PUBLIC SECTOR REFORMS AND PUBLIC-PRIVATE EXECUTIVE LABOUR MARKETS: PUBLIC SERVICE FOR PRIVATE REWARD?

Report Prepared for the Victorian State Services Authority

Graham O’Neill
Malcolm MacIntosh
Cathy Hall

School of Management
RMIT University

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Introduction

This report formed part of the 2005 annual review process of Victoria’s public service executive remuneration. Reviews of this sort typically involve a comparison of remuneration levels for roles of similar work value from other Australian public services and from the private sector. The purpose of these comparisons is to determine the degree of competitiveness of Victorian pay levels against other target benchmarks and to form a basis for determining the extent of any increase to existing remuneration levels.

The results of these comparisons generally show two consistent trends: first, Australian public services collectively pay within a similar band width across their respective senior executive levels; and second, while the fixed remuneration of lower level executives is generally comparable to private sector rates of pay, middle level and senior executive positions are remunerated at about 50 to 60 percent of their private sector counterparts. The positioning of public sector executives is even more dramatically eroded when comparisons are made on total remuneration including short and long term incentive payments.

The results of these comparisons pose an issue given that the last twenty years have seen widespread reform in all Australian public service jurisdictions. These reforms, largely based on adopting private sector ‘business’ approaches to public management, include significant change in the work context and employment conditions of public service executives, together with an expressed aim of encouraging recruits from the private sector. Furthermore, there is recognition that strict adherence to public service remuneration levels is a barrier for recruitment of senior people to many Government owned business enterprises and other public entities.

While the reforms are intended to introduce a more efficient and economically driven style of public management, remuneration levels remain significantly behind those paid to the executives whose management style the public service aims to emulate. Two apparent paradoxes result from this: one is that there is no significant evidence of executives departing the service for higher, private sector remuneration; and the second is that anecdotal evidence suggests that those who join from the private sector
and subsequently return, do so for reasons other than remuneration. Two possible explanations may account for these counter intuitive outcomes. One is that the public service may comprise a separate and distinct labour market with its major characteristics defined by issues other than remuneration. Alternatively, the reforms of the past two decades have brought about a convergence of ‘management’ characteristics, suggesting a common executive labour market, but that market is still in a transitional period. The first explanation implies that executives – and those seeking executive positions in the future – view lower levels of remuneration as a trade-off for the personal, non-financial rewards of working in the service. The second explanation suggests that the supply and demand for executive capability is currently being met by long serving public servants with a vested interest in remaining with the service, and that comparative remuneration issues may surface as a factor for the next generation of executives.

The Victorian State Services Authority provided a research grant for RMIT Business - School of Management to review the available literature to determine whether there is support for the notion of qualitatively distinct public and private sector executive labour markets. Positioning executive remuneration primarily against other public services is an appropriate future strategy if there are clear differentiations between the two executive labour markets. The alternative strategy of maintaining a closer parity with the private sector market would be necessary to maintain future capability if there is strong evidence of convergence between the markets.

Origins of the ‘Bureaucracy’ in Australia

By the turn of the twentieth century Australian public sector administration began to move away from its early colonial basis of patronage and nepotism to a more formal and bureaucratic form of organisation and procedures. Halligan (1997) views 1883, the year that Victoria introduced its Public Service Act and the Railways Management Act, as the pivotal date. The Public Service Act provided for a full-time, three member Public Service Board to conduct competitive examinations and control appointments to the service while the Railways Management Act introduced a public corporation for its railways and established an independent Board of Railway
Commissioners to oversee the management and operations of the railways. The introduction of the public corporation as a mechanism for undertaking activities of a commercial nature immediately extended the area of public activity beyond the existing public service to a broader notion of the public sector.

Colley (2001) chooses 1894 as her turning point: this was the year that saw a Royal Commission into charges of patronage and inefficiency in the New South Wales public service and subsequently led to the passing of the 1895 Public Service Act. Among other things, the Royal Commission reported that “the Civil Service of the Colony could be efficiently conducted with a much smaller staff than is now employed; that salaries and wages generally are on a much more liberal scale than is paid for equally responsible work outside; that, owing to the system of promotion by seniority rather than by merit, officers are forced into positions which they are not competent to fill” (Spann 1979: 10).

As with the 1883 Victorian legislation, the New South Wales Act introduced a full-time Board of three Commissioners, although their control of recruitment, promotion, classification, remuneration and disciplinary matters was somewhat broader than allowed for in the Victorian legislation. The New South Wales Act also structured the service into five Divisions: General, Educational, Clerical, Professional and Special (departmental heads). Spann (1979) draws specific attention to the introduction of the principle of ‘inspection’ contained within the Act: “The Board shall, as far as practicable, personally inspect each department, and investigate the character of the work performed by every officer therein, and the manner in which such officer has performed his duties, and the efficiency, economy, and general working of such department, both separately and in its relation to other departments, and may, for such purpose, examine the permanent head of such department and other witnesses as may appear to the Board to be necessary” (290). Despite various amendments and subsequent legislative changes, the provisions of the 1895 Act formed the basis of public service employment in New South Wales through to the early 1970s.

