

Trends towards pay flexibility in OECD countries:

Implications for Arab Countries

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Key features

Centrally-managed, unified pay structure

- Common terms and conditions
- Pay and grading determined from the centre
- Easy to “read across”

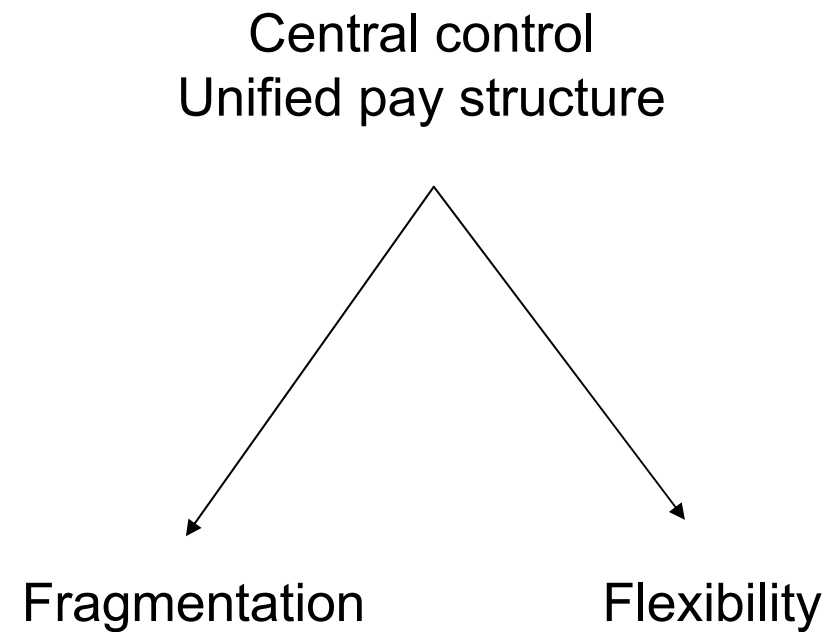
Fragmentation

- Multiple special purpose allowances (transportation, housing, meals, telephone, travel, cost-of-living)
- Sector-specific allowances (nurses, university teachers)
- Remoteness allowances (hardship, education costs for children etc.)

Flexibility

- Variations between sectors, agencies, or even people
- Decentralised decisions made within tight central parameters
- Three central functions within government guide the process:
 - budget office
 - office of the employer
 - professional leadership

Two paths: fragmentation and flexibility



What are the consequences?

Centrally-managed, unified pay structure

- Low transaction costs at the centre
- Limited efficiency in the line departments
- *Tendency to pay above market rates for lower graded staff, and the reverse for specialist skills*

Fragmentation

- Opacity – hard to gain an overall picture
- Potential favouritism/patronage
- *Wage bill is driven bottom-up*

Flexibility

- Responsiveness to the specific situation of work units
- Public sector can compete for skills on specific labour markets
- Agencies can use their specialist knowledge about labour conditions
- *Wage bill is based on a top down decision about the economic envelope*

Why introduced?

Centrally-managed, unified pay structure

- Relatively easy to manage (limited information requirements)
- Designed for small public sectors with largely generalist staff
- Suitable for career systems with internal mobility

Fragmentation

- Special pleading
- Powerful lobbies
- Ad hoc concerns about staff retention

Flexibility

- More varied tasks undertaken within the public sector
- Highly differentiated labour markets – different prices for different skills

Fragmentation

Adds further complexity to an already confusing situation

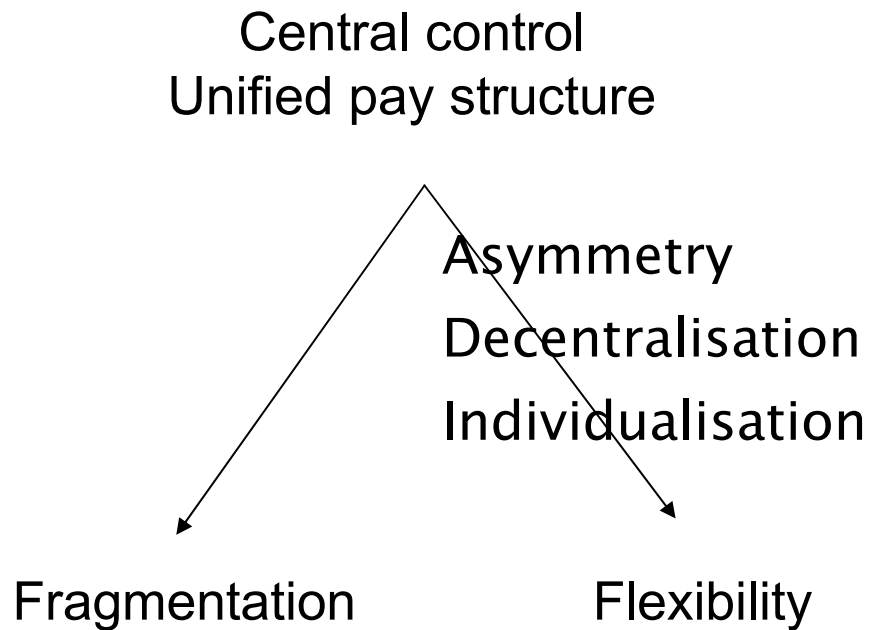
Creates many unknown incentives

		contractually-provided		non-contractual/ intangible
		monetary	in-kind	
current rewards	base rewards	1. base wage/salary	2. health insurance	3. job security, prestige, social privileges
	allowances	4. transportation, housing, meals, telephone, travel, cost-of-living	5. transportation, housing, meals, travel	6. trips abroad, training
future expectations		7. Pension	8. housing, land, etc.	9. reputation, re-employment after retirement

