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Foreword

Changes in the management of public services are a topic of strategic importance and considerable professional and political interest. The OECD Public Employment and Management Working Party (PEMWP) is a unique high-level practitioner-based forum, providing direction for an analytical work programme and a collaborative forum of senior practitioners seeking to address current challenges affecting public services. The technical work overseen by the PEMWP has provided governments with comparative overviews, against which they can identify whether changes made elsewhere have relevance and are feasible for them.

In addition to this qualitative work with the PEMWP members, the OECD Directorate for Public Governance and Territorial Development (GOV) has traditionally collected quantitative and qualitative data in the fields of public employment and human resources management. These data have been in high demand and have been used by both national governments and international organisations for comparative purposes.

As part of its strategy to improve the quality and scope of its data, and in order to address the demands from member country governments, GOV has put significant emphasis on improving its data in the field of public employment.

Two major data-gathering exercises were conducted in 2005/06, replacing the older GOV surveys and questionnaires:

- *A new methodology has led to the design of a new questionnaire for gathering data on employment numbers in the public domain, that are more comparable across countries. The main findings from this survey constitute Chapter 1 of this book. A complete report with full explanations about the GOV methodology was issued in 2008 as part of the series of* OECD Working Papers on Public Governance, *"Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain", http://dx.doi.org/10.1787/245160338300.*
- *A new survey on strategic human resources was launched in 2006 and has gathered qualitative data on the management and institutional arrangements for the management of public employees, mostly at the national/federal level of government. The findings from this survey constitute the body of data for the other chapters of this book.*

This book draws on the lessons learned from the work carried out by GOV in the field of public employment over the past ten years, and on the latest survey results. Individual chapters have been written in a way so that they can be read independently of each other.

The facts and data drawn from the two survey exercises have been shared with the members of the PEMWP on multiple occasions since December 2006. A first version of Chapters 2-5 of this book was discussed at the Working Party meeting in December 2007. Drafts of the complete book were successively sent to officials of the PEMWP for their comments in June 2008 and July 2008.

The project was led by Elsa Pilichowski (Tel.: +33 1 45 24 76 12; email: elsa.pilichowski@oecd.org) and Edouard Turkisch, consultant. Knut Rexed, consultant, wrote most of the text for Chapters 2-5. Laurent Nahmias developed the composite indicators and their methodology. Useful comments were provided by Oscar Huerta Melchor and Zsuzsanna Lonti. Nick Manning and Barry Anderson successively oversaw the project.

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Introduction

The management of public servants is a highly sensitive issue in most OECD countries. Views about how public servants should be managed differ widely depending on the economic and social context, cultural values, and history. In general, however, governments tend to establish employment frameworks that are very ambitious. They would like systems that, on the one hand, guarantee attention to fundamental values such as fairness, equity, justice and social cohesion to maintain political confidence in the government system as a whole and, on the other hand, that ensure a focus on efficiency, productivity and effectiveness.

Over the past twenty years, the management of the public service has changed tremendously in most OECD countries. First, governments have tried to reduce the size of their public employment to decrease the costs of producing government services, either directly or indirectly by contracting out the production of services to the private sector under the assumption that it would be more efficient. Second, in many cases, governments have tried to apply general good management principles to the management of public employees and, as a consequence, many areas of public employment have lost their existing uniqueness and have become quite similar to the general employment system in the different countries. In addition, public services are under pressure from economic and societal changes that affect their management, such as, for example, the globalisation of labour markets, ageing societies, and the advent of knowledge economies.

This book takes stock of the main changes in the management of public services across OECD countries in order to respond to these new challenges and to a higher level of requirements from governments and citizens on the performance of public employees.

The book begins with a quantitative review of changes in the size of government workforces compared to changes in the use of the private sector for the delivery of government services. The next four chapters focus on the main trends in changes to the management of public services. The data gathered in the publication are put in the perspective of the lessons learned over the years in each area.

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Chapter 1

Employment Numbers and Compensation Costs: Changes over the Past Ten Years[1]

This chapter draws on data gathered in the 2006 OECD survey entitled Comparison of Employment in the Public Domain (CEPD). The CEPD survey aimed at providing data on government employment that are comparable across countries and consistent with the classification of the General Government sector of the Systems of national Accounts, and at putting employment data in the perspectives of the wider production costs of goods and services in the public domain (that include goods and services funded by General Government and produced either by General Government or private entities). The full description of the methodology and of the data is available in a publication issued in 2008 as part of the series of *OECD Working Papers on Public Governance*: "Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain".

Trends in overall numbers and costs

Employment in government[2] represents today between 5% and 28% of the workforce in 21 OECD countries (see Figure 1.1). Between 1995 and 2005, the numbers seem to have been relatively stable in countries for which data are available, except in Canada, where there has been a significant decrease in the proportion of staff in the labour force working for government (although, mostly due to stable employment numbers and increases in the labour force).[3] In some other countries, there have been large increases in staff numbers, which have taken place in parallel to increases in the labour force. This is the case for example in Australia and Portugal (see Figure 1.2 and Table 1.1).

Except for a few countries, and in particular for the Netherlands and France, employment in public corporations is a relatively minor part of the labour force (see Figure 1.3). Historical data are only rarely available for public corporations although they seem to have evolved quite significantly in recent times in a few countries, with large decreases in Australia, Canada, France and Spain, and some increase in the Netherlands (see Figure 1.4).

In most countries, the changes of the size of government workforce are consistent with the changes of the share of the compensation costs of government employees in the GDP. But in some countries, such as Finland and Spain, increases in the number of persons employed in government as a percentage of the labour force correspond to a decrease of the share of their compensation costs in the economy. Overall the share of the GDP that each

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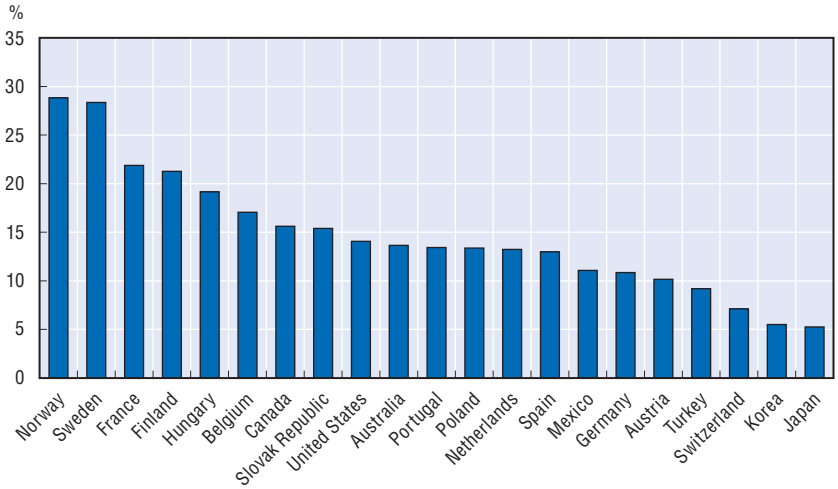
Figure 1.1. **Employment in government as a percentage of the labour force (2005)**



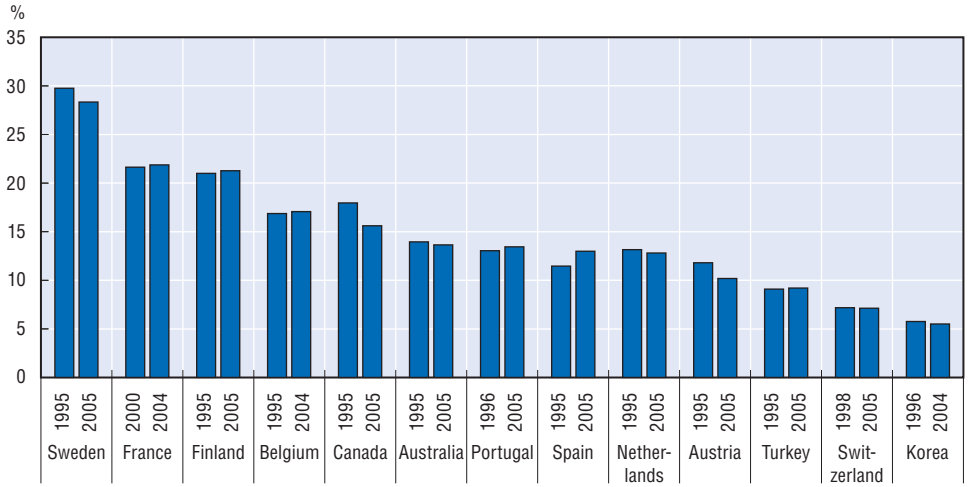
Notes: Data are in number of employees, except for Austria, the Netherlands, Sweden and Switzerland, where they are in full time equivalents. Employment numbers for those countries are thus underestimated.
Austria: Data do not include private non-profit institutions financed by government. Mixed data 2004 and 2005; for 1995, data for social security are missing but are of minor importance as a % of Labour Force (around 26 000 employees).
Belgium: Data are for 2004.
Finland: 2004 and 2005 data have been mixed
France: Data exclude some Public Establishments. Data are for 2004.
Mexico: Data are for 2000.
Poland: Data are for 2004.
Slovak Republic: Data refer to the ISIC classification assuming that private institutions financed by General Government are of marginal importance. Categories L (public administration, defence, social security) + M (education) + N (health and social work) of the ISIC classification.
Source: CEPD survey and Labour Force Survey, OECD.

government employee costs is lower in 2005 than in 1995. This means that the increases in the GDP have been proportionally less distributed to government employees (both per head and as a group) than to the rest of the economy.

In most countries, the changes affecting the share of compensation costs of government employees in the economy are consistent with the changes of the level of production costs of goods and services in the public domain (that include the costs associated with the production of goods and services funded by government but provided by government and the private sector). This means that the costs of the production of goods and services funded by government increase in parallel with the costs associated with employment in government.

However, this is not necessarily the case in all countries, especially when the costs of producing services are driven by increases in the costs of goods and services funded by government but produced by the private sector. In

Figure 1.2. **Employment in government as a percentage of the labour force in 1995 and 2005**



Notes: Data are in number of employees, except for Austria, the Netherlands, Sweden and Switzerland where they are in full time equivalents. Employment numbers for those countries are thus underestimated.
Austria: Data do not include private non-profit institutions financed by government. Mixed data 2004 and 2005; for 1995, data for social security are missing but are of minor importance as a % of Labour Force (around 26 000 employees).
Belgium: Data are for 2004.
Finland: 2004 and 2005 data have been mixed.
France: Data exclude some Public Establishments. Data are for 2004.
Source: CEPD survey and Labour Force Survey, OECD.

Table 1.1. **Changes in employment in government over the past ten years (in %)**

	1995 to 2000	2000 to 2005	1995 to 2005
Australia	0.71	13.46	14.27
Austria	7.20	–16.96	–10.98
Belgium	2.35	5.65	8.13
Canada	–4.84	7.76	2.54
Finland	3.98	2.52	6.61
France	n.a.	4.38	n.a.
Hungary	n.a.	0.81	n.a.
Korea	–0.57	5.83	5.22
Netherlands	4.70	3.52	8.39
Norway	n.a.	3.19	n.a.
Portugal	15.66	4.05	20.34
Sweden	0.14	0.11	0.25
Switzerland	0.68	5.26	5.97
Turkey	4.92	6.05	11.27

n.a.: Not available.
Note: Very large variations can sometimes be explained by institutional reclassification of some organisations. In Austria, the large decrease in staff numbers can at least partially be explained by institutional changes that have affected, among others, employment in universities.
Source: CEPD survey, OECD.

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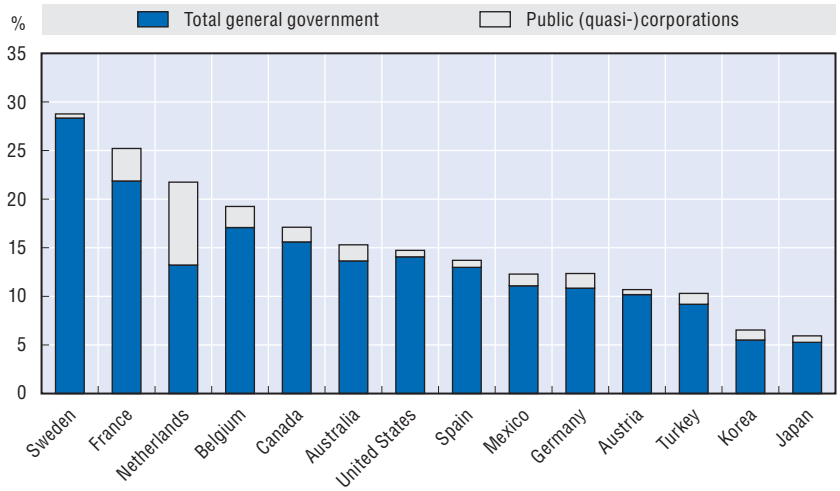
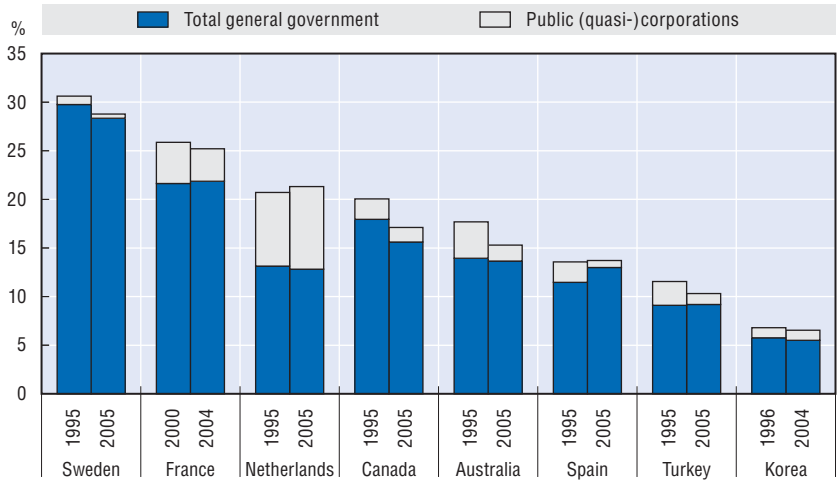
Figure 1.3. **Employment in government and public corporations as a % of the labour force (2005)**



Notes: Data are in number of employees, except for Austria, the Netherlands and Sweden where they are in full time equivalents. Employment numbers for those countries are thus underestimated.
Austria: Data do not include private non-profit institutions financed by government. Data for 2004 and 2005 have been mixed; for 1995, data for social security are missing but are of minor importance as a % of Labour Force (around 26 000 employees). Data for public corporations are partial and only include universities that have been reclassified.
Belgium: Data are for 2004.
France: Data exclude some Public Establishments. Data are for 2004.
Mexico: Data are for 2000.
Poland: Data are for 2004.
Source: CEPD survey and Labour Force Survey, OECD.

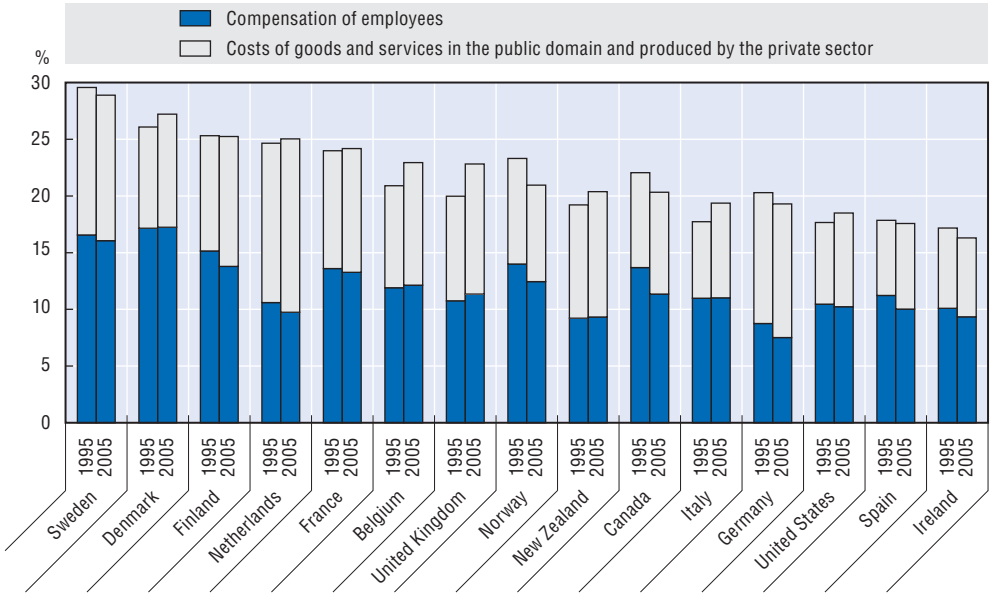
Figure 1.4. **Changes in employment in government and public corporations as a % of the labour force from 1995 to 2005**



Notes: Data are in number of employees, except for the Netherlands and Sweden where they are in full time equivalents. Employment numbers for those countries are thus underestimated.
France: Data exclude some Public Establishments. Data are for 2004.
Source: CEPD survey and Labour Force Survey, OECD.

Denmark, Italy, New Zealand and the United Kingdom, for example, the compensation costs of government employees in the economy are relatively stable over time as a per cent of GDP, but the costs of goods and services produced by the private sector and funded by government have increased. In other countries, a relative decrease of the share of compensation costs of government employees in the economy has taken place in parallel with an even greater increase in costs associated with the provision of goods and services funded by government but provided by the private sector. This is the case, for example, in France and the Netherlands (see Figure 1.5).

Figure 1.5. **Government expenditures allocated to the production of goods and services in the public domain as a % of GDP, in 1995 and 2005 (ranked in decreasing order by overall level of production costs of goods and services in the public domain in 2005)**



Notes: Comparisons of compensation of employees across countries should be made with caution and refined by taking into account the arrangements for the funding of pensions schemes of government employees. Indeed, in some countries, savings for future pensions are partly or completely taken into account in the compensation of employees (this is the case, for example, in the Netherlands), whereas in other countries, the future liability remains a future liability in the general budget. This creates an important distortion in the comparison of present and future compensation costs of government employees across countries.

Goods and services funded by government and produced by the private sector include those produced for government consumption (intermediate consumption), and those produced for citizens but funded by government (directly or indirectly).

Source: National Accounts, OECD.

