value if it did not ultimately result in better individual and organisational performance – through the provision of timely and good feedback to staff (an input), which led to the motivation to develop and to improve performance (an output), with a view to contributing more to the achievement of the bank's goals (an outcome).

III. HR CAN PLAY AN IMPORTANT ROLE – THE SYSTEMS ROUTE

In my experience, many HR departments need to exercise more care in approaching the issue of performance management through the systems route. For example, job descriptions may form the bedrock of a good performance management system, but if they are burdensome to produce, are seemingly 'owned' by the HR department rather than the line managers, 'lock in' performance at current levels rather than designed to encourage improvement, and soon become out of date, they are not worth a huge exercise to produce them. Many HR departments in the private as well as public sectors produce heavily 'over-engineered' performance management or staff appraisal systems (I saw a 28-page form recently!), which the line see as 'owned' by HR and as a burden.

An alternative for HR departments to consider is more flexible approaches to job evaluation. These could involve assessing each job – not the person doing it – against agreed organisational criteria, such as the level of experience and skills to be applied to reach a good standard, the impact of the job on the achievement of prime organisational goals, the level of authority, risk or exposure and so on. This way consistency across the organisation can be achieved and more transparent links between pay and jobs established. It is very important, however, that the criteria chosen relate to the skills and knowledge that is **applied** (ie can be seen in the performance of the job), rather than merely being **possessed** (eg qualifications) – why would anyone want to pay more to someone merely possessing a PhD than to someone actively applying their BSc?

Similarly, with appraisal systems, HR departments are well advised to keep it simple. No appraisal system can ever be entirely objective – so HR departments should save

themselves the worry of achieving the impossible (and save time and effort for those completing the forms) by devising systems which allow staff and the line to have a fruitful discussion about how both sides see any particular performance. If the HR department have encouraged the development of good management, openness and honesty, and maturity in the staff, the appraisal system could just be a sheet of blank paper! – for both sides to record their views.

The other thing about taking the systems route is that it can draw HR departments into tactical administration rather than strategic thinking and interventions. For example, this often shows up if organisations rely on invitations to overseas training events and the HR department ends up spending more time on the travel arrangements than on getting the right person onto the right course for the right reason (and on getting their manager to work with the member of staff on what they are expected to learn and how they will apply it on return to work).

IV. HR CAN PLAY AN IMPORTANT ROLE – THE RELATIONSHIPS ROUTE

Many organisations I work with seem to have a 'knee-jerk' reaction as follows:

- Problem with or between people arises or is detected – rule, regulation, form or procedure is instituted – problem is expected to be solved (unilaterally – through systems).

They seem to persist with this, even where it is clear that the original problem still will not go away – for example, believing 'the existing appraisal system is subjective so let's design a new one so carefully that it will be objective, and we can plan pay on it' but failing to realise that pay will distort the system in any event (when the UK tax authorities linked pay to their appraisal form in 1994 87% of staff immediately lost faith in the 'fairness' of the appraisal system).

Organisations would probably have more luck if they reacted as follows:

- Problem with or between people arises or is detected – underlying causes are analysed – stakeholders are consulted – where possible, dialogue, training, coaching or some form of negotiated response by all sides is put in place

– problem is expected to be resolved (multilaterally – through people and relationships).

I therefore believe that HR departments should find ways to shift the management thinking away from ‘we need a regulation or authority for this’ towards ‘this is what we need to achieve our agreed goals, let’s talk to people, find an agreed solution and get on with it’.

The next stage is to help managers to develop good relationships with staff – through frequent feedback, coaching, an understanding of how to motivate people, and, above all, differentiating (and being able to justify the differentiation) between good and poor performers. The aim should be to get to a situation where the vast majority of staff are good performers and the vast majority of managers spend more time on continuing to develop the good staff (because there are virtually no poor performers left to deal with). HR departments can do this in their roles as ‘conscience’ and ‘guardian’.

HR departments could also work on some concerns about conflict, in their role as the ‘corporate glue’. Conflict is, of course, natural, and not all conflict is bad. Conflict which is approached in a mature way can lead to better solutions, a better appreciation of the other person’s point of view, or simply the realisation that both sides actually want the same result but disagree about how to get there (this is where clear organisational goals and priorities are so important). Training may be arranged for this but there is also long-term value in working with senior management to persuade them to encourage staff to put up ideas, to ask tough questions, and even to challenge issues where they cannot see how decisions or plans will help the organisation to achieve its goals. Here, it is interesting to note that a recent book which advocates ‘abolishing performance appraisals’ – in favour of encouraging more ongoing feedback – records a number of case studies where such a revolutionary approach had been preceded by training for managers to **receive** feedback.

V. HOW IS THE BANK OF ALBANIA DOING?

During the last two years, BoA has made great strides forward in HR and performance management.

The HR Section has been restructured and transformed. A new pension plan was introduced, a first kind in Albania, developed entirely by the HR section (Actually the idea of the new pension plan was of the Governor and it’s better to avoid any misunderstanding). Relationships between HR and line managers have been strengthened, and the HR Section clearly understands more about the business of the BoA. A better understanding of the importance of attention to ongoing performance management is also being developed, and the tools (a performance evaluation system) and support (cross-departmental working groups) for the line are being provided.

The greatly increased professionalism of the HR Section is definitely leading towards:

- More effective partnership with the line
- Better understanding of the balance between pay and other, psychological motivators
- Greater readiness to distinguish between good and poor performers

... these inputs are, in turn, concerned with outputs such as:

- Better motivated staff
- Reduced turnover of good performers
- Enhanced ability to recruit good staff

... and these outputs are aimed at the key outcome for the BoA:

- Improved overall organisational performance.

The BoA as a whole now intend to build on some initiatives already begun to develop greater dialogue and cooperation, both horizontally and vertically (both up and down). The need to reduce reliance on internal regulations to control activities and relationships in the rapidly-changing environment faced by the BoA is being recognised, and there are plans to increase delegation and the readiness to justify decisions (particularly about pay).

A lot of work still remains to be done, but I am optimistic that further progress will be made.

A few thoughts by **Iain Thomson**, an FSVC Volunteer visiting the Bank of Albania