Flexibility

Three levels:

1. Managed asymmetry – sector by sector, or agency by agency
2. Decentralisation (or delegation) – comprehensive framework for local pay determination
3. Individualisation – local determination of individual-specific pay packages



Asymmetric arrangements

Ireland

- Performance Verification Groups (PVGs) established with independent chairs and equal numbers of management, union and independent members.
- PVGs make recommendations on whether or not pay increases are merited based primarily on an assessment of progress reports submitted by participating organisations.

Netherlands

- The Netherlands has separate pay bargaining in 13 sectors
- The agreed conclusions are considered as binding.

Decentralisation

	Centre	Centre/line agencies shared	Line agencies	Unit/team
Parameters of pay bargaining	Austria Belgium Finland Hungary Ireland Korea Luxembourg Netherlands Norway Norway Portugal Slovak Republic Spain Switzerland USA	Japan	Australia New Zealand UK	
Management of the variable portion of pay	Belgium Finland Luxembourg Norway Portugal Switzerland USA	Hungary Ireland Japan Korea	Australia Austria Finland New Zealand Netherlands Spain Slovak Republic UK	Norway

Source: OECD HRM Survey 2006

Individualisation

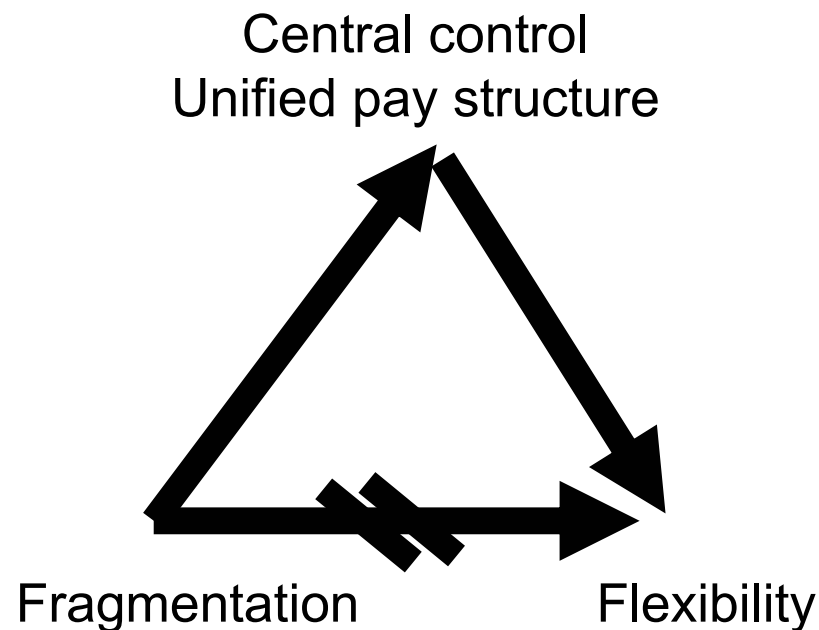
- Variations based on individual skills and experience in setting terms of employment (lengths of contract etc.) and in the total remuneration package
- Emphasis placed on incentives/sanctions for performance linked to regular reviews

Limited individualisation	Significant individualisation
Austria Belgium Czech republic France Greece Ireland Italy Japan Korea Luxemburg Mexico Netherlands Poland Portugal Slovak Republic Spain	Austria Denmark Finland Iceland New Zealand Norway Sweden Switzerland UK

Source: OECD HRM Survey 2004

There is only one direction of movement

- Moving away from fragmentation entails some regaining of central control
- In the OECD, fragmentation has not been a major concern - but flexibility has been preceded by some consolidation of central authority



Flexibility is a risky strategy – its rests on several components:

Three strong central capabilities within government:

- Apolitical budget office able to ensure credible, binding fiscal envelopes
- Robust office of the employer – able to represent government in pay bargaining
- Professional leadership - management, values and other human resource issues

Absolute separation between budget appropriations and pay bargaining

- Decentralised pay setting must take place within a stable and credible "affordability" restriction
- Second guessing – or re-entering the budget negotiations during decentralised pay-setting is disastrous

Willingness to invest in the short term

- Decentralisation increases transaction costs
- Corps of professional public managers with skills adapted to the public sector
- Potential benefits might never outweigh the costs – and certainly not in the short term

Conclusions

- Fragmentation is a problem
- The only direction from fragmentation is initially towards centralisation
- There are some very tough pre-conditions for any degree of flexibility
- If these conditions are not met, then significant fiscal pressures inevitable
- For most OECD countries, asymmetry is more likely the final resting place than decentralisation
- The potential for individualisation often overstated. It entails significantly higher trans-action costs than uni-form and collective standards and agreements