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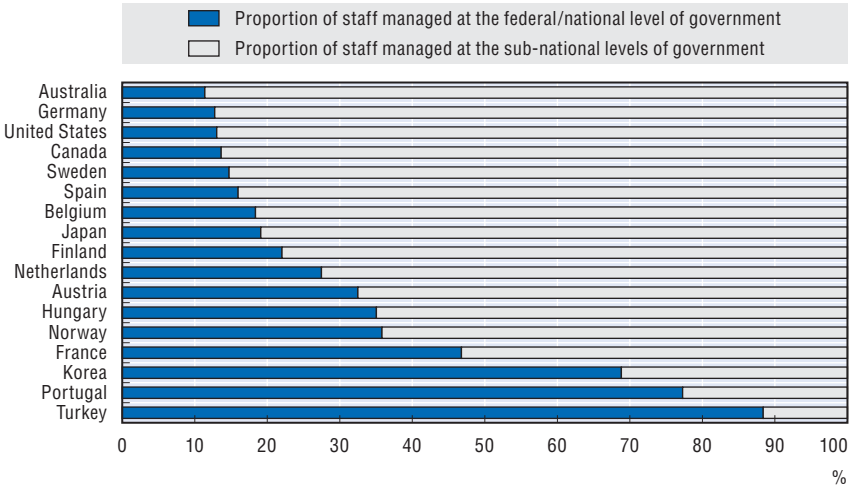
Trends in numbers and costs across levels of government

The proportion of government employees managed at national or sub-national levels of government varies significantly across countries (see Figure 1.6). For countries for which data are available, the proportion seems to have been relatively stable between 1995 and 2005, except in Norway with a relative recentralisation of the management of staff and in Spain with a relative decentralisation of the management of staff (see Figure 1.7).

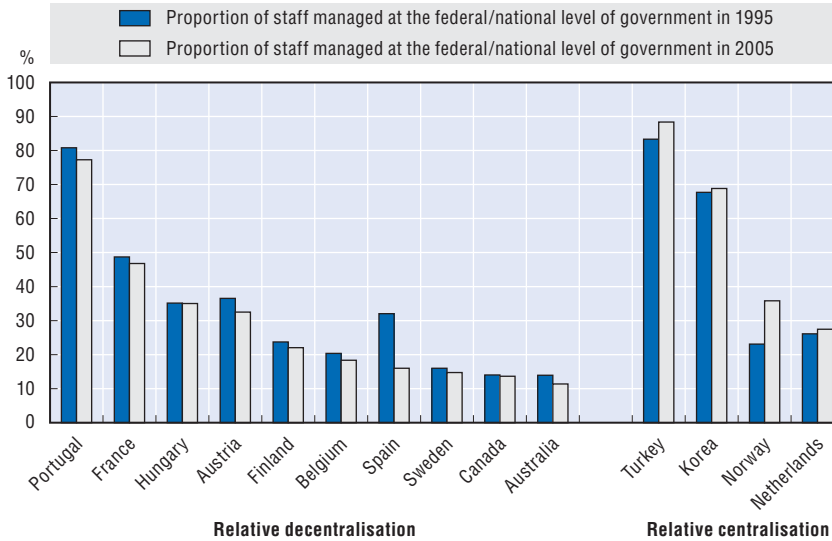
Figure 1.6. **Employment in government by level of government (2005)**



Notes: Data are in number of employees, except for Austria, the Netherlands and Sweden.
Employment in social security is not taken into account at the national level in Austria, Belgium, Finland, France, Hungary, Japan, Korea, the Netherlands, Spain, Sweden and Turkey. Employment in social security is not taken into account at other levels of government in Australia, Canada, Germany, Norway, Portugal (for 2005), and the United States. This concerns relatively small numbers of staff and thus has only minor consequences on the graph above.
Austria: Data do not include private non-profit institutions financed by government. Data for 2004 and 2005 have been mixed. Data for public corporations are partial and only include universities that have been reclassified.
Belgium: Data are for 2004.
Finland: Data have been mixed for 2004 and 2005.
France: Data exclude some Public Establishments. Data are for 2004.
Korea: Teachers and police officers are included at the national level and account for 75% of the workforce at national government level.

Source: CEPD survey, OECD.

Figure 1.7. **Changes in the number of employees in government at the national/federal level between 1995 and 2005[1] as a proportion of total employment in government**



1. France, Hungary, Norway: 2000 and not 1995.

Source: CEPD survey, OECD.

Notes

1. Data are fully available, along with a description of the methodology used, in Pilichowski and Turkisch (2008).
2. In this chapter, "Government" refers to the "General Government" sector in the SNA. General Government includes core ministries, departments and agencies, non market publicly owned hospitals, public schools, social security organisations, etc. It includes units at all levels of governments including regions, provinces and municipalities.
3. In Austria, the large decrease can at least be partially attributed to institutional changes that have affected employment in universities.

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Pilichowski, E. and E. Turkisch (2008), "Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain", *OECD Working Papers on Public Governance*, No. 8, OECD Publishing, Paris, *http://dx.doi.org/10.1787/245160338300*.

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Chapter 2

Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules*

* This chapter focuses on staffing issues in a small, but crucial, component of the public sector. For those staff groups for which data are available, "government" refers to a subset of general government that is concerned with public administration (primarily tasks of regulation and policy making that exclude for example teachers and doctors), defence and compulsory social security. In responding to questions on the survey of Strategic Human Resources Management in Government, governments have used their own definition of the core public service, and in some cases this is larger than "government" as defined here. However, "government" as defined here is always covered by the responses.

Why is it important?

Employment conditions and human resource (HR) systems such as recruitment procedures, career development, pay systems, and social security benefits, have traditionally been different in the public and private sectors. The roots of these arrangements go back to pre-modern times when government employees were seen as the servants of a sovereign, and guaranteed better and more stable conditions than those that were prevalent in the private sector. This was reinforced by early 20th century writings about the ideal bureaucracy, and in some countries there is still an explicit expectation that the State should take care of its servants in a specific manner. Even today, many transition and developing countries find it necessary to set up new special employment arrangements for their civil servants in order to be able to establish a trustworthy and politically neutral government administration.

This segmentation of the labour market into a public and private part has come under increasing pressure as societies have evolved, private enterprises have become more attractive employers, and citizens' preferences have changed as a result of better education and higher affluence. Public services are also no longer only produced by public employees. Instead, many countries also rely on purchased input services and on contracted service providers.

Centrally determined statutory employment conditions have in many countries been seen as an impediment for a continued development of an efficient and service-oriented administration, and of performance-oriented management. OECD countries have often introduced performance management systems that link the management of people with institutional goals and strategies. There is a strong link between these systems and the delegation of human resource management functions, including pay setting.

What are the traditional employment conditions?

Almost all countries have or have had special rules or arrangements for central government employment. In some countries, these have been applied to all employees. In other countries, they have only been applied to specific groups of employees while other employees have been employed under general labour market conditions.

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Some of these special rules and arrangements concern procedures, and do not prescribe or necessitate any differences in material employment conditions. Other rules and procedures may however prescribe employment conditions that are different from those prevalent in the private sector.

The most common distinction is that general government employment falls under public law, while private sector employment falls under private law. This distinction is even anchored in the Constitution in some countries.

Another difference is that many government employees do not have recourse to the same framework for settling industrial disputes as private employees. They might be represented by trade unions, but these may not have formal bargaining rights and the right to take industrial action may be limited or even be non-existent. Disputes over employment and employment conditions may also be referred to special courts rather than to the courts that normally try labour disputes.

Normally, there is a special legal framework for hiring staff intended to ensure that all citizens have equal access to government employment. This would typically be based on open competitions for employment, and might include a special selection or appointments board. Some countries also have restrictions that prevent the hiring of staff with conflicts of interest.

Recruitment can be for general service and not for a specific position. In those cases, there is then a normal entry level, and posts above that level are normally only open for insiders. There may be a formal career system where staff are expected to move between different posts in order to qualify for promotions.

A stronger protection against dismissals and other forms of termination of the employment is also normally a part of the special arrangements. This would traditionally guarantee employment for life with dismissal only possible for misconduct. It could also include restrictions on the use of fixed term contracts.

Pay setting is normally based on a common grading of posts and on a common salary scale for each grade. Employees would in many countries progress in the salary scale with seniority, and in the grade with promotion. Any performance-related pay elements would then be in the form of bonuses rather than extra increases of the base pay. Pay increases can be set by a special pay review board, or be determined by unilateral government decisions. It can however also be formally or informally negotiated with organisations representing the employees.

The special rules may include social security benefits and right to time off for specific personal reasons. They normally also include special retirement benefits, and often from a lower age than what is prevalent in the private sector.

What drives the changes in employment conditions?

The traditional rules and arrangements for employment in the central government administration have ensured that governments have access to a professional administration that serves basic public service purposes well. Career-oriented systems with an internal mobility across different parts of the administration have shown themselves to be well suited for the development of a set of desirable core values and a strong public servant ethos. Countries where strengthening these are high priority issues may find that traditional rules and arrangements are still an optimal model.

The traditional arrangements have however also had a number of weaknesses. They tend to generate a risk-averse culture that inhibits innovations and retards modernisation. They have also turned out to be relatively unsuited for service production and other customer-oriented or citizen-oriented activities. Finally, they provide little flexibility in arranging for various skills mix, and adapting skills and competencies quickly to a changing environment.

Rising affluence has at the same time led to a continuous shift in the dominant values held by the citizens in OECD countries, with increased employee attention to opportunities for self-expression and personal development. The attractiveness of employment under traditional arrangements for central government employees is therefore weakening.

The workforce and the labour market have also undergone important changes. Better education has broadened the labour market for many individuals, and today's more sophisticated enterprises have become attractive employers. Private employment is now a realistic alternative for many public employees. The competition for well-educated and skilled staff has at the same time intensified, and the public administrations have to give more attention to being a sufficiently attractive employer.

What do these changes mean?

A key element in the changes is the transition from centralised to decentralised determination of employment conditions. The ultimate goal is not to imitate the private sector practices. Instead, it is to give public sector managers the same possibilities as private sector managers to adapt working conditions to the business needs of their organisation and to the merits and performances of individual employees. The fact that managerial discretion and adaptation to business needs tends to lead to a employment conditions closer to private sector rules only reflects the market forces on a more open, cohesive and competitive labour market.

Normalisation is not necessarily uniform across the central government administration. Some countries already use rules and arrangements similar to those in private sector in parts of their administration. Typically, employment

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rules in "agencies" tend to be closer to general employment rules than those in central departments. The effects of these changes can be grouped into different areas:

- First, there can be a shift from statutory to contractual or managerial governance of the employment conditions. Centralised determination of pay and other employment conditions give way to spheres of managerial discretion, and pay review boards and unilateral employer decision give way to decentralised pay bargaining. As part of this shift, employees are given recourse to the normal industrial relations framework, including a conditional right to take industrial action.

  In that case, financial control arrangements have to be adjusted to ensure that the government can maintain an adequate control over the level of public expenditures. A special emphasis has to be put on the selection and training of senior executives so that they are able to take on their new responsibilities. Support and assessment systems have to be introduced, and it should be possible to hold the senior public management to account for their handling of the delegated responsibilities.

- Second, career systems and employment guarantees generally evolve. A career-orientation can be replaced by a position-orientation, and positions above the normal entry level can be opened up for external recruitment. This makes it easier for the public administration to get access to special skills and to persons with a broader experience than traditional public employees. There would however be no reason to abandon open competitive recruitment, since that can be seen as being best practice even in the private sector. There is also no reason to abandon open term recruitment in most cases.

  Public managers can also be given control over their own staffing establishment (size, grading and qualifications of workforce), and empowered to adjust its size and composition. This might however be difficult to combine with guarantees for life-long employment, and it can therefore also require abolishing any special employment guarantees that may have existed in the central government administration.

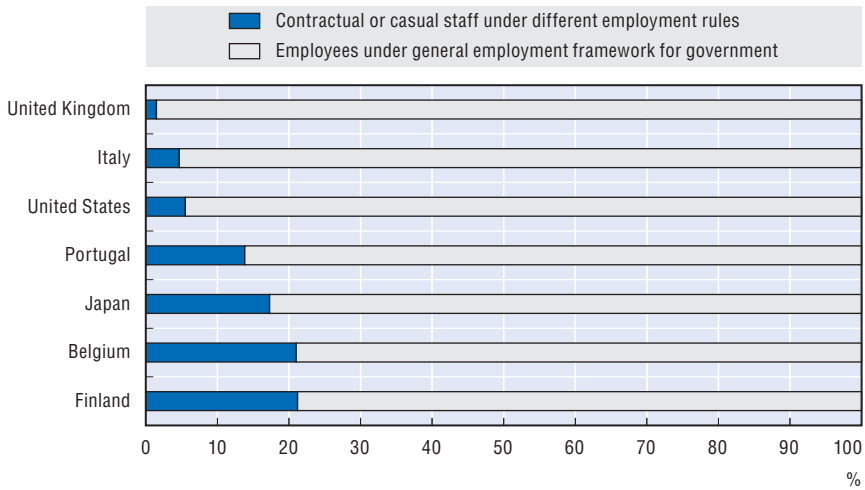
- Third, pay levels tend to converge on the prevalent market pay for specific skills and tasks that are rare on the market. Pay differentials between different skills, tasks and workplaces tend to increase for the same reason. Working time arrangements become more adjusted to the business needs of the organisation, within the framework of the general legislation.

- Changes also affect the special retirement regimes existing in many central government administrations. The general trend in modern labour markets is towards contribution-defined systems with an ensuing portability and improved flexibility in the retirement age. This stands in stark contrast to

the benefit-defined systems with a fixed retirement age traditionally used in the public administrations. A first step in the changes of retirement benefits may be a normalisation of the retirement age.

One could also assume that changes towards more private sector like human resource practices could also mean using more staff hired under a different employment framework from the general government framework, including on short term contracts. Numbers show, however, that the use of those staff outside of the general government framework remains limited in many countries, although in our data, it varies between 2% and 22% of the workforce (see Figure 2.1).

Figure 2.1. **Proportion of staff employed under general employment rules for government employees and outside of these rules**



Source: Survey on Strategic Human Resources Management in Government, OECD, 2006.

What is the situation in the OECD countries?

Over the past decades, there have been reforms of the government employment framework in several OECD countries, including alignment with general labour laws in a number of countries (see Table 2.1). Reforms have often been gradual and piecemeal, creating patchworks of "traditional" and "normalised" employment conditions. Many OECD countries may already have conditions in their central government administrations that are similar to the conditions in the private sector (see Table 2.2).

Changes have often taken the form of limiting the coverage of the special employment arrangements to specific groups of public employees such as judges, police officers and similar groups, like in Denmark and Italy, for

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Table 2.1. **Recent trends and anticipated reforms in the general employment framework in selected OECD countries**

Austria[1]	Change from public law system to civil law system in the public labour legislation: The traditional distinction of all public employees into tenured civil servants based on the public law system and contract staff based on the civil law system has continuously lost its importance. Correspondingly, there is the tendency to create a labour law regime as similar as possible to the private sector. The challenge, however, is that this unified labour law regime must continue to fulfil specific needs of the civil service, like the impartiality of civil servants. Further anticipated reforms: A new Civil Service Act for federal civil servants, which is based only on the civil law system, is currently being elaborated.
Denmark[2]	Civil service employment is being replaced by general collective agreement employment.
Hungary[3]	In 2001, 18 930 administrators and blue collar workers[4] were placed under the scope of the Labour Code. Following a 2003 new amendment to the Civil Service Act, administrators have been placed back under the rules of the civil service act, but lower ranking officials remain under the scope of the general labour code. Further anticipated reforms: The legal status of civil servants will be further aligned with the private sector in terms of dismissal to persons unsuitable for the appropriate work. The dismissal term shall be reduced from 6 months to 30 days. Another issue is to organise compulsory recruitment exams, and to introduce a performance appraisal system.
Italy	In the last years specific reforms with regard to the public sector have been approved, in particular the Legislative Decree No. 29/93 and successive laws. This Decree has introduced the so-called privatisation of the civil service: the special statute based on administrative law, which governed the majority of public sector employees, including senior civil service officials, has been abandoned and the law in force for the private sector is now applied to working relations of public employees. Employment conditions are now governed by national collective contracts and jurisdiction for disputes has been handed over to civil ordinary courts. Collective bargaining takes place at national level (national collective contracts by sector) as well as at agency level. Working conditions for civil servants and managers are established in individual contracts which must be in line with the specific collective contracts. Private law has progressively been applied to many sectors of public work, but there remain some exceptions (Ministry of Foreign Affairs diplomatic personnel, magistrates, police forces and military staff).
New Zealand	The special civil service status was abolished in the early 1990s and aligned with private sector rules.
Portugal[5]	Most government positions have been placed under general labour law, except for positions related to sovereignty (foreign affairs, armed forces, justice, inspection).
Slovak Republic	Human resources reform was started in April 2002 after the Civil Service Act and Public Service Act came into force. Staff working in the public sector was split into two large groups – civil servants and public servants (self-government bodies, local authorities, health care, schools, servants of ministries and other state authorities).
Sweden	With the exception of a very few positions[6] all life-long employment in the Swedish government administration has been replaced by employment on a permanent contract basis. This means that government employees are employed under the same employment legislation[7] as any employee in Sweden.[8]
Switzerland	Since 2002, all federal staff have employee status except only a small category of personnel such as members of federal appeals commissions.

1. *Source:* Response of Austria to the 2006 EIPA questionnaire for EUPAN.
2. *Source:* OECD (2004), "Trends in Human Resources Management Policies in OECD Countries: An Analysis of the Results of the OECD Survey on Strategic Human Resources Management", GOV/PGC/HRM(2004)3.
3. *Source:* OECD, (2004), "Trends in Human Resources Management Policies in OECD Countries: An Analysis of the Results of the OECD Survey on Strategic Human Resources Management", GOV/PGC/HRM(2004)3.
4. Blue collar workers are transferred under the scope of the Labour Code. Their legal status is regulated by the Labour Code. Instead of appointment as civil servants, they have labour contracts. Their legal status is regulated by more flexible rules than before. The labour regulation renders the application of certain restrictions unnecessary, for instance, in respect of the obligation to file wealth report, taking an oath, strict ethical requirements, or rules of conflict of interest. In case of necessity, the requirements typically applicable to public administration are applied to them, for instance, statement of secrecy obligation.
5. *Source:* Presentation of Portugal to the December 2008 meeting of the OECD Public Employment and Management Working Party.
6. Judges on permanent appointment, who can only be removed from office following a court decision related to a criminal offence or a gross neglect of duties.
7. The Employment Protection Act (LAS 1982:80).
8. Swedish legislation provides a beneficial protection for all employees that are on permanent contract. Although it is fairly easy for an employer to reduce the workforce due to business reasons, periods of notice are fairly generous and redundant staff are generally provided different kinds of help in finding a new job. For the central government sector, a special Job Security Agreement has been concluded in accordance with the discretionary provisions in the Employment Protection Act. The Agreement is even more advantageous than the Act. For example, the period of notice is doubled. Since 1996, very little has happened in this respect. Today, as was the case in 1996, more than 95% of the government staff is employed on an ongoing contract basis.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006, except when specifically noted.

