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**PUBLIC SECTOR MODERNISATION:
MODERNISING PUBLIC EMPLOYMENT**

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PUBLIC SECTOR MODERNISATION: MODERNISING PUBLIC EMPLOYMENT

Introduction

1. When it comes to the nuts and bolts of government, all OECD countries have one thing in common: a civil service.¹ 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 of a different nature than other types of work in society and therefore requires a special employment system and structure.

2. Civil service has traditionally offered a high level of job security, or even "jobs for life." People who entered the civil service were expected to stay there, and were subject to 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.

3. But is reforming the civil service simply a question of making it more like the private sector? What are the gains and losses of more staff mobility, shorter-term contracts and more crossovers with 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?

4. This paper looks at the whole question of reform of employment in the core public service in OECD countries, the changes of the past two decades and their impact on public governance, as well as the issues and challenges for the future. It draws on a recent OECD Survey on strategic human resources management which compares civil service structures and practices in different OECD countries. Twenty-nine out of thirty OECD countries responded to this survey.

What is distinctive about the civil service?

5. All OECD countries have some special employment arrangements for employees in the core public service designed to promote or preserve certain values that societies consider important for those engaged to enforce the law or otherwise carry out the collective will. Such values might include, for instance, that public servants should not operate in a politically partisan manner, or that public servants should be free from interests, which might create suspicion that they were acting in a private rather than the public interest. What these values are and what importance is attached to them vary from one country to another. While such arrangements exist in all OECD member countries, they have produced radically different ways of governing and of results, because of variations in leadership, management, values and culture.

¹ This note uses the terms civil service and core public service inter-changeably.

6. Traditionally in many countries, the main architecture of public employment has been built around the idea of a system of employment distinct from that of other sections of society, and this distinctiveness has been justified in terms of wider governance values. In the past twenty 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 system as a constitutional or quasi-constitutional device for maintaining confidence in the government system is outdated, at least in some countries?

7. We do not as yet have a definitive answer to that question, but one thing is clear: if we look to the private sector for models in modernising the civil service we must not forget that the fundamental purpose of the public service is government, not management. Government requires that a great deal of attention be paid to fundamental values like fairness, equity, justice, and social cohesion to maintain confidence in the governmental and political system as a whole, and managerial considerations, while important, must be considered secondary.

8. Also, the traditional centrally controlled bureaucracy is still a workable and robust system for public management in circumstances 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 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.

9. Consequently, while the modernising trends in civil service employment are moving fast, the majority of governments share the main elements of the traditional system of public administration. There can be no ideal type of public employment however, because different societies face very different risks and problems. While the pressing need in one government may be to make the public sector adaptive and innovative, for another the more pressing need may be for discipline and co-ordination.

What type of civil service?

10. There are two basic models for civil service employment 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.

11. In **career-based** systems, civil servants are expected to remain 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.

12. **Position-based** systems focus on selecting the best-suited candidate for each position, whether by external recruitment or internal promotion or mobility. Position-based systems allow more open access, and lateral entry is relatively common.

13. Both systems have their pros and cons. Civil services with a career-based culture have strong tendencies towards stability, continuity and cohesion, but they run the danger of being slow to respond to change and they may not be good at supplying the specific professionalism now required in some key government positions. Position-based systems, on the other hand, allow for expertise that is more tailored to a specific role and for adapting through bringing in “new blood”, but run the dangers of discontinuity and lack of cross-departmental and cross-government cohesion.

14. The two kinds of system may apply to national civil service systems as a whole, but frequently there may be differences between ministries within a national system. For instance most foreign ministries are career-based because the international dispersion of staff poses particular challenges to formal control systems.

15. 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 systems. In a career-based system a civil servant's progress tends to depend 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 and preferences. 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.

16. 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 those OECD countries with a career-based system wish to abandon it altogether. Indeed, the OECD has advised transitional and EU accession countries that in a country where the main public and private institutions are undergoing major change, a largely career-based system is the most appropriate choice because of the priority of matters of governance over matters of management in such situations.

17. If there is an overall trend in well-developed countries, it would seem to be towards a position-based approach to public sector employment. But one disadvantage of position-based 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. 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.

18. 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 weakness to which each system is prone.

19. Korea, Japan, Spain, France and the Czech Republic have the strongest characteristics of a career service 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 – Sweden, Iceland, United Kingdom, Switzerland, Canada and New Zealand. 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 service system, while Hungary and the Slovak Republic chose a position-based system. There may be much to learn from a comparison of how these radically different choices are affecting governance and civil service culture in those four countries.

Civil Service: A Secure Job for life?

