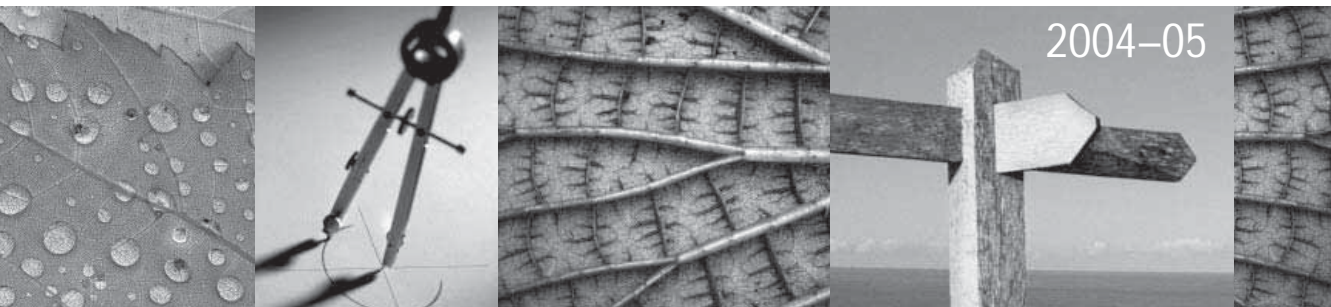




Australian Government
Australian Public Service Commission

State of the Service Report

2004–05



State of the Service Series 2004–05

Managing, sustaining and engaging the APS workforce

As outlined in the MAC report on *Managing and Sustaining the APS Workforce*, the APS faces a challenge in attracting and retaining skilled and talented staff in an employment environment very different to that of the past. In this new environment, agencies will need to adopt strategic and dynamic approaches to sustaining the APS workforce. These approaches will also need to take account of the increasingly diverse career paths and aspirations of this workforce.¹

This chapter begins by recapping on aspects of the statistical snapshot of the APS presented in Chapter 2, with an overview of the key capability trends in the APS in recent times and the key workforce challenges that APS agencies report having faced in 2004–05. It goes on to examine the ways in which agencies are responding to these challenges, concentrating on the extent to which agencies are planning to ensure they have the skills and capabilities they need into the future. It also examines how agencies are managing for improved performance.

The chapter then examines employee intentions with regard to leaving the APS and the factors which impact on employees' job satisfaction, including employee perceptions about their immediate supervisors' people management skills. The chapter concludes with a discussion of employees' perceptions of their own productivity levels, including the factors which affect their individual productivity, and a preliminary discussion around the complex issue of employee engagement.

Key APS capability trends and workforce challenges

Changes in the characteristics of the APS workforce in recent years, outlined in Chapter 2, have serious implications for the capacity of the APS to build and sustain its capability and to improve its productivity and effectiveness. In particular, internal and external

¹ Management Advisory Committee 2005, *Managing and Sustaining the APS Workforce*, Commonwealth of Australia, Canberra.

changes in the APS have produced an APS workforce that is very different to the APS up to the early 1980s.

Age

A significant trend that affects the building of capability in the APS is the change in the age profile of the APS. In 2005, the median age was 42 years; in 1975 and 1995, it was 29 years and 38 years, respectively.

Employees aged 45 years and over, who will be eligible for retirement in the next 10 years, account for 40.4% of ongoing employees. In 1996, this group accounted for only 30.5% of ongoing employees. This is an important issue, which has also been raised in Chapter 2, and is likely to have a major impact on the APS over the next decade.

Classification

Today's APS is characterised by streamlined classification structures and, increasingly, the entry point for many APS recruits is above the APS 'base' level, with employees now typically commencing at the APS 3–4 levels or higher and advancing fairly rapidly to higher levels.

In 1980, 52.4% of ongoing staff were at the APS 1–2 classification levels (and equivalents).² By 2005, this had fallen dramatically to only 5.2% (down from 6.3% in 2004). This decline has been offset by proportional increases at the APS 3–4, APS 5–6 and EL classifications. SES staff numbers, as a proportion of total ongoing staff, have also risen from 1.1% in 1980 to 1.6% in 2005.

The changed classification profile of the APS demonstrates a long-term trend reflecting changes in skill requirements and the changing nature of work. This has resulted in a decrease in the demand for lower level, less skilled workers and a shift from some narrow technical skills to broader administrative and professional skills.

Qualifications

The APS workforce is increasingly becoming a graduate workforce. The employee survey confirmed a definite trend for a larger proportion of APS employees to hold tertiary qualifications, with employees at all levels being increasingly likely to have such qualifications, regardless of whether they are recruited through graduate entry programmes or general recruitment processes.³ Results from the employee survey show that around 46% of APS employees have a bachelor's degree or higher qualification, with an additional 18% having another form of post-school qualification. Furthermore, around two-thirds of new recruits possess graduate qualifications.⁴

² Excludes some ongoing employees in some specialist classifications who could not be assigned an APS equivalent classification.

³ Management Advisory Committee, *Managing and Sustaining the APS Workforce*.

⁴ The method used to calculate the proportion of employees with graduate or tertiary qualifications includes those with qualifications at bachelor degree and above. It excludes from the denominator those for whom no data was provided by agencies, and those who chose not to provide details of their highest educational qualification.

While significant in themselves, the APS workforce changes documented in this report need to be viewed in the context of major changes the APS is undergoing in its structure, demography, governance and core activities.

Mobility

The APS has also seen significant changes in patterns of mobility, both into and out of the APS and between APS agencies.

The proportion of positions filled by engagements from outside the APS increased from 33.7% in 1995–96 to 47.6% in 2004–05. As described in Chapter 2, mobility rates have been quite variable over the past decade. The interagency mobility rate (which comprises promotions and transfers between agencies) has declined from 3.0% in 1995–96 to 2.0% in 2004–05.⁵ It is pleasing to note, however, that the 2.0% represents an increase on the figure reported in 2003–04 of 1.6%.

The optimum level of mobility varies between agencies, and depends on the circumstances of the organisation, including the nature of its business and its skill requirements. Agencies have to balance the benefits to their agency, and to the APS as a whole, of encouraging such mobility, with the need to manage turnover rates and ensure capability is developed and maintained within their agency.

Chapter 10, 'Leadership, Learning and Development in the APS', further discusses the importance of mobility in the context of leadership development.

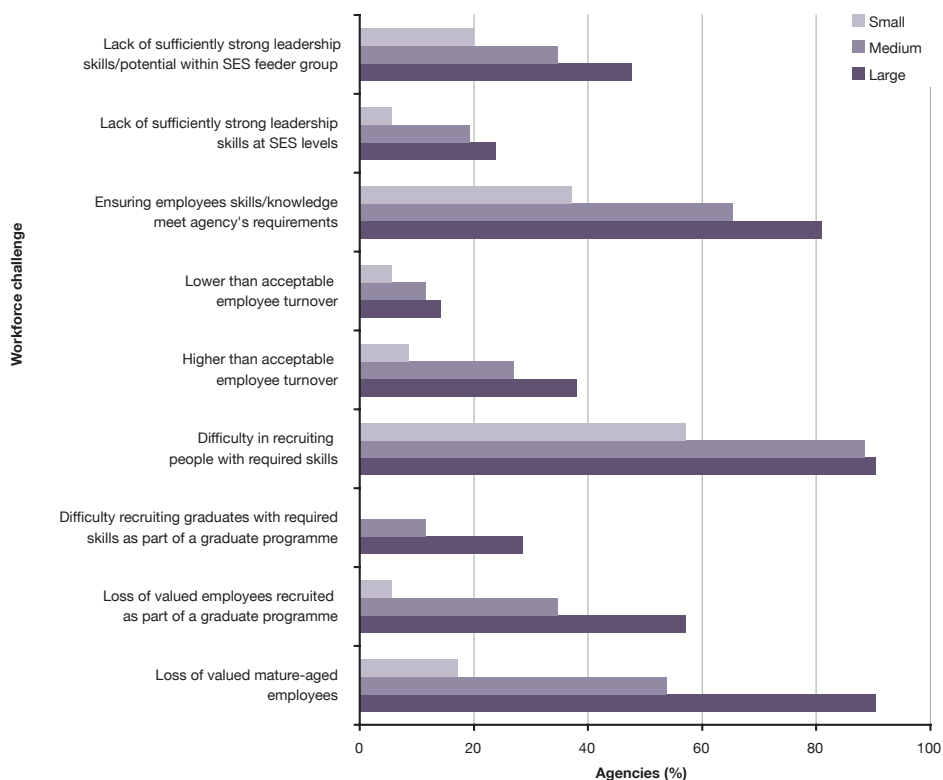
Workforce challenges

The changing demographics of the APS discussed above are linked to many contemporary workforce challenges faced by APS agencies. The agency survey asked agencies whether they had faced any workforce challenges during 2004–05.

The most common workforce challenge identified by agencies was difficulty in recruiting people with required skills, other than as part of a formal graduate programme (reported by 76% of agencies—up from 62% of agencies in 2003–04). Recruitment as part of a formal graduate programme appeared to be less of an issue with only 11% of agencies reporting concern. The next most common workforce challenge identified by agencies was ensuring that employees' skills and/or knowledge meet agency requirements (57%, down from 61% in 2003–04). A large number of agencies (48%) also identified the loss of valued mature-aged employees as a workforce challenge. The extent to which agencies reported workforce challenges varied considerably according to agency size.

⁵ The mobility rate between agencies is calculated as the number of movements (promotions and transfers) between agencies during a financial year, divided by the average of the number of employees at the beginning and end of the period. It does not include non-ongoing transfers or temporary assignments or changes due to machinery of government changes.