Irrespective of whether we favour Victoria in 1883 or New South Wales in 1895, this general period from 1880 ushered in a time of experimentation with the separation of politics from administration and personnel from finance, and the introduction of
organisation structures and personnel practices aimed at increasing efficiency in the service (Halligan 1997). In doing so, these early pieces of legislation provided models for other Australian governments to draw from and began the establishment of a set of general principles that eventually defined public service employment in Australia through to the early 1980s. The key principles may be summarised from Colley (2001), Halligan (1997) and Spann (1979) as being:

- independent control of public sector employment conditions;
- open competition (by examination) for entry;
- defined rights and obligations of employees;
- promotion by merit (typically based on seniority);
- grading, classification and remuneration based on work value; and
- tenure to allow for public servants to give ‘frank and fearless advice’ without fear of political reprisal.

Taken together these principles, and their subsequent adoption by other Australian governments, quickly ensured the development of a relatively insulated internal labour market. According to Chapman (1982) an internal labour market is characterised as one where most of the recruitment is concentrated at the entry level, there exists a hierarchy of jobs, a pervasive use of internal promotions to enable a career structure for employees and the conditions of employment are governed by its own administrative rules. It was the early development of these features that led Spann (1979) to comment: “So the theory of the Australian public services came to be that they were ‘closed’ career services, recruited from school, except for a limited number of people with special, mostly professional, qualifications” (255).

These early deliberate moves, aimed at increasing the effectiveness and efficiency of Australian public service structures, continued through to the first world war and were then followed by some fifty years of stability (Halligan 1997; McCann 2001). This period saw mainly incremental change resulting from the growth of government and ad hoc decisions. The ‘business’ of government, as carried out in the public service, focused on “rules and procedures, administrative arrangements and normative planning models” (Wanna 2003) and made no distinction between policy and administration. Australia’s ‘administrative state’ of the period was summarised as
follows: “Government relied on the bureaucracy for both administering the system and taking the initiative with regard to policy directions. The non-departmental public sector expanded greatly as did the discretion of public servants who operated within a framework dominated by administrative standards and processes. Both served to obscure the role of the politician and extend that of the bureaucrat; the central direction of the state was not clearly in the hands of the political executive” (Halligan 1997: 4).

Comparative remuneration data is not readily available until the 1970s when specialist consultancy firms began to conduct surveys and provide advice to clients on market rates of pay. Prior to the availability of such comparative market data there are only broad observations available: “Fair comparison sums up most of what can be said in a general way about determining rates of pay, both the most relevant comparison as seen by reasonably independent and well-informed persons, and what is believed to be fair to the employees concerned” (Spann 1979: 373); and later making the point that “modern public services cannot ignore ‘market criteria’ in determining what to pay their staff” (374).

One occasionally mentioned criterion regarding pay has been its use to promote the public service as a model employer that gives a lead in pay and employment conditions. This was reputed to be the approach promoted by Clyde Cameron as a Minister in the first Whitlam government in 1972 but was never widely promoted, due in large measure to the obvious implications for inflationary effects given the prominence of public sector employment numbers and the vagaries of political circumstances.

In all likelihood, the first seventy years saw the public service as being a ‘good average employer’ with a tendency to set pay levels against a broad relativity to outside employment (Spann 1997). This conclusion is generally in line with the results of a study reporting 1974 data provided by the Australian Public Service Board and a remuneration consultancy firm (Chapman 1982). The comparison shows that entry to mid level Division 3 Australian Public Service (APS) staff were paid at or above the average paid to equivalent private sector roles, falling away to 89 percent at the upper end of the division. Division 2 staff, comprising managers and executives,
ranged from 81 percent of the average for similar sized private sector jobs at the lower level to 71 percent at the upper end.

By the early 1970s Australian public services were very much a distinct and stable internal labour market, offering tenured positions and with senior roles almost inevitably reserved for career public servants – often drawn from within their respective agency (Weller & Wood 1999). While remuneration at middle and senior ranks was 20 to 30 percent below private sector levels, further advantage was provided by the security of job tenure and superannuation provisions that were viewed as equal to – and probably more attractive than – those generally offered in the private sector.

‘New Public Management’ - The Paradigm Shift

Since the late 1970s, public administration in Australia has been characterised by rapid and wide-spread change based on reforming the traditional centralised and administratively oriented bureaucracy that developed in the early twentieth century. The nature of the reform has been described as a paradigm shift where the objective was to introduce a new framework largely based on dismantling the key elements of the previous model (Halligan 1997; Halligan & Wettenhall 1990).

The commitment of Australian public services to reform was part of a significant international movement involving many OECD countries. The issues shared by these various jurisdictions seem to have coalesced around four major ‘mega-trends’ described by (Hood 1991) as:

- attempts to slow down or reverse government growth in spending and staffing;
- the shift towards privatisation and quasi-privatisation and away from core government institutions in service provision;
- development of automation, particularly information technology, in production and distribution of public services; and
- increasing focus on general issues of public management, policy design, decision styles and inter-governmental cooperation in public administration.
Traditional public service bureaucracies were viewed as lacking the efficiency and effectiveness to meet these challenges, particularly with regard to cost control, quality, innovation and service standards (Colley 2001; Denhardt & Denhardt 2000; Halligan 1997; Knox 2002). As a result, the response was to turn to the private sector, whose ultimate survival depends on generating profitability from meeting consumer demands. The objective of the reforms was to emulate the best of private sector practice, knowing that this would demand a complete change in mindset for public service providers. The significance of the changes was seen as going beyond the general dictum to ‘run government like a business’ by simply adopting business techniques: rather, the change required a “profound shift in how we think about the role of public administrators, the nature of the profession, and how and why we do what we do” (Denhardt & Denhardt 2000: 550).