Table 2.2. **Differences between statutory employment and employment rules in the private sector**

	General government employment falls under public law, while private sector employment falls under private law	Dispute resolution is referred to administrative court as opposed to regular courts	Different hiring rules	Hiring rules restrict employment to avoid hiring staff with conflicts of interest	Different rights and duties (right to strike, unions, etc.)	Different guarantees about job protection and against dismissal	Different guarantees in favour of lifelong employment	Special benefits including social security and pension
Australia			Yes		Yes			
Austria	Yes	Yes				Yes	Yes	Yes
Belgium	Yes		Yes		Yes	Yes	Yes	Yes
Finland	Yes				Yes			
Germany	Yes	Yes	Yes			Yes	Yes	Yes
Hungary	Yes			Yes	Yes			
Ireland	Yes		Yes			Yes	Yes	Yes
Italy	Yes		Yes			Yes	Yes	
Japan	Yes		Yes		Yes	Yes		
Korea	Yes	Yes	Yes	Yes	Yes	Yes		Yes
Luxembourg	Yes		Yes		Yes	Yes	Yes	Yes
Mexico		Yes	Yes	Yes		Yes		
New Zealand	Yes[1]	Yes[1]	Yes[1]	Yes[1]	Yes[1]	Yes[1]	Yes[1]	Yes[1]
Netherlands	Yes	Yes			Yes	Yes		
Norway	Yes							Yes
Poland	Yes		Yes	Yes	Yes	Yes	Yes	
Portugal	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Spain	Yes	Yes	Yes		Yes	Yes	Yes	Yes
Slovak Republic	Yes							
Sweden			Yes		Yes	Yes		Yes
Switzerland	Yes	Yes			Yes	Yes		
United States	Yes		Yes		Yes	Yes		Yes

1. No major difference.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006.

example. In some countries, such as Australia, Austria, Belgium, Ireland, Japan and Korea, changes in the organisation of service delivery (*i.e.* agencification) have led to changes in employment status for only parts of the public service.

The specific framework for employment at the central government level can be more or less extensive. It is very limited in for example New Zealand and the Scandinavian countries, and relatively extensive in for example Germany, Korea, Portugal and Spain.

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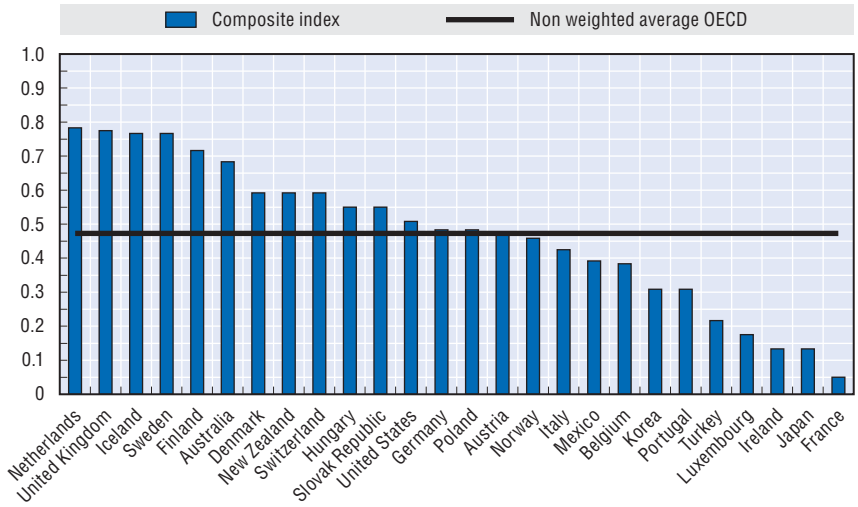
Sixteen out of the 22 countries that responded to the OECD 2006 Survey on Strategic Human Resources Management stated that public employees had better job security and protection against dismissal than private employees, and often stated that public employees could have employment for life. At the same time, 15 stated that public employees did not have the same right to take industrial action and be represented by unions. The traditional arrangements thus still seem to dominate in the central government administration.

The long-standing distinction between career-based and position-based systems continues. For example, in Australia, Finland, the Netherlands, New Zealand, Sweden, Switzerland (except for diplomatic careers), the United Kingdom and the United States, all posts below senior management are open to external recruitment and applicants can apply through direct application to the specific post. In other countries with career-based systems, employees are recruited almost exclusively at lower levels and move up in their career within levels throughout their time in their civil service. In some countries including Belgium, Germany, Ireland, Japan, Korea, Luxembourg, Mexico, Portugal and Spain, there are some exceptions for top managers and special experts.

The index in Figure 2.2 indicates the level of openness of the recruitment process in central government, and particularly its openness to applicants coming from outside the public service at all levels of the organisation, above entry level (see Annex A for details on the methodology).

Figure 2.2. **Composite index of openness of the HRM system in central government**

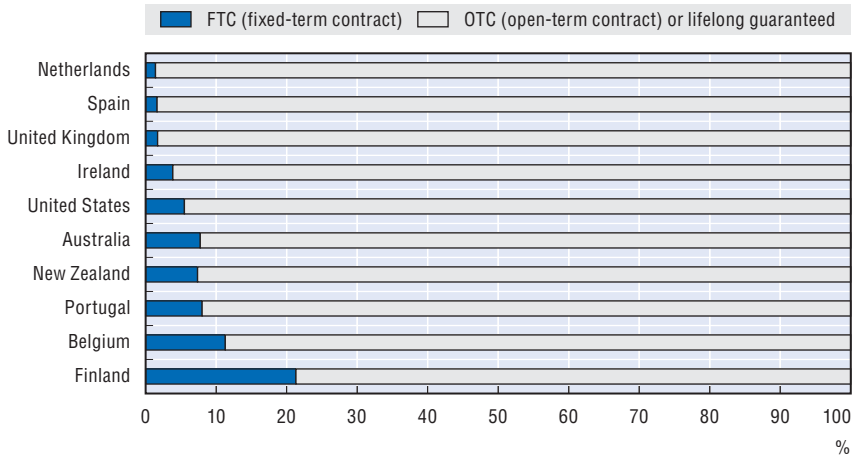


Note: For details on the methodology, please see Annex A.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006, and GOV (OECD) estimates (missing data estimated by mean replacement).

Changes in the employment framework have also included removing restrictions on employing staff on fixed term contracts, or making such contracts more socially accepted. The proportion of fixed-term contracts within the public service varies significantly across countries, but seems to remain low in almost all countries, and there does not seem to exist a relation between the type of civil service system (more career based or more position based) and the proportion of fixed term contracts (see Figure 2.3). Fixed term contracts seem more common for senior management than for other employees.

Figure 2.3. **Proportion of fixed-term and open-term contracts in the civil service at national/federal level in 2005 (or 2004)**



Note: Open term contracts (OTC) are not necessarily the same as lifelong guaranteed jobs. While all lifelong guaranteed positions have open term contracts, it is not necessarily the case the other way around. In some cases, the need for fixed term contracts is all the more limited as the employment rules under OTC are more flexible. This is the case for example in the Netherlands.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006.

Most OECD countries already have some form of formal or informal pay bargaining with trade unions. The most common arrangement is some form of centralised collective bargaining. For example, in Ireland, Luxembourg, Portugal, Spain and the Slovak Republic, these cover the entire central government sector. In Germany, pay bargaining only concerns public employees, but usually, changes in salary levels for civil servants follow those of public employees. In other countries some form of adjustment at sector level or at sub-central level may exist. In at least five OECD countries there is no collective salary bargaining. In New Zealand, for example, within an overall pre-increase, the pay bargaining process is entirely decentralised to departments. In Japan, pay is revised on the recommendations of an

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independent committee. In Korea, Mexico, Switzerland and the United States, remuneration levels are based on the recommendations of the President/ Prime Minister or minister responsible for the finances.

Normal retirement age was between 60 and 65 years in 20 EU countries that replied to a 2004 EU survey.* The earliest possible retirement age for some government employees was as low as 50 years in France and the United Kingdom, and below 60 years in six more EU countries. The replacement ratio was almost 90% in Portugal, below 60% in the Czech Republic, Denmark and the Netherlands, and below 30% in Slovenia.

What are the challenges?

The special staff arrangements and employment conditions for core government employees are at the heart of the state's relation to its employees, and they are very often firmly rooted in national tradition and administrative culture. The largest challenge is therefore the management of change; that is of the process of designing and implementing a change programme.

Changing some elements of the traditional staff arrangements will turn out to be more sensitive or controversial than others. Among these are employment for life and more generous retirement benefits. These are issues in which the existing government staff have strong vested interests.

The traditional staff arrangements can be seen as a model for protecting the core government administration from political interferences and thus ensure government by law. They have also been important for strengthening civil service values. Changes towards rules that are closer to general labour laws may weaken these elements, unless other arrangements are found that protect government by law and support the desired core values.

In addition, these changes have to be thought through a coherent framework. For example, the move to increasingly delegated employment arrangements (such as pay or benefits) across the public service while maintaining a career based service (with few entries open to private sector staff except at entry level) may create a series of closed public sector labour markets. Instead of having one large public sector labour market that is not integrated in the wider labour market, governments may end up having multiple public sector labour markets with no integration with the private sector labour market, and with even less competition among staff and less choice for different skills.

* "Sustainability of Pension Schemes for Government Employees of European Member States", Concise Report for Directors-General, EUPAN Human Resource Working Group, EU, 2004.

Finally, one should not overlook the fact that changes in the employment framework entail a move from a command-and-control paradigm to a managerial paradigm. Successful changes depend both on changing the culture in the bodies that are responsible for the centralised management and on the creation of adequate managerial competences in the line organisations.

What lessons for the future?

There is a clear trend towards more similar employment conditions in the private and public sectors that is driven by both general labour market changes and a more heterogeneous public sector. At the same time, there are inherent values in the traditional employment guarantees that may be essential for countries that need to establish or strengthen a professional and politically neutral public administration. The optimal speed and extent of normalisation is thus dependent on the national context.

One can observe two different paths in OECD countries. One regards changes covering all government employees and almost all employment conditions, regardless of their tasks and functions. The other is the introduction and/or gradual expansion of sphere or spheres covering some government employees and/or some employment conditions. One can assume that the latter path would be easier to manage and carry a lower political cost, although this would be at the expense of slower and possibly more restricted changes.

The most sensitive issues are the special employment guarantees and the special retirement schemes that exist in many central government administrations. It seems reasonable to assume that it is easier to change these if the level of protection against unfair dismissals in the private sector is generally considered to be adequate, and if there are adequate retirement schemes also in the private sector.

The management of the change process could also be facilitated by a formal or informal social dialogue with the central government employees and, where appropriate, with their representatives. Conversely, it would become more difficult and confrontational if the changes are portrayed in media and by trade unions as entailing deterioration in the employment conditions.

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Chapter 3

The Delegation of Human Resource Management in the Public Service of Central Governments*

* This chapter focuses on staffing issues in a small, but crucial, component of the public sector. For those staff groups for which data are available, "government" refers to a subset of general government that is concerned with public administration (primarily tasks of regulation and policy making that exclude for example teachers and doctors), defence and compulsory social security. In responding to questions on the survey of Strategic Human Resources Management in Government, governments have used their own definition of the core public service, and in some cases this is larger than "government" as defined here. However, "government" as defined here is always covered by the responses.

Why delegate?

Public managers are expected to improve the performance of their organisations and the outcome of their activities, and have to work with their staff to encourage, enable and support them in a continuous quest for quality, efficiency, productivity and propriety.

The traditional models for managing the human resources in the public administrations are the products of societies and of dominant management paradigms that are more than a century old. They were designed for the exercise of public administrations in societies emerging from pre-democratic stages, and used centrally-determined structures and procedures as a way of ensuring a correct and equitable application of laws and regulations. They were also heavily influenced by hierarchical command-and-control models.

During the last decades, OECD governments that want to strengthen the performance orientation of their public administration have found that these models have come to hamper their efforts, and to make the development of new models for the provision of public services difficult. They have also come to realise that good management is essential both for improved performance and efficiency and for improved services to the citizen. For that reason, they have created smaller or larger spheres of delegated responsibilities within their administrations that included human resource issues. In this way they have enabled and empowered public managers to pursue organisational performance management and service improvements, and have strengthened their sense of accountability.

A delegation of authority to managers will also make it easier for the public organisations to be sufficiently attractive employers. The workforce and the labour markets have changed during the last decades. Job seekers are now better educated, better orientated, and more demanding when it comes to job content and work opportunities, and public employees are increasingly contemplating alternative private employment. Public managers have to be able to enter into meaningful dialogues with job seekers and employees, and to be able to respond to their needs and requests.

What is modern human resource management?

Modern human resource management is essentially a product of the last half century, and is often associated with a 1957 essay by MIT professor Douglas McGregor called “The Human Side of the Enterprise”, although many

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other behavioural scientists have also contributed. The essential message is that people work better and contribute more if motivated, than if merely commanded.

The main tenet is that in order to manage its people in an appropriate and constructive manner, organisations need to develop a human resource management strategy. This strategy has to address four key dimensions of the organisation, namely its:

- Culture: that is, its beliefs, values, norms and management style.
- Organisation: that is, its structure, job roles, reporting lines and accountability mechanisms.
- People: that is, their skill levels, development potential and management capability.
- Human resources systems: that is, the people-focused mechanisms which deliver the strategy.

The key human resource systems will involve manpower planning, employee selection and development, career management, employee rewards and motivation, industrial relations and internal communication. There is no single "right" way of designing these systems. They have instead to be adapted to the business needs of the organisation and to the context in which they are to be applied.

Furthermore, the World Value Survey – a co-operative study involving a large number of universities in different countries – has shown that people's values change with rising affluence in a similar manner in all countries, although with different speeds and from different starting points. People tend to become more rational and less subordinated to traditional authorities. Such aspects as meaningful tasks and possibilities for personal development tend to become more important relative to materiel benefits.

During the 20th century, public administrations were given new tasks and responsibilities, and are now – in addition to their traditional regulatory functions – handling complex and heterogeneous functions, facing increasingly demanding customers and clients, and often have to handle unexpected changes in their environment. They also have to satisfy more challenging expectations from present and potential employees.

All OECD countries have been debating how to handle these societal changes, and have initiated measures to modernise their public human resource management through the introduction of delegated authority. A common concern is that the modernisation has to recognise and respect the specificity of the public administrations, with their exercise of public authority and their dual expectation of safeguarding government by law and

being responsive to both the political government and to their customers and clients. One especially important restriction is thus the need to maintain an adequate public service ethos.

What can be delegated?

The key motive for delegation is the need to empower public managers and to enable them to adapt their human resource systems to the business needs of their organisations. Both the speed and the extent of the reforms vary across countries due to differences in political, cultural and historical context. It is however possible to identify a number of functions that have been delegated in several OECD countries.

A delegation of manpower planning enables organisations to determine how many employees they need, and which skills mix these employees should represent. Closely related to this is the authority to decide when to use purchased services and contractors instead of hiring more staff. This type of delegation has to be accompanied by appropriate financial regulations.

This type of delegation might also entail a right to adjust the staff establishment. This would however be difficult to combine with retention of employment for life.

The key aspect of a delegation of recruitment functions is not the actual selection, but the specification of required competences and selection criteria. A delegation of the latter functions is an essential complement to manpower planning, but could be combined with the retention of a shared recruitment organisation. The same goes for staff training and development, which are normal management functions. The centre might however want to establish minimum standards for *i.e.* recruitment procedures, selection criteria and competency frameworks.

Career systems and planning that span across all or most of the government administration are only rarely delegated to individual departments/agencies. Countries that want to maintain delegated systems thus also have to maintain sufficient authority at the centre over certain human resource issues.

All organisations need to be able to motivate their employees. This includes a need to be able to reward them for good performances and behaviour, and to be able to sanction misconduct and unsatisfactory behaviour. This can be done in many different ways, but some delegated control over monetary rewards is probably indispensable.

Working arrangements including work hours are also normal parts of operational management. Delegated authority in this would enable the organisation to adapt the arrangements to its own needs, and to give its employees a voice in these matters.

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Retirement benefits affect the overall attractiveness of public employment, but are not necessarily linked to the individual workplace. Benefit-defined pay-as-you-go system must for practical and financial reasons be managed from the centre. Contribution-defined funded systems can on the other hand be seen as a form of pay and be delegated. This is however rarely done.

How can delegation be governed?

The delegation of authority over human resource management in the central government administration is never total. Governments typically still want to maintain a set of shared values and common structures and processes, and these need to be managed from the centre. Nor is delegation a synonym for abdication. The centre needs to monitor the development, since unwarranted differences in conditions between different parts of the public administration are potential sources of dissatisfaction and inefficiency. The receivers of delegated authority also have to be held to account for their handling of the delegated authority. It may seem as a paradox, but delegating authority may need to be accompanied by a strengthening of certain central functions.

All or almost all countries have a central body which deals with human resource management at the central government level. Exceptions include the Czech Republic and the Slovak Republic, where the Civil Service Office was eliminated in 2006 and the responsibility for human resource management was devolved to individual sectors and authorities. In Germany, there is no central body for HRM at central government level. Departments are fully independent with regarding to their HRM, following the *Ressortprinzip* (department principle) which is stipulated in the constitution.

The main difference lies instead in the role and functions of this body. Traditionally, this body is responsible for the human resource management at the central government level. In most countries including Austria, Finland, Ireland, Japan, Korea, the Netherlands, Norway, Switzerland, the United Kingdom and the United States, the role of the central body has been oriented towards a more strategic and a less detailed managerial role. In some countries including Australia, Belgium, New Zealand, Portugal and Sweden, the body is not responsible for the human resource management but instead co-ordinates human resource management across departments or agencies. In these countries and in some others including Italy, Mexico, the Netherlands, Norway, Spain, and the United States, the central body is a specialised ministry or agency, while in other countries it is part of or more directly controlled by the office of the head of government, or by the ministry responsible for finances.