Figure 8.1: Workforce Challenges, 2004–05



Source: Agency survey

Those agencies that reported experiencing difficulties in recruiting people with required skills were most likely to report encountering difficulties in recruiting people with financial management (55%) and accounting (55%) skills or skills in information technology (47%). These findings are consistent with the national skill shortage list for 2004, available on DEWR’s job outlook. Some of the specific initiatives identified in the MAC report on *Managing and Sustaining the APS Workforce* (see box below) address this (among other issues). Agencies also reported difficulties in recruiting people with skills in human resources, project management and contract management.

The Management Advisory Committee report, *Managing and Sustaining the APS Workforce*, addresses the workforce challenges facing the APS as it moves into a new labour market environment characterised by an ageing workforce, skill shortages, changing career patterns and a significant reduction in the number of new labour force entrants.

The report calls upon agencies to implement a series of significant initiatives in a range of areas. The following are some examples of the initiatives outlined in the report:

workforce planning

The Commission, in consultation with agencies, will develop and promulgate advice on best practice in workforce planning.

attracting and recruiting employees to the APS

A working group of agencies—guided by advice from the Commission on legislative requirements and better practice—will be formed to develop guidelines for streamlined recruitment processes. All APS agencies will explore base-level recruitment pathways targeted at potential employees without post-school qualifications, including how these may assist in building greater workforce diversity through the employment of more Indigenous people and people with disabilities.

recruiting and retaining employees with specialist skills in high demand

A number of agencies—with the support of relevant lead agencies—will work to establish APS-wide professional communities, initially of accountants, statisticians and ICT professionals, to promote learning and development and career planning in these areas.

smarter approaches to graduate recruitment and development

APS agencies will review their current graduate programme intake levels, making use of best practice approaches to workforce planning.

ensuring new employees have the necessary skills and knowledge to work effectively in the APS environment

APS agencies will act to ensure all new starters are given the induction and orientation in the Australian Government and APS processes they will need in order to perform effectively in their positions.

interagency mobility

The new APS employment portal will include a facility for APS and external organisations to advertise rotation and mobility opportunities and for employees to express interest in accessing such opportunities.

responding to the employment needs and career aspirations of the changing APS workforce

The new APS employment portal will feature an online registration channel for former APS and other mature-aged employees interested in accessing APS employment. APS agencies will also develop mature-aged workforce strategies and report back to MAC on progress.

investing in identifying and developing future leaders

MAC has issued a statement on expectations of the SES, covering the need for a greater APS-wide focus on leadership capabilities and development.

MAC report highlights

Workforce planning and succession management—planning for future capability

The key capability trends within the APS and workforce challenges identified by agencies, when coupled with the sustained period of economic growth being experienced in Australia, low unemployment rates and an ageing population, present significant workforce planning challenges for the APS.

These are not new challenges. They have been identified in previous State of the Service reports and are the subject of a number of reports, most notably, the MAC reports on *Organisational Renewal*⁶ in 2003 and *Managing and Sustaining the APS Workforce*⁷ in 2005. With the increased awareness of the challenges facing agencies, the need to undertake effective workforce planning could not be clearer.

In 2004–05, the ANAO conducted a cross-agency performance audit on workforce planning across APS agencies. The audit surveyed 86 agencies to determine the extent to which workforce planning is underway across the APS.⁸ The report assessed agencies against four criteria to establish the level of development of workforce planning. The criteria were designed to determine whether:

- The agency has assessed the demand for, and supply of, labour in the context of achieving the organisation's desired capability. Workforce planning is an integral part of the business planning process.
- The agency has assessed the potential gap in workforce characteristics and competencies. The agency has undertaken trend analysis of demographic data to provide both descriptive and forecasting models describing how changes will affect the workforce in the absence of management action, and to model the varying impact of possible management actions. The agency has assessed the competencies and skills of the workforce to analyse the differences between the current and desired competency profile.
- The agency's assessments have informed all relevant business strategies including, but not restricted to, HR strategies.
- The agency has a measurement framework in place. Incremental progress can be measured on a range of relevant factors, as well as provide links to the overall performance of the agency. The chosen performance measures are clearly and compellingly linked to the success of the organisation.

The ANAO found that, while a number of APS agencies are undertaking workforce planning, few, if any, could claim to have successfully embedded workforce planning into their business processes. The ANAO also considered that more could be done by agencies with respect to assessing the demand for, and supply of, labour and relating shortfalls to capability.

Like most HR issues, workforce planning is far from being a precise science and, even when the outcome desired is reasonably clear, the process for accomplishing it is not. Accordingly, the agency survey did not directly ask about whether agencies had workforce planning processes in place but about whether agencies had policies,

⁶ Management Advisory Committee 2003, *Organisational Renewal*, Commonwealth of Australia, Canberra.

⁷ Management Advisory Committee, *Managing and Sustaining the APS Workforce*.

⁸ ANAO, *Workforce Planning*, Performance Audit Report No. 55, June 2005, <<http://www.anao.gov.au>>

strategies and/or frameworks that aim to ensure they have the skills and capabilities needed for the next 1–5 years.

Forty-three per cent of agencies reported having put in place policies, strategies and/or frameworks that aim to ensure they have the skills and capabilities needed for the next 1–5 years (a similar result to 2003–04). Of the remaining agencies, 51% reported that they were in the process of developing relevant policies and 6% did not have relevant policies in place and were not developing them. Of those 42 agencies that reported being in the process of developing relevant policies in 2004–05, 20 agencies had been developing relevant policies for the last three years.

It is interesting to note that of the agencies that revealed they were either in the process of developing relevant policies or did not have relevant policies in place, and were not developing them, the majority identified facing workforce challenges during 2004–05. This seems to indicate that these agencies would clearly benefit from investing resources in completing and implementing appropriate policies, strategies and frameworks, and fine-tuning when required, rather than continuing to ‘develop relevant policies’ year in and year out or not having them at all.

Because a number of large agencies changed their response from ‘yes’ to ‘being developed’ this year, the proportion of large agencies with relevant policies decreased from 76% in 2003–04 to 62% in 2004–05. Thirty-eight per cent of medium agencies and 34% of small agencies had put in place relevant policies.

Workforce planning challenges

The agency survey asked agencies whether they had faced any challenges during 2004–05 in a number of areas of workforce planning.

Consistent with the 2003–04 survey results, the most common workforce planning challenge faced by agencies was in accessing adequate information to evaluate the effectiveness of learning and development, identified by 54% of agencies. As reported last year, challenges were also experienced in the areas of:

- the ability to predict and plan for changes that are likely to impact on the agency's business (e.g. technological change, greater cross collaboration with agencies—identified by 46% of agencies compared to 54% in 2003–04)
- identifying the capabilities required to deliver future workforce needs (41%, compared to 45% in 2003–04).

Knowledge about the employment status of employees is also important in the context of workforce planning. As was the case last year, almost all agencies had systems in place to determine the number of non-ongoing employees at any point in time; 81% of relevant agencies had systems in place to determine the number of people employed under legislation other than the Act; and 59% of relevant agencies had systems in place to determine the number of people working in the agency employed by labour hire firms, with a further 9% developing such a system.

The Commission's APSED Internet Interface (APSEDII) provides easy, Internet based access to APSED data, and facilitates workforce planning and benchmarking by agencies. Users are able to run general queries on APSED data—producing tables similar to those in the APS Statistical Bulletin. A second stage of APSEDII allows designated agency personnel to run queries on confidential data about their agency and, for comparative purposes, about other agencies of similar size. This stage allows these users to view unit record data for their agency on APSED, through a secure logon and password procedure. APSEDII is available at <http://www.apsedii.gov.au>.

APSEDII

In 2005, agencies were asked whether they had systems in place to determine the number of people working in the agency employed as consultants or other forms of independent contractor. Forty-four per cent of relevant agencies could determine numbers of consultants and 42% of relevant agencies could determine numbers of independent contractors. Forty-one per cent of agencies had systems in place to determine the number of people in other categories (such as secondees).

Workforce planning challenges were more commonly identified by medium and large agencies than by small agencies. This may reflect a number of issues, including the greater complexity of planning in larger agencies and the difficulty of assembling and analysing information when dealing with a large number of employees in sometimes decentralised operating environments.

DEST is in the process of developing an enhanced workforce capability management framework. DEST is seeking to provide a more useful tool designed to assist managers to better understand, plan and manage their workforce in delivering on current and future business. Key features of the capability management framework and the associated technology systems will include:

- more useful, systemic and DEST-relevant capability statements that will serve as a common language across all HR strategies, including workforce planning, performance management, learning and development, recruitment and selection
- the capacity to interrogate data on capabilities which will assist in a more flexible approach to the alignment and deployment of capability across the organisation based on business need
- a greater opportunity to contribute to the evidence-base for development and evaluation of HR policy and strategy, including target areas for intervention.

Through the enhanced capability framework, DEST is seeking a more comprehensive integration of business and workforce planning across the organisation and an improved ability to respond to changing workforce needs through better-targeted HR strategies.

agency case study

The survey asked agencies to identify which measures they had in place as part of a workforce planning process to meet their identified workforce challenges in 2004–05. The most common measure, reported by 78% of agencies, was aligning performance management systems with identified workforce requirements (up from 71% in 2003–04). A further 16% of agencies were developing this measure. The prevalence of this measure is encouraging, indicating that many agencies have recognised the need to link broad business requirements, with the development needs of individuals. Interestingly, of the five agencies reporting that they did not have their performance management system aligned with identified workforce requirements, three had reported in the 2003–04 agency survey that they did, and two had reported that the measure was being developed.

