Senior leaders in the public sector face the biggest financial challenge in a generation and they remain concerned about how best to respond. Hay Group’s latest research indicates that whilst the public sector has taken positive, proactive steps to achieve cost reduction, in so doing, many organisations have overlooked workforce strategies that will be crucial to their success in the changed landscape of the future >>
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Introduction

Our recent survey identified a generally more positive view of the public sector financial challenge and a greater confidence to tackle it compared to opinion last year.

What is immediately clear is that although many (65 per cent) think that cuts across the public sector are being pushed through too quickly, the majority (82 per cent) of respondents are on track to deliver the savings required of them, with a further 15 per cent confident that they can deliver the savings but over a longer period than initially planned. Some 73 per cent say they have not come across any unexpected barriers to delivering these savings, implying that public sector scenario planning has paid off.

The research

We recently surveyed 131 public sector leaders ranging from board and executive level to middle management. This report is based on what they told us. It shows that public sector concerns have moved on since our report last autumn – Dealing with the deficit where we surveyed 181 public sector leaders, and interviewed 26 expert panel members – which summarised how organisations were initially dealing with the demands of the enforced spending cuts.
However, the survey identified three factors that have so far been largely overlooked, all of which are crucial to future organisational success.

- **Talent management.** Most organisations have reviewed their core purpose and organisational structure, but have not renewed their talent management strategy or thought strategically about the capabilities their workforce will need to deliver future strategy.

- **Leadership capability.** The public sector realise they need new types of leadership roles to succeed in the future, but are not confident they have the talent to fill these roles. A new type of leader will be needed with a different outlook and with capabilities such as resilience, commercial acumen and collaboration skills.

- **Engagement, enablement and productivity.** Public sector organisations remain most concerned about maintaining employee engagement, enablement and productivity whilst change rumbles on. But few organisations have yet launched effective strategies to address this challenge. Particularly, there are real problems to be addressed in the middle management ranks.

“A big challenge will be balancing the day job with radical structural change, achieving 20 per cent cuts, and preparing for the greatest organisational change I have ever experienced.”

Board level, police
Where has all the talent gone?

Managing talent is complex at the best of times. And during a period of recession it can seem almost impossible to balance the need for short term cost savings with what are usually much longer term benefits of talent management. However, it’s crucial to invest. There seems little point in an organisation surviving a recession if it does not come out the other side with a workforce that is fit for the long term.

The better, more radical, alternative in the long term is to take a fundamental look at how the organisation does business, decide what this means for its future operations and from there, define its workforce requirements.

The response to workforce restructuring across the public sector has so far been largely tactical. The pressure to make in-year savings and, for many parts of the public sector, the affordability issues created by front loading of cuts has led many organisations to identify immediate workforce savings. They have encouraged early retirement and voluntary redundancies and used recruitment freezes. In the short term, this is certainly a more palatable policy for staff and unions, and also for citizens and politicians. However, it is a conservative approach that will not necessarily leave organisations with the right people and skills in the retained workforce. It demonstrates that many public sector organisations have not taken long term talent management into account when devising their new roles and structures.

In the research, whilst almost 60 per cent of our respondents have reviewed their core organisational purpose and 69 per cent of these say they will require new types of leadership roles, almost three quarters (73 per cent) have not renewed their talent management strategy or thought systematically about identification and retention of high potentials. As a result, over half do not feel confident that they have the right set of workforce skills and capabilities amongst their leadership population to deliver their future strategy. Most (70 per cent) do not think the planned redundancies will allow sufficient space to bring in new talent and skills. Addressing these issues is vital if the public sector is to make a success of new working arrangements and deliver services more effectively.
The better, more radical, alternative in the long term is to take a fundamental look at how the organisation does business, decide what this means for its future operations and from there, define its workforce requirements. This means determining the extent to which the organisation is going to change its operating model, how it will work with partners, its approach to service delivery and how it will organise back office functions.

If a public sector organisation in the current climate decides that it is going to operate in a different way in the future, it will need to consider whether fundamentally different ‘shaped’ roles are required in the structure and, in turn, examine the different sets of behaviours required from the people who fill the roles. Only against these criteria can a focus on identifying and retaining the right skills and talent be developed. In reviewing the workforce mix an organisation needs, there are three fundamental role shapes to consider (overleaf) – all of which span a spectrum from strategic to operational input – and the balance between these may need to undergo a fundamental shift according to the new needs of the organisation.

Not all public sector organisations are equal

The research showed differences between the sectors. Local and central government came out worst in terms of failure to define the talent they will need in the future. And across the whole public sector, the picture gets worse the further into the future we look. When asked whether their organisation has clearly defined the talent, skills and capabilities they will need to operate in five years’ time, some 86 per cent of local government and 75 per cent of central government respondents say they have not.
Policy and expertise roles provide a support service to the organisation and could include the provision of specialist advice, guidance, policy creation or responsibility for a programme or project that supports organisational delivery. They often facilitate others and support them to perform front line service functions.