The delegation of authority over human resource management has to be accompanied by an adequate development of managerial capacity and competence at sub-central levels. Many OECD countries are therefore also

Table 3.1. **Recent reforms that have accompanied the establishment of a more strategic role of the HRM central body**

Austria	Following the Deregulation Act in 2002, the role of the HRM central body has been redefined and its participation in departments' decisions reduced.
Finland	The role and functions of the Office for the government as an Employer are being constantly developed in order to create a more strategic approach to government service and, on the other hand, to create more competencies to serve government agencies as key customers.
Ireland	Over the last decade, the central body has tried to devolve more to Departments and offices, in particular in the non-pay area. In practice, the design of policies in the non-pay area is often determined centrally while the implementation is left to Departments and Offices. Career development is the responsibility of Departments and Offices.
Japan	From the perspective of the autonomous and strategic personnel management in each Office and Ministry, the National Personnel Authority changed many of its procedures from performing individual and detailed advance checks to setting clear standards regarding the personnel management system of the public service, as well as checking the adherence to those standards. As a result, about 4 400 cases of approval and consultation were eliminated in 2002.
Korea	The CSC plans to provide government-wide workforce management strategy, offer guidelines, and provide consulting services to ministries (agencies, administrations), getting out of regulation and control based personnel management role in most HR areas including appointment, assignment, compensation, working conditions, etc.
Netherlands	The government has an ongoing reform of HRM at the central government level. The aim is to improve the quality of HRM. The government is implementing shared services of labour administration and payment administration and HRM services, putting also some emphasis on improving quality management of managers, and improving the advisory capabilities of HRM professionals.
Norway	Over the last decades, there has been a trend towards more delegation and a more strategic and less detailed management role for the central HRM body. The reform of the pay system in 1991 was a milestone in this process.
Switzerland	Project entitled "Improving HRM, strategic and processes in personnel management" focusing on improving efficiency and professionalism in HRM, implementing a uniform approach, with a model process for the whole Confederation and a clear formulation of tasks, competencies and responsibilities.
United Kingdom	The role of the central HRM body has been refocused on the following: leadership, talent, reward, coherence.
United States	Over the last several years, the Office of Personnel Management has shifted from a rules-enforcing role to a facilitator of innovation and effective human resources management practices in federal agencies. In providing expert guidance to agencies, OPM tries to anticipate unintended consequences, act on lessons learned, and articulate and share best practices. It provides a variety of technical services to agencies including practical tools on the use of flexible hiring authorities, the assessment of agency performance appraisal systems, the strategic management of human resources, and the development of agency accountability systems. The issues that this refocusing or role redefinition primarily covers are: pay, performance management, recruitment and hiring.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006.

reforming their senior management structures. Among the features of these reforms are external recruitment, enhanced training, performance evaluations and rewards, and limited term appointments. Many trade unions representing central government employees have also faced a need for re-organising and capacity building. They may have internal structures and distributions of authority that are adapted to a centralised management of human resources, and that are less appropriate for the support of workplace representatives.

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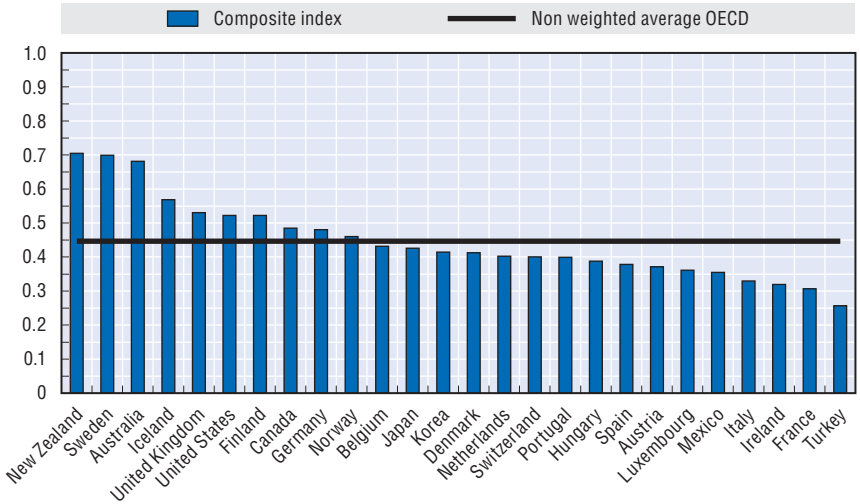
What have the OECD countries delegated?

The extent of delegated authority over human resource management varies across OECD countries, and sometimes even across government bodies within the same country. There is thus no single model or common standard (see Figure 3.1).

Figure 3.1. **Composite index of delegation of the management of the public service in central governments of OECD countries**



Note: For a description of the methodology, please see Annex A.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006, and GOV (OECD) estimates (missing data estimated by mean replacement).

In Austria and Luxembourg, both the numbers and types of posts within the organisation are centrally defined or bounded. In other countries including the Czech Republic, Germany, Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Spain, the Slovak Republic, Switzerland and the United Kingdom, managers can adjust the skills mix, although the allocation of the budget envelope between payroll and other expenses is centrally defined or bounded. In Australia, Belgium, Finland, Norway, Sweden and the United States, the sub-departments/agencies have a large autonomy to determine, within established legal and budgetary limits, the numbers and types of posts within organisations, as well as the allocation of budget envelope between payroll and other expenses.

In most countries, the classification or grading of posts is determined by the central human resource management body with little autonomy for sub-central bodies, although they can be expected to provide the basis for the central decisions. In Belgium, Finland, Hungary, and Switzerland, there appears to be some delegation in the definition of the classification system,

and in Australia, New Zealand and the United Kingdom, departments/agencies have wider rooms of manoeuvre for the determination of their own classification system. Sweden has a centrally designed classification system, but this is only intended as a basis for comparative pay statistics, and the actual classification is done by each agency.

There are a number of different arrangements for recruitment. In Belgium, for example, all recruitment for permanent (statutory) employment in the central administrations of any of the governments is handled by a federal selection organisation. In Ireland, the central recruitment body can authorise departments and agencies to handle their own recruitments, provided that they observe procedures determined by the central body. In the United Kingdom, recruitments are the responsibility of individual departments/agencies, but these must observe recruitment procedures that are set out and monitored by an independent body. In Sweden, the government only appoints the agency heads, and each agency handles its own recruitment subject to a constitutional requirement of selection based on objective criteria.

Traditionally, the general design and operation of the pay system (such as grading of posts, associated pay scales, progressions in the pay scale and special allowances) are centrally defined, or with little latitude for departments/agencies to affect pay structures or pay levels. However, in some countries including Australia, Finland, the Netherlands, New Zealand, Sweden, and for parts of the administration in the United Kingdom and the United States, pay decisions have been delegated to departments, agencies or even work units, subject to an appropriate financial framework. Denmark has also recently introduced a new pay system with some scope for local adjustment of pay.

The delegation of human resource functions is intended to achieve a certain differentiation in pay and other employment conditions, across sectors and organisations as well as across individuals. Indeed, there has been a recent trend towards an increasing diverse picture in several countries including Austria, Belgium, Italy, Sweden, Switzerland, the United Kingdom and the United States. There are however concerns in some countries that these differences may sometimes have become unreasonably large.

The handling of special performance-related pay elements and other variable pay elements varies considerably. In Luxembourg, it is centralised, like the general pay management in these countries. In Hungary, Ireland and Korea, it is more delegated than the general pay management, but it remains centralised or bounded with little autonomy. In a number of countries including Austria, the Czech Republic, Finland, Germany, Italy, the Netherlands, Norway, Spain and the Slovak Republic, it is generally more delegated than the general pay management, allowing some room for sub-central adjustments. Finally, in Australia, New Zealand, Sweden and the United Kingdom, it is delegated to departments, agencies or work units, like the general pay management.

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The management of the general working conditions is generally delegated (within a general framework) in most countries. It appears to be more centralised in Belgium, Ireland, Japan, Luxembourg, Norway and Spain.

Retirement benefits are normally governed by central statutes due to their special character, although the Netherlands is considering a delegation from the whole-of-government level to ministerial sectors.

A number of countries report being in process of further delegating their HRM to departments and agencies. This is the case for example in Canada, where the Second Report of the Prime Minister's Advisory Committee on the Public Service[1] recommends that authority and accountability for human resource management in the Public Service be the primary responsibility of Deputy Ministers in line departments. This call is echoed in the most recent report of the Clerk of the Privy Council to the Prime Minister on the Public Service and is being implemented.[2] Finally, delegating authority on human resource management to Deputy Ministers is aligned with the provisions of the Public Service Modernisation Act.[3]

What are the challenges?

Delegation of authority is almost never uncontroversial or uncomplicated. The exact nature of the challenges depends however on the cultural, political and historical context. There are however a number of recurring challenges that governments have to be prepared for.

One of these challenges lies in the change management itself. Many stakeholders – senior management, employees, trade unions – have adapted to the existing structure and may resist change. Some countries including Ireland and the Scandinavian countries have therefore opted for gradual changes supported by an appropriate social dialogue. Other countries including Australia and New Zealand have instead opted for cohesive reforms where the stakeholders can assess the outcome of the entire process.

Delegation entails a major cultural change. Stakeholders need to become convinced that the modernisation of human resource management is both necessary and beneficial. A key issue in this respect is that they need to be convinced that propriety and the public service ethos can be maintained even after the delegation of human resource management.

Another challenge is the need to develop and maintain a sufficient managerial capacity and competence in the organisations that are authorised to handle their own human resources. The existing public managers normally lack training and experience in human resource management, and the sub-central organisations normally lack professional human resource management units.

A final challenge does not concern the delegation in itself, but the achievement of the desired outcome. Delegated authority is intended to lead to an adaptation of the frameworks for pay and other conditions of employment to the needs of each organisation. Delegating authority while maintaining fully structured career based systems may result in the creation of multiple small inflexible career based systems. Unwarranted differences in employment conditions may also cause dissent and inefficiencies. Both too small and too large effects may thus signal problems.

What lessons for the future?

As OECD countries strengthen the performance orientation of their public administrations, they increasingly turn from statutory to managerial governance, and empower their sub-central public managers to manage their organisations and their staff. The pre-conditions for a decentralisation of the human resource management do however vary across OECD countries depending on the national context, and it is not possible to describe a best practice, even if the general direction of the path is clear.

Centralised human resource management was traditionally seen as essential for preventing patronage and other forms of misuse of authority in the human resource field. The OECD countries that have introduced delegated human resource management have been confident that other existing features such as transparency and internalised core values are sufficient protection against these dangers. Other OECD countries may have to strengthen their internalised core values, establish a sufficiently professional and politically neutral senior management, and create other supervisory elements including improved transparency before introducing a more substantial delegation of human resource management.

The delegation of the responsibility for human resource management can be both an asset and a problem. On the one hand, performances can be improved if public organisations are able to adapt the human resource management to their own needs. On the other hand, it may hamper its modernisation by allowing islands of un-modernised management to continue to exist. It is therefore important for the centre to retain a sufficient ability and capacity for monitoring and govern the delegated management systems, and for holding operational managers accountable.

The positive outcome of delegation of human resource management is by no means a given. A lack of sufficient managerial capacity and competence at the sub-central levels can prevent the expected benefits from materialising. A delegation of human resource management must therefore be accompanied by an adequate capacity building at the sub-central level in the form of both managerial development and the setting up of professional human resource

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management units. Finally, in traditionally strong career based systems, delegation must be accompanied by an increased opening of hiring to private sector employees for non entry level positions in order to avoid creating multiple inflexible public sector labour markets within a country.

Notes

1. *www.psagency-agencefp.gc.ca/ren/cpmc/cpmc2-eng.asp*.
2. *www.pco-bcp.gc.ca/index.asp?Language=e&page=information&sub=publications&doc=ar-ra/15-2008/table_e.htm*.
3. *http://laws.justice.gc.ca/en/showdoc/cs/P-33.4///en?page=1*.

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Chapter 4

Managing the Performance of Employees in Central Governments*

* This chapter focuses on staffing issues in a small, but crucial, component of the public sector. For those staff groups for which data are available, "government" refers to a subset of general government that is concerned with public administration (primarily tasks of regulation and policy making that exclude for example teachers and doctors), defence and compulsory social security. In responding to questions on the survey of Strategic Human Resources Management in Government, governments have used their own definition of the core public service, and in some cases this is larger than "government" as defined here. However, "government" as defined here is always covered by the responses.

Why is performance so important?

Government plays a larger role in the societies and economies of OECD countries than half a century ago. A larger share of the national product is used for public consumption; public investments and public transfers to households, and public administrations are in charge of increasingly complex activities. The citizen's expectations of good service and of value for tax money have increased. Citizens are more knowledgeable, and access to information laws and policies have increased citizen's access to information and their expectations of government transparency. Consequently, the performance, effectiveness and efficiency of the public administration have become more key concerns for governments.

The past two decades have witnessed an influx of new ideas and initiatives in the field of public management in OECD member countries. The key focus has been on organisational performance, and OECD governments are working on developing appropriate performance governance, including performance indicators and performance-oriented budgeting. They are also taking measures to improve the capacity to promote better performances.

Many countries have also found that traditional modes of uniform and statutory management of staff are no longer sufficient, and have introduced both performance oriented elements and delegated responsibilities in human resource management. This implies a fundamental cultural re-orientation which creates new challenges. It also requires new managerial competencies at the operational level, and adequate supporting arrangements and structures that assist employees in their quest for better performance.

A parallel adaptation of human resource management is a prerequisite for performance management, and thus an essential part of government policies aimed at better value for money, and better service to citizens.

What is meant by performance?

In economic texts, performance is often defined as the ability of an organisation to acquire resources economically and to use those resources efficiently (output/input relation) and effectively (outcome/output relation) in achieving the output and outcome targets or goals. In public organisations, it is however a more multi-facetted concept involving not only what is produced, but also how it is produced. Thus, in the exercise of public authority it also

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covers due processes and a correct application of laws and other statutes. In the provision of public services, it also covers access to services and an appropriate management of citizen relations.

At the level of the individual, performance is not only a question of teams and individuals doing the right things and doing things the right way. It also involves the way the individual behaves in a workplace context, and how he/she contributes to a well-functioning workplace and to a well-functioning organisation.

What is performance management?

One can distinguish four levels of performance management, including:

- At the highest level, performance management is rooted in the organisation's long term business strategy and focused on impact, resource utilisation and public service improvement.
- At the strategic level, performance management is focused on outcome, such as volume and value of service take-up, upward trends for inclusion, staff and users' satisfaction.
- At the programme level, performance management is focused on the desired output of programmes, and on what has been accomplished.
- At the operational service level, performance management is concerned with process quality, service delivery and outputs, but also with the individuals or teams of individuals that are expected to deliver these results.

Organisational performance management has included a broad re-orientation from statutory governance to reforming budget processes, focusing on outcomes, setting goals and targets, evaluating results and exercising accountability. It has also included efforts to develop systematic quality management at the operational level.

Performance management at the individual level can be described as a process for ensuring that the employees understand what is expected of them, assessing their performance, providing them with feedback, and helping them do better. It is related to, and sometimes combined with, measures that promote continuous improvement. This means that it should consider both the process and the results, and that it should focus on the learning process.

The ultimate aim of performance management is to enable operational managers to work with their staff to align their individual needs, interests and career aspirations with the organisation's business needs. The focus should be on the future; on what the employee needs to be able to do, and how he/she can do things better. Effective performance management will at the same time

recognise good work performance and address poor performance. It will identify staff training or development needs, and identify and address other barriers to good work performance.

Managing the performance of employees is not a stand-alone activity in modern organisations. The effective performance of an organisation depends on the contributions of activities at all levels – from top management and policy development to efficiently run operations. It is a part of a management cycle under which programme performance objectives and targets are determined, managers are empowered to achieve them, actual performance is measured and reported, and this information feeds into decisions about programme funding, design, operations and rewards or sanctions.

How can a performance management system be designed?

A performance management system is a systematic process by which an organisation involves its employees, as individuals and members of a group, in improving organisational effectiveness in the accomplishment of agency mission and goals. It should include elements for:

- planning work and setting expectations;
- continually monitoring and appraising performance;
- developing the capacity to perform;
- periodically rating performance in an adapted fashion; and
- rewarding good performance.

Performance management systems should link the management of people to the institutional goals and strategies. Their success will depend on these goals and strategies being clearly defined and communicated to the employees. Success also depends on the operational managers having sufficient competence and being empowered to manage their staff in an appropriate way. There is therefore a strong link between on the one hand performance management and on the other hand managerial development and delegation of human resource management functions, including pay setting.

Performance appraisals are the heart of performance management. By "performance appraisal" is meant a methodology and set of procedures for rating the work performance of individuals according to standards and criteria applied across one or several organisations in a similar fashion. One innovative type of performance appraisal is the so called "360-degree feedback system", where assessments are made not only by superiors, but also by peers and subordinates.

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Box 4.1. **Introducing performance management: the Irish case**

Ireland uses Performance Management and Development (PMD) as a broad description for the way an individual's work performance, career and development needs are managed. It is seen as a process for establishing a shared understanding about what is to be achieved, and how it is to be achieved, and as an approach to managing and developing people that increases the probability of achieving success.

The Strategic Management Initiative (SMI) launched in 1994 identified six key reform areas: delivering a quality customer service; reducing red tape; delegating authority and accountability; a new approach to human resource management; ensuring value for money and supporting change with information technology. The 1996 report Delivering Better Government identified performance management as the key to enhanced service delivery in the Irish Public Service, and argued among other things that major reforms of existing human resource management structures and processes were required, and stated that "the creation of a results-driven civil service with government priorities and focused on quality of service is not possible within existing personnel structures".

Irish departments and offices prepare statements of strategy which set out the high level goals and objectives they wish to achieve. They then engage in a business planning process which translates these high level goals into divisional objectives and which includes, when appropriate, quantitative and/or qualitative performance indicators or measures.

This enables them to link the objectives and strategy of the organisation to the jobs and tasks done by the people in their organisation, whether as individuals or as part of a team, and to adapt the general PMD framework to the business needs of their organisation, and to use it for a structured dialogue with each of their employees about performance and development. The Irish Centre for Management and Organisation Development (CMOD) has also developed a competency list oriented towards behavioural competencies as part of this framework.

Creating a performance management system does not in itself improve performance, although it does provide information that can improve decision making. Many countries have combined introducing performance management with delegating responsibilities within ministries and to agencies, on the theory that managers need more freedom to use resources if they are to achieve results. If performance targets are imposed on top of a traditional system, without delegating responsibility, they become an additional layer of control in an already overburdened system and further restrict managerial freedom.

What is the role of rewards?

In an effective organisation, rewards are used in an appropriate manner. However, rewarding does not only mean pay adjustments or bonuses. The most important reward is instead recognising employees, individually and as members of groups, for their performance and acknowledging their contributions to the organisation's mission. This should be an ongoing, natural part of day-to-day life in the organisation.