The second most common measure in place to deal with workforce challenges, reported by 76% of agencies, targeted attracting and retaining people with critical skills (e.g. by enhanced and/or more flexible pay and conditions, and offering development opportunities), up from 69% in 2003–04. A further 11% of agencies were developing this measure. Agencies that selected this measure were asked to identify from a list of benefits/arrangements/conditions, in addition to those already widely available to employees, those that their agency had used during 2004–05 to attract and retain people with critical skills. The most prevalent condition offered to employees was higher base salaries (reported by 82% of relevant agencies). Other widely used arrangements included development opportunities (e.g. study awards, fellowships, secondments) (63% of relevant agencies), performance-related bonuses (53%) and enhanced conditions (e.g. leave, reunion fares) (40%).

Other measures used widely in dealing with workforce challenges included:

- learning and development strategies aligned with identified workforce requirements (65%, with a further 30% developing this measure)
- recruitment strategies aligned with identified workforce requirements (63%, with a further 28% developing this measure).

Succession management strategies linked to future workforce needs are not yet widely used, but the results suggest that a larger number of agencies are working on putting such policies into place. Twenty-four per cent of agencies reported using them now, and another 44% were developing them.

Large agencies were more likely than other agencies to use the measures dealing with workforce challenges outlined in the survey, including learning and development strategies and performance management systems aligned with identified workforce requirements, succession management strategies, and measures to attract and retain people with critical skills. Nonetheless, over half of all small and medium agencies use each of these measures (other than succession management strategies). It also needs to be recognised that smaller agencies may be implementing more informally some of the measures that larger agencies include as part of a formal workforce planning process.

As well as being asked about measures to address workforce challenges in general, including succession management strategies, agencies were also asked specifically about whether they had a formal approach to succession management. Twenty-eight per cent of agencies indicated that they had such an approach. This shows noteworthy growth on the 20% in 2003–04 and 4% in 2002–03 who stated that they had a 'formal

succession plan'. Formal approaches to succession management were more common among large agencies (57% compared to 43% in 2003–04) than medium agencies (23% compared to 19% in 2003–04) or small agencies (14% compared to 8% in 2003–04). Succession management will become increasingly important with around 70% of SES and 55% of EL2 employees aged over 45.

Succession management in Customs is included in the workforce planning component of the Customs Strategic HR Framework and is integrated in regional career assignment arrangements. The key principles of succession management and career management are included in the Career and Succession Management Policy Advice and the Succession and Career Management Toolkit. The toolkit provides several tools to assist individuals in pursuing career paths and to assist managers to apply succession management in their own workplaces.

agency case study

This year's survey results indicate that many agencies are planning for succession in a more informal way. The means by which agencies identify potential leaders is discussed in Chapter 10.

Managing for improved performance

Performance management is an essential component of a constructive workplace environment that, from a workforce planning perspective, is intended to identify and develop required capabilities for a capable, adaptive and effective workforce. It is also aimed at:

- improving individual and organisational performance over time
- providing measures of organisational and individual accountability
- planning and monitoring individual performance within the achievement of organisational and business goals
- recognising and rewarding good performance, improving average performance and managing underperformance.

The 2001 MAC report on *Performance Management in the Australian Public Service*⁹ identified three critical success factors for performance management:

- alignment of individual performance objectives with agency goals and strategic priorities, based on a detailed understanding of the outcomes sought, the nature of the business and the culture of the organisation
- credibility amongst employees through transparency, fairness, simplicity, and Chief Executive Officer (CEO) and management commitment
- integration, ensuring that performance management is part of the overall management structure of the organisation, that there is a clear line of sight for staff between their responsibilities and the objectives of the organisation along with careful implementation and adequate training.

⁹ Management Advisory Committee 2001, *Performance Management in the Australian Public Service*, Commonwealth of Australia, Canberra.

Systematic approaches to performance management have been in place for some time in the APS. Within the broad framework outlined by the Act and the Commissioner's Directions, agency heads have the flexibility to develop performance management systems that meet the particular needs of their organisation and employees. In 94% of agencies it is mandatory for all employees to have a formal performance agreement (up from 87% of agencies in 2002–03).

Performance assessment and feedback

Consistent with the critical success factors identified in the MAC report on performance management,¹⁰ an important aspect of setting realistic performance objectives is that employees have a clear line of sight to organisational responsibilities to enable them to see how their work aligns with the agency's objectives and to ensure relevant and consistent performance information is cascaded through the organisation. In the 2005 survey, employees were asked about their level of agreement with the statement that 'the links between my agency's business and my work were made clear in the development of my performance agreement'. Sixty-five per cent of respondents agreed with this statement, 21% neither agreed nor disagreed and 11% disagreed. The proportion of respondents who agreed with the statement in 2002–03 was 72%. This decrease is statistically significant and would suggest that, whilst there is a level of alignment of the objectives set in individual performance agreements with the agency's business, this is an area which requires further attention.

Employees were also asked to rate their agreement with the statement that 'My most recent performance review will help me perform well'. Less than a half (43%) of employees agreed with this statement, 35% of respondents neither agreed nor disagreed and 20% disagreed. The results of the 2003 employee survey were similar.

Seventy-three per cent of employees agreed that they 'understood the standards used to evaluate their performance', 17% neither agreed nor disagreed and 8% disagreed. These results were also similar to the results from the 2003 employee survey.

The 2001 MAC report on performance management¹¹ saw giving and receiving feedback as an essential component of performance management systems and a fundamental skill that managers need in order to ensure the effectiveness of performance management. It also noted that without effectiveness in giving and receiving feedback, performance management was unlikely to improve individual or organisational performance or be credible to staff. Research by the Corporate Leadership Council (CLC) has found that the provision of informed, positive, fair, accurate and detailed feedback is a strong driver of performance.¹²

This year 85% of employees reported that they had received formal individual feedback in their agency, down slightly from the 87% in 2003–04. Nevertheless, this year's result is still higher than the 79% recorded in 2002–03.

¹⁰ Management Advisory Committee 2001, *Performance Management in the Australian Public Service*, Commonwealth of Australia, Canberra

¹¹ *ibid.*

¹² Corporate Leadership Council (CLC), *Building the High Performance Workforce—A Quantitative Analysis of the Effectiveness of Performance Management Strategies*, Corporate Executive Board, Washington. These findings result from research undertaken by the CLC, via a web-based survey of 41,000 employees and managers, and of their performance management database, aimed at identifying the major drivers of individual performance.

Of those employees that had received formal individual feedback in their agency in 2004–05, almost all (94%) employees received feedback from their supervisor. The next most common source of feedback was from the supervisor's supervisor (18%) followed by a peer (16%). These findings are consistent with those reported in previous years.

Ninety per cent of employees who had received feedback, and who reported that their performance in their most recent performance feedback session was assessed against a formal performance agreement or work plan, agreed with their supervisor (down slightly from 92% in 2003–04).

The view that quality feedback is essential to effective performance management was common in comments provided by respondents to the employee survey.

I have never been satisfied with our performance feedback system. Supervisors tend to use it as a tick & flick exercise—there is no detailed assessment of my performance. Worse, supervisors do not give enough feedback between formal assessments. In the case of my current supervisor, if he does give me informal feedback, it tends to be of the negative variety.

Whilst the agency has taken a number of positive measures recently to improve the rigour of the performance management system, there is still a tendency for some supervisors to avoid possible tensions and rate staff effective despite concerns over work performance.

I believe we have a performance system in place that could achieve all of the above but the managers that are to carry out the performance system are either not trained correctly, see it as a burden or couldn't care less and see it as meaningless as there is no impact on incentives and is just a tick and flick situation.

employee survey

Performance and pay

The proportion of employees reporting that under their agency's performance assessment system, any part of their pay was linked to an assessment of performance has decreased from 69% in 2003–04 to 65% in 2004–05.

Employees whose pay was linked to an assessment of their performance were also asked about how this link was made. The large majority of these employees (69%) stated that they were eligible for advancement through the salary range for their classification subject to fully competent performance (down from 74% in 2003–04). Eligibility for a one-off bonus was the second most common method of linking pay with performance assessments, and applied to just under a quarter of relevant respondents (24%). Other options, which were less common, included:

- eligibility for accelerated advancement through the salary range for the employee's classification, subject to better than fully competent performance (18%)
- eligibility for an increase in base salary (18%)
- if covered by an AWA, performance assessments are formally taken into account when renegotiating AWAs (7%)

- performance assessment is formally taken into account in selection for promotion (6%).

Performance pay in this chapter is used broadly to refer to all of these methods of linking pay to employees' performance assessment, unless otherwise indicated.

Over the last three years the employee survey has sought opinions from employees who had any part of their pay linked to an assessment of performance, on how well the performance pay system operated in their agency. The results from 2003–04 and 2004–05 are reported in Table 8.1. The overall results continue to highlight key issues for APS agencies in ensuring the credibility of their performance pay systems with employees.

Although there has been a general decline in relevant employees' views on the operation of performance pay systems in their agency, Table 8.1 also shows that sizeable proportions of relevant employees continue to neither agree nor disagree with statements relating to the operation of performance pay systems in their agency. This finding would suggest that there is scope for agencies to shift these employees' opinions from the neutral to a more positive position with better design and management of their performance pay systems.

