

Public Sector Modernisation:

Modernising Public Employment

Introduction

When it comes to the nuts and bolts of government, OECD countries have one thing in common: a core public service. In other words, a centrally controlled bureaucracy made up of people working in ministries, departments and government agencies to carry out the business of government. Civil service structures have evolved around the idea that public employment is different from other types of work and therefore requires a special employment system and structure.

Public service has traditionally offered a high level of job security, or even “jobs for life”, coupled with a special set of employment regulations. But over the past two decades many areas of public employment have lost this distinctiveness, not least because reform of the public sector has seen some functions moved into the private sphere. As a result, many of the underlying assumptions about the way the civil service works are no longer true.

But is reforming the civil service simply a question of making it more like the private sector? Can we treat the business of government just like any other business, or are there fundamental cultural values embedded in a national civil service which are important to society and which need to be safeguarded in the reform process?

This *Policy Brief* looks at employment reform in the core public service in OECD countries in the past two decades and the issues and challenges for the future. It draws on a recent OECD survey on strategic human resources management comparing civil service structures and practices in OECD countries. ■

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This Policy Brief is the second in a series looking at the evolving modernisation agenda and how governments can best adapt their public sectors to the changing needs of their society. The first in the series, Public Sector Modernisation, takes an overall view of the issue and future Briefs will deal in more detail with other individual aspects of modernisation, such as Changing Organisational Structures.

What is special about the public service?

All OECD countries have special arrangements for employees in the core public service designed to promote or preserve values that societies consider important for those engaged to enforce the law or otherwise carry out the collective will. For example, such values might include the idea that public servants should not operate in a politically partisan manner. While such arrangements exist in all OECD member countries, they have produced radically different results and ways of governing because of variations in leadership, management, values and culture.

In many countries, the main architecture of public employment has traditionally been built around the idea of a system distinct from that of other sections of society, and this distinctiveness has been justified in terms of wider governance values. In the past 20 years, many areas of public employment have lost this uniqueness and have become quite similar to the general employment system. Does this mean that the idea of a civil service as a constitutional or quasi-constitutional device for maintaining confidence in the government system is outdated, at least in some countries?

We do not yet have a definitive answer to that question, but one thing is clear: if we look to the private sector for models in modernising public employment we must not forget that the fundamental purpose of the public service is government, not management. This means paying attention to fundamental values like fairness, equity, justice, and social cohesion to maintain confidence in the governmental and political system as a whole. Managerial aspects, while important, must be considered secondary.

Also, the traditional, centrally-controlled bureaucracy is still a workable and robust system for public management where there has been disruption or discontinuity in the constitutional institutions of society, and/or where the other institutions in society are not particularly well ordered. It is also a system that has proven more enduring in countries where the national culture attaches importance to the existence of a strong and all-embracing concept of the state and therefore a need for strong cultural consistency across the core public service.

Although trends to modernise public employment are moving fast, most governments share the main elements of the traditional system of public administration.

But there can be no ideal type of public employment because different societies face very different risks and problems. While one government may have a pressing need to make the public sector adaptive and innovative, for another it may be more urgent to improve discipline and co-ordination. ■

What type of civil service?

There are two basic models for employment in the core public service in OECD countries, “career-based” or “position-based”. The choice of one system or the other has a profound effect on a country’s public service culture.

In **career-based** systems, public servants are expected to stay in the public service more or less throughout their working life. Initial entry is based on academic credentials and/or a civil service entry examination. Once recruited, people are placed in positions at the will of the organisation. This may include moving staff from one ministry to another and from one area of specialisation to another. Promotion is based on a system of grades attached to the individual rather than to a specific position. This sort of system is characterised by limited possibilities for entering the civil service mid-career and a strong emphasis on career development. **Position-based** systems focus on selecting the best-suited candidate for each position, whether by external recruitment or internal promotion. Position-based systems allow more open access, and lateral entry is relatively common.