20. Permanent employment has traditionally been a basic norm in OECD public sectors, with much greater job security than the private sector. Indeed, job security and retirement benefits were at the root of the popular belief in many countries that it was a good thing for a young person to obtain a public service job. Since the late 1980s this situation has changed significantly. The differences between public service and private sector employment are lessening; legislation is becoming more flexible and fixed-term contracts are becoming more prevalent. The legal employment status for civil servants is now very similar to the one for employees generally in 16 OECD countries. In 13 of these countries these changes have occurred in the past five to ten years. In the other three, the status of civil servants has changed over a longer period – Sweden traditionally did not have special status for civil servants, while in Australia and New Zealand such changes to the employment status of public servants were more or less complete by the early 1990s.

21. Recently Switzerland made a radical reform in this area - as from the beginning of 2002 all federal staff are employed under general employment law with the exception of small categories of personnel including members of federal appeals commissions.

22. 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 are new attitudes and values among new entrants to the work force, a greater variety of competing jobs in the wider market, and new pressures for labour flexibility as governments are not generally in a growth phase and new jobs tend to appear at the expense of existing jobs.

23. There have also been changes in recruitment practices with many OECD countries, moving towards recruiting employees from the market rather than nurturing their employees from an early stage. Whatever type of recruitment strategy they adopt, there is remarkable similarity in the principles they espouse for their recruitment and selection policies: recruitment by open competition and selection based on merit and competence.

24. The overall trend is not only for the processes of selection to public sector jobs to be subject to a greater degree of competition than in the past, but also for the processes to be more transparent as a means of assuring that employment decisions are taken without bias for or against any section of the community.

25. Although, the type of civil service system traditionally in operation in each country influences the nature of reforms adopted. Career based systems with a high degree of emphasis on centralised recruitment, training, and promotion have introduced reforms which concentrate 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 stressing the introducing of central guidance of appointments.

Cutting Back Civil Service Numbers?

26. The 1980s and 1990s saw many governments make deliberate efforts to reduce the level of civil service employment, as part of the effort to contain or reduce public expenditure. The table below, from the Public Sector Pay and Employment trends survey shows the annual percentage change in central or federal administration employment in OECD countries over the past decade.

Table 1. Annual change in Central or Federal Administration Employment

	1990/1991	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	Annual percentage change		
	2000/2001								
Australia ¹	0,9%	-4,8%	-23,3%	-8,7%	-7,8%	2,4%	-1,2%	1990-2001	-4,4%
Austria ²	-0,3%	1,0%	-0,2%	-0,2%	-1,1%	-2,4%	-2,2%	1990-2001	-0,1%
Belgium ²		-3,1%	-0,7%	-0,1%	0,4%	4,0%		1992-2000	0,0%
Canada ³	2,2%	-4,2%	-5,4%	-2,0%	0,2%	2,3%	5,0%	1990-2001	-1,2%
Czech Republic ^{2,4}		2,2%	-5,1%	-2,4%	-6,4%				
Denmark ²				-1,2%	-5,8%	-0,2%	0,3%		
Finland ³	-0,7%	-1,9%	0,7%	1,4%	0,4%	-1,4%	-2,6%	1990-2001	-1,8%
France				1,4%	1,0%	1,1%			
Germany		-2,5%	-1,3%	-2,0%	-1,1%	-1,6%		1991-2000	-2,9%
Greece				3,6%					
Hungary				1,7%	-0,2%	-2,4%	-0,9%		
Ireland ²	2,8%	-0,8%	-0,6%	2,2%	3,6%	3,9%	5,6%	1990-2001	2,3%
Italy				-0,3%	-0,8%				
Korea ²	2,4%	0,4%	0,3%	-1,0%	-1,3%	-0,3%	0,4%	1990-2001	0,2%
Luxembourg	7,3%	1,2%	5,8%	-0,4%	2,4%	6,2%	9,1%	1990-2001	4,5%
Netherlands ²			1,6%	3,3%	1,3%	2,5%			
New Zealand		2,0%	-3,7%	1,7%	3,7%	-5,4%	3,6%	1991-2001	-0,2%
Poland ²		9,8%	4,1%	4,5%	-15,8%	-8,8%		1994-2000	0,3%
Spain	-4,8%	0,6%	-2,2%	-1,1%	0,1%	-7,7%	-11,7%	1990-2001	-2,3%
Sweden ²		-1,8%	-1,8%	-1,4%	0,0%	-2,8%	-3,4%	1995-2001	-1,8%
Switzerland					1,8%	3,2%	4,3%	1991-2001	-0,5%
Turkey				1,0%	1,7%	0,4%			
United States	-4,3%	-2,1%	-2,3%	-1,2%	0,2%	3,1%		1990-2000	-1,2%

Notes:

1. Excluding Permanent Defence Forces.
2. Full time equivalent
3. Excluding Government Business Enterprises.
4. Excluding Permanent Defence Forces and Police.

