
Managing human resources – a central bank perspective

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The adage that “people are our greatest asset” has been a recurrent theme in many businesses and organisations through history. This is no less true for a central bank. Indeed, people are, without doubt, a central bank’s most important resource. Our business relies heavily on the expertise, experience and sound judgement of our staff. A central bank’s effectiveness crucially depends on its credibility, and this in turn largely comes down to the quality of its staff. Therefore, managing human resources effectively is a critical element in maintaining an effective and credible central bank. This article summarises the evolution of the Reserve Bank’s approach to human resources management, placing this in the context of the changes that have occurred within the Bank’s structure and governance arrangements over the last decade or so.

1 Introduction

We often hear that the most important asset in any organisation is its people. This is no less the case with central banks. To be effective, central banks must have a high degree of credibility. This in turn requires a central bank to have the capacity to keep track of and carefully analyse the many factors that impinge on its core business – maintaining price stability and financial stability. And it requires a central bank to be able to respond with sound and well thought through policies as and when the need arises. This requires considerable skill, expertise, experience and judgement on the part of a central bank’s staff. Hence, human resources is a vital area of any central bank, and this certainly holds true for the Reserve Bank.

Although people are a central bank’s most important asset, there are also significant risks in the human resources area, and those risks need to be carefully managed. The risks include the consequences of recruiting the “wrong” people, inadequately training and developing them, losing them prematurely, developing ineffective or misguided motivation structures, and failing to consider future human resource capability needs. Hence, the Bank, like most organisations with a key dependency on the skills, experience and judgement of its staff, needs to maintain structures and policies to identify and manage these risks.

This article discusses the Reserve Bank’s approach to human resource management and the way this has evolved in recent years. It places this in the wider context of the changes that

have occurred to the Bank’s organisational structure in the last decade or so.

2. Setting the context – evolution of the Reserve Bank’s structure and culture

Like the rest of the New Zealand public sector in the late 1980s and early 1990s, the Reserve Bank has undertaken substantial internal reform in a wide range of areas. Some of these reforms resulted from changes to the Bank’s functions, some from the Bank becoming operationally independent in the area of monetary policy, and some of the reforms were driven by a desire to strengthen our overall efficiency and effectiveness. Most of the reforms had implications for human resources one way or another. The main developments worth noting in this context include the following:

- In 1989, Parliament granted the Bank operational independence in the area of monetary policy, as part of the move to formalised inflation targeting. With greater independence came an increased need for transparency and accountability, not only for monetary policy, but also in respect of the management of our resources. Reflecting this, the Bank’s finances were changed by the redirection of seigniorage income (the income associated with issuing currency) from the Bank to the Government,

and the Bank's funding was made more transparent and subject to greater accountability. The funding for the Bank is now determined by a funding agreement, negotiated every five years with the Government, which prescribes how much income the Bank can retain to cover its operating expenses. This, together with the internal drive towards enhancing the efficient management of the Bank's resources, led it to develop a comprehensive system of planning and budgeting in all of its departments. In turn, this placed an increased emphasis on the setting of clear objectives, monitoring the performance of departments against planned outputs, and developing management systems to ensure that resources are efficiently used within departments. Each department's plans, budgets, and performance are scrutinised by the Bank's Governors and by the Board of directors. Summarised information relating to performance against plans and budgets is disclosed in the Bank's annual report.

- The economic and financial reforms of the mid-1980s resulted in the elimination of some of the Bank's functions, such as foreign exchange controls and the administration of financial regulation. This enabled us to make substantial reductions in staff numbers and to simplify aspects of our operations. Further staff reductions have subsequently been facilitated by the introduction of new technology (as in the processing of currency) and by a conscious process of reviewing what we do and how we do it. Reflecting these developments, staff numbers have fallen dramatically in the Bank in the last 15 years, from more than 700 full time equivalents (FTEs) in the mid-1980s to fewer than 200 FTEs today. The Bank's operational costs have correspondingly fallen significantly in real terms over this period as well, and the Bank's expenditure has generally fallen well below its funding level.
- The reduction in staff numbers, rationalisation of department structures and other changes within the Bank's way of operating have also facilitated the adoption of a flatter structure. Layers of management have been removed, leaving a relatively flat structure of one governor, one deputy governor and eight heads of department, which together comprise the senior

management team. The policy departments were configured around their key functional outputs. The Bank developed a process of strategic management and the human resources area attempted to reflect these changes in its structures.