In fact, no current OECD civil service is a pure example of either the career-based or position-based type. There seems to be a tendency for each to adopt some processes from the other to mitigate the weaknesses to which each system is prone.

Czech Republic, France, Japan, Korea and Spain have the strongest characteristics of a career-based system, while position-based tendencies are most evident in countries which have been more active in reforming their public sector over the past two decades – Canada, Iceland, New Zealand, Sweden, Switzerland and the United Kingdom. The United Kingdom and Switzerland have both moved from strongly career-based systems to strongly position-based systems in the past two decades. It is interesting to note that East European countries adopted different models of civil service systems in their transitional period from the early 1990s. The Czech Republic and Poland adopted a career-based

system, while Hungary and the Slovak Republic chose a position-based system.

While a tendency may apply to national public service systems as a whole, there are often differences between ministries. For example, most foreign ministries are career-based because of career development and wide variations in the attractiveness of postings and because the international dispersion of staff poses particular challenges to formal control systems.

Four main forces influence the behaviour of organisations: markets, internal and external regulation, contracts with internal or external parties, and the social pressures which mould individual and group behaviour. Any organisation is influenced by all four factors, but the mix is different. In general it appears that social pressures influence behaviour more in career-based civil service systems than in position-based ones. In a career-based system a public servant's progress depends to a large extent on how he/she is viewed by the organisational hierarchy, a powerful lever for moulding behaviour to conform with group norms. By contrast, in a position-based system technical considerations are likely to be more important and the individual will be somewhat less responsive to social pressures.

The challenge for career-based systems is how to have a civil service which is responsive to the needs and specialised skill demands of contemporary society. The challenge for position-based systems is how to ensure that the collective interest is served. Is it then just a matter of "mixing and matching" between the two approaches? Unfortunately it is not so easy. Career-based systems have an implied contract with employees that, having passed the demanding entry conditions, their career will progress to higher and more varied responsibilities. Making some positions "open" challenges that implied contract and may undermine morale and motivation. On the other hand making some career-type appointments in a position-based system, unless it is confined to clearly specified positions, challenges the integrity of the competitive principle.

The career-based system is under pressure in developed economies because it runs against trends in the wider job market, and because it is seen as less able to deliver specialised skills and flexibility than the position-based approach. But there is little evidence that OECD countries with a career-based system wish to abandon it altogether. Indeed, in transitional countries where the main public and private institutions are

undergoing major change, a largely career-based system appears the most appropriate choice because of the priority of the fundamentals of governance over matters of management in such situations.

If there is an overall trend in well-developed countries, it would seem to be towards a position-based approach. But one disadvantage of such systems is that any negative effects fall on areas important to government, such as a sense of collective values, direction and responsibility. A number of countries which have sharpened the position focus of their civil service employment systems are taking action to protect against any loss of critical cultural attributes – mainly by refocusing their efforts on building a collective culture among the senior government management group. But there is some concern that these remedies may be insufficient once the impact of current policies finally works its way through to influencing the public service culture. ■

A job for life?

Permanent employment has traditionally been the norm in OECD public sectors, with much greater job security than the private sector. Indeed, job security and retirement benefits led to a popular belief in many countries that it was a good thing for a young person to obtain a public service job. This situation has changed significantly since the late 1980s. The differences between public sector and private sector employment are lessening; legislation is becoming more flexible and fixed-term contracts are becoming more prevalent. The employment status of civil servants is now very similar to that of employees generally in 16 OECD countries.

The move towards more temporary employment – and away from lifelong careers – appears to be driven mainly by the realities of the contemporary labour market. There have also been changes in recruitment practices, with many OECD countries moving towards recruiting employees from the market rather than nurturing their careers from an early stage. Whatever recruitment strategy they adopt, there is similarity in the principles they espouse: recruitment by open competition and selection based on merit and competence.