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27. In many cases this cutting back, usually a response to a fiscal crisis, has been used as the opportunity to introduce public management reforms. Any modern government, however managed, periodically needs measures to keep the volume of government 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 into the new millennium, has been to re-define 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. Such actions have been important in some countries in reducing civil service employment, but from a management perspective are one-off decisions which once taken cannot be repeated.

28. The other approach to the problem has been cutting 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. Such downsizing episodes are often associated with public management re-engineering of different kinds – and indeed any resultant reduction in the public work-force is often cited as evidence of the success of the management reforms.

29. 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. What particular kind of management reform is introduced at the time of the cutback is not regarded as relevant to whether the cutback occurs, and at this point we can see no evidence that the form of management adopted has any bearing on the recurrence of a future need to cut back civil service employment.

30. The idea that these periodic major staff cutbacks owe more to political conditions than to management ideas, perhaps explains why some cutbacks have ended up impairing efficiency and causing the loss of key competencies by being made without strategic forethought. 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.

Centralised or Delegated Management?

31. Authority for human resource management *policy* is still highly centralised in most OECD countries. The central human resource management body retains legal authority for formulating policy and development in more than two-thirds. Of these, five countries -- Ireland, Norway, Japan, Slovak Republic, and Greece -- have a system where the central authority is responsible not just for setting policy but also for implementing it. In these systems, line departments have very little discretion or autonomy. However, in half of OECD countries, while the HRM policies are set centrally the *implementation* of these policies is now decentralised. Letting the Managers Manage?

32. 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.

33. About half of the OECD countries have decentralised implementation of human resource policies and in those countries where the function is not strongly centralised -- Australia, Sweden, and New Zealand are the outstanding examples -- the functions of the central human resource management body are limited, but in quite different ways. The contrast in approach between New Zealand and Sweden is particularly striking, especially as both are countries with low corruption and a high level of cultural cohesion. In New Zealand, although the State Services Commissioner formally carries wide human resource management authority over the public service, in practice he/she carries out this function only for chief executives of ministries and departments and relies on them to manage their staff properly. In Sweden the core function of the human resource management agency is consultancy, not just for HRM but for management generally. The New Zealand case appears to be based on a belief that departments need active management from the centre, at least at the top, while the Swedish case reflects a belief that senior managers should be left to manage.

34. 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.

35. The OECD survey of civil service practices found that Sweden, New Zealand, the Czech Republic, Iceland, and the Netherlands 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.

How to manage senior civil servants?

36. 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.

37. The OECD survey of civil service practices found that although only a minority of OECD countries have precise definitions of the senior civil service, most countries were able to delineate their senior management group. Several countries have created or restructured the senior civil service and started to manage their top officials in a different manner from the rest.

38. 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 senior management 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

39. A recent OECD note, which examined management reforms of the senior civil services in 12 OECD countries, reveals that the two main civil service types are evolving – and why in both the career-based and the position-based systems, a high level of attention is being given to Senior Civil Service matters.

40. 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 ensure the collective interest. Is it just 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 be progressed 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.²

41. When asked to explain in the OECD HRM survey the purpose of a separate system for senior civil servants, 71% of countries with such systems appeared to see it as a tool for inducing a performance-oriented culture within the public service. 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.

42. The new attention to leadership among the 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 OECD survey showed that the main focus of those designing leadership development programmes is on their 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.

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

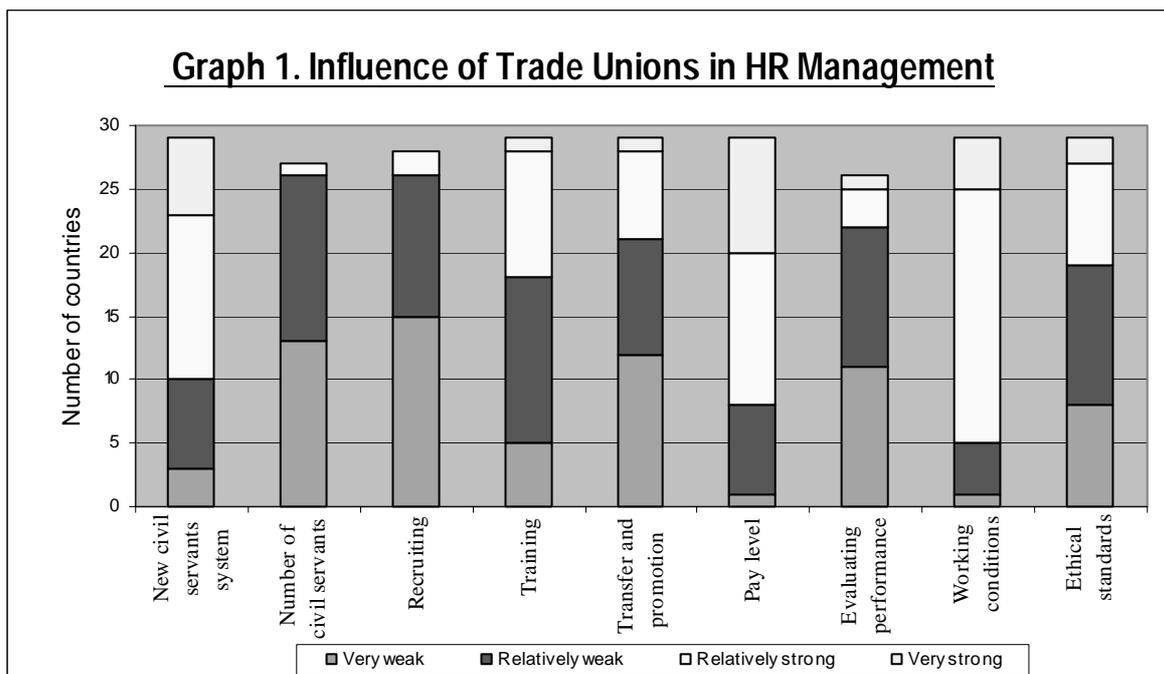
44. It is not clear from the evidence to date that decentralisation of human resource management is the trend of the future. What is clear is that if the trend towards more formal directions to departments in the form of performance agreements and contracts continues, management will take on a more strategic aspect at the centre of government than it has had to date. However it seems more likely that this role will be exercised by Finance or Prime Minister’s departments than by central HRM agencies.