- In the mid-to late 1980s the Bank moved to a fully costed approach to remuneration packages, removing most of the non-salary staff benefits that had formerly been part of staff remuneration arrangements (concessional finance being an example). The Bank also terminated entry into the staff superannuation scheme and encouraged existing staff, through the use of financial incentives, to withdraw from the defined benefit scheme. These changes were undertaken for a number of reasons, including reducing the inequity that results from remuneration provided by way of uncosted finance, to reduce the contingent risks of a defined benefit scheme, to reduce administrative costs, and to avoid internal conflicts in our human resources policies. For example, there were aspects of the remuneration and superannuation systems which created incentives for people to remain with the Bank, regardless of whether they were good at their job (or even whether they enjoyed doing it) – to the Bank's cost.
- In the early 1990s, the Bank moved to a system of formal job grading based on the Hay system (which is a framework for measuring the "size" of jobs and facilitating comparisons of remuneration with similar jobs in other parts of the labour market). This was motivated by a desire to promote a greater degree of internal consistency in the remuneration of staff, having regard to the size and nature of their jobs, and to align remuneration packages better to relevant market comparators. The process of moving staff at mid-management level and above to individual employment contracts also began in the early 1990s, as part of a move to place greater emphasis on individual staff accountability. It was also envisaged that this would allow a more flexible structure for determining people's pay and terms and conditions of employment.
- The 1990s also saw an evolution in the way the Bank organised itself. The flatter management structure and

small staff numbers enabled, and to some extent required, the Bank to delegate greater responsibility to less senior levels of staff. In the 1980s and earlier, the Bank operated with a relatively formal, multi-layered hierarchy, and it had been rare for young graduate staff to be involved in major policy decisions. Today, the Bank has become a much less formal working environment, with less hierarchy, and newer staff members have a much greater involvement in the final stages of the Bank's outputs and play an active role in influencing its decisions. Provided that this is a carefully managed process, the delegation of greater responsibility to relatively less experienced staff has brought major benefits to the staff and the Bank itself. These include a greater sense of "ownership" by staff in the Bank's core functions, a stronger incentive to achieve excellence, quicker turnaround in work and a faster development of skills and knowledge. Other aspects of the way we now operate include providing more flexible working hours for staff, accommodating part time employment, developing open plan workspaces and encouraging a closer liaison between departments.

- In the late 1990s, the Bank began again to reflect on how its culture had evolved and on the challenges that it was facing on the staffing front. The starting point for assessing this was our mission statement and values. The Bank's mission statement is:

Our commitment to New Zealanders as New Zealand's central bank: We will do everything in our power to build national and international confidence in the stability and integrity of New Zealand's money and monetary system.

We will do that by:

- operating monetary policy so as to maintain price stability;
- promoting the maintenance of a sound and efficient financial system; and
- meeting the currency needs of the public.

We will critically review our performance regularly and will aim to ensure that we use taxpayers' resources efficiently and effectively.

In the late 1990s we reviewed our values through a process of open discussion among staff. The values reflect the culture that has developed within the Bank – a culture of openness, individual responsibility and accountability, team-work and the pursuit of excellence.

Reflecting this, our values are:

Excellence: We pursue excellence in all that we do and we achieve it by actively challenging, reviewing and improving the way we work.

Our People: We value the talents of our people and enhance those talents by providing encouragement, support and opportunities for growth and development.

Our Reputation: We strive to inspire public confidence by acting with integrity, exercising sound judgement and using public resources responsibly.

Working Together: We respect and encourage both open communication and diverse contributions aimed at achieving the Reserve Bank's goals.