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<tr>
<th>Doctrine</th>
<th>Meaning</th>
<th>Typical Justification</th>
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<tbody>
<tr>
<td>1. Hands-on professional management in the public sector</td>
<td>Active, visible, discretionary control of organizations from named persons at the top, ‘free to manage’.</td>
<td>Accountability requires clear assignment of responsibility for action, not diffusion of power.</td>
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<td>2. Explicit standards and measures of performance</td>
<td>Definition of goals, targets, indicators of success, preferably expressed in quantitative terms, especially for professional services.</td>
<td>Accountability requires clear statement of goals; efficiency requires ‘hard look’ at objectives.</td>
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<td>3. Greater emphasis on output controls</td>
<td>Resource allocation and rewards linked to measured performance; break up of centralized bureaucracy-wide personnel management.</td>
<td>Need to stress results rather than procedures.</td>
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<tr>
<td>4. Shift to disaggregation of units in the public sector</td>
<td>Break up of formerly ‘monolithic’ units, unbundling of U-form management systems into corporatized units around products, operating on decentralized ‘one-line’ budgets and dealing with one another on an ‘arm’s length’ basis.</td>
<td>Need to create manageable units, separate provision and production interests, gain efficiency advantages of use of contract or franchise arrangements inside as well as outside the public sector.</td>
</tr>
<tr>
<td>5. Shift to greater competition in public sector</td>
<td>Move to term contracts and public tendering procedures.</td>
<td>Rivalry as the key to lower costs and better standards.</td>
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<tr>
<td>7. Stress on greater discipline and parsimony in resource use</td>
<td>Cutting direct costs, raising labour discipline, resisting union demands, limiting ‘compliance costs’ on business.</td>
<td>Need to check resource demands of public sector and ‘do more with less’.</td>
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Hood (1991) addressed the range and depth of the changes in a seminal paper where he defined the doctrines underlying the New Public Management reform agenda of many of the OECD countries from the late 1970s (see Table 1 above). He attributes these doctrines to a marriage of two different streams of ideas: one stream drawn from ‘institutional economics’ and its origins in public choice, transactions cost and agency theories; the other stream drawn from a broader business based ‘managerialism’. The first stream contributed doctrines related to contestability, user choice, transparency and incentive structures; the second contributed to those doctrines related to professional management as portable, paramount over technical expertise and requiring discretionary power to achieve results, the overriding importance of organisation culture and the focus on measuring performance outcomes.

One clear reason for the wide dissemination of the New Public Management was its presentation as a general, normative framework (Denhardt & Denhardt 2000; Hood 1991). This generality allowed for application in a variety of different contexts including different levels of government and different countries. Further, it was an apolitical framework that suited different values, priorities and circumstances (Hood 1991). These features are acknowledged by Knox (2002) in his descriptions of the extent (comprehensive versus incremental) and characteristics (focus of change) of reforms across a variety of OECD countries. Australia, together with the New Zealand and the United Kingdom, is acknowledged as one of the comprehensive reform countries (Aulich & Nutley 2001; Dawson & Dargie 2002; Halligan 1997; Knox 2002) resulting in a change process notable for its magnitude, breadth, longevity and overall impact (Halligan 1997).

New Public Management and Public Service Leadership

Up to the early 1970s we can confidently speak of the public service as being a distinct and almost exclusively internal labour market. The reforms that began in the mid to late 1970s were aimed at reforming the public service, and broader sector, relying extensively on the importation of private sector organisation and management

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1 Table 1 is taken from Hood (1991).
practices. The ultimate issue then is whether these changes have blurred the public-private sector labour market difference for executives such that the markets are now converged, or whether the changes are contextual and the public sector remains a significantly closed internal market?

One of the most visible impacts of managerialism has been the emphasis on accountability and performance management at senior levels (Colley 2001; Curtin 2000; McCann 2001; Renfrow, Hede & Lamond 1998; Stewart & Kimber 1996; Yeatman 1987). The commitment to performance and accountability lies behind one of the most evident structural changes of Australian public services in the adoption of the United States concept of a senior executive service (SES). Victoria introduced its SES in 1982, followed by the APS in 1984 and subsequently by all States and Territories (Renfrow et al 1998).

References cited by Renfrow et al (1998) indicate that the SES was introduced with the objectives of improving executive management, increasing managerial accountability for performance and enhancing managerial competence. The key features of the original United States model are described as:

- open recruitment;
- performance contracts (designed to link tenure in a position to performance in that position and to provide ‘fall-back rights’ to lower level positions if performance was unsatisfactory);
- emphasis on management skills and competencies;
- enhanced training and career development;
- mobility within and between departments;
- formal performance appraisal;
- performance pay; and
- service wide identity.

These general features appear to have been adopted by Australian SES structures although there are two major differences from the original United States model. First, fixed term, renewable contract employment now appears to be common across all Australian jurisdictions; and second, only Victoria and the APS currently have a
commitment to performance pay. There are also some caveats: while there appears to be a general commitment to open employment, anecdotal evidence suggests that few, if any, appointments to generalist management positions are made at this level without evidence of some significant previous public service or sector background (Weller & Wood 1999). Similarly, mobility within the service, again anecdotally, is largely seen as being left to an individual preference and responsibility (see also Halligan 1997).

In concluding their comparative analysis of Australian senior executive services, Renfrow et al (1998) suggest that Australian SES models have moved the senior public service from the traditional career service and past the original American conception of the SES closer to a private sector model. This is evidently so, but then it was also the original intention of the introduction of the SES structure: the key issues seem to be how much do we know about the effect of these changes and whether they have blurred the public-private executive distinction?