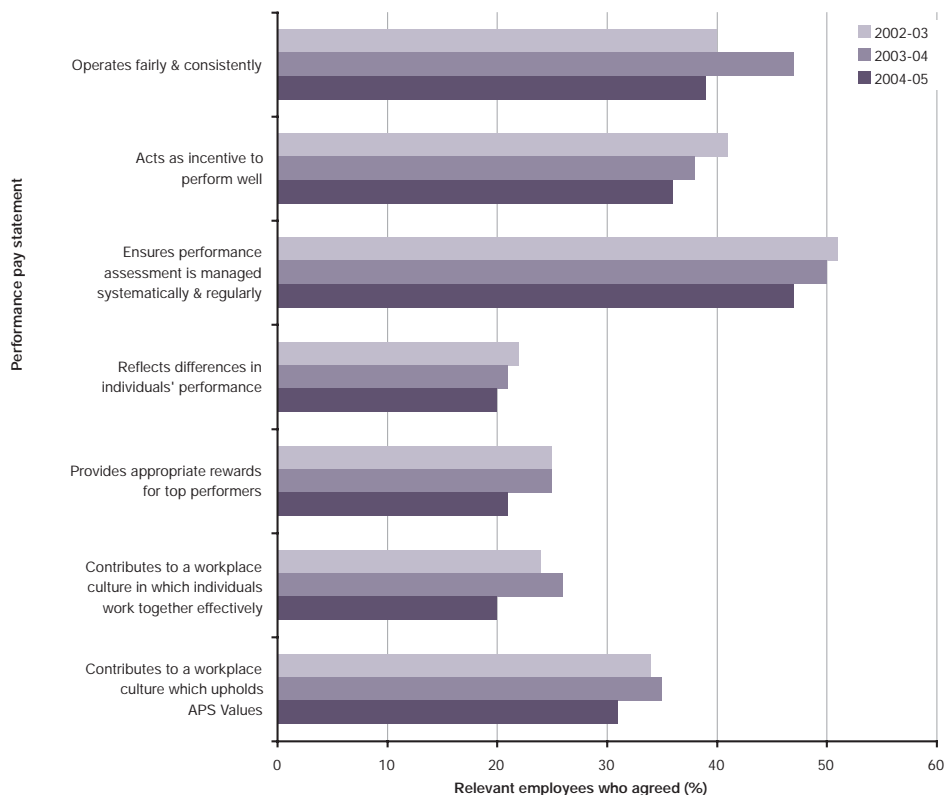
Table 8.1: Relevant employee views on the operation of performance pay, 2003–04 and 2004–05

	Agree (%)		Neither agree nor disagree (%)		Disagree (%)	
	2003–04	2004–05	2003–04	2004–05	2003–04	2004–05
Operates fairly and consistently	47	39	24	25	26	32
Acts as an incentive to perform well	38	36	27	28	33	34
Ensures performance assessment is managed systematically and regularly	50	47	23	23	25	28
Accurately reflects differences in individuals' performance	21	20	28	26	46	51
Provides appropriate rewards for top performers	25	21	24	21	48	54
Contributes to a workplace culture in which individuals work together effectively	26	20	35	37	37	40
Contributes to a workplace which upholds the APS Values	35	31	36	35	24	30

Source: Employee survey

While Table 8.1 shows that this year's results generally represent a decline on those reported in 2003–04, Figure 8.2 illustrates the fluctuating nature of some of the indicators over the last three years. Figure 8.2 also shows that a downward trend is starting to emerge on some of the indicators such as 'acts as an incentive to perform well' and 'ensures performance assessment is managed systematically and regularly'.

Figure 8.2: Proportion of relevant employees agreeing with performance pay statements, 2002–03 to 2004–05



Source: Employee survey

Despite the poor average results, there was considerable variation in opinions about performance pay across large agencies. The variation between agencies' results was not as high as last year's, however, with the highest performing agencies this year recording significantly lower levels of agreement; for example, in 2003–04 the ATO recorded 69% agreement with the statement that the performance pay system 'operates fairly and consistently', whereas this year the highest level of agreement was in DAFF (54%).

In 2005, the largest difference in range was in the level of agreement on whether performance pay systems 'contribute to a workplace culture which upholds the APS Values', from a low of 12% to a high of 52% (with the highest levels of agreement at CSA), but there was a broad range of results for most statements, including:

- 'operates fairly and consistently' (the range in 2003–04 was 19%–69% compared to 20%–54% in 2004–05). The results for the majority of large agencies had decreased from those recorded in the 2004 State of the Service employee survey
- 'acts as an incentive to perform well' (the range in 2003–04 was 16%–56% compared to 24%–49% in 2004–05)
- 'ensures performance system is managed systematically and regularly' (the range in 2003–04 was 24%–70% compared to 34%–64% in 2004–05)

- ‘provides appropriate rewards for top performers’ (the range in 2003–04 was 6%–51% compared to 9%–48% in 2004–05)
- ‘contributes to a workplace culture where individuals work together effectively’ (the range in 2003–04 was 11%–51% compared to 9%–39% in 2004–05).

The smallest ranges in opinion were for ‘accurately reflects differences in individual performance’ (the range in 2003–04 was 11%–38% compared to 9%–26% in 2004–05).

While results in individual large agencies’ performances varied for different statements, some agencies had higher levels of agreement on some statements than on others. Although there are issues across agencies, it appears that some agencies have established more credible performance pay systems than others. The CSA’s performance was strong across most statements, having one of the three highest levels of agreement against all but one of the statements.

As was reported last year, there continue to be some differences in views of performance pay depending on how the link between pay and performance is made—that is, between the views of those who were eligible for performance bonuses (including those who are eligible for bonuses along with some other type of performance pay), and those who are eligible for some other form of performance pay but not bonuses.

The proportion of relevant employees in these two groups that agreed with each statement about performance pay is shown in Table 8.2.

Table 8.2: Relevant employee views on the operation of performance pay by type of performance pay, 2004–05

	Employees that agreed with statement	
	Employees eligible for performance bonus (%)	Employees eligible for other performance pay (%)
Operates fairly and consistently	34	41
Acts as an incentive to perform well	36	38
Ensures performance assessment is managed systematically and regularly	48	48
Accurately reflects differences in individuals’ performance	22	21
Provides appropriate rewards for top performers	32	20
Contributes to a workplace culture in which individuals work together effectively	18	22
Contributes to a workplace which upholds the APS Values	24	33

Source: Employee survey

Employees eligible for bonuses were more likely than employees receiving other forms of performance pay to have agreed that the agency’s performance pay system ‘provides appropriate rewards for top performers’. This may reflect the fact that where performance pay is linked solely to increments, there are no particular rewards for performance for those on the top increment. In last year’s report employees eligible for

bonuses were also more likely than employees receiving other forms of performance pay to have agreed that the agency's performance pay system ensures 'performance assessment is managed systematically and regularly'. This year the results have fallen to the same level of agreement as those who receive some other type of performance pay. There were no consistent trends in the views of employees by classification.

The survey results were also separated into whether employees' salaries were set out in either a certified agreement or an AWA. Those employees covered by an AWA were more likely to agree with the majority of statements as opposed to those on CAs. Levels of agreement were, however, relatively low for both groups.

This year's survey results add to the evidence presented in last year's report that the credibility of performance pay systems amongst employees is not high in most agencies and the gap is widening. The seriousness of the 'credibility gap' is, however, difficult to assess. It is likely that there will always be at least some employees who are dissatisfied with performance pay, either for philosophical reasons or because of the results of recent performance assessment rounds. Employee survey results presented in Chapter 5, 'The Values and Workplace Relationships', show that employees' perceptions of merit are affected by the results of recent selection processes in which they have participated. It is also possible that a less than expected result in a recent performance assessment round will negatively affect employees' perceptions of the fairness of their agency's performance pay system. Employees' perceptions of performance pay systems within agencies and of whether they operate fairly and consistently may be influenced by a range of other factors, including feelings surrounding the application of merit in selection processes and the negotiation of certified agreements.

There is some evidence that employees with longer service, who have experienced different approaches to performance pay in the past and/or commenced in the APS prior to the introduction of performance pay, have greater levels of dissatisfaction with performance pay systems. When views on performance pay are examined in relation to length of service, relevant employees with 1–5 years of service were more likely than those with more than five years of service to have agreed that:

- their performance pay system 'operates fairly and consistently' (46% compared to 34%)
- it 'acts as an incentive to perform well' (41% compared to 32%)
- it 'ensures performance assessment is managed systematically and regularly' (52% compared to 42%).¹³

Relevant employees with 1–5 years of service were also more likely to have agreed that the performance pay system in their agency 'contributes to a workplace culture in which individuals work together effectively' (25% compared to 17% for those with more than five years' service), and 'contributes to a workplace which upholds the APS Values' (36% compared to 26%), but results for both groups were relatively low. There was little difference in views based on length of service about whether performance pay systems 'accurately reflect differences in individuals' performance' or 'provide appropriate rewards for top performers', indicating that these areas are considered problematic by a wide range of employees.

¹³ Those with less than one year's service were excluded on the basis that they would not have gone through a full annual performance management cycle.

The variability of large agency results, and particularly the higher results for some large agencies in relation to the fairness and consistency of their system, suggests that there is room for significant improvement in the capacity of the APS to link pay to performance.

Provided below are some comments from the employee survey which are indicative of what employees had to say about performance pay.

Performance pay is not conducive to collegiality.

The trouble with performance pay is its subjectivity and the fact that it does not recognise team/section/division/agency performance.

I find that supervisors are more likely to mark a team member as fully effective and that team member gets the bonus even if it is not deserved because of the paper work that occurs when a team member is marked as not fully effective etc.

employee survey

Integration of performance management systems

As mentioned above, the MAC report on performance management¹⁴ identified the integration of performance management systems into the overall management structure of organisations as a critical success factor for performance management.

Aside from the questions directly identified as relating to performance management, the 2005 employee survey asked respondents to rate their level of agreement with the statement that 'My agency has achieved its stated objectives over the last 12 months'. Sixty-five per cent of employees agreed with this statement, 20% neither agreed nor disagreed and 7% disagreed. This result, when considered alongside employees' level of agreement with the statement that 'The links between my agency's business and my work were made clear in the development of my performance agreement' (65% of respondents agreed with this statement), would suggest that whilst integration of performance management into the overall corporate management structure is a challenge for agencies, work being undertaken to address the issue is paying off.

To provide further support in the area of performance management, the Commission is developing a guide to assist agencies to reflect upon, review and refine their performance management approaches and systems. It is expected that this guide will be released in late 2005.

Underperformance

Central to any discussion on performance management and its overall credibility is the management of underperformance. Issues of underperformance were addressed in both the agency and employee surveys.