Project and partnership roles are about working with partners to deliver services or manage projects internally. These roles have accountability for outcomes, without direct control of resources and staff, and for managing demanding external relationships.

Operational and service delivery roles are responsible for delivery at the front line. They are highly accountable for delivering timely outputs against identified standards in highly visible services. They are about directly managing resources and staff.

Given the current financial climate and the trend across the public sector towards more commissioning and delivery through partners and sharing of services, public sector organisations are looking carefully at the value for money they are getting from policy and expertise roles and often reducing their numbers. The proportion of project and partnership roles is increasing, yet these are challenging roles and most public sector organisations don’t have enough people with the stretching capabilities required to perform them well.

There are obvious talent management implications here. It’s not going to be easy for an experienced leader to make the shift from policy to partnership, for example, and it is important to assess whether an individual has the right behavioural capabilities for a new role type, as well as the experience, before committing to radical moves.

Organisations need to consider the proportion of jobs allocated to each role type and the impact this has on talent management.
When asked what is their biggest challenge over the next three months, our survey respondents answered...

"Maintaining service levels and quality against a fifth of the workforce being made redundant."
Senior leader, police

"Retaining and developing good talent at middle management levels."
Senior leader, central government

"Keeping up with the pace of change and keeping staff on board. Staff welfare and morale is a key issue."
Senior leader, education

"Keeping an eye on every workstream, as none is less important than any other."
Board level, health

"Maintaining the necessary focus to keep delivering high quality services on a day to day basis, while at the same time making the necessary changes."
Board level, health

"Completing the staff reduction programme and cultural / behavioural issues that will arise from rapid change which has challenged organisational norms."
Middle manager, central government

"Managing a growing organisation and prioritising what needs to be done to give us the greatest impact when developing talent."
Board level, local government
A new type of leader

In the process of taking costs out, many public sector organisations have de-layered their management structures and find the balance of roles they are left with is slightly misaligned with the mix they would ideally like in order to deliver their future needs.

Whilst 69 per cent of respondents to the survey recognised that they need new types of leadership roles to deliver future strategy, a majority (56 per cent) of public sector respondents are not confident their senior leaders have the skills required to manage current change, and the concern is even more acute when looking to the future. Three fifths (60 per cent) fear that their leadership population does not possess the right skills and capabilities to successfully meet future challenges.

Capabilities that will become increasingly important for senior and middle leaders, but that are considered to be lacking most are:

- resilience
- ability to set a compelling vision and bring others along
- partnership and collaboration with other sectors and partners
- more commercialism and entrepreneurial drive
- innovation, risk taking, looking for new opportunities
- communication, influencing and negotiating
- commissioning skills.

Differences emerge in the sub-sectors here: police forces, for example, will need leaders with more political acumen should elected police commissioners come into being; health and local government will have to collaborate more closely on health and wellbeing boards; central government departments will be looking seriously at shared services and mergers.

In theory, once a review of future capability requirements has been undertaken, these needs can be built into all organisational development and human resource processes. However, this approach has had limited traction across the public sector so far. Of the 60 per cent of respondents who said that they have reviewed their organisational purpose, only 42 per cent are currently assessing people for new roles based on new capability requirements and only 33 per cent have incorporated new capability requirements into their recruitment plans.
Stuck in the middle

De-layering an organisational structure poses several leadership challenges. It creates a smaller number of senior leaders each with a broader portfolio, demanding a more corporate and less functionally-siloed approach from senior leaders than they might have been accustomed to. And it creates a greater ‘gap’ between the top layer and the layers below, putting the strain on middle leaders to take on bigger accountabilities and more authority.

Compounded with this issue, in the public sector many middle managers have been promoted from technical roles, perhaps quite reluctantly, and are now being expected to work in different ways – with higher accountability to deliver results, but with far less direct control than they have historically had over people and resources.

It is widely accepted that those in the middle layers feel increased pressure from both above and below in times of change. These leaders are the key to increased workforce engagement and productivity and are the ones who can really make culture change stick.

Our survey highlights big differences in perception between middle and senior leaders.

Compared to executive leaders, middle leaders are:

- less motivated to go the extra mile and give discretionary effort beyond their formal job responsibilities – 69 per cent of middle managers are willing, compared with 83 per cent of senior leaders, board and non-executive directors.

- more concerned about the pace of change. Overall, 65 per cent of respondents think cuts are being pushed through too quickly. At board level, this drops to 32 per cent, but among middle managers the figure rises to 72 per cent.

- less confident that their organisation’s current senior leaders have the right skills to manage the change process – 16 per cent of board and senior managers lack confidence that they have the right skills, whereas 24 per cent of middle managers are not confident.