While there is ample descriptive and critical comment on the adoption of private sector human resource management practices in Australia and more generally (Colley 2001; Curtin 2000; Haque 2001; Yeatman 1987) there is little in the way of readily available research reports over the past 15 years. Nevertheless, two studies do help in understanding some of the impacts of the new employment conditions for senior public servants.

Weller and Wood (1999) collated data on all APS Department Secretaries holding office from 1950 to 1998 to develop a profile of changes to employment in the role. Among other things, the data shows a clear trend in decreases in the average age of first appointment as Secretary, length of service and age at departure from the role. For example, from 1950 through to 1972 the age of first appointment as Secretary was a few months over 50 years and incumbents served 11 years before departing aged 61 years. In the Hawke to Keating period of 1983 to 1996 the age at appointment had steadily dropped to 47 years with 70 percent of appointments in that period going to people under 50 and one-third to people under 45 years. Similarly, Secretaries were leaving in their early 50s after having served 5 years in the role, with many not serving their full 5-year contract term. The notion of retiring from the office, as did 59
percent of the 81 Secretaries over the period 1950 to 1972, was a thing of the past as retirement was replaced with termination, resignation and a significant number of transfers. As the authors comment: “Indeed the changes raise questions about whether the position of Secretary remains part of any concept of a career service” (Weller & Wood 1999: 26).

The second report was conducted as part of a larger research project investigating career perceptions of members of the New South Wales senior executive service (Hall-Taylor 2000). This preliminary study was based on a focus group involving 16 males, all senior executives in the New South Wales senior executive service.

The results indicate a general consensus that the move to fixed term appointments was a positive change and contributed to a performance culture, particularly with rewards contingent on outcomes. However, there were some disadvantages identified with fixed-term contracts: career opportunities were reduced and the lack of security led to expediency in looking for alternative appointments as contracts came closer to an end.

A number of participants saw the contracts as having an impact on the relationship with staff at lower levels. For example, junior staff were reported as seeing SES members as significantly advantaged in terms of remuneration, while senior executives expressed the view that fixed term contracts should be extended further down to middle and lower level management to further improve efficiency and effectiveness. Interestingly, the focus group participants felt that while the SES remuneration and conditions were seen as attractive to the private sector, the nature of public service accountability, the need for compliance with rules and the political context of the work were all seen as significant – often insurmountable - challenges for lateral recruits.

The political nature of senior executive employment was also a cause for concern for executives themselves in several ways: SES numbers were subject to political imperatives; there were clashes between short-term political objectives and broader agency directions; and there was political interference in the determination of
performance rewards. Participants also pointed to a lack of leadership, as distinct from shorter-term management. In particular, there was concern about the need for setting the ‘ethos and philosophy’ required to establish and monitor agency direction and to maximise its contribution.

A Public Service Ethos

The issues of leadership and leadership qualities are central to the differentiation between public and private sector executives. Leadership capabilities in the public sector would closely resemble those required of private sector executives if the sole objective of reform was to enhance the capability of public service management in the effective, efficient and economic management of resources. This is particularly so if, as noted by Morley and Vilkinas (1997), the premise underlying the introduction of senior executive services is that there are no significant differences between public and private sector executives and, therefore, public sector executives should manage and be managed in the same way as private sector executives. But again contextual differences, particularly the nature of accountability and values, suggest differences in the requisite leadership values in the in the two sectors.

Accountability

Mulgan (2000) provides a comprehensive review of the distinctions between public and private sector accountability, where accountability is viewed as the obligations that exist in public or private law to account for the performance of duties and to accept sanctions or re-direction in the performance of actions. Distinctions are made between particular accountability where explanations or redress is required for a person or group’s own case and general accountability where citizens seek to question or influence general government policy or the general conduct of a business.

With regard to particular accountability, public sector structures range from agencies own complaints processes, freedom of information access, ombudsmen, review tribunals and administrative aspects of common law through to ministerial control and

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2 It should be noted that performance pay was withdrawn from the New South Wales SES after this report was published.
ultimately to parliament. Private sector recourse is generally limited to any applicable statutory provisions (such as under the Trade Practices Act), consumer protection or contract law provisions of common law. In some industries external complaints mechanisms, often modelled on public sector bodies and processes, exist to investigate complaints (e.g. banking, financial advice, building and legal services). Within the private sector the costs of litigation act in favour of large corporations compared to ease of access for redress in the public sector.

When members of the public want to question the general direction of public policy or the conduct of public institutions they have access to Statutory Office holders reporting to parliament (e.g. Ombudsman & Auditor General), freedom of information legislation, consultation with agency representatives and courts if law has been infringed. The media can also play an important role although parliament remains as the ultimate forum for public accountability for collective issues. General accountability in the private sector is primarily concerned with protecting the rights of shareholders, with a primary focus on legal and governance issues. Interestingly, the private sector rights of ‘commercial-in-confidence’ are greater than those of executive privilege or cabinet confidentiality. Obligations of directors to reveal information is limited to legal requirements and the rights of directors to make decisions are protected from interference from shareholder meetings. Under these conditions the degree of scrutiny of directors under corporate law and disclosure requirements is considerably less than that expected of ministers and government.