The recognition of good performances can be supported by a broad range of more formal rewards, such as pay increases, bonuses, time off, and other non-monetary items. These do not have to be individual, and team-based performance management systems and rewards might fit better in with the existing culture in traditional career-based staff arrangements. Finally, career possibilities and promotions remain the most important incentives.

A couple of decades ago, nearly all central government employees in OECD countries were given pay increases based on length of service, regardless of how well they did their jobs. In the past decades, as improving staff performance took on a new urgency in a context of economic difficulties and budget constraints, elements of performance-related pay (PRP) were introduced in many countries along with an increased delegation of human resources management responsibilities.

A recent OECD survey on the use of performance-related pay for government employees (OECD, 2005b) highlighted the potential value of such systems, but also problems encountered in many countries. Performance assessment is inherently difficult in the public sector, owing to the complex set of goals and restrictions, and to the lack of suitable quantitative indicators. There are also several cases where the attempts to introduce highly formalised and detailed rating systems in public organisations have failed.

Whether performance-related pay will have a positive impact on staff is strongly dependent on how well individual and team objectives can be identified, on the extent to which they are based on performance rather than standard job criteria, and on the line of sight between the objective/achievement and the individual/team. Certain conditions, such as transparency, clear promotion mechanisms and trust of top and middle management are essential before introducing a performance-oriented culture. PRP policies are counterproductive in an inadequate management framework, and may in such situations increase problems linked to trust and contribute to corruption and patronage.

How do OECD countries manage employee performance?

OECD countries use a variety of mechanisms to assess the efficiency and effectiveness of programmes and organisations. These include performance indicators, benchmarking and evaluations such as programme reviews, cost

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effectiveness evaluation, *ad hoc* sectoral reviews and spending review. Staff performance management should be firmly rooted in the overall performance management of their organisation.

There is no common OECD model for performance management at the individual level, since each country has developed its own arrangements, taking into account its historical, cultural and political context. Table 4.1 illustrates the two main strands that can be observed in some OECD countries.

Table 4.1. **Centralisation and decentralisation of performance management systems in selected OECD countries**

Relative centralisation under the framework of a central HRM body	Delegation to departments/agencies, with possible involvement of local units
Austria, Belgium, France, Italy, Japan, Korea, Portugal	Australia, Finland, Germany, Netherlands, Norway, Spain, Sweden, United Kingdom, United States

Source: OECD (GOV), based on the 2006 Survey of Strategic Human Resources Management in Government.

Recent trends show an increased focus on performance and achievements of measurable objectives. In some countries, there is a strong link of individual objectives with measurable organisational objectives, with a focus on the individual accountability of civil servants regarding the achievement of targets and results, especially for senior staffs. In other countries, individual objectives may include or take more into account other aspects as well.

Individual objectives may also be linked to team-based targets to strengthen the co-operation. For instance, in Finland and Spain, there is a trend towards more formal assessment of team performance. In Korea, a performance agreement which is applied to managerial level officials includes an element of appraisal of team (division) performance. In other countries, including the United States, there is no such trend, and focus is wholly on individual accountability.

Almost all countries have formalised performance assessments for all or almost all core government employees. In a few countries like Luxembourg, the Netherlands, Spain and Sweden, performance assessments for public employees are not mandatory, and in Italy, performance assessment only applies to managers. Formal assessments are normally not used for casual or temporary employees. This is the case in Australia, Belgium, the Czech Republic, France, Hungary, Ireland, Korea, Mexico and the United Kingdom. In Germany, Portugal, Spain, the Slovak Republic and the United States, on the other hand, casual or temporary employees go through performance assessment.

Performance assessment systems use quotas in some or most organisations in Australia, Finland, Germany, Japan, Korea, Portugal, Switzerland or the United Kingdom, and for senior managers in Belgium. Quotas are not used in

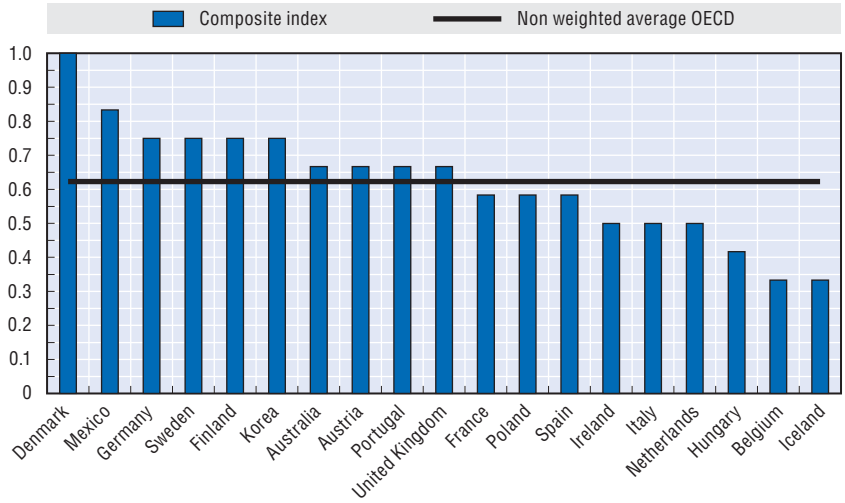
Austria, Hungary, Mexico, New Zealand, Norway, the Slovak Republic, or the United States. There is some use of 360-degree feedback in most organisations in Korea, and in some or a few organisations in Australia, Finland, Germany, New Zealand, Norway, Switzerland, the United Kingdom and the United States.

In a number of countries, including Australia, Belgium, Canada, Hungary, Ireland, Italy, Korea, the Netherlands, Norway, Poland, Portugal, the United Kingdom and the United States, more emphasis is put on the management of performance of senior staff than of other staff. Performance-related pay is proportionately more important for senior civil servants than for the other civil servants in a number of countries including Hungary, Ireland, Italy, Korea, Norway, the United Kingdom and the United States.

In general, although performance-related pay has developed in many countries, many OECD countries have not yet implemented any performance-related pay. Team-based performance management systems also still seem to be underdeveloped.

Figure 4.1 shows the extent to which the assessment of individuals' and teams' performance is viewed as being taken into account in the decisions that concern them, including career advancement, remuneration, employment and job contract renewal.

Figure 4.1. **Composite index on the use of performance assessment in HRM decisions for government employees (perception index)**



Note: Please see Annex A for details on the methodology.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006, and GOV (OECD) estimates (missing data estimated by mean replacement).

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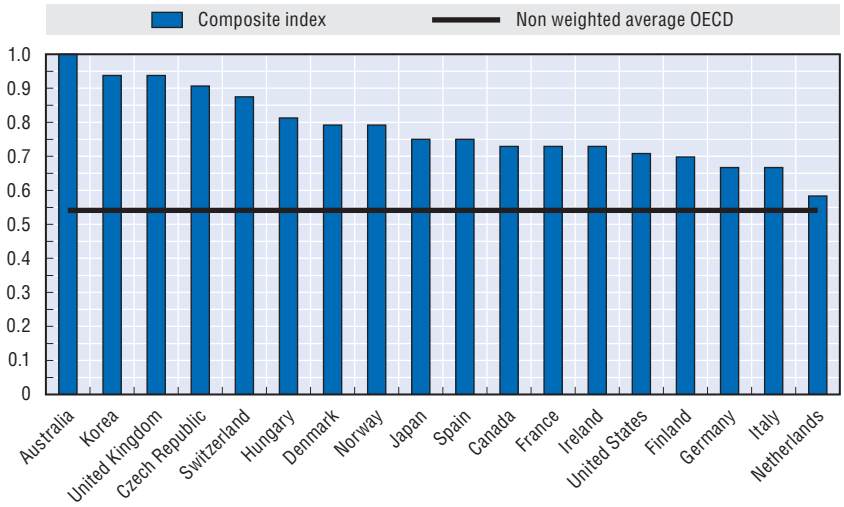
Figure 4.2 indicates the extent of the use of performance-related pay both in terms of the range of public employees to whom performance-related pay applies and the maximum proportion of base pay performance-related pay may represent.

Figure 4.2. **Composite index on the intensity of the use of performance-related pay in OECD member countries reporting to have PRP systems in place**



Note: Please see Annex A for details on the methodology.
The average for OECD countries includes the eight countries that have reported not having a PRP system.
Source: Survey on Strategic Human Resources Management in Government, OECD, 2006, and GOV (OECD) estimates (missing data estimated by mean replacement).

A number of other OECD countries including Ireland, the Netherlands and the Scandinavian countries have emphasised the importance of a dialogue on performance issues between managers and their staff. One example is Korea, where in 2005 a revision of the regulation on performance evaluations formalised performance discussions and consensus between manager and staff throughout the performance management process: from goal setting at the beginning of the year to the evaluation of performance at the end of the year. The Korean government plans to support the new system by developing educational training programmes for performance evaluation, enhancing monitoring and feedback programmes for setting goals and evaluating performances, and promoting consulting services to other ministries and agencies.

What lessons for the future?

The increased performance orientation is the core of the modernisation of public administrations in most OECD countries. Most OECD countries have introduced relatively sophisticated systems or elements for performance management and performance assessments for staff. A number of lessons can be drawn from these reforms including:

- The cornerstones of any performance management are the strategic goals and the business plans of the organisation. Team and individual goals should be derived from these. Employees should know and understand how their performance contributes to the overall performance of the organisation.
- Performance management should be based on the systematic assessment of employee performances. These should be transparent and easily understandable. Employees should have access to secondary reviews of less favourable assessments.
- The performance orientation should be based on a performance dialogue between each employee and his/her closest supervisor, aimed at clarifying what is expected of the employee, but also at what the organisation can do in order to make these goals attainable.
- Good performances should be rewarded. They should be publicly commended as a normal occurrence in the everyday life in the organisation. Pay rewards, whether as bonuses or base pay increments, may be a complement but should not be overemphasised. Other types of rewards can also be used, and employees should recognise a clear link between their careers, promotions and sustained performance. Performance-related pay should not be thought as making up for the failure of a healthy career or promotion system for good performers.
- The team is sometimes more important for the attainment of the organisations' goals than its individual members. Individual rewards should as appropriate be balanced against team rewards.
- Unsatisfactory performances should also be addressed in an appropriate manner.
- Promotion processes should make use of the information generated by the performance management and assessment systems. Efforts should be made to get access to similar assessments for external applicants while maintaining rights to privacy.
- Public sector managers should be trained in performance management and assessments. Their ability to manage and promote good performances should be an important element when recruiting managers and when assessing their performance.

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- Care should be taken that performance management does not undermine the core values and ethos of the public service. Quality, behaviour and propriety are important performance elements, alongside productivity and efficiency.

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Chapter 5

The Delegation and Individualisation of Pay for Employees of Central Governments*

* This chapter focuses on staffing issues in a small, but crucial, component of the public sector. For those staff groups for which data are available, "government" refers to a subset of general government that is concerned with public administration (primarily tasks of regulation and policy making that exclude for example teachers and doctors), defence and compulsory social security. In responding to questions on the survey of Strategic Human Resources Management in Government, governments have used their own definition of the core public service, and in some cases this is larger than "government" as defined here. However, "government" as defined here is always covered by the responses.

Why is pay setting an important management task?

Government plays a larger role in the societies and economies of OECD countries than two decades ago. A larger share of the national product is used for public consumption, public investments and public transfers to households, and the public administrations are in charge of increasingly complex activities.

Labour costs are a dominating element in the cost structure of the public administrations. Pay is basically compensation for services provided, and thus an integral part of the contract between an employer and an employee. In this perspective, the appropriate pay level corresponds to what is necessary in order to recruit and retain a sufficient number of employees with adequate skills, competencies and motivation.

Working for the sovereign or for the government has traditionally been seen as a fiduciary relation, and not as a contract-based relation. Pay used to be set so as to provide a standard of living appropriate for the social standing of a representative of the sovereign or of the government. In order to eliminate any risks for patronage and other improper behaviour, pay was standardised and linked to the post and to the seniority of the public employee.

Faced with limited tax revenues, governments have to search for more cost-efficient ways of organising and undertaking their activities. This has led to an increased focus on performance, at the organisational level as well as at the team and individual levels, and to a political interest in more flexible models enabling a managerial approach to pay setting. Reformed pay systems are thus often integral parts of public management reforms, with important interdependencies with other elements of the reform strategies.

Why delegate pay setting?

Both the labour market and public activities have become less homogeneous, and public sector organisations increasingly need – just like any other employer – pay-setting arrangements that are sufficiently flexible to enable an adaptation of pay systems and pay structures to:

- the specific situation and requirements of each organisational unit;
- the specific skills, merits and performances of each employee; and/or
- the competition for skills on the specific labour market.

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The traditional pay systems, with common grading systems, associated pay scales and seniority-based pay progression in the scales, have been felt to be too rigid for the development of modern human resource management and for a strengthened performance orientation. More flexible pay systems will, it is hoped, enable public managers to accommodate economic and labour market pressures more easily, and to achieve an improved performance of public sector organisations.

As pay systems become more flexible, centralised pay setting becomes less rational and less efficient, since a differentiation reflecting business needs, and individual competences and performances has to be based on information provided by and held at the local level. At the same time, decentralisation increases the transaction costs, since a single bargaining process is replaced by multiple bargaining processes. Decentralised pay setting can therefore only be justified if it is used so as to generate a sufficiently large added value through an adaptation of the pay systems and pay structures to the business needs of each public sector organisation.

How are the pay systems of OECD countries evolving?

The modernisation of central government pay systems is a relatively recent phenomenon. A first wave of reform of central government pay systems took place in the 1980s, mainly in Denmark, Italy, the Netherlands, New Zealand, Spain, Sweden, the United Kingdom and the United States. From the 1990s and onwards, a number of other OECD countries also started to delegate pay systems. The motives for these reforms were similar across countries:

- Increasing difficulties in recruiting and retaining specialists and other highly qualified staff due to pay differentials between the public and the private sector.
- A desire to use the opportunity created by decreased inflation to abolish wage indexation.
- A need to strengthen motivational elements in order to accommodate changes in the roles and attitudes of central government employees, and as part of the managerial delegations.
- A need to adapt pay systems to the expanding service-producing public sector organisations.

The details of the reforms of pay systems and pay setting mechanisms vary across OECD countries. It is however possible to identify some common elements in these reforms, including:

- A flexibilisation of pay and grading structures, with less automatic pay increments or pay progression.
- A decentralisation of pay determination.

- More systematic adaptation of remuneration related to skill, responsibility and performance.

The notion of pay flexibility encompasses a wide variety of measures, ranging from relatively marginal changes in some countries to a radical reshaping of pay policies and practices in others. There are also differences in employees' expectations and attitudes across OECD countries. These factors influence the types of reforms that are pursued in different countries as well as the capacity to implement systematic changes.

Today's pay systems can be classified on the degree of decentralisation in pay setting, *i.e.* the degree of autonomy of the sectors/departments/agencies of the public sector in elaborating or adapting their pay structure to their business needs, and in distributing pay increases:

- Within central governments, centralised systems with little scope for flexibility are found in for example Germany, France, Portugal and Spain.
- Decentralised systems with extensive flexibility are found in for example Australia, New Zealand and the United Kingdom.
- Mixed systems are found in for example Canada, Denmark, Finland, Italy, the Netherlands, Sweden and the United States.

The mixed systems in the Scandinavian countries consist of two-tiered collective bargaining systems, where a central collective agreement sets a framework for decentralised pay setting. In other countries with mixed systems, pay setting may be centralised in some sectors but decentralised in others.

A common element in all systems is that the ministry responsible for the finances controls the pay expenditure, in one way or the other. This is sometimes done directly, through its involvement in the actual pay setting process or by setting a ceiling for acceptable pay increases or pay expenditures. It can also be done indirectly, by ensuring that the calculation of the budget envelope of the organisations is based on standardised pay increases and not on the actual increases.

How is pay established in OECD countries?

A large number of OECD countries use some form of centralised collective bargaining between a central human resource body and unions to determine salary levels. In some countries, including Ireland, Luxembourg, Portugal, Spain and the Slovak Republic, there is a single, comprehensive negotiation for the entire central government sector. This mode is typically linked to the existence of a common grading system with associated pay scales.

In other countries, including Austria, Belgium, Denmark, Finland, Hungary, the Netherlands and Norway, the main negotiations take place at the central level, with some possibilities of adjustments through sub-central negotiations.

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In a few countries, including Australia and New Zealand, negotiations only take place at sub-central level, but are bounded by the allocated administrative budget. The arrangements in Sweden are similar, although taking place within a centrally agreed framework with minimum guarantees and agreed procedures.

A number of countries do not use any form of salary negotiation. In Japan, the determination of remuneration is based on the recommendations of an independent committee. A similar system is used for some government employees in the United Kingdom. In Korea, Mexico, Switzerland and the United States, remuneration levels are based on the recommendations of the President/Prime Minister or ministry responsible for the finances.

The pay levels for central government employees are still indexed to inflation in a number of countries including Belgium, Hungary, Italy, Luxembourg and the Slovak Republic. Most countries do not index pay to inflation, but may instead use a formal model for taking economic and budgetary factors into account. Among these are Finland, where an economic analysis is made by the Incomes Policy Information Commission; Korea, where the government surveys the pay disparity level between the pay level of government employees and that of non-government employees at private companies having more than 100 employees; and the Netherlands, where the government compares the pay levels to a reference model based on the average increase of the pay level in the market. In Denmark, agreed pay increases are adjusted for the difference between private and public pay developments during the preceding period. In Switzerland, the government gave up indexation of salaries to inflation at the end of the 1990s, and salary increases are now negotiated between personnel unions and the ministry of finance and depend on economic growth, inflation and reforms in government.

To what degree is pay individualised?

Flexibilisation and delegation may be driven by two different concerns. One is a need for an adaptation of pay levels and structures to the market situation and business case of each public sector organisation. This type of flexibilisation will lead to pay differentials across different organisations, tasks and/or professions, but not necessarily across individuals. The other is a desire to differentiate pay after the qualifications, competences and performances of teams and/or individuals.

An individualisation of the base pay system is rare, in some cases mainly limited to senior management, although there exists some flexibility to place individuals within salary grades and scales. Many countries use seniority-based pay adjustments. For instance, seniority in the public service automatically raises the pay of central government employees in Hungary, Ireland,

Luxembourg, Spain and the Slovak Republic, whereas seniority in a specific post automatically increases the pay of central government employees in Austria, Belgium, Hungary, Luxembourg and the Netherlands. In other countries, including the United States, seniority-based pay adjustments are conditional on an acceptable performance.