² The 12 countries are Belgium, Canada, Finland, France, Italy, Korea, Mexico, Netherlands, New Zealand, Spain, United Kingdom, and United States. Furthermore, a short description of German reforms is included.

How to modernise industrial relations?

45. There are broadly three different 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 generally treats civil servants in the same way as private sector employees but with some exceptions, for instance, for occupational groups which pertain to national security areas such as 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, civil service law limits industrial action by civil servants. But even in those countries, industrial rights are more similar to those in the private sector in services of a more commercial nature such as railways and postal services.

46. In all these systems, trade unions appear to have the opportunity for relatively strong influence on policies covering 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. These areas have been considered as typical tools for management to use in motivating employees and/or ensuring high performance. The chart below set out the influence of trade unions in OECD countries in areas of Human resource management.



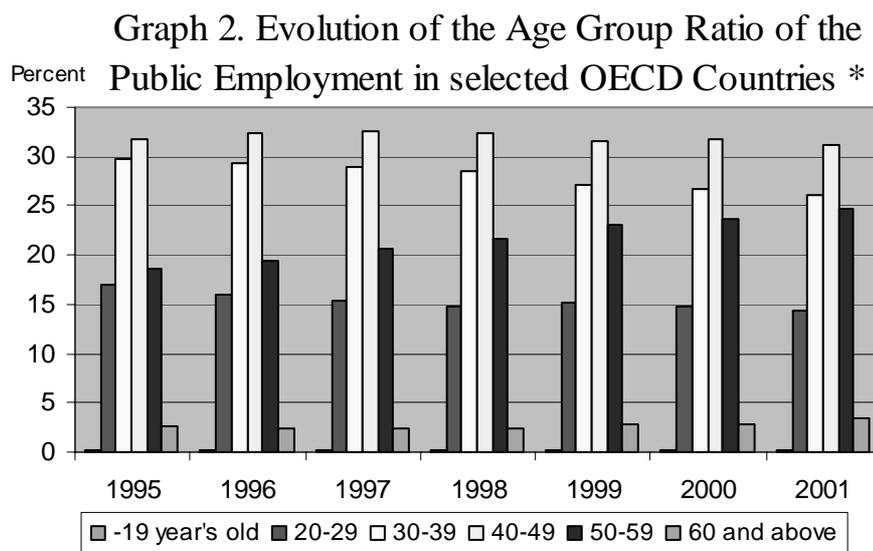
47. While modernising employment policies led to a reduction of the influence of public sector unions in the United Kingdom, Australia, and New Zealand we have no evidence that this represents the way of the future. The key issue is not what happens in the public sector, but what happens in the industrial relations structure overall in the country in question. In the current unfavourable 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 union influence or a new level of government-union accord as in Scandinavia and Ireland remains an open question.

The Challenges Ahead- Human Capital crisis?

48. Many OECD countries now face a looming staff crisis there appear three common reasons:

- **Population aging:** 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.
- **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 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.

49. The chart below highlights the number of public servants nearing retirement age in OECD Countries.



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

What happens now?

51. New problems and a changing labour market, as much as new management ideas, have driven the main trends in civil service 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. We consider that it is important to give more attention to these systemic issues and in particular to what can be expressed as 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.
- How 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.

52. 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. What is unclear in the longer run is how effective the current modifications to both kinds of system will be in changing the deeper cultural characteristics.