In the agency survey, 39% of all agencies (32 agencies) indicated that they had finalised at least one formal underperformance action during 2004–05. This is an increase on the 30% of agencies that had finalised at least one formal underperformance action

¹⁴ Management Advisory Committee 2001, *Performance Management in the Australian Public Service*.

in 2003–04. In total, 213 actions were finalised, with 77% of these in large agencies. As would be expected large agencies were much more likely to have finalised at least one underperformance action (71%) than medium or small agencies (35% and 23%, respectively). These figures represent an increase in the level of underperformance action finalised in small agencies (up from 5% in 2003–04).

The results of finalised actions undertaken to address underperformance are set out in Table 8.3. It should be noted that each agency could nominate multiple actions.

Table 8.3: Results of underperformance actions finalised in 2004–05

Result	Number of agencies reporting this outcome	Number of times this outcome occurred
No action taken	5	16
Development programme instituted	13	60
Satisfactory performance standard attained	13	43
Assignment to other duties	8	15
Deferral of salary advancement	5	25
Reduction in classification	6	8
Voluntary redundancy (including termination of employment with incentive for SES)	6	8
Termination of employment (i.e. without incentive or without voluntary redundancy)	14	37
Other	16	59

Source: Agency survey

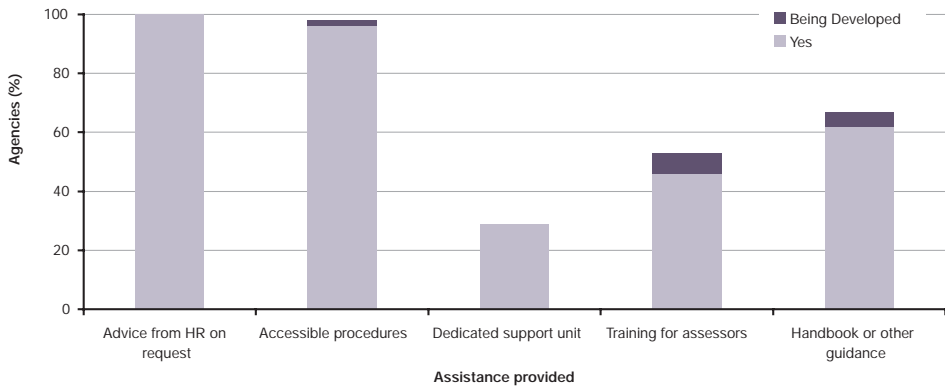
The most common outcome of underperformance actions was that a development programme was instituted (60 occasions, 28% of actions reported). Satisfactory performance was attained in 43 cases (20% of actions reported). In 45 cases (21%), the employee left the agency, either through voluntary redundancy or as the result of termination. Sixteen agencies reported that there had been outcomes other than those specified in the survey, the majority of which were resignation by the employee.

Only five agencies reported that any of the outcomes had been challenged in the AIRC, with a total of seven employees challenging the outcomes of the underperformance process. Six of these cases had been settled or resolved through conciliation, and one was ongoing.

The agency survey also asked about the assistance managers and/or supervisors are given in formally assessing whether an employee's work performance is satisfactory.

As shown in Figure 8.3, a wide range of assistance was provided, with all agencies indicating that advice was provided by the HR management area on request, and all but three (96%) indicating they had procedures for managing unsatisfactory performance that could be accessed by all employees. Responses were generally consistent with results from 2003–04. Three-quarters of agencies had at least three forms of assistance available, and half had at least four forms of assistance.

Figure 8.3: Types of assistance provided to managers/supervisors relating to assessing work performance, 2004–05



Source: Agency survey

The employee survey sought employees' views on how underperformance was managed in their agency. Forty-five per cent of employees felt that, during the last 12 months, at least one employee in their immediate work team had consistently underperformed. This is consistent with the 2003–04 results. Amongst large agencies, the proportion of employees who felt that someone in their immediate work team had consistently underperformed varied from 29% to 59%. The lowest proportions were in DFAT and BoM.

It was most common for the underperforming employee to be a peer (61% of relevant employees), followed by a subordinate (39%) and a supervisor and/or manager (27%). As was the case in 2003–04, the large majority of employees (88%) who had observed underperformance believed that the underperformance had had an adverse effect on their team's work.

Relevant employees continued to be largely dissatisfied with the way underperformance in their work areas was handled. Only 16% of employees observing underperformance expressed satisfaction with the way the underperformance they had observed was dealt with, and 67% of relevant employees were dissatisfied.

The 2005 employee survey asked relevant EL and SES respondents if they were involved in supervising or managing an employee who consistently underperformed over the last 12 months. Forty-eight per cent of relevant EL and SES employees responded that they were. This equates to 1 in 5 EL or SES across the APS.

Relevant EL and SES employees were then asked whether they had faced any challenges in supervising or managing the underperformer. The biggest challenge identified was managing the impact of the underperformer on team members and/or colleagues (72%), followed by the time required to deal with the underperformance issue (60%). Over half of the relevant employees identified that there was unwillingness on the part of the underperformer to try and improve their performance.

Those involved in managing or supervising someone who consistently underperformed were also asked whether there was anything they found particularly helpful. Forty-four per cent indicated they found support from their manager to be particularly helpful, followed by support from their agency's HR area (25%). Of concern was the finding that 23% found nothing particularly helpful.

A number of employees expressed dissatisfaction with the way underperformance is handled. For example:

Underperformance is tolerated because no one wants to rock the boat. Supervisors/managers don't want the problem.

Due to lack of support from my managers and the HR areas, and harassment from others in the workplace who did not bother to inform themselves of the correct facts - I would be reluctant to undertake underperformance procedures again. The stress is extreme on the supervisor/manager.

Why is it always the staff member who is underperforming and not the manager whose expectations are either too high or totally unrealistic? It would also help if managers stopped being supervisors and became managers i.e. know how to manage staff rather than supervising them by matching staff to jobs developing rapport, providing constructive feedback in a positive manner, emphasising the positive.

employee survey

Others acknowledge the difficulties surrounding issues of underperformance.

There are no hard and fast procedures for dealing with underperformance. Each instance involves a person with a complex range of issues which you have to understand and then work through. The solution has to be tailored to the individual.

Because of the confidential nature of performance management most staff would have no idea of whether underperforming staff are being managed fairly or consistently.

employee survey

Retention, job satisfaction and people management

Earlier in this chapter, the importance of managing for improved performance to enhance individual and organisational performance over time and identify and develop required capabilities was discussed. The retention of employees is another important factor related to these issues. Key factors affecting the retention of employees are job satisfaction and the quality of management. Consequently, it is critical that agencies develop a thorough understanding of employee perceptions around these issues and how they impact on employee intentions to remain in or leave the APS.

Employee intentions to leave the APS

In 2004–05, employees were asked whether they intended to leave the APS in the next three years. Sixty per cent responded that they had no intention of leaving, 25% were not sure, 4% intended to leave in the next year, 4% intended to leave in the next 1–2 years and 7% intended to leave in the next 2–3 years. Table 8.4 outlines the range of reasons given by employees for their intention to leave the APS. Of those who foreshadowed leaving the APS, the top five reasons were: to retire (38%), lack of job satisfaction (36%), to pursue job opportunities outside the APS (35%), poor management (32%) and feeling under-valued (31%).

Table 8.4: Reasons for intending to leave the APS—relevant employees, 2004–05

Reason for intending to leave	Relevant employees ^(a) (%)
To retire	38
Lack of job satisfaction	36
To pursue job opportunities outside the APS	35
Poor management	32
Feeling under-valued	31
Under-use of knowledge, skills and/or qualifications	30
Limited career development opportunities in the APS	26
Higher salaries elsewhere	24
Lack of workplace support	20
To relocate (e.g. interstate, overseas)	12
Excessive workload	11
Other	8
End of contract	5
No longer have a contribution to make	2

Note:^(a) Includes only those employees who indicated they intend to leave the APS in the next three years.

Source: Employee survey

Employees aged under 25 years and between 25 and 34 years were more likely to indicate they would leave to pursue job opportunities outside the APS, whilst those in the 35–44 age range intended to leave primarily due to poor management. Those employees aged between 45 and 54 years and over 55 were more likely to leave to retire.

Employees located in the ACT were more likely to indicate they would leave to pursue job opportunities outside the APS whereas those located outside the ACT indicated that they were more likely to leave to retire.

Job satisfaction

As illustrated above, job satisfaction is a key factor in the retention of APS employees. The employee survey once again asked respondents to choose the five workplace factors (from a list of 15) that most affected their level of job satisfaction.¹⁵ Respondents were then asked to indicate their level of satisfaction with the factors most important to them.

Table 8.5 shows that the top five most important job satisfaction factors, as rated by employees in 2004–05, were the same as in 2003–04.

Table 8.5: Job Satisfaction—employees’ most important workplace factors, 2004–05

Workplace factor	2003–04		2004–05	
	Employees who nominated factor as important to them (%)	Employees who nominated factor as important who were ‘satisfied’ ^(a) (%)	Employees who nominated factor as important to them (%)	Employees who nominated factor as important who were ‘satisfied’ ^(a) (%)
Good working relationships	55	85	52	84
Flexible working arrangements	47	81	45	83
Salary	45	51	46	49
Regular feedback/recognition for effort	45	52	45	48
Good manager	43	64	44	65
Opportunities to utilise my skills	41	61	42	60
Opportunities to develop my skills	42	58	40	54
Duties /expectations made clear	38	70	38	67
Interesting work provided	39	66	37	67
Seeing tangible results from my work	38	70	37	71
Opportunities for career development	34	32	34	32
Appropriate level of autonomy in my job	-	-	30	73
Chance to be creative/innovative	31	57	30	51
Chance to make a useful contribution to society	32	69	29	67
Appropriate workload	28	40	26	38

Note: ^(a) Of the employees who nominated this factor as one of their most important and rated it, the percentage of employees who were either ‘very satisfied’ or ‘satisfied’ with the factor in their current workplace.