It is these middle managers who will actually lead their teams to deliver the organisation’s new strategy, so it is vital that they are on board with any change strategy and are motivated to take on broader, more challenging roles. The public sector is characterised by many middle leaders with a strong sense of moral purpose about service delivery and sense of responsibility for their jurisdiction over public funds. Organisations would do well to actively tap into this to address and maintain engagement.
Two sides to the productivity coin: engage and enable

The good news: the outlook is less bleak than when Hay Group last took the pulse of public sector leaders. Before the CSR, more than half (52 per cent) of senior leaders expected to have to implement cuts that reduced the workforce by more than 10 per cent. That figure is now down to one third (33 per cent).

However, in terms of staff engagement and productivity, there is no simple relationship between the scale of cuts and the damage to organisational capacity.

Clearly, all cuts and redundancies damage morale, but our research in this area (Back from the brink, 2010) shows that the way cuts are handled makes a big difference. In fact, once cuts exceeded five per cent (and below 20 per cent) the amount of damage they inflicted on morale is roughly the same regardless of size. For example, three rounds of cuts of five per cent each in a short space of time could inflict three times as much damage as one round of cuts of 15 per cent. This applies to both cost savings and redundancies.

The public sector has faced significant political and public pressure when cutting jobs, yet now the pressure of making initial in-year savings has passed, many will think carefully about how to approach the next wave of cost savings. Where it is affordable, there is a strong argument for taking a cool, realistic view of the worst that could happen in the future and then adapting to meet it in one go.

It is the drip feed of bad news that is devastating in terms of morale and acting decisively upfront allows leaders to control how soon their own ‘recovery’ begins. This is especially prominent in the public sector due to the transparent nature of some activities – if you don’t deliver the news to your staff, someone else, for example the press, will.
It’s widely acknowledged that employee engagement is vital to maintain productivity and performance; attract and retain talent; improve quality of services; and establish an innovative organisation. A workforce that is more committed will be more inclined to give discretionary effort beyond the formal requirements of their job.

In our last report, 90 per cent of survey respondents reported one of their biggest challenges as keeping staff morale high in the face of job cuts, uncertainty and a lack of clarity about the future. This remains high in our latest survey, with nearly two thirds (73 per cent) still finding it one of their biggest challenges. As described above, many middle leaders in particular are frustrated and disheartened by the level of cuts and the speed with which they are being implemented.

To increase engagement, there are several levers an employer can adjust including: giving a clear organisational direction, development opportunities, pay and recognition.

However, Hay Group’s research elsewhere has found that employee engagement is not the only driver for productivity and performance: employee enablement is just as important. In fact, productivity has been shown to increase by 4.5 times as much if both engagement and enablement are addressed.

Drivers for enablement include employees having: a job that is doable and challenging; a supportive environment to work in; the right resources to do the job well; sufficient training; mechanisms to collaborate where necessary; good performance management systems; and the right work structures in place.

Perceived barriers to progress

So how is the public sector feeling about these dual drivers of productivity – engagement and enablement? The survey found that many leaders believe the level of change within their organisation is preventing them from managing in ways that can boost both engagement and enablement. This was particularly true in central government.
Almost half of central government (47 per cent) reported that the level of cost cutting is forcing their organisation to cut the level of training to managers/leaders. And overall, more than half of middle managers agreed that change was preventing the leadership team from: providing clarity on where staff should focus their time; giving employees the appropriate autonomy to do their job effectively; and from providing all of the necessary resources for employees to do their jobs.

Many enhancements to engagement and enablement (so that employees are empowered to do their jobs and have the right resources and mechanisms in place to do so) can be achieved without significant financial investment. For example, due attention on performance management is currently suffering, not just in terms of the day-to-day activities like appraisal, but in the extent to which performance management is being used as an overall mechanism to link employee contribution to organisational goals and to provide clarity about the things deemed most important to success. Some 48 per cent of middle managers (and 28 per cent of senior leaders) felt that the level of change was preventing managers from setting clear objectives for their team. In central government, the figure across all levels of leader was 65 per cent.

A strategy employed by the best organisations – with no financial outlay – is investing time and attention on repeated communication from the most senior management. The way leaders communicate and treat people during the difficult times is tremendously important. In August 2009, at the height of the private sector recession, only 46 per cent of frontline staff had trust and confidence in their leaders (Back from the brink, 2010). The level of communication required in the current period of public sector change is unprecedented. It is undoubtedly far more than leaders would initially believe is necessary or comfortable. **If people understand the rationale for change, they will co-operate and find new ways of working.** The challenge here is that senior leaders will not always have clear information or direction to provide. Talk anyway, even if it is to explain what you don't know. The alternative is rumour and speculation.
### Boosting productivity

Overall, 26 per cent of respondents believe that the current level of change faced is preventing their organisation from focusing on increasing workforce productivity. This number rises to 41 per cent in central government.