The type of public service system in operation in each country influences the nature of the reforms adopted. Career-based systems with a strong emphasis on centralised recruitment, training, and promotion have introduced reforms concentrating on

external competition for open positions and management by objectives. For example, Italy and Korea have started to supplement their traditional procedures with open recruitment as a way of increasing competition and performance-based management. Position-based systems with decentralised management of appointment, recruitment and training are meanwhile emphasising central guidance of appointments to ensure that collective values are taken into account in the selection process. ■

Cutting back civil service numbers?

The 1980s and 1990s saw many governments make deliberate efforts to reduce the level of employment in the core public service, as part of moves to contain or reduce public expenditure.

In many cases this cutting back has been used as an opportunity to introduce public management reforms but the motivation is generally economic not managerial. Any modern government, however managed, periodically needs measures to keep the volume of expenditure and public employment in some kind of balance with the economy as a whole. One radical approach to this problem in the 1980s and 1990s, which has continued in some countries, has been to redefine and narrow the role of government. For example in Finland, six major public enterprises changed their status from 1989 to 1990, resulting in a 10% decrease in public employment. The other approach has been to cut jobs within the existing public service, as has recently been done in Germany and Korea. These cutbacks tend to occur in response to a fiscal problem that becomes a political crisis.

Recent OECD research tends to suggest that what these cutback episodes have in common is the sense of political crisis and a political and administrative imperative to take action. The idea that these periodic major staff cutbacks owe more to political decisions than to management ideas perhaps explains why some cutbacks have ended up impairing efficiency and causing the loss of key competencies. These problems at the micro level do not obviate the larger reasons for taking drastic action to control aggregate public employment. There is scope, however, for developing better downsizing strategies. ■

Freedom to manage?

Authority for human resource management policy is still highly centralised in most OECD countries, but in half of them the implementation of these policies is now decentralised.

Although the scope and pace of devolution vary from one country to another, most OECD countries have moved towards delegating responsibility for human resource management to give managers more flexibility and freedom. In general, there appear to be three strategies of delegation: transferring responsibility for human resource management from central bodies to line departments; simplifying rules and procedures; and developing more flexible policies.

A good indicator of freedom to manage is the degree to which departments, rather than central agencies, control the personnel budget. The devolution of budgetary authority is essential before central control over key human resource management aspects such as staff numbers, classification, grading and pay can be relaxed. Such devolution of budgetary authority for personnel took place between 1986 and 1993 in Canada, Denmark, Finland, the Netherlands, New Zealand, Sweden and the United Kingdom.

The OECD survey on strategic human resources management found that the Czech Republic, Iceland, Netherlands, New Zealand, and Sweden appear to have the highest degree of managerial delegation of personnel matters, while Austria, Japan, Ireland, and Spain are the most centralised. It is also noteworthy that, in general, position-based systems seem to go hand in hand with higher freedom to manage. In many countries this freedom has been accompanied by a focus on holding managers accountable for results through systems of corporate and personal performance management.

It is not clear from the evidence to date that decentralisation of human resource management is the trend of the future. What is clear is that if the trend towards performance agreements and contracts with departments continues, management will take on a more strategic aspect at the centre of government than it has had to date. ■

How to manage senior civil servants?

Having decentralised human resource management generally, many countries found the need to give new

attention to managing their top civil servants – including some degree of re-centralisation of this function.

In “position-based” systems, the senior civil service generally consists of top managers and an identified pool of potential top managers. In “career-based” systems, the senior civil service consists of a broader echelon, which may range down to lower management levels. In general, whether someone is a senior civil servant is defined by the position held. However in some countries, notably France and Korea, person-based criteria are used. These may cover academic level or rank in the hierarchy. In all countries, the promotion system is said to be based on assessment of performance and personal competencies.

An OECD study of management reforms of senior civil services in 12 countries reveals that the two main civil service types are evolving – and suggests why in both the career-based and the position-based systems a high level of attention is being given to the management of senior civil servants. When asked to explain the purpose of a separate system for senior civil servants in the 29-country survey, 71% of countries with such systems appeared to see it as a tool for inducing a performance-oriented civil service culture. Many countries also consider one of the main objectives of a senior civil service system as enhancing personnel mobility between ministries or departments within the government. The third most highly rated motive was developing future leaders in the public sector.