Source: Employee survey

¹⁵ List of factors changed slightly in 2004–05

Consistent with last year's survey results, Table 8.5 indicates that, while the two most important workplace factors influencing job satisfaction ('good working relationships' and 'flexible working arrangements') had high satisfaction ratings (84% and 83%, respectively), two of the top four most important factors ('salary' and 'regular feedback/ recognition for effort') continue to have relatively low satisfaction ratings (49% and 48%, respectively).

The largest relative fall in satisfaction levels occurred in 'chance to be creative/ innovative' (from 57% to 51%). Falls also occurred in 'regular feedback/ recognition for effort' (52% to 48%) and 'opportunities to develop skills' (58% to 54%).

Those factors that experienced the largest relative falls in satisfaction levels last year (i.e. between 2002–03 and 2003–04) either remained the same or fell even further. 'Opportunities for career development' remained stable at 32% after falling from 43% in 2002–2003. 'Appropriate workload' fell from 49% in 2002–03 to 40% in 2003–04 to 38% in 2004–05. 'Salary' fell from 62% in 2002–03 to 51% in 2003–04 to 49% in 2004–05.

Levels of satisfaction varied considerably between some of the factors according to sex and classification level. Chapter 9, 'Workplace Diversity', contains further analysis of job satisfaction, in the context of examining the job satisfaction factors for particular groups, namely women, Indigenous employees, employees with a disability, people from a non-English speaking background, and older and younger workers. In relation to satisfaction rates, while satisfaction with many of the factors remained fairly constant between the 2004 and 2005 surveys, a number of factors recorded substantial falls in satisfaction ratings.

A summary index was again created from the results of the job satisfaction question in the employee survey. The index ranges from zero (the employee was very dissatisfied with all of the factors nominated) to 10 (the employee was very satisfied with all factors). An index of five translates to an employee being, on average, neither satisfied nor dissatisfied with their nominated factors.

For all employees, the proportion with a job satisfaction index over five was 71% (down from 74% last year and 76% in 2002–03). As in previous years, the job satisfaction index varied considerably between the 21 large agencies, from over 83% to 62%. There were only two agencies, BoM and DFAT, where 80% or more of employees reported above average levels of job satisfaction. There were five agencies, Customs, ASIC, Centrelink, DEWR and Finance, where less than 65% of employees reported above average levels of job satisfaction.

Consistent with the patterns identified in last year's report, job satisfaction was generally unrelated to age, except for employees over 55 years, who had higher levels of satisfaction (78%). Job satisfaction continued to be higher for employees located in the ACT (75% compared to 69% for employees outside the ACT), and varied strongly by classification levels with the SES (87%) having higher levels of job satisfaction than EL employees (77%) who, in turn, have higher job satisfaction levels than APS 1–6 employees (69%). There appears to be little difference in overall levels of job satisfaction between men and women and between full-time and part-time employees.

The following comments made in the employee survey are illustrative of the spectrum of employees' views about what influences their job satisfaction.

It is disappointing that many in the community, including media and political masters, view public servants as easy targets for blame shifting. This impacts on job satisfaction and weighs on individuals considering the benefits of an APS career.

I'm not unhappy with my salary, however am aware that staff in similar agencies doing similar work receive a better salary than I do. I see this as an equity issue.

Working in a regional office does not allow for as much opportunity for development as is provided in larger city offices.

I am very satisfied with my current job, especially the relations we have in our team with our manager and work colleagues.

My high rating is due to the manager I have. Managers play a very important role and having a good manager makes all the difference when it comes to job satisfaction.

employee survey

People management capability

As discussed above, many of the factors which impact on employees' job satisfaction relate, either directly or indirectly, to their manager. Consequently, with this in mind, it is interesting to examine employees' views about the effectiveness of their immediate supervisor in the area of people management.

The employee survey again asked employees about how effective their immediate supervisor was at managing people. Compared to 2003–04, a slightly lower proportion of employees (51% in 2004–05 compared to 53% in 2003–04) rated their supervisor as highly effective at managing people. However, this still compares favourably to 2002–03 when only 47% rated their immediate supervisor as highly effective at managing people.

As was the case in 2003–04, supervisors were again more likely to be rated as more effective by younger employees and employees working in the ACT. The SES (55%) were again more likely than EL employees (50%) and APS 1–6 employees (52%) to have rated their supervisor as highly effective at managing people.

Supervisors were also rated as more effective by employees who were proud to work in the APS and/or their current agency and by employees who felt that their productivity had increased over the past 12 months.

Not surprisingly, employees who listed either 'having a manager that encourages and manages innovation', 'receiving effective feedback from my manager' and a 'good working relationship with my manager' among the five most important factors that helped them increase their productivity were also more likely to rate their supervisor as highly effective in people management.

Employees' different perceptions about their supervisors' people management skills were also reflected in the comments provided by some employees.

Because team leaders are required to also deal with complex technical matters, it seems to me that the people who are promoted to team leader (and middle management in some cases) are promoted based largely upon their technical skills with less emphasis on management/leadership skills. It would seem to me that the agency has a serious lack of team leaders and managers with good management/leadership and interpersonal skills.

employee survey

Increased attention and efforts by agencies in the area of people management are likely to have a positive impact on employee job satisfaction and possibly on productivity.

Productivity and employee engagement

The pressure on the APS to increase its efficiency and effectiveness is well-documented. Some of the commonly understood drivers of productivity include the use of time and labour-saving technology and the use of agreement making to achieve greater productivity. However, there is a growing acceptance that a major driver of productivity—potentially more influential than financial rewards—is employee engagement. The definition of ‘employee engagement’, in the context of this chapter, is discussed in some detail below. Some of the research that is contributing to our understanding of the relationship between employee engagement and productivity is also outlined below.

Productivity

Although productivity is difficult to measure in the APS context, it is important that APS managers attempt to understand what drives individual productivity. With this in mind the 2005 employee survey introduced a new two-part question around the issue of productivity. Firstly, employees were asked whether they felt that their productivity had increased in their current job over the last 12 months.

Overall, 60% of APS employees felt that their productivity had increased over the last 12 months. Twenty-three per cent of employees felt that their productivity had increased markedly during the last 12 months, 37% of employees felt their productivity had increased somewhat over the period, and 21% felt that it had remained the same. Only 6% felt their productivity had declined. The remaining 12% responded that the question was not applicable to them (e.g. they had changed jobs in the last 12 months).

To identify what had led to this improved productivity, those employees who indicated that their productivity had increased in the last 12 months were then asked to select from a list of 16 factors, the five most important factors that had helped to increase their productivity over the last year. The results are presented in Table 8.6.

Table 8.6: Factors improving relevant employees' productivity, 2004–05

Factor	Relevant employees that nominated factor as helping to increase their productivity (%)
Increased knowledge and/or experience in the job	76
Good working relationships with colleagues	60
Good working relationship with my manager	38
Access to the information, resources and/or technology I need to perform my job	37
Working to realistic performance expectations	35
Having a manager who encourages and manages innovation	35
Clear work plans and timetables	33
Receiving effective feedback from my manager	30
Understanding how my work contributes to my agency's objectives	29
Access to effective learning and development	22
Effective formal and informal communication within my agency	19
Developing effective strategies to deal with an overall reduction in resources	16
Receiving effective mentoring	14
Developing or recruiting high performing staff under my management	10
Good working relationships with other APS agencies	7
Access to performance-related pay (e.g. bonus, advancement)	4

Source: Employee survey

Not surprisingly, increased knowledge and/or experience in the job stood out as the most important factor affecting productivity, with 76% of relevant employees rating it as one of the top five factors that helped them to improve their productivity. Good working relationships with their colleagues and their manager also figured prominently, with 60% and 38% of relevant employees, respectively, rating these in their top five. Interestingly, only 4% of relevant employees who felt their productivity had improved, rated access to performance-related pay as one of the top five factors that had helped them to improve their performance.

Employee engagement

Increased competition to recruit the best talent, retain productive workers and increase employee productivity in a tighter labour market lies at the heart of interest in employee engagement. In addressing workforce challenges and the changing demographics agencies require, not only a systematic and effective workforce plan, but they also need to focus on boosting workforce performance through enabling and engaging staff.

'Employee engagement' is a theoretical concept that has gained currency in areas of economics, psychology, communication, management and related disciplines and, more recently, in human resource management.

Slightly different definitions are used. Many draw on the characteristics of employees; the Institute for Employment Studies,¹⁶ for example, defines engagement as:

A positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organisation. The organisation must work to develop and nurture engagement, which requires a two-way relationship between employer and employee.¹⁷

definition

The CLC, a research body that conducts best practice research, develops decision support tools and provides executive education, defines engagement as:

The extent to which employees commit to something or someone in their organisation, how hard they work, and how long they stay as a result of that commitment.¹⁸

definition

Different literature uses slightly different terms to group employees into different levels of engagement. The CLC, for example, refers to 'the highly uncommitted', 'neither fully committed or uncommitted' and 'highly committed employees'.¹⁹ The Gallup Organisation, a market research and consultancy company, describes similar groups of employees as 'actively disengaged', 'not engaged' and 'engaged'.²⁰

Research undertaken by CLC in 2004, drawing on a number of large international organisations, including Centrelink, suggests that about one in ten employees is highly committed. Such an employee is nine times more likely to stay with the organisation than the highly uncommitted. A similar proportion of employees fell into the highly uncommitted category. The majority of employees, about seven in ten, were found to be in the neither fully committed or uncommitted category, but quite willing to commit for the right reasons. If agencies can engage this group they may benefit from increased employee productivity and improved employee retention.