There are a few OECD countries, including Australia, New Zealand and Sweden, with pay systems based on individual and differentiated salaries. A key element in understanding how an employer – private or public – handles pay setting is however the transaction costs. Individual decisions for many employees are very resource demanding, and rational employers will seek to standardise pay setting unless there are specific and visible gains from differentiation. One can therefore expect that public sector organisations that have been empowered to determine both pay levels and pay structures will develop their own mixtures of collective and individual pay features.

Table 5.1. **Performance-related pay in selected OECD countries with PRP systems in place**

	Maximum proportion of basic salary that PRP represents	PRP scheme	PRP scope
Australia	n.a.	One-off bonuses and merit increment	For most government employees
Canada	20%	One-off bonuses and merit increment	Executive levels and senior excluded levels and senior managers
Czech Republic	50%	One-off bonuses and merit increment	For most government employees
Denmark	n.a.	One-off bonuses and merit increment	n.a.
Finland	50%	One-off bonuses and merit increment	For most government employees
France	20%	One-off bonuses and merit increment	For senior staff only
Germany	10%	One-off bonuses	For most government employees
Hungary	20%	Merit increment	For most government employees
Ireland	20%	One-off bonuses	For senior staff only
Italy	10%	One-off bonuses	For senior staff only
Japan	n.a.	One-off bonuses and merit increment	For most government employees
Korea	20%	One-off bonuses and merit increment	For most government employees
Netherlands	10% (8% top management group)	Merit increment	Only in a few government organisations
Norway	40%	One-off bonuses and merit increment	For senior staff only
Spain	10%	One-off bonuses	For most government employees
Switzerland	18%	Merit increment	For most government employees
United Kingdom	n.a.	One-off bonuses and merit increment	For most government employees
United States	1-20%	One-off bonuses and merit increment	For most government employees

n.a.: Not available.
Note: Austria, Greece, Iceland, Luxembourg, Mexico, Poland, Portugal, the Slovak Republic, Sweden and Turkey reported not having a PRP system in place.
Source: OECD (GOV).

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Performance is a given element when setting pay in a system with individual and differentiated pay. In addition, many OECD countries have special systems for performance-related pay (PRP) elements. However, only a handful of OECD countries including Denmark, Finland, Korea, New Zealand, Switzerland and the United Kingdom can be said to have an extended formalised PRP system. In other countries including Canada, Ireland, Italy and Norway, PRP is only used at the senior management level. There does, however, seem to be a tendency to extend the PRP systems from senior management to non-managerial staff.

The size of the PRP elements varies greatly across countries, but they generally only represent a modest percentage of the base salary. The highest rewards are less than 10% of the base salary for non managerial staff, and less than 20% for managerial staff.

How can delegated pay setting be adequately governed?

There is a spectrum of different forms of delegated pay setting across OECD countries, ranging from very limited delegations to virtually total delegations.

The most restrictive of these is when the central pay setter allocates a limited amount for local distribution, either as a permanent addition to the base pay or as a temporary bonus. This type of delegated pay setting is fully compatible with a traditional pay system with graded posts and associated pay scales. In these cases, the central pay setter retains full control over the cost of the pay increases, and there is virtually no risk for disturbing pay differentials across the administration.

An intermediary form is when the central pay setter determines the aggregated allowed pay increases in relation to for example the existing wage bill, but delegates the decisions on the distribution of this envelope across employees. In these cases, the central pay setter also retains full control over the cost of pay increases. The risk for disturbing pay differentials is still limited, since the local pay setter would have to underpay some staff in order to overpay others or reduce the size of the workforce. This form is also compatible with centrally determined pay policies.

The most extensive form is a complete delegation of pay setting to sub-central organisations, subject only to an affordability restriction. The centre retains full control over the aggregated costs, but the sub-central levels are able to use savings on other costs for extra pay increases and *vice versa*. In these cases there are more substantial risks for disturbing pay differentials.

One of the conclusions of a recent OECD comparative review of delegated pay setting (Rexed, *et al.*, 2007) was that there are two existing models for governing a completely delegated pay setting. Both work well in the countries that use them, and both are based on a limited number of structural elements.

Within these there is a range of different design options, and both models therefore allow a flexible application, both over time and across the spectrum of different central government bodies.

- The remit-based approach: A model with a central organisation that operates a remit system that enables a monitoring of the adherence to or observance of the government's bargaining parameters, and that also may promote common human resource management values and practices. This model is used in Australia and New Zealand.
- The consensus-based approach: A model with a central employer's office and a two level system for collective agreements. In these systems, it is the central collective agreements which provide the frameworks for decentralised pay setting. This model is used in Denmark and Finland.

A common element in these two models is the existence of a separate and professionally competent central body able to govern and monitor the behaviour of the pay setting entities, and the provision of a standard and predictable envelope for the pay bill to the decentralised pay-setters. Another common element is that the political level is normally only involved in setting policy and adopting frameworks, but not in the pay bargaining or in the actual pay setting. These functions are instead handled by the senior management, whether at central or sub-central level.

There are large legal differences across countries concerning the involvement of unions in the negotiations about pay and other issues. In some countries, the legal basis for the involvement of unions can be relatively marginal. In other countries, unions have to be consulted about the determination of pay. Unions tend to be more interested in establishing a bargaining system about aggregated and general pay increases than in a differentiation of pay increases across organisations, teams and individuals. The rate of unionisation – which varies from below 25% in the Czech Republic, France and Mexico to above 80% in Canada, Ireland and the Scandinavian countries – and the number of competing unions are also important determinants for the trade union involvement.

What are the challenges?

Among the advantages of decentralisation are the possibility to adapt pay to the varying business cases of public sector organisations, as well as to the qualifications and competences of teams and individual employees. Among the advantages of centralisation is that it supports a level of coherence in pay levels across occupations and organisations, that it reduces the transaction costs inherent in pay setting, and that it provides a protection against patronage and other misuses of the pay setting authority.

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Delegated pay setting is demanding, both for the centre that has to learn how to govern a decentralised process in an appropriate manner, and for the sub-central levels that have to learn how to manage the pay setting process. There is ample evidence that many of the reform programmes in OECD countries have presented difficult implementation problems, and that they have frequently been viewed with suspicion by both the employees and by the trade unions.

The negative effects of arbitrary or subjective pay setting deserve attention. Employment is not only an economic relation but also involves a degree of mutual trust. Unless the motives for differences in pay levels and increases are understood and accepted by the employees, differentiated pay setting may lead to increased discontent and alienation at the workplace. This would weaken the ties between the employer and the employees, and affect workplace morale, work efficiency and retention rates negatively.

Finally, introducing or extending decentralised pay setting involves a learning process. Both operational managers and employee representatives have to acquire competence and experience in pay setting and in analysing the business needs of their organisation before they are able to take full advantage of delegated pay setting. The monitoring of the impact of delegated pay on trust, pay differentials, equity, and remuneration biases (against minorities, women, disadvantaged groups, etc.) needs to be established carefully.

What lessons for the future?

Delegated pay setting has come to stay as a part of the arsenal of public management tools, as well as individualised and differentiated pay. Neither is however a panacea. There are instead advantages in both decentralisation and centralisation of pay setting. Each country has to choose its own reform path. Only a few OECD countries have so far made a complete decentralisation of pay setting, although many countries have taken steps along the same path. It is however possible to draw some conclusions from the experiences gained so far.

Decentralised pay setting can evidently have positive effects on the performances of the public administrations, but these effects cannot be taken for granted. A lack of adequate preparations and support for decentralised pay setting may delay or even prevent the materialisation of the desired outcome.

Foremost among these factors is the need for adequate financial management and governance arrangements, either of the remit type or of the consensus type. The central human resource management body also has to undergo a cultural re-orientation, from setting pay to governing decentralised pay setting. Equally important is the need to prepare the sub-central public organisations for taking on a pay setting roles. They have to be able to link the pay setting to their business needs, and to implement performance

management and development systems as parts of their human resource management. The staff has to gain experience of these systems, and become confident that they too can benefit from the decentralisation.

Delegation aims at a certain level of pay differentiation, but unwarranted differences could cause substantial harm. This risk can be reduced by an adequate financial management and by measures promoting coherence in the decentralised assessments of individual competences and performances. A delegation of pay setting could also be accompanied by the creation of adequate monitoring and reporting functions.

One should not expect any immediate outcomes following the introduction of decentralised pay setting. Both the operational managers and the employee representatives have to gain sufficient competence and skills in pay setting in order for the full benefits to materialise. A staged transition from centralised to decentralised pay setting is therefore probably preferable to a broad and radical change at one point in time. Consequently, the implementation time for this type of reforms is probably closer to a decade or two rather than in months. Finally, the scope for individualisation should not be overstated. Standard contracts and conditions reduce transaction costs, and a rational employer would only use individual contracts and conditions when there is a clear business case for it, and added value to be gained.

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Chapter 6

The Senior Management in the Public Service of Central Governments*

* This chapter focuses on staffing issues in a small, but crucial, component of the public sector. For those staff groups for which data are available, "government" refers to a subset of general government that is concerned with public administration (primarily tasks of regulation and policy making that exclude for example teachers and doctors), defence and compulsory social security. In responding to questions on the survey of Strategic Human Resources Management in Government, governments have used their own definition of the core public service, and in some cases this is larger than "government" as defined here. However, "government" as defined here is always covered by the responses.

Why is the senior management important?

As performance and efficiency have become more urgent issues in public governance and management, more attention has also been given to the role, tasks and capabilities of the senior management, which is the highest non-political staff in the central government administration.

The past decades have witnessed an influx of new ideas and initiatives in the public governance and management field in OECD member countries. Many of the recent public management reforms involve a delegation of the responsibility for human resource management, and a strengthening of the performance orientation of public governance and public management. Senior management plays a key role in implementing these new policies, and the quality and capacity of the senior public management has thus become a key public governance issue.

The senior public management is the interface between the political government and the political cabinets on the one hand and the public administration on the other. They are responsible for the proper and appropriate implementation of legal instruments and of political strategies and measures. They are also responsible for the coherence, efficiency and appropriateness of the government activities.

There is a broad spectrum of different forms of senior management arrangements across OECD countries. These reflect different administrative cultures, historical developments and constitutional solutions. Even the terms used to refer to the senior management vary across countries, and the same English term may have different meanings even in English-speaking countries. This chapter will use the term "senior management" generically for all countries.

What is their relation to the political government?

The boundaries between the political and administrative arenas have been the focus of many of the discussions about the senior management. The discussion has focused on preventing patronage and ensuring the existence of a professional and politically neutral administration. The political interest in advanced administrations is however not so much about traditional political patronage as about ensuring political responsiveness and personal compatibility. The boundaries have therefore also been discussed from a governance perspective, using principal-agent analyses developed in modern game theories.

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The relationship between politics and administration is often subject to tensions. The senior management is expected to be committed to the interests of the State as such and to government by law, and not to the interest of a particular political government. At the same time however, they are expected to be responsive to the elected government and make sure reforms by the political government are fully implemented. OECD countries have devised systems that handle these tensions in different ways, and there is no agreement on a single best solution. Some of the features found in these systems include:

- The processes for entry, promotion and posting are often either entrusted to a professional body, or exercised by the political government under parliamentary supervision. There are, however, also cases where they are handled by the political government itself.
- The criteria for selection are often regulated in the Constitution or through an ordinary law.
- The use of performance management tools has been first and foremost applied to the management of senior management. Performance assessments and rewards have been introduced in many countries as a way of increasing the responsiveness of the senior management without infringing on their neutral professionalism.
- Fixed term mandates (in some cases referring to the contract of employment in the public service, and in other cases only to the assignment to a specific post, or to the group of the senior civil servants) have been introduced in some countries in order to support a strengthened performance orientation.

The full picture of the boundaries between politics and administration can be better understood by describing the role played by the ministerial cabinets (political advisers). These are appointed on trust rather than merits, and their numbers vary between a handful in some countries to several hundred in others. According to a recent report (SIGMA, 2007), there are three main types of ministerial cabinets:

- In some systems, ministerial cabinets work alongside a politically neutral senior management. Their basic role is political advice, and they do not interfere with the implementation of government decisions entrusted to senior civil servants.
- In other systems, ministerial cabinets are a mixture of outsiders and seconded civil servants. The members of ministerial cabinets tend to get involved in policy implementation by issuing direct orders to line staff. In these cases, the efforts to make senior managers more accountable for their results may be undermined, and the senior management may be drained of managerial talent.

- In yet other systems, ministerial cabinets work alongside political appointees but without administrative or hierarchical supervisory functions over line managers. In these cases, the relationships between the cabinet staff and senior management are blurred, and many cabinet members are already civil servants.

The United States is in many ways a special case, with its combination of presidential control over the Executive and a strong Congress. The number of political appointees is relatively large, with approximately as many political appointees in senior posts as career senior civil servants, but there are at the same time special features that help to maintain a proper balance between political responsiveness and neutral competence. Among these are that Congress adopts a list of positions that can be filled through political appointment, and that many political appointees have to be confirmed by the Senate. The merits of candidates are therefore normally being scrutinised very thoroughly, even if there is no formal competition.

How is the senior management organised?

A number of OECD countries have established separately managed Senior Civil Service (SCS) systems for senior management. An SCS system can be a separate element, but it could also be constituted by the top ranks in a broader civil service-system for central government employees.

An SCS can be defined as a structured system of staff arrangements for the highest non-political positions in government. These may be responsible for functions that cover policy advice, operational delivery or corporate service delivery. An SCS is typically a career system, managed through appropriate central institutions and procedures in order to provide stability and professionalism, but also allowing a necessary flexibility to match changes in the government.

Figure 6.1 shows the level of institutionalisation of the specific management that applies to the group of senior managers in OECD countries. It is based on data about the existence of a separate group of senior managers, the identification of future leaders early in careers, their recruitment process, the existence of a defined set of skills, the special emphasis put on the management of their performance, and the term of their appointment.

Even in countries without a formally delimited SCS system, there exists in most cases a managerial group which is widely recognised as the senior management, and to which a certain amount of differentiated management practices or rules apply.

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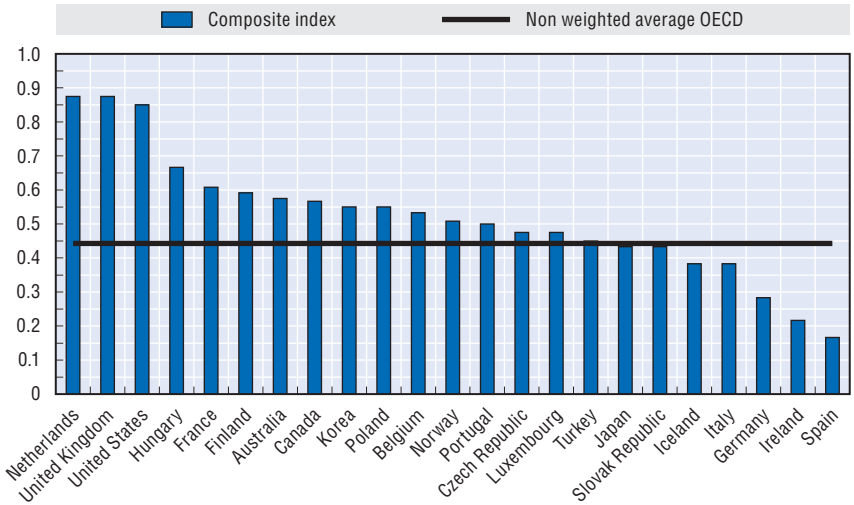
Figure 6.1. **Intensity of the institutionalisation of structured group management for senior civil servants at central level**



Note: Please see Annex A for further details on the methodology.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006, and GOV (OECD) estimates (missing data estimated by mean replacement).

The reasons given for establishing a formal SCS system can be grouped in three categories:

- Overcoming fragmentation into silos or compartmentalised ministries by creating a corporate culture and allowing better mobility across ministries and departments.
- Enabling flexibility in recruitment and employment conditions.
- Clarifying boundaries between politics and administration.

The first category aims at creating a homogeneous group whose corporate values are shared across departments. The creation of a separate SCS system does not however bring about a corporate culture by itself. Other factors like manageable size, opportunities to network and to exchange ideas, training and internal mobility are of relevance as well.

The second category aims at making it possible to attract the "best and the brightest", irrespective of whether they come from the private or the public sector, and to bring in persons with skills sets that normally do not exist in the traditional public administration, such as managerial skills and experiences in service management and business planning. Countries that have position-oriented systems (rather than career-oriented) can however achieve these ends without setting up a formal SCS system.

The third category aims at improving the credibility and trustworthiness of the public administration by ensuring that it is managed by politically neutral professionals. This motive has been especially important in transition and developing countries.

Who are the senior management?

In a majority of OECD countries, there is a defined group of senior staff widely identified or understood to be the senior management at the national level. In some countries including Australia, Belgium, the Czech Republic, Hungary, Korea, Luxembourg, the Netherlands, Portugal, the United Kingdom and the United States, and probably in the future in Finland, this group has been defined legally or through otherwise formally defined arrangements.

In other countries, the senior management is more informally defined. This is the case for example in France, Ireland, Italy, Japan, Norway and the Slovak Republic. In some countries including Austria, Germany, Mexico, Spain, Sweden and Switzerland which have not defined such a group, it is still possible to identify their senior management.

The size of the senior management is important for the manageability of the system. Since there is no clear or universally accepted definition of senior management, any estimate of their numbers is however very subjective. The size of the groups that countries indicate as being their senior management varies across countries. Smaller countries tend to have less than 1 000 senior managers while larger ones tend to have more than 2 000.

A key task for the senior management is developing and maintaining shared codes and a common culture. This would enable a convergence of administrative culture and processes across the administration. It would also facilitate horizontal co-operation and management development. A clear corporate identity and culture would make it easier to assimilate new members of the group. If the group is too big, then it might be difficult to achieve these effects, and some countries are therefore creating an inner circle for which a more effective corporate management is possible.

Box 6.1. **Senior management in the Netherlands**

The Minister for the Interior is responsible for the senior management. In 1995, the group was legally defined as the *Algemene Bestuursdienst* (ABD) composed of about 750 staff in the five top grades. In 2000, it also set up a core group within the ABD – the *Topmanagementgroep*, or TMG – composed of about the 60 highest managers in the central government administration, and targeted special development measures at this group.