On the basis of his analysis Mulgan (2000) concludes that “structures of accountability appear to be generally more stringent in the public rather than private sector, particularly in terms of the accountability of organisations for the processes by which they determine their general direction and policy” (94). There is little doubt that the stringency of public sector accountability, and the formal and informal procedures related to discharging that that accountability, form much of the challenges to private sector recruits to the SES as previously noted by Hall-Taylor (2000).
Values

There is a stream of research extending back to the 1960s that has investigated the values and motives of public versus private sector employees. More recent work maintains previous conclusions that, compared with their private sector counterparts, senior public sector professionals and managers place a higher value on ethical standards, are more altruistic and civic minded, less materialistic, and more concerned with public interest and public policy ((Aulich & Nutley 2001; Boyne 2002; Brewer 2003; Holzer 1999; Rainey & Bozeman 2000). However, the differences between public and private sector managers are not always large and are sometimes conflicting. These results lead Rainey & Bozeman (2000) to suggest that the conclusions are best regarded as ‘probabilistic generalizations’ that allow for some overlap between managers in the two sectors. Nevertheless, the general directional validity supports the notion of a ‘public sector ethos’ (Boyne 2002) in which the required values and attributes are “deeply etched and clearly identifiable” (Halligan 2005: 30) even if not personally expressed universally.

Leadership

Morley and Vilkinas (1997) provide some support for the distinction between public and private sector leadership values based on differences in executive leadership competency models across the two sectors. The authors identified 16 distinct areas included in public sector leadership competency models developed by various Australian federal and state public services and from the broader public management literature and compared these with the commonly agreed competencies expected of private sector executives as proposed from the management research literature.

Table 2 shows the respective public and private sector competencies, those which are generic to both sectors and those which are specific to each sector. With regard to the notion of a public sector ethos, it is of interest to note specifically that Relationship to the public, Relationship to politics, Accountability, and Policy are unique to the public sector and may be reasonably argued to relate to personal values such as public interest, social policy and service and personal responsibility and integrity.

This notion of a public sector ethos is manifestly evident in the recently released APS ‘Integrated Leadership System’. This leadership competency model, broadly titled
Innovation with Integrity, was developed within the APS under the auspices of the Public Service Commissioner who, among other aspects of leadership development, is responsible for promoting the APS Values and Code of Conduct with agency heads and SES members (Podger, Halton, Simic and Shergold 2004). The system has three themes: leadership that supports agency business outcomes and working across boundaries; fostering sustainability in leadership capability; and protecting integrity by promoting APS values. Integrity is accorded a central role in leadership development and is described by (Podger 2004) as:

- providing continuing professional development that supports leaders in upholding and promoting the APS values; and
- Strengthening the foundations of public service institutions through values-based management and leadership.

The notions of values, integrity and ethics and their role in providing a strong and distinct identity within the public service are common throughout the literature. Perhaps the clearest articulation of their distinctive role comes from Warren McCann, Chief Executive Officer of the Department of Premier and Cabinet in South Australia:

“Let me be unashamedly elitist about this: we are different to the private sector, in many ways. It is absurd to argue otherwise. And one of the most significant distinctions is our ethical foundation which ought to govern everything we do” (McCann 2001: 114)

Remuneration

Research into the area of private sector executive pay is generally considered to have started eighty years ago with the publication of a study by Taussig & Barker (1925) in The Quarterly Journal of Economics. The impetus for their research lay in the significant growth of America’s incorporated industry under salaried managers from the beginning of the twentieth century and the authors’ purpose was to investigate the characteristics of this emerging corporate organization. Since that original publication, research into executive pay has become an institutionalised area of specialist research in financial economics and the general management literature. Despite the similarities between the context of Taussig and Barker’s (1925) study and
<table>
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<tr>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Generic</th>
<th>Specific to Public Sector</th>
<th>Specific to Private Sector</th>
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<tr>
<td>Mission and vision</td>
<td>Mission and vision</td>
<td>Mission and vision</td>
<td>Relationship with the public</td>
<td>Leadership</td>
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<td>Implementation</td>
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<td>Implementation</td>
<td>Complexity</td>
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<td>Strategy</td>
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<td>Strategy</td>
<td>Relationship to politics</td>
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<td>People management</td>
<td>People management</td>
<td>People management</td>
<td>Accountability</td>
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<td>Relationship with the public</td>
<td>Achievement</td>
<td>Achievement</td>
<td>Policy</td>
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<tr>
<td>Complexity</td>
<td>Intellectual ability</td>
<td>Intellectual ability</td>
<td>Resource management</td>
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<tr>
<td>Relationship to politics</td>
<td>Self-management and motivation</td>
<td>Self-management</td>
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<td>Accountability</td>
<td>Interpersonal skills</td>
<td>Interpersonal skills</td>
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<td>Achievement</td>
<td>Communication</td>
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<td>Intellectual capacity</td>
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<td>Self-management</td>
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<td>Policy</td>
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interest in the impact of New Public Management on the public sector, executive pay is a markedly under-researched topic in the public management literature.

**Fixed Pay**

The earliest, readily available, comparison is contained within a report on the labour market characteristics of the Clerical/Administrative division of the APS by Chapman (1982). Table 3 shows the ratio of Division 2 and 3 officers to similar sized private sector roles for 1974 and 1980. Most noticeable is the significant drop in relativities over the period, particularly for managers and executives at the Division 2 level where there is an 18 percent fall in the ratio of public to private sector pay at top grade.