Indeed, when asked what level of productivity increase they could expect if the entire workforce had everything they needed to do their job, some 89 per cent said more than six per cent, with 31 per cent believing they could increase it by between 10 and 20 per cent.

In an organisation employing 2,000 people, a five per cent improvement in discretionary effort would ultimately mean that you could achieve the same output with 100 fewer people. This is a compelling argument for investment in the workforce in the face of reduced headcount, shrinking budgets and increasing demands on organisations throughout the public sector.

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### It’s not all doom and gloom

While the research does paint a worrying picture of talent management in the public sector as a whole, there are some organisations who are bucking the trend and actively investing in their current and future leaders so they are ready to meet the challenges ahead.

- The NHS have initiated a sector wide assessment of their top leaders to identify development needs and ensure that they have the right leaders in the right place, at the right time to drive their improvement initiatives.

- One London Local Authority, despite financial challenges, is investing significantly in their middle leaders development. The top team and councillors recognised the importance of this population in helping them to get their transformation programme to ‘stick’ and embed new ways of working.

- Five police forces across the South East are piloting a region wide leadership and talent management programme to ensure that their superintendents have the skills needed to cope with the new demands.

For more information on the above initiatives please contact Jody Goldsworthy on 020 7856 7528.
Essential considerations

- **Don’t just cut: re-shape for a different future**
  Resist the urge to make sweeping structural cuts. Take a radical and fundamental look at how your organisation delivers services and re-consider the type of leadership roles you need.

- **Manage your talent**
  Take long term talent management into account when devising new roles and structures. Audit the talent remaining in your current workforce against the capabilities that will differentiate future success and take targeted action to address gaps. Hold on to your top talent and high potentials.

- **Review your top team**
  Consider whether you have the right people to lead an organisation that operates differently and increasingly works with partners and through shared services.

- **Focus on middle managers**
  Motivate your middle leaders to step up to broader, more challenging roles: invest in their development and tap into their sense of moral purpose.

- **Tackle deficits in your current workforce**
  Your workforce is critical to delivery: do not overlook the importance of performance management. Link individual performance expectations directly to your new organisational direction.

- **Address engagement and enablement**
  Ensure your workforce has not only the motivation, but the tools and mechanisms in place to do their jobs effectively.

- **Cut early, cut deep, cut once**
  Drip feeding cuts has a devastating impact. If you can afford it, take the pain now and don’t defer it, as the workforce will recover more quickly.

- **Keep talking**
  Minimise risks that your promises will be broken. Ensure a prominent communications workstream within your change programme and make sure all your senior leaders are on message. Communicate often and honestly, even when there is nothing new to report, as this will minimise the disconnect between the top team and what is happening on the ground.
Conclusion

Despite almost 60 per cent of leaders having reviewed core organisational purpose, the public sector has failed to take long term talent requirements into account in attempts to restructure and remove cost.

An essential starting point is to examine the future shape and nature of the workforce and to test the gap between current skills and capability and future need. Leadership capability needs attention, with 65 per cent saying they will require new types of leadership roles in the future. Particular shortfall behaviours are resilience, horizon scanning, visionary leadership, partnership working, influencing, commerciality, and entrepreneurial drive.

Employee engagement remains a huge concern. In particular middle leaders are less likely than their senior counterparts to be confident that cuts are being managed at the right pace, and lack confidence that their senior leaders have the skills to deliver future strategy.

First and foremost, these are challenges of leadership. The public sector can be proud of its response to these uncertain times; the wheels have not fallen off in year one nor during the recent budget setting round. Now, however, is the time to consolidate and draw on the lessons from the private sector recession and from best practice across the public sector.

There remain significant opportunities for public sector organisations to transform operations and to identify the leadership roles and capabilities they need to be successful. Talent requirements must be taken into account – only with the right leaders will the sector be able to fully leverage employee contribution and work effectively with partners in order to accelerate through the productivity dip.

Leadership capability needs attention, with 65 per cent saying they will require new types of leadership roles in the future.
The public sector can be proud of its response to these uncertain times; the wheels have not fallen off in year one nor during the recent budget setting round. Now, however, is the time to consolidate and draw on the lessons from the private sector recession and from best practice across the public sector.
Mind the talent gap. Dealing with the deficit: how is the public sector coping with change?

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Hay Group works with leaders to transform strategy into reality. We develop talent, organise people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organisations realise their potential.

Our clients are from the private, public and not-for-profit sectors, and represent diverse business challenges. For over 60 years, we have been renowned for the quality of our research and the intellectual rigour of our work. We give our clients breakthrough perspectives on their organisation, and we do it in a way which delivers results and real value. For more information please visit www.haygroup-bigsqueeze.co.uk.