

Public sector ROI in a Recession

The recession forces every organisation to consider the return on investment (ROI) for every dollar spent. For public sector organisations this means being even more frugal and efficient in the use of taxpayers' money. The tightening fiscal situation means tightening budgets, which in turn mean public sector organisations must focus on value for money. More efficient and effective processes, evaluating the effectiveness of current programmes, and making prudent investments will be key.

Remuneration is likely to be of particular interest to Chief Executives and Chief Financial Officers. In organisations where most employees are knowledge workers, salaries comprise the largest portion of the operating budget. Especially in these circumstances, ROI for the rewards spend is critical.

The government has told public service Chief Executives to reward staff using existing funding. Headlines warn 'Public servants to expect pay freeze' and Ministers indicate 'Chief Executives are being given the message: reduce salaries or cut jobs.' At the same time, public sector organisations must ensure the sustainability of their services, geared to provide high performance well into the future. Managing for the future as well as the present means maintaining a core skill base and avoiding unnecessary losses of essential skills.

Across-the-board cost-cutting is not the answer, especially in the long term. ROI is about investment.

Best practice studies show that while excellent organisations are 'lean and mean', they do not cut so close to the bone that they hinder development or threaten their long-term viability. They retain enough professional resources to keep strategic projects going.

They also invest appropriately in those resources. Although this may seem anathema to enthusiastic slash-and-burners, cutting budgets is not necessarily the most effective approach to achieving a high ROI. The message, as with all expenditure, is to consider both short- and long-term consequences.

While there are some excellent metrics available for CFOs, many specific HR outcomes are not nicely measurable. Taking a thoughtful and targeted approach to remuneration will, however, make it much more likely you will achieve a good ROI from your remuneration budget.

Don't:

- spread available rewards too evenly
- pay market premiums for skills that are no longer in high demand (and ensure market premiums are clearly communicated as margins, likely to disappear over time)
- pay too little for critical skills or jobs
- pay for benefits that employees do not want, need or value.

Do take a broader but targeted approach to reward:

- pay the 'prudent minimum'
- manage and reward performance
- focus rewards on strategically important groups
- invest in targeted development
- identify and reduce drivers of unwanted turnover
- invest in leadership skills
- develop and report on internal and external HR benchmark or metrics.

Cost reduction can still be a driver, but achieving real value for money during a financial crisis requires a strategic approach to rewards. Both affordability and sustainability should come into the picture; remember, 'targeted investment in people today retains capability for tomorrow.'