Other research shows a similar pattern of employee engagement; for example, in a survey conducted in Australia in December 2004, about two in ten employees were found to be 'engaged' or 'actively disengaged' and six in ten employees fell into the 'not engaged' category.²¹

The Institute for Employment Studies suggests that many factors influencing engagement will be common to all organisations, regardless of sector; however, some variability is likely, and the relative strength of the factors is also likely to be contingent upon the organisation. There also appear to be strong links between employees feeling valued and involved and engagement.

¹⁶ An independent HR research and consultancy centre, based at the University of Sussex, UK.

¹⁷ D. Robinson, S. Perryman & S. Hayday 2004, *The Drivers of Employee Engagement*, the Institute for Employment Studies, Sussex, UK, <<http://www.employment-studies.co.uk>>

¹⁸ Corporate Leadership Council 2004, *Driving Employee Performance and Retention through Engagement: A Quantitative Analysis of the Effectiveness of Employee Engagement Strategies*, CLC, Washington DC.

¹⁹ *ibid.*

²⁰ J. Sasaki & M. Norquist, 'Grim News for Japan's Managers', *Gallup Management Journal*, 14 July 2005, <<http://gmj.gallup.com>>

²¹ *ibid.*

Table 8.7: Factors influencing employee engagement

	Institute for Employment Studies ²²	Corporate Leadership Council ²³	Gallup Organisation ²⁴
Learning and Development	<ul style="list-style-type: none"> • Training and development • Career management 	<ul style="list-style-type: none"> • Understanding how to complete work projects 	<ul style="list-style-type: none"> • Extent to which an employee receives encouragement of individual development • Extent to which an employee had, in the last year, opportunities at work to learn and grow • Extent to which the employee had someone talk to them about their progress in the last six months
Communication and input to decision-making	<ul style="list-style-type: none"> • Communication 	<ul style="list-style-type: none"> • Internal Communication • Employee understanding the connection between work and organisational strategy • Manager clearly articulates organisational goals 	<ul style="list-style-type: none"> • Extent to which an employee knows what is expected of them at work • Extent to which an employee thinks their opinions count
Role of Manager	<ul style="list-style-type: none"> • Immediate management • Performance management and appraisal 	<ul style="list-style-type: none"> • Manager adapts to changing circumstances • Manager clearly articulates organisational goals • Manager possesses job skills • Manager puts the right people in the right roles at the right time • Manager sets realistic performance expectations 	<ul style="list-style-type: none"> • Extent to which an employee has the opportunity to do what they do best • Extent to which an employee has the materials and the equipment they need to do their work • Extent to which an employee received recognition or praise in the last seven days
Integrity, Fairness, Equity and Diversity	<ul style="list-style-type: none"> • Equal opportunities and fair treatment • Pay and benefits 	<ul style="list-style-type: none"> • Manager demonstrating a strong commitment to diversity • Manager demonstrates honesty and integrity • Organisation has a reputation for integrity 	
Other	<ul style="list-style-type: none"> • Job satisfaction • Health and safety • Cooperation • Family friendliness 	<ul style="list-style-type: none"> • Importance of the employee's job to the organisation's success 	<ul style="list-style-type: none"> • Extent to which the employee has a supervisor or someone at work caring about them as a person • Extent to which an employee has a best friend at work • Extent to which an employee thinks the organisation's mission makes their job feel important • Extent to which an employee has fellow employees who are committed to doing quality work

²² Robinson, Perryman and Hayday, *The Drivers of Employee Engagement*.

²³ Corporate Leadership Council, *Driving Employee Performance and Retention through Engagement*. The CLC research has identified a large number of factors that would have the greatest impact on employees' discretionary effort. The 12 most influential factors are listed in Table 8.7.

²⁴ J. Thackray, 'Feedback for Real', *Gallup Management Journal*, 15 March 2001, <<http://gmj.gallup.com>>

Table 8.7 attempts to align some of the factors identified in the research discussed in this section with areas covered in the employee survey. It is not possible to analyse all possible factors identified by the various consultancies or research organisations in this report.

The State of the Service employee survey was not designed specifically with employee engagement issues in mind. However, after examining literature on employee engagement and considering this against the areas covered by the survey, areas that may usefully be considered as a proxy for some 'levers' of employee engagement have been identified and are discussed. While the area of serving the public, customer focus and service delivery is not included in this discussion, it is an area for exploration in future employee surveys.

In examining employee engagement, available data from State jurisdictions (WA, SA, Vic) was analysed to gauge the views of APS employees compared to those in State public sectors. However, caution is required with these comparisons because of methodological differences. The WA data is only representative of the views of employees in two WA departments; the Victorian and SA surveys were conducted in 2004; and there was a difference in the wording of one particular question in the SA survey.²⁵ Over time, as the number of jurisdictions participating rises, and comparability of the data improves, it is envisaged that benchmarking will become more indicative.

Role of Managers

One of the distinctions made in the literature between the concepts of commitment and other forms of organisational behaviour and the concept of engagement is that the latter is a two-way relationship—organisations must expend effort to engage the employee, who then decides on the level of engagement offered to the employer.²⁶ For the majority of employees, the organisation is represented in this relationship by their immediate manager, which means that the role of 'line' managers is central in determining the extent of employee engagement.²⁷ The CLC research suggests that, as the key conduit for employee commitment, managers not only influence commitment but are a 'force multiplier'—meaning that managers who develop employee commitment to the job, team, and organisation are one of the strongest drivers of engagement within the organisation.²⁸

²⁵ The data for WA for 2004–05 represents two non-metropolitan Departments of Education and two non-metropolitan Departments of Health. This is not representative of the WA jurisdiction for comparative purposes. The South Australian survey was conducted in September 2004 across public sector agencies employing staff under the *Public Sector Management Act 1995*. The SA data is reported as a percentage of respondents who answered the questions with the exception of responses to questions where respondents were given multiple options to respond to and allowed to make more than one response.

²⁶ Robinson, Perryman and Hayday, *The Drivers of Employee Engagement*.

²⁷ Gallup Organisation, 2005 'The Gallup Path to Business Performance', <<http://consulting.gallup.com>>

²⁸ Corporate Leadership Council, *Driving Employee Performance and Retention through Engagement*.

An organisation with an engaged workforce increases its performance across a variety of indicators, one of which is increased employee productivity. As referred to earlier in this chapter, next in importance to the two most commonly identified reasons for increased productivity (i.e. 'increased knowledge and experience' and 'good working relationships with colleagues'), are six factors directly related to the role of managers (bearing in mind that managers are also influential with regard to the two most common responses).

In descending order, the six productivity enhancing factors directly linked to the role of the manager are: a good working relationship with my manager (38%); access to the information, resources and/or technology I need to perform my job (37%); working to realistic performance expectations (35%); having a manager who encourages and manages innovation (35%); clear work plans and timetables (33%); and receiving effective feedback from my manager (30%). When the literature on engagement is superimposed on these survey findings, several common components related to engagement emerge; for example, in considering what drives engagement, Robinson, Perryman and Hayday, identify issues associated with encouraging and managing innovation, realistic expectations and clear work plans, effective feedback from managers and overall strong communication.

The employee survey data provides broad support for the arguments advanced in the literature about the importance of the managerial role in increasing productivity by improving commitment and engagement. Agencies determined to increase employee engagement need to seriously consider the role of managers in their organisation.²⁹

Employees' perception of communication and input into decision-making

Good communication, information-sharing and involvement in decision-making are commonly identified in the literature as promoting employee engagement.³⁰ Regular staff meetings, if well-run and focused, can be an effective mechanism through which these themes can be implemented at the workplace level.

This year's survey results on workplace consultation were very similar to last year's (for details, see Chapter 5). Sixty per cent of employees reported attending team and/or section level meetings fortnightly, or more often, and almost three-quarters of employees reported attending such meetings on a monthly or more frequent basis. However, this year employees reported being significantly less satisfied that the meetings they attended provided a forum in which to contribute their views on issues that impact on their work and with the overall say they have in decisions impacting on their work.

In this context it is useful to compare the views of APS employees with employees in other jurisdictions. Fifty-five per cent of APS employees either agreed or strongly agreed that their 'input was adequately sought and considered about decisions that affect me', which is comparable to WA (62% of respondents either agreed or strongly agreed) and SA (51% of respondents either agreed or strongly agreed).³¹

These results suggest that simply providing a consultation mechanism is insufficient in promoting employee engagement. If meetings are used then they need to deliver by providing good communication between management and employees and across the

²⁹ Gallup Organisation, 'The Gallup Path to Business Performance'.

³⁰ CLC research showed that communication was estimated to have the greatest impact on discretionary employee effort when 14 cultural traits of organisations were compared.

³¹ In SA, respondents were asked if their 'input was sought and considered about decisions that affect my job' (not 'affect me').

organisation, including information-sharing and genuine involvement in decision-making on issues that affect work life. The results of the employee survey suggest that agencies may need to consider enhancing the quality of workplace consultative mechanisms if improving employee engagement is seen as a desirable managerial objective. Chapter 5 canvases consultative issues in the APS in more depth.

Employees' perceptions of integrity

International and Australian research links organisational ethics with high levels of employee performance and the capacity to attract and retain staff.³² This literature is explored in more detail in Chapter 6 of the Commission's publication, *Embedding the APS Values*.³³ However, evidence of the link between ethics and efficiency is not new. Australian research conducted by the Independent Commission Against Crime in 1998 found that the ethical tone of an organisation impacts on efficiency and effectiveness, decision-making processes, employee commitment and job satisfaction, employee stress and employee turnover. On the basis of these findings it was argued that making ethical practices a priority was not just about functioning with integrity or being credible; it was also about optimising the efficient functioning of an organisation.