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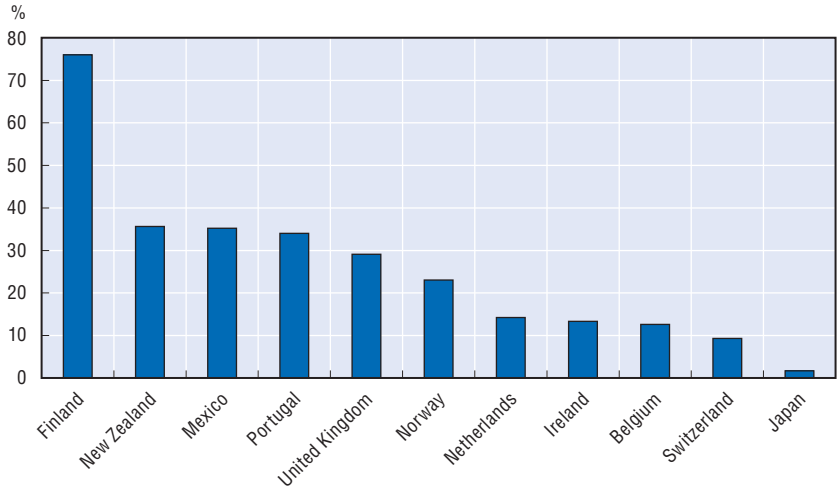
A corrigendum has been issued for this page. See: http://www.oecd.org/dataoecd/52/63/42353647.pdf

The main competences of the senior management have traditionally been in generalist institutional knowledge and specialist knowledge in a particular policy field. The recent wave of managerial reforms has instead emphasised delivery-related or process-related skills. This process of managerialisation of skills has, however, been accompanied by concerns about losing either specialised knowledge among senior management or not being able to find senior policy advisors.

The senior management is dominated by men in most countries, although the share of women is increasing in all countries. Little is known about the ethnic minorities since many countries do not collect this data. It seems, however, that there are increasing concerns regarding this issue and policies have been launched in many countries to foster the recruitment of minorities.

Figure 6.2. **Representation of women in senior positions in central governments in selected OECD countries (2005)**



Source: Survey on Strategic Human Resources Management in Government, OECD, 2006.

There is a tendency in a number of countries to separate further the management of senior managers from that of senior experts. In a knowledge based economy, senior experts may become more valuable to public organisations, and should thus be highly valued and rewarded. However, as most have no or very few staff to manage, a number of countries have found useful to separate the management of these groups and thus send clearer signals to each as to what is expected of them.

How is the senior management managed?

All countries with SCS systems and most other countries have a central unit in charge of all or part of the management of the senior management. This central unit reports to different authorities in different countries: to Parliament, to the Head of the State, to the President or Prime Minister, to a specific minister or to each minister.

The degree of independence from political interference varies across countries, with two cultural blocks placed at each end of the spectrum, and with other countries situated at various points on the spectrum.

- At one end are the Westminster systems, which have the largest independence from politicians. Those systems have commissioners who report to Parliament or to the Head of the State. If recruitment functions are devolved to ministries, commissioners are still entrusted with the responsibility for interpreting the principle of selection on merit, on the basis of fair and open competition for all civil service recruitment and with the approval of appointments of recruits to the most senior posts.
- There is a set of intermediary systems, where entry into the senior management group is on the basis of fair and open competitions, but where the government has a relatively discretionary influence over who is posted where.
- At the other end are the countries where the dependence of the executive is expected as the recruiting responsibility lies with the minister of each department. In these countries there are often no external checks and balances that ensure the adequate implementation of objective merits and uniformity in the way in which candidates are assessed, ranked and selected for senior positions.

The design of the recruitment processes also varies. Countries with a meritocratic recruitment process leave the whole procedure in the hands of a central unit. In other systems, a hybrid variant is used, where an independent commission screens and ranks applicants, and where the government then has some leverage to pick from a short-list or to reject unwanted candidates. Other countries provide a fully transparent merit-based competition for entry into a wide senior civil service groups, but competition for promotions and postings within those groups are then less transparent.

All senior management positions are open to external recruitment in a number of countries, including Australia, Finland, Hungary, the Netherlands, the Slovak Republic and Sweden, as are most of the positions in the United Kingdom and the United States. The actual number of external recruits – especially from the private sector – is, however, seldom very large. Most senior managers have a public administration background; normally from the central government

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administration and occasionally from other levels of government. In other countries, the vast majority of posts above entry level are only open to those who have already been admitted into the service. In Germany, where there is no formal senior civil service as such, civil servants become senior staff through career progression within the civil service.

A number of countries (Ireland, Korea) which had a typical career based senior civil service system, where managers had to be recruited from a group that had been hired very early in their career (and in many cases right after university) have now opened up the recruitment of a limited percentage of their posts to lateral entry and new staff coming from the private sector. For countries wishing to go in this direction, the challenge is to provide for a very transparent recruitment process.

In many countries where there is a defined group of staff widely understood as senior civil service, there is also a centrally defined skills profile. This is the case in Australia, Belgium, Finland, Hungary, Ireland, Korea, the Netherlands, Portugal, the United Kingdom and the United States. In many of these countries, including Belgium, Finland, Hungary, Italy, the Netherlands, and the United States, senior managers are recruited with a more centralised process than other staff.

Increasingly, the defined recruitment profiles include not only management but also a proven record of leadership skills, defined as the capacity for managers to make their organisation achieve better results and implement reforms.

Interdepartmental mobility is considered an important issue in almost all countries, because it fosters a more corporate ethos at the top. Most countries have developed strategies to encourage mobility, but the degree of success of these strategies is uncertain as data are hard to come by.

A number of countries have introduced appointments for limited terms, in some cases without guaranteed employment after the term of office ends. Other countries have mechanisms for removal of senior managers that have proved themselves unfit for further service, although actual removal seems to be a very rare occurrence. In other countries, while remaining in the group of senior civil servants is dependent on the assessment of performance, senior civil servants tend to have more extensive guarantees regarding their stay in the wider civil service.

Performance-related pay and performance appraisal systems have been implemented in many countries. More emphasis is put on the management of performance of senior staff than other staff in Australia, Belgium, Hungary, Ireland, Italy, Korea, the Netherlands, Norway, Poland, Portugal, the United Kingdom and the United States. Many countries such as Canada put a special emphasis on evaluating managers' people management skills. Performance-related pay is proportionately more important for senior civil

Table 6.1. **Examples of fixed-term appointments or fixed-term duration of mandates in selected OECD countries**

Belgium	Managers receive a temporary mandate of six years, which is granted by either the minister or the president of the department. Only the president of the "Chancellery and Support Services" receives a mandate which expires automatically at the end of the legislature.
Finland	A draft law stipulates that, although top management posts in central government administration shall be permanent, fixed-term appointments of five years shall apply in respect of individual management tasks.
Italy	Managers (first and second level managers) have a fixed-term contract. At the end of the contract, the manager can be appointed to another post, also in a different administration.
Netherlands	The July 2000 reform of the "general status of civil servants" changed the entire profile of the Senior Civil Service (SCS), *inter alia* by reinforcing the distinction between the Top Management Group and other SCS members. While all members are given a permanent appointment, assignment to a particular function is for a fixed term: members of the Top Management Group are appointed by the Cabinet for a term of five years, with the possibility for prolonging this period twice for the duration of one year each time, after which they must be transferred; the general government service appoints other SPS members to positions for a period from 3 to 7 years without mandatory transfer.
New Zealand	The Chief Executives (CE) of the ministries are appointed by the "State Services Commissioner", often using the help of outside recruitment consultants after publication of the vacancies. CEs are given a renewable contract of five years or less up to a maximum of eight years. The career of the chief executives is not guaranteed when they leave their job or their contract is not renewed or is terminated.
Norway	SCS are on contract employment, and some of them at the same time are on fixed-term contracts.
United Kingdom	Agency directors are recruited for a fixed term of five years.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006.

servants than for the other civil servants in Hungary, Ireland, Italy, Korea, Norway, the United Kingdom and the United States. It is however still marginal, ranging from 1% in some countries to 15% in Canada and New Zealand.

Many countries are putting significant emphasis on the management of the capacities of senior leaders and on their training. Special programmes are also in place to use managers at their best. For example, in Canada in 2007/08, 95% of Assistant Deputy Ministers and equivalents had a talent management discussion with their Deputy Minister. Managing talent at this level is intended to ensure better utilisation of the skills and experience of every member of this community.* In addition, the advanced leadership programme for senior management was launched in October 2007.

What are the challenges?

There are two important challenges. One is that countries generally need a senior public management that is able to pursue performance oriented governance and management, to ensure a sufficient cohesion across the

* For more information, please refer to *www.psagency-agencefp.gc.ca/tal/adsma-eng.asp*.

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inevitable silos of ministerial sectors and public organisations, and at the same time to preserve and protect the ethos that is the hallmark of a politically neutral and professionally competent public administration. This will require appropriately designed arrangements for the management of the senior management, and for the development of their managerial competencies.

More flexible arrangements may undermine the politically neutral professionalism of the senior management. One example is the fixed term mandates that have been introduced in several countries in order to support a strengthened performance orientation, but which may also make senior management more vulnerable to political disfavour and a short term focus of their actions. In other cases, countries note an increased turnover among senior public servants. In Canada, the government has put an additional emphasis on leadership development and succession planning as part of HR planning to address this challenge.

The other is that countries need to find or maintain an appropriate balance between the two faces of the senior public management; that is as the politically neutral stewards of the government by law principles and the responsive servants of the elected government. This will require appropriately designed measures to introduce or strengthen the ethos of the public administration and protect it from patronage and other improprieties. This may also be a challenge for the country's political system which has to be sufficiently sophisticated to preserve and protect the politically neutral public administration.

What lessons for the future?

It is clear from the experiences and reform efforts in OECD countries that the senior management plays a central role for the achievement of more performing and efficient public administrations and for improvements in the public services. There is however a broad spectrum of different arrangements and no obvious consensus on what would constitute the "best practice". One reason for this is that the arrangements interact with the constitutional system and political culture of the country.

It is also clear that a number of OECD countries have undertaken reforms aiming at creating or strengthening a distinctive senior management corps, going hand in hand with the delegation of managerial responsibilities, agencification, and the emphasis on performance management. There are, at the same time, some common trends or universal ideas behind different arrangements that would suggest some kind of convergence. These include:

- The top priorities for the development of the senior management are improved leadership and managerial skills. Many countries are therefore opening up recruitment processes for external applicants.

- Most OECD countries have introduced or are introducing transparency in the handling of senior management, especially with the opening up of the recruitment procedures. In a number of countries, transparency in the promotion system within the group of senior managers could, however, be improved.
- Most OECD countries aim at an appropriate balance between political responsiveness and neutral competence, and reforms address this issue in different ways.
- Diversity is becoming an increasing concern in most OECD countries, and policies are developed to promote gender balance as well as increased representation of ethnic minorities.

In other areas, no universal trends can be seen:

- The existing arrangements in OECD countries can be grouped in four fields depending on if there is a formal Senior Civil Service system or not, and if the arrangement is career-based or position-based. Traditional career based systems are tending to open up their recruitment process to lateral entries from non civil servants, and traditional position based systems are tending to provide more long term career management of their future and present civil servants through early identification of potential future leaders and more individual career planning.
- The role played by political appointees and ministerial cabinets varies, and there is no clear trend in this regard. This also means that the scope for political interventions in the handling of the senior management and in the exercise of the top managerial functions varies across OECD countries. There is probably scope for improved separation of political and administrative functions in some countries.
- While some OECD countries have taken special steps to strengthen the cohesiveness of the senior management and achieve a clear corporate entity at the top, others are either confident in their existing arrangements or show little interest in cohesiveness.
- Most OECD countries stress the need for improved performance management, usually through its formalisation. While its impact on individual careers seems to be growing, its effect on salary and demotions for senior management is highly diverse and rarely significant. There is probably scope for improved linkage between the handling of the senior managers and organisational performance.

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ANNEX A

HRM Composite Indicators: Construction, Weighting and Theoretical Framework

Building composite indicators is a challenging task. There are important rules for the development of meaningful indicators including having a clear theoretical framework, respecting clear rules and proceeding with caution. The HRM composites presented in this document follow the steps identified in the *Handbook on Constructing Composite Indicators* (OECD and European Commission, 2008) that are necessary for building meaningful composite or synthetic indicators.

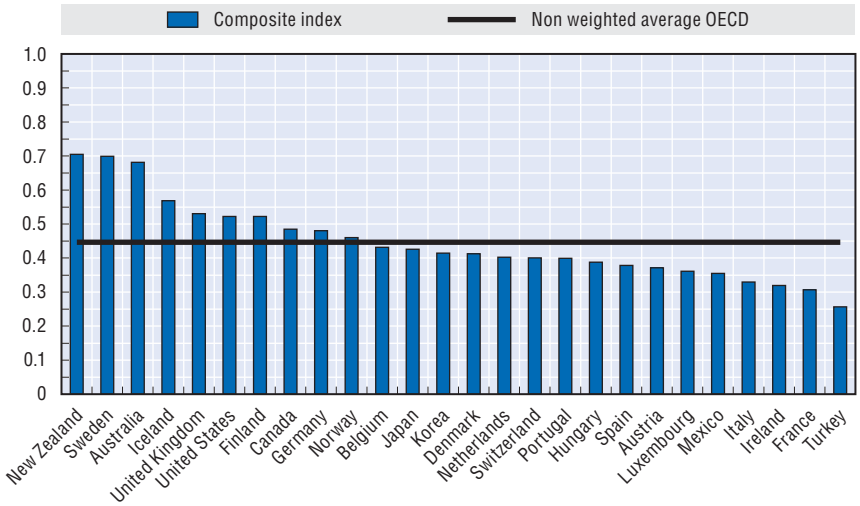
As can be concluded from the *Handbook*,[1] HRM in government is likely to be an area where composites are worth pursuing. Indeed, "there are some more narrowly defined areas however where, at least in principle, composite indicators could be considered […]" but "[…] in each case the risks would need to be evaluated very carefully […]. The most likely area for development of composite indicators is in narrowly defined categories of public sector processes (degree of openness of human resource management arrangements to lateral entrants, degree of consultation in preparing regulations, etc.) or in equally narrow categories of output (quality of regulations in a particular sub-sector, etc.) […]".

All the data in the composites derive from the OECD (GOV) 2006 "Survey on Strategic Human Resources Management in Government" and all the composite indexes were built on a scoring methodology.[2] Statistical consistency measurement was implemented based on the calculation of Cronbach's alpha coefficient[3] to check the variables selection. A Cronbach's alpha close to 0.6 or 0.7 indicates a high degree of correlation among a set of variables.

Delegation of human resource management in the public service

Most OECD countries have moved towards a decentralised model of HRM. One of the features of this reform is the transfer of responsibilities for the management of human resources to line ministries, departments and/or agencies. In other words, delegation refers to the transfer of responsibilities regarding the implementation of HRM principles to line ministries/departments/agencies, defined by the central HRM body. This has meant a change in the role of the central HRM body which is now focused on policy formulation and line ministries on policy implementation.

Figure A.1. **Composite index of delegation of the management of the public service in central governments of OECD countries**



Notes: Index comprised between 0 (no delegation) and 1 (high level of delegation).
Cronbach's alpha: 0.710 (computed with SPSS). A Cronbach's alpha close to 0.6 or 0.7 indicates a high degree of correlation among a set of variables.
Data missing or incomplete for Czech Republic, Greece, Poland and Slovak Republic.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006 (questions 20, 21, 24, 27, 30, 36), and GOV (OECD) estimates (missing data estimated by mean replacement).

The variables

The following items have been used in the construction of this index:

- Existence of a central HRM body (question 20).
- Delegation of establishment[4] (question 21).
- Delegation of compensation levels (question 24).
- Delegation of position classification, recruitment and dismissals (question 27).
- Delegation of conditions of employment (question 30).

- Impact of delegation for pay/terms and conditions of employment across government organisations (question 36).

Scoring

Existence of a central HRM body (question 20): Is there a central agency/department in charge of human resources at central/national/federal government level?

- Yes: 0.000.
- No: 1.000.
- Not responsible, but a central agency/department aims to co-ordinate the HR policies across departments: 0.5.

Table A.1. **Delegation of establishment (question 21) (the overall score for question 21 was calculated by averaging the sub-scores)**

Primarily determined by:	Central HRM body (which sets the rules and is closely involved in applying them)/ Ministry of Finance	Central HRM body but with some latitude for ministries/ departments/agencies in applying the general principles	Ministries/ departments/agencies, within established legal and budgetary limits	Unit/team level	Other/variable, depends largely on departmental/ functions
Numbers and types of posts within organisations	0.250	0.500	0.750	1.000	0.625
Allocation of budget envelope between payroll and other expenses	0.250	0.500	0.750	1.000	0.625

Table A.2. **Delegation of compensation levels (question 24) (the overall score for question 24 was calculated by averaging the sub-scores)**

Primarily determined by:	Central HRM body (which sets the rules and is closely involved in applying them)/ Ministry of Finance	Central HRM body but with some latitude for ministries/ departments/agencies in applying the general principles	Ministries/ departments/agencies, within established legal and budgetary limits	Unit/team level	Other/variable, depends largely on departmental/ functions
General management of pay systems (fixed portion, progressions,…)	0.250	0.500	0.750	1.000	0.625
Management of the variable portion of pay: – benefits – performance-related pay	0.250	0.500	0.750	1.000	0.625

Table A.3. **Delegation of position classification, recruitment and dismissals (question 27) (the overall score for question 27 was calculated by averaging the sub-scores)**

Primarily determined by:	Central HRM body (which sets the rules and is closely involved in applying them)	Central HRM body but with some latitude for ministries/ departments/agencies in applying the general principles	Ministries/ departments/agencies, within established legal and budgetary limits	Unit/team level	Other/variable, depends largely on departmental/ functions
Post classification system – grades	0.250	0.500	0.750	1.000	0.625
Original individual recruitment into the civil service	0.250	0.500	0.750	1.000	0.625
Individual recruitment of casual staff	0.250	0.500	0.750	1.000	0.625
Individual duration of employment contract in the civil service	0.250	0.500	0.750	1.000	0.625
Individual duration of contract in specific posts	0.250	0.500	0.750	1.000	0.625
Individual career management	0.250	0.500	0.750	1.000	0.625
Individual dismissal					
– following lack of performance	0.250	0.500	0.750	1.000	0.625
– following organisational restructuring	0.250	0.500	0.750	1.000	0.625
– following misconduct	0.250	0.500	0.750	1.000	0.625

Impact of delegation for pay/terms and conditions of employment (question 36): Do the levels of pay/terms and conditions of employment vary significantly across government organisations for the same level of posts? For each item below, the weightings are:

- Yes significantly: 1.000.
- Yes to some degree: 0.500.
- Not at all: 0.000.