In the past, the Bank met its needs for skill and experience predominantly from full time, salaried, and long-serving employees. In the past decade there has been significant change in the mix of the Bank's staff. In fact, six of eight departmental managers have less than 2.5 years in their current role. Only one of eight departmental heads is doing a job unchanged from the job they were doing three years ago.

Outside the three policy departments, virtually every staff member has had their job redesigned, their reporting line changed or their department downsized, merged, or disestablished since June 1998.

As the Bank has evolved, the profile of its staff has changed quite significantly. In earlier years, most of the Bank's staff were long-term career staff, many of whom joined the Bank straight from school or university. That is increasingly changing. Today, the staff comprises a small core of central bank career specialists who could be expected to remain with the Bank for a large part of their career (with occasional absences due to secondment, etc). This group is surrounded by a circle of skilled and experienced professionals who

typically spend 5-10 years with the Bank. Full time or part time professionals who spend 2-5 years associated with the Bank support them in turn. In part, these developments reflect the changes made to the Bank's culture and mode of operation over recent years. But they also reflect changes to the workforce more generally, such as the development of a more mobile workforce and the tendency for newer employees to seek experience overseas.

These developments have significant implications for all aspects of human resources strategy, policy and practice as we strive to help the Bank to achieve its mission statement and build on its values.

It has meant that we have had to develop an environment where individuals can be their most effective. We are working on this by developing leadership skills, enhancing teamwork, encouraging greater individual responsibility, managing performance and fostering ongoing staff development.

In line with our values, many of the initiatives in the past three years have sought to improve the way we work together. Our goals have been to:

- enhance transparency around human resource processes;
- empower staff and facilitate their ongoing development to meet the Bank's and their needs;
- strengthen the accountability of line managers; and
- simplify unnecessary complexity.

Over the past three and a half years we have re-evaluated and rebuilt virtually every aspect of our human resources strategy and have sought deliberately to evolve the culture of the Bank. Along with this we have attempted to evolve the human resources function to provide strategic advice and to operate on an advisory basis for operational issues. This means that line managers are accountable for managing their staff and the senior management team owns the Bank's human resources strategies and practice.

Human resources at the Bank includes all aspects of:

- recruitment and selection;
- job design and job evaluation;
- training and development;

- motivating and rewarding; and
- succession planning.

The following sections discuss each of the areas above, particularly focussing on three key areas of change - job evaluation, leadership and succession planning, as examples of how we have tried to align our human resources strategies with our needs.

3 Recruitment and selection

Getting the best people for the job is a vital element of any human resources strategy. The Bank has therefore placed a great deal of emphasis on the process of staff recruitment, including marketing the Bank to potential employees, advertising specific job positions when they become available, identifying potential candidates before vacancies occur, and maintaining robust procedures for screening candidates. An important element of the recruitment stage in the policy departments of the Bank is taking the initiative to make contact with university graduates well in advance of the actual selection of candidates for graduate positions. For many years, Bank staff have visited most of the universities to market the Bank as a potential employer, including explaining our policy functions, structure, culture, staff policies and what we are looking for in an employee. We also run a summer programme where potential employees are able to work in the Bank between semesters. These initiatives provide an opportunity for interested graduates (mainly in the economics and finance areas) to assess whether the Bank might be a place they would like to work and to ask questions of Bank staff.

We have recently introduced scholarships for graduates. We provide two to three a year on the basis that the person will work at the Bank.

At the stage of recruiting for particular positions, the human resources team provides a consultancy service for the recruiting departments and a representative from human resources usually sits on interview panels to assist in consistency of approach and to provide specialist recruitment advice. In the recruitment process we adopt a careful process

in an attempt to ensure that we appoint the best person for the position. We are now using a wider range of recruitment selection tools than was previously the case, such as structured interviews, role plays, tests of analytical ability and written communication skills, and psychometric testing. These procedures, while by no means perfect, assist us to assess whether candidates have the right blend of skills, knowledge, experience and personal qualities for the position in question. The recruitment process also helps to provide targeted information on candidates' future development needs.