A proxy for a culture of integrity in the APS is the level of agreement of employees that other employees, immediate managers and senior managers act in accordance with the Values. This is explored in Chapter 7, 'Embedding the APS Values and the Code of Conduct'.

Levels of agreement that both 'colleagues' and 'immediate managers' act in accordance with the Values continue to remain similar. However, employee responses continue to indicate lower levels of confidence that most senior managers act in accordance with the Values, although employee confidence on this issue has steadily increased over the past three years.

Compared with the limited WA data available, the APS seems to have a much lower proportion of employees who agreed that senior managers in their organisation lead by example in ethical behaviour (the result for WA was 71% compared to a result of 51% for the APS). However, both WA and the APS have about the same proportion of employees who agree that their organisations actively encourage ethical behaviour by all employees (81% and 82%, respectively). Unfortunately, when this report was being prepared, comparable data from other jurisdictions was not available. However, in the 2004 SA Workplace perspectives survey, employees were asked 'Do the leaders or managers in your agency model the values and behaviours required by the Code of Conduct?' In 2004, some 56% of employees responded 'always' or 'usually'.

These are clear indicators that improving employees' perceptions about the extent to which senior management act in accordance with the APS Values and lead by example in ethical behaviour should continue to be a high priority.

³² F. Vogl, 'Corporate Integrity and Globalisation—The Dawning of a New Era of Accountability and Transparency' (lecture delivered at the Pennsylvania State University, 23 March 2001) quoted in Australian Public Service Commission, *Embedding the APS Values*, August 2003, <<http://www.apsc.gov.au/values>>

³³ Australian Public Service Commission, *Embedding the APS Values*, August 2003, <<http://www.apsc.gov.au/values>>

Employees' perceptions of fairness and equity

In examining employee engagement, the literature discusses the importance of employee perceptions of fairness and equity in fostering commitment among employees. The employee survey asked a series of questions around the application of merit in agencies' employment decisions, the operation of agencies' performance pay systems and the management of underperformance. While not the ideal, these questions are a reasonable proxy for employee perceptions on fairness and equity.

The only employment decision where more than 50% of staff were confident that merit is routinely applied was for 'engagement and promotion' which is the only employment decision category requiring a competitive selection process. Moreover, employee perceptions of whether merit was applied in employment decisions have declined at statistically significant rates across all four decision types compared to last year.

When asked if recruitment and promotion decisions in their organisation were fair, 35% of APS employees compared to 53% of the limited sample of WA government employees surveyed agreed or strongly agreed with the statement. When asked if they have confidence in the processes used by their organisation to resolve employee grievances, 34% of APS employees compared to 46% of WA employees agreed or strongly agreed.

In the APS, employees with the highest level of job satisfaction were more likely to report higher confidence in the application of merit. Similarly, APS employees who agree that their immediate manager and senior managers act in accordance with the APS Values are more likely to agree that merit is applied than those who don't agree.

The operation of an agency's performance pay system provides another indicator of fairness and equity. APS employees with the highest level of job satisfaction were considerably more likely to agree that the performance pay system operated fairly and consistently. These findings in relation to performance pay also provide some support for the links made in the literature between employee engagement and perceptions of fairness and equity, as fully engaged employees are more likely to enjoy high levels of job satisfaction and hold positive views about their managers.

Conversely, when examining the concept of engagement, in the context of employee perceptions of fairness and equity, it is not only important to consider those issues which promote engagement but also those that inhibit or reduce employee engagement. One such issue is the management of underperformance which was examined in the employee survey. The survey found that, overall, only 16% of relevant APS employees were satisfied with the way underperformance was dealt with in their agency. An examination of open-ended comments assists in situating this statistic within the engagement discussion as many employees feel that inadequate management of underperformance was a serious demotivating factor to other staff.

It is a slap in the face that under-performers are slotted in with the majority who receive the middle rating, because it is too hard for their managers to put them on inefficiency proceedings. Management have NO IDEA how demoralising it is for the rest of us. Inefficient people just make us all think 'why bother trying?'. Everyone seems to be too scared to tell people they are not doing their job to the standard expected—its highly demotivating—why should you work efficiently when you see so many others wasting time!

employee survey

In general, APS employees' perceptions around some of the indicators of fairness and equity, in particular the application of merit in employment decisions and the operation of performance pay systems are less favourable compared to last year. These findings suggest a range of issues will need to be considered by agencies wishing to promote employee engagement.

Chapter 5 examines merit in more detail, including the effect that employee knowledge and training have on employees' perceptions of merit, while the operation of agencies' performance pay systems and management of underperformance are considered earlier in this chapter.

Employees' perceptions of diversity

Employees' perceptions of whether their organisation is diverse and values diversity was identified by CLC as a potential driver of employee effort. Out of the top 50 potential levers it identified, CLC placed the management characteristic of a strong commitment to diversity amongst the top five levers of discretionary effort and the top five levers of employee intent to stay in their organisation.

This year the employee survey asked respondents about their organisation's commitment to creating a diverse workforce. Sixty-one per cent of employees agreed that their agency was committed to building a diverse workforce. Of the EEO groups, women were the only group significantly more positive about their agency's commitment to creating a diverse workforce.

Although this was a relatively positive result, it is not as high as in other jurisdictions. Results for the WA Public Service were higher: 78% of public servants who responded to a 2004–05 public sector climate survey agreed that their organisation was committed to creating a diverse workforce.³⁴ Results for the Victorian Public Service were even higher, with 80% of employees who participated in their People Matter Survey agreeing that their agencies were committed to creating a diverse workforce.³⁵

Access to learning and development

Learning and development is commonly reported as significantly influencing the engagement of employees. Learning and development generally, along with leadership development in particular, is examined in more detail in Chapter 10, 'Leadership, Learning and Development in the APS'.

³⁴ Office of the Public Sector Standards Commissioner, Western Australia, *Public Sector Climate Survey*, 2004–05.

³⁵ Office for the Commissioner for Public Employment, *People Matter Survey 2004*, <<http://www.ope.vic.gov.au>>

Consistent with results from 2002–03, when the specific issue of employee satisfaction with personal leadership development opportunities was examined, only around one-quarter of employees were satisfied. This is clearly an area where the APS could be doing better. Satisfaction was related to a variety of factors, including age, length of service and classification (these are discussed in more detail in Chapter 10).

Learning and development indicators were also included in the questions relating to job satisfaction and increasing individual productivity. While the job satisfaction factors of ‘opportunities to develop my skills’ and ‘opportunities for career development’ are outside the top five job satisfaction factors for all APS employees, over one-third of employees selected each factor as one of their five most important. Of the employees who selected ‘opportunities to develop my skills’ as one of their most important factors, only 54% were satisfied with this factor (this is down from the 58% of relevant employees who were satisfied with this factor in 2003–04). The proportion of relevant employees satisfied with ‘opportunities for career development’ has remained consistently low for the last two years at 32%, dropping from the high of 43% in 2002–03.

In terms of increasing individual productivity, 22% of relevant employees rated ‘access to effective learning and development’ as one of the five most important factors that had helped them to increase their individual productivity. While this factor was ranked outside the top five factors overall by all APS employees, ‘access to effective learning and development’ still appears to be important in improving employee productivity.

While much of the learning and development data seems to be relatively stable, it is concerning that relevant employee satisfaction with the two job satisfaction indicators related to learning and development has fallen over time.

Key chapter findings

As has been pointed out in previous reports, many of the APS workforce challenges centre around the demographic challenge of the ageing of the APS workforce combined with the projected tightening of the labour market which is already leading to skill shortages in some areas—a situation which is likely to deteriorate further. These trends are all consistent with the issues identified in the recent MAC report, *Managing and Sustaining the APS Workforce*.³⁶

Whilst the vast majority of agencies are investing effort in workforce planning, many are still in the development phase when it comes to developing workforce planning policies. The survey findings documented in this chapter support MAC’s identification of an urgent need for systematic workforce and succession planning processes. The workforce planning actions specified in the MAC report, including the requirement that agencies report to MAC on their progress, should help to ensure that further progress is made on this front.

³⁶ Management Advisory Committee, *Managing and Sustaining the APS Workforce*.

Despite substantial work in the area of performance management, the issues surrounding the credibility of agencies' performance pay systems remain a cause for concern. The general decline from last year in employees' views, and the emerging downward trend on some indicators surrounding the operation of agencies' performance pay systems, indicates a continuing need for agencies to focus on developing a culture that is built around constructive workplace relationships. Managers would be assisted by the provision of further support mechanisms and development opportunities in the area of effective people management skills.

Given the tightening of the labour market and looming skill shortages, agencies are likely to face challenges in attracting the 'right' people with the 'right' skills. Consequently, it is important that agencies explore all possible avenues for developing and maximising the productivity of existing employees.

The analysis of this year's data in terms of current theory relating to employee engagement is a preliminary attempt to add to the APS conversation around this complex issue.

The preceding discussion in this chapter refers to some of the apparent links between retention, job satisfaction, people management and productivity. Real or perceived, employees' assessments of the quality of management, communication and input into decision-making, integrity, merit and diversity are crucial to their overall engagement. In addition, the role of managers, generally, and access to learning and development, cannot be underestimated.

The State of the Service survey data has been analysed with a view to identifying appropriate proxies for some of the identified 'levers' of employee engagement. Despite the limitations of this data, there seems to be considerable room for improvement in most of these areas. Of some concern is the overall finding that employee perceptions across a range of areas are either stable at less than ideal levels, or worse still, are declining (e.g. job satisfaction, merit, performance pay).

Given that the factors impacting most on employee engagement are organisation-based, and not demographic, it is important that agencies look to their own agency-specific data and information to gain an insight into employee engagement in their organisation. A sophisticated approach to workforce planning would seek to encapsulate strategies aimed at addressing these organisational factors.

The Commission will continue to explore employee engagement issues and will review its State of the Service survey questions for next year with this in mind.