Table 3 Public – Private Relative Salary Differences

<table>
<thead>
<tr>
<th>Position</th>
<th>1974</th>
<th>1980</th>
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<tbody>
<tr>
<td>Division 3</td>
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<tr>
<td>4</td>
<td>1.125</td>
<td>0.909</td>
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<td>5</td>
<td>1.099</td>
<td>0.924</td>
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<td>9</td>
<td>0.978</td>
<td>0.754</td>
</tr>
<tr>
<td>10</td>
<td>0.928</td>
<td>0.720</td>
</tr>
<tr>
<td>11</td>
<td>0.886</td>
<td>0.701</td>
</tr>
<tr>
<td>Division 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>0.183</td>
<td>0.667</td>
</tr>
<tr>
<td>2</td>
<td>0.757</td>
<td>0.565</td>
</tr>
<tr>
<td>3</td>
<td>0.697</td>
<td>0.558</td>
</tr>
<tr>
<td>4</td>
<td>0.685</td>
<td>0.556</td>
</tr>
<tr>
<td>6</td>
<td>0.708</td>
<td>0.530</td>
</tr>
</tbody>
</table>

Chapman (1982), and Blandy (1982) analysing the same data set, attribute the drop in public sector competitiveness as reflecting separate adjustments in each of the respective sectors:

“This pattern would be consistent with pay changes being an adjustment mechanism to a shortage of senior executives in the private sector during the second half of the 1970s and an oversupply of senior public servants during

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3 Data in Table 3 is adapted from Chapman (1982)
the same period, reversing the probable pattern of excess demands in the first half of the 1970s. by the same token, the pattern would be consistent with a brake on increases in pay of senior public servants because of a customary link between their pay and the pay of parliamentarians (whose relative pay has been restrained)” (Bandy 1982; 185).

With the benefit of hindsight, the adjustment within the public sector may well have been related to the beginnings of the reforms in the APS. Either way, the observed fall in the ratio of public to private sector executive pay probably marked the beginning of a growing difference in remuneration between the two sectors.

O’Neill & Clark (1990) note that private sector executive pay adjustments up to the late 1960s were largely a result of flow-on effects to salaried staff from the formal National Wage Cases of that time. As such, periodic adjustments were aimed at maintaining relativities between salaried staff, managers and executives. However, from the high inflationary period of the 1970s the ‘annual review’, previously not always a universal feature of corporate remuneration administration, became an entrenched part of pay management: “the annual review became what may be described as a self-fulfilling prophecy based on the psychology of expectation. Executives expect an annual increase which, as a minimum, provides some growth in ‘real’ income” (O’Neill & Clark 1990:13). From a public service perspective, the introduction of the Wages Accord, and the associated restraint on salaries, undoubtedly caused executive remuneration to fall further behind the private sector over the next decade.

The gap between public and private sector executive pay during the 1970s and 1980s became more pronounced during the 1990s. This was the decade that saw short- and long-term variable pay accelerate in the private sector. Table 4, based on data provided by the Hay Group for job sizes from 1801 to 2432 Hay points\(^4\), gives the growth in median levels of Total Cash (fixed pay, annual incentive amounts plus superannuation) and Total Reward (Total Cash plus annualized value of long-term

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\(^4\) Jobs of this size would encompass much of the EO1 band through to some mid-sized department Secretary roles.
incentive awards) from 1990 to 2005\textsuperscript{5}. The data shows a 277 percent increase in Total Cash over the 15 year period (an annual average of approximately 18 percent) and a 242 percent increase in Total Reward for the 10 year period from 1995 to 2005. These rates of increase far outstripped any movements in public sector executive remuneration.

Table 4 Private Sector Executive Remuneration 1995 – 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cash</th>
<th>Total Reward</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>243,925</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>334,500</td>
<td>338,000</td>
</tr>
<tr>
<td>2000</td>
<td>440,000</td>
<td>535,000</td>
</tr>
<tr>
<td>2005</td>
<td>676,500</td>
<td>818,000</td>
</tr>
</tbody>
</table>

Data provided by Huijer (1990) indicates that in 1990 very senior Australian public sector executives were paid up to 45% below the private sector, even allowing for the then comparatively generous public sector superannuation entitlements and other benefits at that time. Middle level public sector executives generally tended to be around 20 to 25 percent below the private sector median. A recent report to the Victorian State Services Authority from the Hay Group shows comparisons of fixed pay levels for executives from the APS, New South Wales, Queensland and Victoria with the median private sector fixed pay of each respective jurisdiction. The APS is the most competitive of the Australian services paying its upper level executives at 66 percent of the Australian private sector market with Victoria and New South Wales at 52 percent of their respective private sector markets and Queensland at a very modest 48 percent. International comparisons show the public service in Canada to be at 53 percent of its private sector remuneration with NZ at 63 percent and the United Kingdom at a very competitive 77 percent of its private sector. In all respects, the evidence is clear that public sector executive salaries are significantly less than their private sector counterparts.

\textsuperscript{5} Long-term incentive data was not available in 1990.
Recent evidence clearly shows that the differential between public and private sector executive remuneration is carefully monitored and can be a cause for concern. The need to remain ‘connected’ to the private sector market is a feature of senior public service remuneration in the United Kingdom and in Ireland. In its submission to the Review Body on Senior Salaries (2005), the United Kingdom government reiterated its commitment to “a strategic and sustainable market-facing approach to Senior Civil Service pay and progression over time” (11) and indicated that it intended to:

- Use the pay system to reinforce performance management;
- Mitigate the risk of failing to recruit “the best talent”; and
- Make bonuses the primary reward for delivering objectives.

This position is supported in the Review Body’s report by a union submission which expressed the belief that Senior Civil Service remuneration “should mirror the level of change, responsibility and delivery” (12) and urged a closer nexus to the private sector.6

Similarly, the Review Body on Higher Remuneration in the Public Sector for Ireland (2000) expressed concern at the loss of senior public servants to the private sector and a corresponding decline in external recruits. The Review Body consequently recommended that public service pay levels should progressively be set at the 25th percentile of the external market to provide greater parity with the private sector. Interestingly, an interim review was conducted in April 2005 to address the fact that private sector movements from 2000 to 2005 had exceeded public service increments during the same period (Review Body on Higher Remuneration in the Public Sector (2005)).