4 Job evaluation

Another important human resources activity in the Bank (and in any organisation for that matter) is the process of assessing the "size" of jobs (ie the level of responsibility and the required skills associated with a particular job). Job evaluation is the process of determining the relevant criteria that the Bank wishes to use to assess positions to assist management decision-making and planning. This is an area to which the Bank has devoted considerable resources in the last year or so. Our work in this key area is part of the move the Bank has made from a formerly rigid remuneration and job evaluation structure, where staff were allocated into one of a large number of graded positions, and where remuneration was paid according to the job grade, to a situation today where there is much greater flexibility.

The move to a more flexible job evaluation framework was partly a result of becoming a smaller organisation with a flatter management structure. It was also motivated by a desire to provide a more transparent, internally consistent and simpler framework for assessing types of jobs within the Bank. We also wanted to develop a framework that would give staff a better sense of the types of skills, knowledge and level of responsibility they need to develop in order to progress to more senior levels in the Bank. Our goal was to develop a relatively simple job evaluation system relevant to the nature of the Bank's functions and needs, and to link it to career path information, remuneration, performance appraisal, recruitment selection criteria, and training and development. We also wished to use the job evaluation framework to inform human resources capability discussions, particularly in succession planning. The job

evaluation framework needed to support:

- flexible human resource structures that can adjust easily to ongoing change in the Bank; and
- the remuneration review process, through linkages to accurate remuneration information for comparable jobs in relevant parts of the private and public sectors.

We wanted the framework to increase job evaluation and remuneration transparency by providing staff with a better understanding of the factors that the Bank has regard to when deciding remuneration packages, and the factors that influence promotions.

With these objectives in mind, the Bank adopted a broad-banded job evaluation system. We found that a broad-banded matrix would be simple and transparent for staff and managers alike, and would still provide the Bank with the flexibility it needed to ensure that staff remuneration reviews take adequate account of remuneration developments in the private and public sectors for comparable jobs. The new system was implemented in close consultation with managers and staff.

The job evaluation system involves the use of a matrix comprising a number of job attribute categories. These categories are:

- "Making Decisions" (comprising criteria that relate to the nature and level of decision-making required in a job).
- "Capacity to Influence/Client Liaison" (ie the extent to which the job requires the ability to influence internal or external parties, to deal with clients and to bind or represent the Bank externally).
- "Leadership/Teamwork/People" (ie the extent to which a job involves responsibilities to lead or manage people or to provide intellectual leadership).
- "Work Complexity/Solving Problems" (ie the level of complexity and problem solving requirements of a job).
- "Knowledge and Experience" (including the technical knowledge, and the nature, depth and breadth of experience, required for the job).

These are the major factors that we think are important to the Bank in terms of human resource capability and they

provide a meaningful basis for classifying job positions.

Although the job evaluation system provides a useful framework for assessing the “size” of positions within the Bank, we would not pretend that it is a fully objective and scientific structure. No system of job evaluation can be. The job evaluation process inevitably involves a good measure of judgement, but within a consistent set of criteria. We tried to be very clear on this in our communication with staff as we developed the job evaluation system so as to avoid misleading expectations of what the system could deliver. And, in any case, we avoided rigid job evaluation formulae at all costs, preferring a more flexible and realistic structure for assessing jobs. On this basis, we decided the size of positions by looking at the evaluation matrix and making judgements about where a particular position fitted, having regard to the criteria used in the matrix.

Following this process, and after consultation with staff, we released to staff the chart of positions and pay ranges, so as to facilitate a more transparent remuneration structure in the Bank.

The Bank wishes to attract and retain staff with the appropriate skills and experience to enable it to achieve our goals and the pay ranges were set with that in mind. The remuneration policy was revised at the same time as the job evaluation system was developed. The Bank clarified where remuneration fitted within its culture as part of this. It has long been recognised that, for many positions in the Bank, we will never be able to pay market rates; in many cases, the levels of remuneration for comparable positions in the financial sector, for example, well exceed the level of remuneration that the Bank could realistically pay its staff. It was also recognised that, although the level of remuneration that the Bank can offer staff makes an important contribution to recruitment and retention, it is not the only recognition or reward that staff receive from working for the Bank. Feedback from staff over the years has suggested that staff are motivated by a wide range of factors, of which remuneration is but one part. Experience suggests that staff in the Bank attach considerable weight to such factors as a stimulating intellectual environment, opportunities for training and development, and flexible working practices.