Within central/national/federal government across ministries/ departments/agencies: 1) basic pay; 2) other types of remuneration/social benefits; 3) duration of individual contracts in specific posts (mandates); 4) general duration of employment in the public service; 5) flexibility of working conditions (number of hours, etc.); 6) adjustments to working conditions (part-time, etc.); 7) performance appraisal systems; 8) code of conduct; 9) ethics, equal opportunity, equity issues.

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Table A.4. **Delegation of conditions of employment (question 30) (the overall score for question 30 was calculated by averaging the sub-scores)**

Primarily determined by:	Central HRM body (which sets the rules and is closely involved in applying them)	Central HRM body but with some latitude for ministries/ departments/agencies in applying the general principles	Ministries/ departments/agencies, within established legal and budgetary limits	Unit/team level	Other/variable, depends largely on departmental/ functions
Flexibility of working conditions (numbers of hours, etc.)	0.250	0.500	0.750	1.000	0.625
Adjustments to working conditions (part time, etc.)	0.250	0.500	0.750	1.000	0.625
Performance appraisal systems	0.250	0.500	0.750	1.000	0.625
Code of conduct	0.250	0.500	0.750	1.000	0.625
Ethics, equal opportunity, equity issues	0.250	0.500	0.750	1.000	0.625

Within the same ministries/departments: 1) basic pay; 2) other types of remuneration/social benefits; 3) duration of individual contracts in specific posts (mandates); 4) general duration of employment in the public service; 5) flexibility of working conditions (number of hours, etc.); 6) adjustments to working conditions (part-time, etc.); 7) performance appraisal systems; 8) code of conduct; 9) ethics, equal opportunity, equity issues.

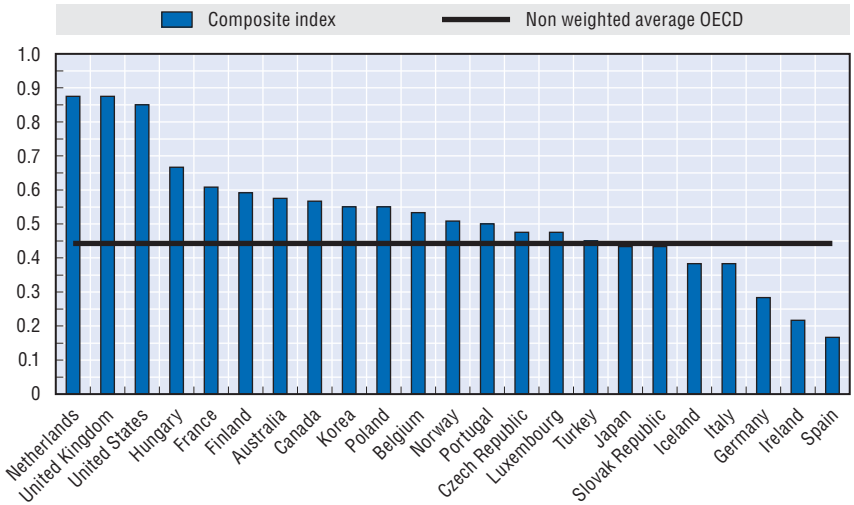
The overall score for question 36 was calculated by averaging the sub-scores.

Intensity of separated group management for senior civil servants

There is a growing tendency in OECD countries to have a distinctive civil service for the senior members of the public service as their decisions are more influenced by political reasons than those made by civil servants at lowers levels. Senior civil servants are in charge of the determination of general principles to improve government's efficiency and effectives. The establishment of a senior civil service – which is becoming part of the new civil service arrangements in terms of HRM – is in line with individualisation and a performance-oriented culture in the civil service as a whole.

Figure A.2 shows that most of the OECD countries have implemented reforms intended to improve the management of senior civil servants. The emphasis of the reform largely depends on the particular context of the country, but OECD countries have focused on at least four main areas:

Figure A.2. **Intensity of the institutionalisation of structured group management for senior civil servants at central level**



Notes: Index comprised between 0 (no management of SCS) and 1 (intense management of SCS level). Cronbach's alpha: 0.760 (computed with SPSS). A Cronbach's alpha above 0.6 indicates a high degree of correlation among a set of variables.
Austria, Denmark, Mexico and Switzerland reported having no SCS *per se* and not having special arrangements for the management of their senior management.
Data missing or incomplete: Greece, New Zealand and Sweden.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006 (questions 78, 82.a, 82.b, 83, 84), and GOV (OECD) estimates (missing data estimated by mean replacement).

a) leadership; *b)* the creation of a senior civil service; *c)* the creation of career opportunities; and *d)* cultural change towards more flexibility and individual accountability for performance.

The variables

The following items have been used in the construction of this index:

- Group of staff in central/national government widely understood to be the "senior civil service" (question 78).
- Identification of potential future leaders early in their careers, of the process (informal, formal, centralised or decentralised) and a defined skills profile for senior staff (question 82).
- The average age upon entering the senior management group (question 83).
- The difference between the employment framework of senior management and regular staff (question 84).

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Scoring

Group of staff in central/national government understood to be the "senior civil service" (question 78): Is there a defined group of staff in central/national/ federal government who are widely understood to be the "senior civil service"?

- Yes: 1.000.
- No: 0.000.

Identification of potential future leaders early in their careers (question 82): Question 82.a. Is this process of identification:

- Informal: 0.500.
- Formal: 1.000.

Question 82.b. Is there a centrally defined skills profile for senior staff?

- Yes: 1.000.
- No: 0.000.

The average age upon entering the senior management group (question 83): What is the average age upon entering the senior management group?

- 20-30 years: 1.000.
- 30-40 years: 0.750.
- 40-50 years: 0.500.
- More than 50 years: 0.250.

The difference between the employment framework of senior management and regular staff (question 84): Equal weighting (0.100) was attributed to the following items that can be combined with each other:

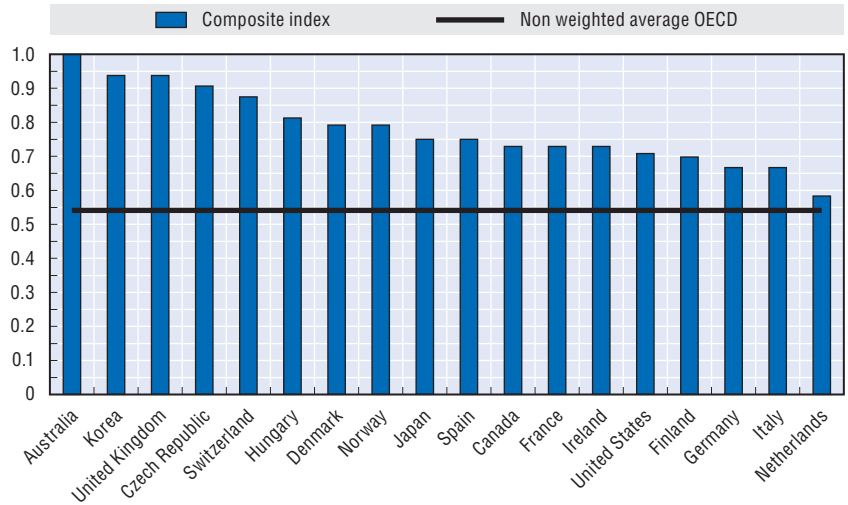
- They are recruited with a more centralised process.
- They are identified early on in their careers and more attention is paid to the management of their careers.
- More emphasis is put on the management of their performance.
- More emphasis is put on avoiding major conflicts of interest.
- The part of their pay that is not basic salary but not performance-related is higher than for regular staff.
- The part of their pay that is performance-related is higher.
- Their appointment contract for a post has a specific term.
- Their appointment term is shorter than for regular staff.
- Their appointment into the senior management group is dependent on the renewal of their contract for a senior management post.
- Other.

Intensity of the use of performance-related pay

In recent years, the use of performance-related pay (PRP) has been more widely accepted as a management tool to increase individual and team rewards for good performance.

Performance assessment is a form of individualisation of HRM. Performance is assessed individually or collectively (teams or groups) to define increases in salary or bonuses.

Figure A.3. **Composite index on the intensity of the use of performance-related pay in OECD member countries**



Notes: Index comprised between 0 (no PRP) and 1 (high PRP level).
Cronbach's alpha: 0.937 (computed with SPSS). A Cronbach's alpha above 0.6 indicates a high degree of correlation among a set of variables.
Austria, Iceland, Luxembourg, Mexico, Poland, Portugal, the Slovak Republic and Sweden reported not having a PRP system.
Data missing or incomplete for Belgium, Greece, New Zealand, Turkey.
The average for OECD countries includes the eight countries that have reported not having a PRP system.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006 (questions 76, 76.a, 76.b, 76.c), and GOV (OECD) estimates (missing data estimated by mean replacement).

The variables

The following items have been used in the construction of this index:

- The use of performance-related pay mechanism (question 76).
- PRP and staff categories (question 76.a).
- The use of one-off bonuses and/or merit increments (question 76.b).
- Maximum proportion of basic salary that PRP represent (question 76.c).

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Scoring

The use of performance-related pay mechanism (question 76): Is performance-related pay in use in your country?

- Yes: 1.000.
- No : 0.000.

PRP and staff categories (question 76.a): If PRP implemented, for which category of staff?

- For most government employees: 1.000.
- For senior staff only: 0.666.
- Only in a few central/national/federal government organisations: 0.333.

The use of one-off bonuses and/or merit increments (question 76.b): Do organisations mostly use:

- One-off bonuses : 0.500.
- Merit increments: 0.500.

Maximum proportion of basic salary that PRP represents (question 76.c): What is the maximum proportion of basic salary that PRP can represent?

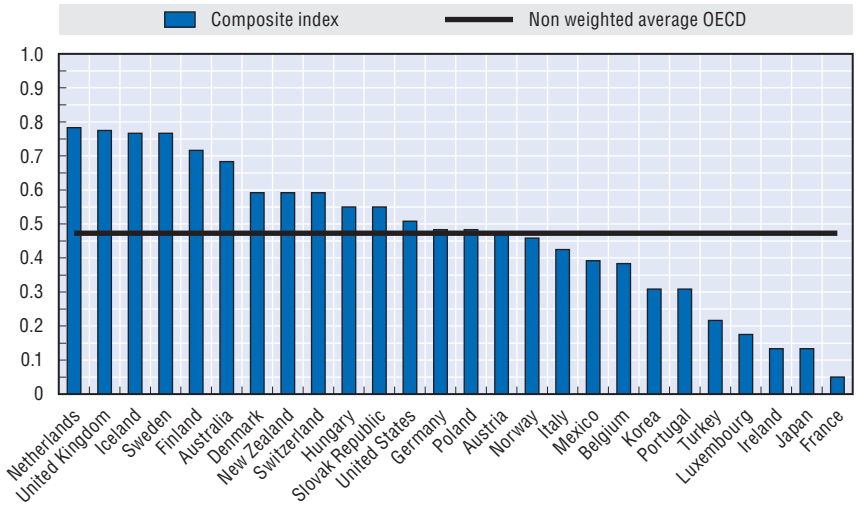
- 1-5 %: 0.250.
- 1-10%: 0.500.
- 1-20%: 0.750.
- 1-40%: 1.000.

HRM openness of the public service

The HRM openness index focuses on the possibilities individuals have to become part of the civil service throughout their careers. The modalities of entry into the public service vary from country to country and depend on the type of civil service system adopted. Whereas in career-based systems entry is based on academic credentials and examination with limited possibilities for entering at mid-career level, in position-based systems access is more open and lateral entry is more common. However, in the OECD area there is no a pure example of either system since there is a tendency to adopt processes from both systems depending on the positions.

A system based on selection by competition early in the public servants' career (and managed as a group throughout their careers) with no posts open to external recruitment corresponds to a low degree of HRM openness of the public service. By contrast, a system with direct application to a specific post and interview (with minimum degree requirement) and with posts open to both internal and external applicants ranks high on the index.

Figure A.4. **Composite index of openness of the HRM system in central government**



Notes: Index comprised between 0 (no openness) and 1 (high openness level).
Cronbach's alpha: 0.573 (computed with SPSS). A Cronbach's alpha close to or above 0.6 indicates a high degree of correlation among a set of variables.
Data missing for the following countries: Canada, Czech Republic, Greece and Spain.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006 (questions 37, 38, 39, 81), and GOV (OECD) estimates (missing data estimated by mean replacement).

The variables

The following items have been used in the construction of this index:

- Becoming a public servant in general (question 37).
- Merit-based appointment at entry in the selection process (question 38).
- Allocation of posts (question 39).
- Recruitment of senior civil servants (question 81).

Scoring

Becoming a public servant in general (question 37): How does one become a public servant in general?

- Through a competitive examination that provides for entry into a specific group of the public service: 0.000.
- Through direct application to a specific post and interview (with minimum degree requirement): 0.666.
- It varies depending on the post: 0.333.

Question 37.a. Are the rules different for casual employees?

- Yes: 1.000.
- No : 0.000.

Merit-based appointment at entry in the selection process (question 38): If your system does not include competitive written examination, how is merit-based appointment at entry guaranteed in the selection process? Equal weighting (0.200) was attributed to the following items that can be combined with each other:

- All vacancies are published.
- Recruitments are made with panels.
- Recruitment firms are used.
- Shortlist of possible candidates prepared jointly by the HR department and the recruiting department.
- Other.

Allocation of posts (question 39): How does one individual get a specific position/post?

- All posts are open to internal and external recruitment and applicants apply to the different posts: 1.000.
- Most posts are open to internal and external recruitment and applicants apply to the different posts: 0.666.
- Some posts are open to internal and external recruitment and applicants apply to the different posts: 0.333.
- No posts open to external recruitment: 0.000.

Recruitment of senior civil servants (question 81): How are the rest of senior managers recruited?

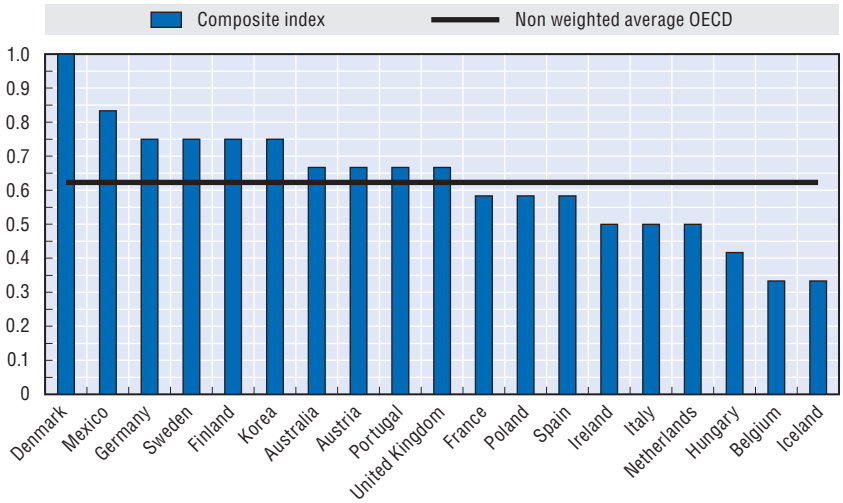
- Originally selected by competitive examination early on in their careers and managed as a group after: 0.000
- Through career progression within the public service only: 0.000.
- All senior management positions are open to external recruitment: 1.000.
- A good proportion of management positions are open to external recruitment: 0.500.

Use of performance assessment in HRM decisions for government employees

The institutionalisation of performance assessment in the culture of the public sector contributes to the development of public servants' careers. Assessing performance constitutes an important motivator as it allows rewarding "good" performance under a more objective and fair perspective, recognising both individual and collective efforts. However, performance assessments are also a recognised way of making the goals of the organisation clearer to staff, recognising their contribution and roles of the organisation, and helping implement changes in an organisation.

The results show a relative dispersal of OECD member countries around the average but along a continuum.

Figure A.5. **Composite index on the use of performance assessment in HRM decisions for government employees (perception index)**



Notes: Index comprised between 0 (no use of performance assessment) and 1 (high performance assessment) level).
Cronbach's alpha: 0.639 (computed with SPSS). A Cronbach's alpha close to 0.6 or 0.7 indicates a high degree of correlation among a set of variables.
Data missing for the following countries: Canada, Czech Republic, Greece, Japan, Luxembourg, New Zealand, Norway, Slovak Republic, Switzerland, Turkey and United States.

Source: Survey on Strategic Human Resources Management in Government, OECD, 2006 (questions 74.1, 74.2, 74.3, 74.4), and GOV (OECD) estimates (missing data estimated by mean replacement).

The variables

The performance assessment index encompasses the following items:

- Career advancement (question 74.1).
- Remuneration (question 74.2).
- Contract renewal on the same job/remaining in the same job (question 74.3).
- Employment contract renewal in the public service (question 74.4).

Scoring

Importance of performance assessment in relation to career advancement (question 74.1):

- High: 1.000.
- Medium: 0.666.
- Low: 0.333.

Importance of performance assessment in relation to remuneration (question 74.2):

- High: 1.000.
- Medium: 0.666.
- Low: 0.333.

Importance of performance assessment in relation to contract renewal on the same job (question 74.3):

- High: 1.000.
- Medium: 0.666.
- Low: 0.333.

Importance of performance assessment in relation to employment contract renewal in the public service (question 74.4):

- High: 1.000.
- Medium: 0.666.
- Low: 0.333.

Notes

1. Please see Manning *et al.*, 2006, page 48.
2. A scoring methodology is a statistical analysis according to objective criteria through the establishment of an overall index built on a selection of sub-indexes. The final index is the sum of each individual notation.
3. Cronbach's alpha is not a statistical test but a coefficient of reliability based on the correlations between indicators: a high value implies that the indicators are measuring the same underlying construct. A value of 0.6 or 0.7 is an acceptable reliability threshold. It is generally used to investigate the degree of correlation across a set of variables.
4. Ability to decide on staff members and the types of staff that are employed (*i.e.* HRM strategy).

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The State of the Public Service

Over the past 20 years, the management of the public service has changed tremendously in most OECD countries. First, governments have tried to reduce the size of their public employment to decrease the costs of producing government services. They have done this either directly or indirectly by contracting out the production of services to the private sector under the assumption that it would be more efficient. Second, in many cases, governments have tried to apply general good management principles to the management of public employees. As a consequence, many areas of public employment have lost their uniqueness and have become quite similar to the general employment systems in different countries. In addition, public services are under pressure from economic and societal changes that affect their management such as, for example, the globalisation of labour markets, ageing societies, and the advent of knowledge economies.

This book takes stock of the main changes in the management of public services across OECD countries. It also examines how countries manage to find a balance between attention to fundamental values such as fairness, equity, justice and social cohesion – necessary to maintain political confidence in the government system as a whole – and a focus on efficiency, productivity and effectiveness.

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