More recently, Queensland’s Labor Party Premier, Peter Beattie, announced a review of senior public service pay levels to bring them into line with other Australian public services (notably the APS, New South Wales and Victoria) and the private sector (Wenham 2000).

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6 It is also worth noting that the union submission also expressed concern “that there was no clear statement of what the pay system sought to reward, and what role it was expected to play in motivating
**Performance Pay**

Only four jurisdictions have implemented performance-based pay in the form of annual lump sum payments within their respective executive services: Victoria did so when it set up its SES in 1982; the APS introduced performance pay in 1992, 8 years after establishing its SES; and the Australian Capital Territory and New South Wales briefly experimented with performance pay during the 1990s before withdrawing it. Currently only Victoria and the APS retain annual performance payments as part of their remuneration policies.

Victorian SES executives may earn up to 17 percent\(^7\) of their salary, although total payments are limited to an average 6 percent of payroll. APS executives are eligible for payments of up to 15 percent for superior or outstanding performance with Secretaries receiving either 10 or 15 percent for superior or outstanding performance\(^8\).

However, the lump sum approach is only one method of rewarding performance. Merit pay programs have long been a feature of private sector remuneration reviews and allow for high performers to be treated more favourably than average employees by receiving a higher increase or having access to a higher salary point. Merit pay schemes are also classified as performance pay programmes in that they differentiate in favour of high performers and, according to Renfrow et al (1998), this was the approach taken in the Tasmanian SES. In all likelihood, such a process may well be in place in other executive services but be seen more as a salary administration process rather than a specific form of performance pay.

OECD reports suggest that public sector performance pay systems, providing an average 20 percent of salary at managerial and executive levels, are widespread among member countries (Reichard 2002). According to the Hay Group data for 2005, United Kingdom senior SES performance payments range from 20 to 40 percent of pay. These amounts, coming on top of a highly competitive fixed pay ratio

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7 Originally the maximum amount was 20 percent but in 2003 there was a 3 percent trade-off from the performance pay pool to increase fixed pay.

8 See Explanatory Statement: Remuneration Tribunal Determination no. 4 of 1999.
to the private sector, means that United Kingdom senior executive service is likely to be one of the most domestically competitive services in the developed world.

Performance pay is the most problematic of the private sector management practices introduced into Australian senior executive services. The original intent of introducing such private sector practices into the New South Wales SES was described by then Liberal Party Premier, Nick Greiner as an ultimate aim “to have much the same values, culture, risks and rewards in the public and private sectors” and where public sector managers “will have the same motivations and pressures to perform as their private sector counterparts” (cited by Renfrow et al 1998: 382).

Typical criticisms from academic researchers and commentators have been well summed up by another former Premier in Queensland Labor Party’s Wayne Goss:

“In short, while performance pay is a worthwhile private sector initiative, it has not been successfully implemented in the public sector. The reason is not a lack of good faith or ability, but the poor fit between private and public sector objectives. It fails to take into account the specific nature of public work, principles of equity and fairness, and in many cases the different, non-monetary motivations of public officials” (Goss 2001: 3).

Given the diverse perspectives of the two Premiers, it is of interest to note that Queensland never implemented performance pay for its SES; and despite the strength of Greiner’s conviction, New South Wales experimented with it for only a brief period from 1998 to 2000. There is something about the design, implementation and/or management of performance pay in the Australian senior services that has it in the ‘too hard basket’ for all but two services.

However, there is a more fundamental issue with regard to performance-based pay generally. The nature of this underlying concern is evident in Halligan’s (1994) explanation of why performance pay was introduced into the senior executive services: “The overriding concern is with exacting greater performance from executives” (Halligan 1994: 300). The fact is that there is no empirical evidence to support a relationship between pay and performance for managerial roles: the only evidence that does support a relationship between pay and performance relates to
clerical and production tasks performed under certain specified conditions (O'Neill 1995). Similarly, there is little evidence to suggest that executives generally are motivated by money. Further, recent work involving in-depth interviews with board directors of United Kingdom public companies, demonstrates that performance-related pay is used extensively despite a widespread belief by those who determine executive pay that it does not necessarily motivate recipients (Bender 2004). These issues suggest that part of the reason why it is not more widely implemented may well have to do with how it is conceptualised (e.g. a ‘driver’ of performance versus a means of recognising contribution) and thus positioned as part of the remuneration program.

Commentary

The extensive reforms over the past two decades were largely driven by the need to instil a performance orientation throughout the public sector. In doing so there have been significant changes to the traditional public sector employment model previously acknowledged as a ‘distinct and stable internal labour market’. Table 5 shows some of the major changes in the characteristics of that internal labour market with specific regard to executive employment over the period.