The new attention to leadership among countries which have been the most ambitious reformers to date seems to be in pursuit of two somewhat conflicting goals – the use of the individual leader to spearhead better performance, and the desire to replace the collective civil service cultural glue that has been weakened by the strong individualising tendencies of other management changes. The main focus of leadership development programmes is on the individual capacity to stimulate public sector performance. The “collective glue” objective, which is more likely to be achieved by socialisation rather than training per se, is a lower priority. There is a danger that in the longer term this will prove to be a mistake.

But of course cultural cohesion is only useful if it supports better government. In a few countries with a strongly coherent and tightly-bound leadership cadre, the current focus on leadership is designed not only to stimulate performance, but also to open up senior management positions to new people and new ideas. ■

How to modernise industrial relations?

There are broadly three types of labour relations for civil servants in OECD countries. In countries such as Australia, New Zealand and Sweden, civil servants are generally governed by the same labour relations laws as private sector employees. A second group of countries treats civil servants in the same way as private sector employees but with some exceptions, such as the police. In the third group of countries, civil servants generally have more limited industrial rights than those of private sector employees. Indeed, in some countries, the law limits industrial action by civil servants.

In all these systems, trade unions appear to have the opportunity to exert a relatively strong influence on civil servants’ working conditions, pay levels, and the introduction of new civil service systems. By contrast, trade unions play a relatively mild role in the areas of employee performance, recruitment and determining the number of civil servants.

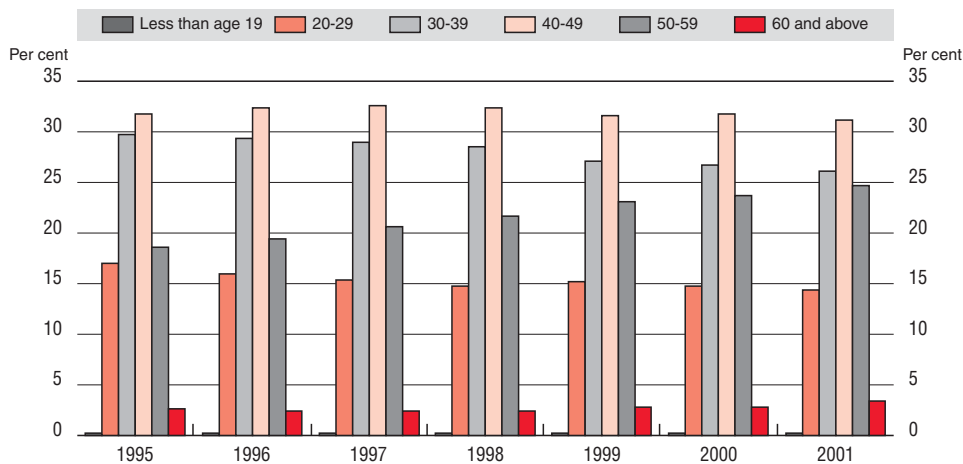
While modernising employment policies and changing the role of the state led to a reduction of the influence of public sector unions in the Australia, New Zealand, and the United Kingdom, other countries will not necessarily follow suit. The key issue is not what happens in the public sector, but what happens in the industrial relations structure overall, and the relative size of government as a direct employer. In the current uncertain fiscal climate, there is likely to be more conflict between governments and unions in the big developed countries of Europe. Whether this results in a United Kingdom-style permanently reduced influence of public sector unions or a new level of government-union accord as in Scandinavia and Ireland remains an open question. ■

Looming staff shortages?

Many OECD countries now face a looming civil service staff crisis for three main reasons:

- **Population ageing:** A vast portion of civil servants will retire over the next 5 to 15 years in many OECD countries. To cope with this problem, countries are making efforts to retain older employees, and to reform civil service pensions (see Figure 1).
- **Labour market competition:** Governments must compete with private sector employers for a shrinking pool of talented people in some key areas. High quality personnel tend to move to private companies in search

Figure 1. Evolution of the age group ratio of public employment in selected OECD countries



of new opportunities and challenges, and governments face growing problems in retaining them.