Our job evaluation and remuneration systems are now a year old. It is too early to say whether they will meet our long-term needs, but there have certainly already been advantages. The new structures have created greater transparency in remuneration arrangements, and provided a more accountable process for determining remuneration. They provide the employee with greater opportunity to assess the fairness of the review process in respect of his or her own package. The structures also provide an effective system for keeping track of internal relativities.

5 Training and development

The nature of central banking requires staff to have wide and deep knowledge of the economy and financial system, to be well informed of relevant international developments and to have a high level of competence in economic and financial analysis. It also requires strong support systems. This requires ongoing development of skills and knowledge in our staff. We therefore consider it vital to keep staff fully abreast of relevant technical developments and to maintain an environment that fosters the development of the required skills, knowledge and judgement in staff.

We have made an explicit commitment to training. We aim to provide an average of 20 hours training and development per employee per annum. Training and development take many forms, depending on the needs and circumstances of the staff in question. Training on technical skills is provided to individual staff where this is considered beneficial to their career path in the Bank, the needs of the job at hand and the Bank's priorities. Similarly, staff development programmes are made available to staff, individually and in groups, on a range of matters, including oral and written communication, working in teams, receiving and giving feedback, time management, and in other areas relevant to the Bank's and staff's needs. As discussed later in the context of succession planning, we also view secondments as an important element in staff development, not only in providing staff with the opportunities to develop new skills and knowledge, but also to benefit from exposure to different work environments.

Our performance review system is partly used to determine development needs and we have promoted a culture where

staff view their development needs as a positive aspect of their career, rather than a negative commentary on their performance.

We have used assessment centres for senior managers to target development needs and 360 degree feedback processes for leaders in the Bank to help us to target development needs as part of the Leadership Project. This is discussed in more detail later in the article.

All staff have a development plan as part of the performance review system and we have particularly targeted managers and leaders in their own development. An example of targeted development is our use of secondments to develop skills to give exposure to different working cultures and to give exposure to the private sector.

6 Motivating and rewarding staff

Another important aspect of human resources policy is motivating and rewarding staff. This is an important aspect of policy, given that the Bank is more likely to achieve its objectives when its staff are well motivated than if they are not. Therefore, the Bank has given careful consideration to the theory and practice of rewarding and motivating staff, as part of the Bank's overall effort to improve its performance.

Literature and research have suggested to us that individual employees value different aspects of the employment relationship. For example, some people place more emphasis on salary, while others place more emphasis on the nature of the work, the sense of involvement in the organisation's activities, development opportunities or lifestyle. Research also shows that the things valued are not necessarily related to demographic characteristics such as gender, experience, qualifications and profession.

It was considered that increasing managers' understanding of the individual career values of each of their staff, and then tailoring a management approach based on those values, was likely to improve both motivation and retention. From a Bank-wide perspective, understanding the key values of its employees would allow the design of employment packages and staff development programmes that better target the varying needs of a diverse staff.

We used a career values survey to identify the relative importance of different career drivers for Bank staff. The survey was also designed to provide managers with data that would allow them to discuss some of the issues that drive motivation and retention with individual staff. It has been a valuable tool to help managers provide more targeted career support for their staff.

It is also being used in conjunction with the latest staff "climate" survey. This is a survey of our staff that we usually conduct on a two yearly basis to get feedback on morale and other matters in order to provide us with information about the areas on which we need to concentrate to further strengthen staff motivation.

Through the use of these surveys, and through experience over the years, we have found that an important aspect of staff motivation in the Bank is the staff's sense of involvement in their work and their capacity to contribute to the Bank's outputs. It has also been found that factors such as the nature and variety of work, the scope for development, the scope to progress in the organisation, and the work environment are all important ingredients in the motivation of staff. Of course remuneration is also an important factor in staff motivation. In particular, we have found that a fairer and more transparent process for setting staff remuneration has been an important element in enhancing staff motivation.