- **Government image as an employer:** Civil servants have become de-privileged in terms of their status in society and conditions of employment. As a result, young graduates generally do not feel attracted to working in government.

It is against this background of failing public sector competitiveness as an employer that many member governments are seeking to modernise their employment policies. ■

Who is in charge?

All OECD governments share the ideal of a professional public service which gives objective advice, delivers services fairly to all citizens, and provides for the continuity of the administrative system. But equally it is fundamental in each country that public servants are responsive to the political will of the government of the day. How to balance the needs of professional continuity and political responsiveness is a key issue of public governance.

There is wide diversity among OECD countries in how the political administrative interface is managed. In some countries, each change of government is accompanied by new appointments of senior officials across the public service. In others, the turnover is

relatively low. In some countries party membership of civil servants is well known and important in the senior appointment process – in others civil servants may not or, as a matter of professionalism, do not align themselves with a political party. In some countries efforts are made to create a distinctive apolitical culture within the civil service. In others the leadership groupings embrace both politicians and public servants.

Which is best? This question can only be answered in the context of the constitutional arrangements and culture of each society. In all systems, a culture of professionalism is fostered regardless of the appointment process for senior officials. In some systems it is not so important to have a formally apolitical public service because there are other checks on political power such as a very strong legislature, a well-developed system of statutory and judicial limitations on political power, or a strong underlying culture which supports non partisan professionalism.

What is evident is that some of the changes in employment practices in OECD countries impact on the political/administrative interface. For example, in countries with the Westminster tradition, on the one hand more functions are being put under statutory protection (e.g. economic regulators) while on the other hand there is more use of personal political staff by ministers and an increased tendency to make new senior appointments with an incoming government. ■

What happens now?

New problems and a changing labour market, as much as new management ideas, have driven the main trends in public employment modernisation in the past two decades. The OECD's most important finding is that the two archetypical civil service systems – the traditional career-based system, and the position-based system which in many countries is replacing it – are both under pressure. However, the actions taken to date have tended to be adaptations of particular employment instruments to meet specific problems, with less attention to their impact on the public management system as a whole. It is important to give more attention to these systemic issues and in particular to three fundamental dilemmas:

- The increasing knowledge and skill demands of modern government, and the increasing difficulty of government in attracting and keeping high quality staff.
- The interconnectedness of key public problems, and the fragmentation of public action and the individualisation of public service responsibilities and incentives.

- The need to attract and motivate senior executives who meet the high performance demands of a modern ministry, while keeping them in a wider cross-government culture bound by the public interest.

Overall, this important area of debate and action in public management in OECD countries is at a relatively immature stage. In the medium term, it appears that countries with career-based systems will be working on ways to bring more market pressures to bear, while those with position-based systems are looking for ways to strengthen cultural cohesion. It is unclear how effective the current modifications to both kinds of system will be in changing the deeper tendencies. ■

For further information

For further information on the OECD's work on modernising the public sector, please contact Alex Matheson (alex.matheson@oecd.org, tel.: +33-1 45 24 90 85). ■

For further reading

- **Public Sector Leadership for the 21st Century**,
OECD (2001), ISBN 92-64-19529-7
- **An overview report, Public Sector: An Employer of Choice?**,
OECD (2001), available at www.oecd.org/gov/hrm
- **Policy Brief: Public Service as an Employer of Choice**,
OECD (2002), available at www.oecd.org/publications/Pol_brief
- **Highlights of Public Sector Pay and Employment Trends**,
OECD (2002), PUMA/HRM (2002)7, available at www.oecd.org/gov/hrm
- **Performance Related Pay of Government Employees: Assessing Reforms Across OECD Countries**
(forthcoming)

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