7 Succession planning

In any organisation it is important to identify future requirements for knowledge and skills and to try to ensure that suitable people will be available to meet these requirements. Succession planning is designed to do this. To the extent practicable, the aim of our succession planning is to have people with the right skills, knowledge and experience available at the right time and in the right place to enable the Bank to perform its functions effectively. Some of this is met by recruiting to fill gaps as and when they arise (or in anticipation of positions becoming vacant in the future). That can be a satisfactory way of meeting a number of the skills/knowledge needs of the Bank. But in some areas it makes more sense to grow the required skills/knowledge organically through internal staff development.

Succession planning is easier said than done in any organisation, but it is especially problematic in a relatively small organisation such as the Reserve Bank. We have a small pool of staff from which to develop future skills and knowledge needs, and it only takes a small increase in staff turnover potentially to expose significant human resources gaps. This requires the Bank to be particularly attentive to the risks of skills/knowledge gaps emerging in core function areas and to maintain strategies for managing these risks as best we can. An important element of this is through staff development – ie identifying the people with the potential to grow into more senior roles and to cultivate their development.

We regularly review our succession planning to ensure that we are managing our risks and building our capability. In addition we have developed a number of strategies to assist us in retention and recruitment for succession planning purposes. We have instigated the “Governor’s Network” which is similar to an alumni for staff who may be able to (directly or indirectly) provide the skills that we need. We keep in touch with these people via email and keep them informed of vacancies in the Bank.

As an aid to succession planning and broader staff development, we have taken a proactive approach in arranging occasional secondments for staff, mainly to foreign central banks and the international financial institutions, but also to commercial banks. Secondment arrangements allow staff to develop greater expertise and skills and provide opportunities for exposure to different work cultures. The secondments have proved to be useful in many ways, not least as a means of broadening and deepening the Bank’s pool of skills and as a mechanism for motivating staff.

8 The leadership project

This article would not be complete without mentioning the leadership project, which, along with the job evaluation project, has been a key area of activity for the Bank. The project was instigated as one of the ways to follow up on staff feedback in 1999 about how the Bank could improve its culture.

As a result of the views expressed in that survey, senior management in the Bank made a number of commitments to staff about leadership. They included:

- a commitment to a greater use of 360 degree feedback (ie a system whereby managers and selected staff are periodically subject to appraisal by their manager, peers, staff and other colleagues);
- a commitment to a greater use of feedback by the Governor, Deputy Governor and managers for their own direct reports; and
- a commitment by senior management to ensure that their own attitudes, behaviour and decisions are consistent with the stated policies of the Bank.

The leadership project took these themes and built on the Bank’s existing leadership skills by planning to provide managers with feedback on their skills and strategies to identify and meet development needs.

We reviewed the leadership competencies that were originally developed in 1997 to ensure that they continued to reflect the skills we are seeking from our staff.

In September 2000 the Bank offered the opportunity for Bank staff in leadership roles (both intellectual and people leadership) to participate in 360 degree feedback. This process was aimed at enabling the individuals to receive feedback on how their manager, peers, and direct reports perceived their skills across a range of management and leadership skills.

Senior managers were offered the opportunity of both assessment centres and 360 degree feedback. Assessment centres provide an in-depth analysis of individual motivation and work styles, and have been successfully used within the Bank for senior appointments.

The 360 degree feedback survey information, assessment centre information, and existing performance reviews have been used to formulate individual staff development plans. This will help to target staff development and build the Bank’s human resources capability.

9 Conclusion

This article outlines some of the changes to human resources policy that we have made in recent years. It is by no means a comprehensive picture, but it attempts to show the directions started long ago and where we are on the journey.

Our recent staff survey results were generally positive and showed that the efforts made by the Bank over the last few years to improve leadership and management have been

recognised by staff – particularly in the areas of inter-departmental co-operation and the value the Bank places in its people. However, they indicated that there is room for further improvement. We will therefore continue to review and further develop human resources policy in ways that seek to build on the Bank's existing strengths.