Table 5: Major Changes to Public Sector Executive Employment

<table>
<thead>
<tr>
<th>Traditional Characteristics</th>
<th>Contemporary characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent control of public sector employment conditions</td>
<td>SES remuneration determined/recommended by independent Tribunals in ACT, NSW &amp; WA. Office of Public Service &amp; Merit manages terms and conditions in Queensland. Recommendations to Government in APS, NT, SA, Tasmania &amp; Victoria.</td>
</tr>
<tr>
<td>Open competition (by examination) for entry</td>
<td>Generally regarded as open entry for executive positions.</td>
</tr>
<tr>
<td>Defined rights and obligations of employees</td>
<td>Contractual conditions define specific rights and obligations beyond those available in law.</td>
</tr>
<tr>
<td>Promotion by merit (typically based on seniority)</td>
<td>Promotion by merit.</td>
</tr>
<tr>
<td>Grading, classification and remuneration based on work value</td>
<td>Grading, classification and remuneration based on work value.</td>
</tr>
<tr>
<td>‘Tenure to allow for public servants to give ‘frank and fearless advice’ without fear of political reprisal</td>
<td>Fixed term contractual employment.</td>
</tr>
</tbody>
</table>
The introduction of fixed term contracts for executives removed the security of tenure, a defining convention of a career service. The change to contractual conditions of employment also removed significant aspects of the previous independent determination of the rights and obligations of employees typically contained within a variety of Public Service Acts monitored by a Statutory Officer such as a Commissioner for Public Employment. The process for determining executive remuneration now varies across jurisdictions from being vested in independent tribunals or managed by central agencies through to more direct government influence than under the traditional model.

In Colley’s (2001) view “the current model of public sector employment relations is an uncomfortable and not necessarily stable hybrid of the old and new approaches” (12). Halligan concludes that it “depicts a civil service in transition” (p. 17). Weller and Wood (1999) conclude that “there is a career up to and including the SES level but no guarantees beyond” (31): they also make the observation that “There is no record of secretaries leaving for the private sector and returning, and even those recruited from outside (Barrett, Moore-Wilson) have not been in the private sector for long; they made their reputations in the public sector. The route to the top is almost exclusively internal” (Weller & Wood: 31).

There is no dispute that the changes over the past two decades or so have significantly altered the characteristics of the traditional, internal public sector labour market. In theory, although not evident so much in practice, is the notion that it is now an ‘open’ labour market at the executive levels. However, as a labour market it is indelibly stamped with the context of ‘public’ management in an inevitable political context. As an executive labour market it does not resemble the ‘free’ market characteristics of the private sector where competitive forces and the general economic principles of supply and demand largely determine the price of executive labour. In the public sector there are specific work skills, values and experiences beyond general ‘management’ skills required for fully competent performance; and demand for executives is demonstrably under political control with direct and indirect avenues for political influence on the price of executive labour.
The public sector executive labour market has lost some of the clearly distinguishing characteristics of the traditional model: it may well be a hybrid model, and it may still be in a transition phase, but it nonetheless retains a strong and distinct identity of its own. Much of this identity relates to an identifiable public service ethos based on values such as integrity, impartiality and regard for the public.

One way of capturing this public-private sector distinction is to contrast agency theory and stewardship theory as alternative explanations of controlling and monitoring executive behaviour. For example, agency theory has long been the dominant research approach for explaining the relationship of executives (agents) to their employers (principals). Agency theory assumes “good reason to believe that the agent will not always act in the best interests of the principal” and that this potential divergence of interests may be limited “by establishing appropriate incentives” (Jensen & Meckling 1976: 308). This underlying premise is based on a traditional economic model of behaviour that presupposes actors will always seek to maximise individual outcomes. Financial incentives are therefore required to align the interests of the executive with those of the employer (as noted by Hood’s (1991) attribution of the New Public Management performance incentive structures to the institutional economics stream of ideas).

Stewardship theory is an alternative model derived from the behavioural and social science literature. It rests on theoretical assumptions that ‘stewards’ are predisposed to collective and cooperative behaviours rather than an agent’s individualistic and self-serving behaviours:

“The steward realizes that the trade-off between personal needs and organizational objectives and believes that by working towards organizational, collective ends, personal needs are met. Hence, the steward’s opportunity set is constrained by the perception that the utility gained from pro-organizational behaviour is higher than the utility that can be gained through individualistic, self-serving behaviour” (Davis, Schoorman & Donaldson 1997: 25).

The significant contrast between the two theories lies in the different attribution of extrinsic versus intrinsic rewards. Agency theory is based on the tangible and quantifiable utility of extrinsic rewards which form the basis for the principal to
‘control’ the agent’s behaviour. Stewardship theory is based on less measurable intrinsic rewards where the social effort and self-esteem involved in achieving organisational objectives has a higher personal value than individualistic and self-serving behaviours.

These contrasting explanations of motivation provide a relevant framework for future research on potential differences in executive values across the two sectors. Further, to the extent that the values of public sector executives could be shown to be strongly related to the behavioural assumptions underlying stewardship theory, this would provide a potentially significant explanation for the widespread hesitancy in adopting performance-based pay within senior levels of the public service.

**Perspectives on Remuneration**

Given that there remains sufficient evidence to accept that the public sector executive labour market is different from its private sector counterpart, what are the implications for remuneration in the public sector? The traditional emphasis in remuneration design for public services in Australia, as with most Westminster systems, has emphasised equity in terms of internal relativities and fair comparisons based on work value, with some general reference to economic conditions and the external market. Halligan (1994) suggests that contemporary approaches to the design of executive remuneration rest on the application of three principles: the *public service context*, *rewarding performance*, and *parity with the private sector*.

The public service context is based on notion that pay is not the primary motivator and performance pay is inappropriate within a public service context. In sum, there is an intrinsic value in public service and a need to maintain the distinctive values that are associated with the nature of this work. Performance-related rewards are a result of the NPM and the importation of private sector approaches to remuneration, in particular the emphasis on results and outcomes. Performance pay cuts across traditional remuneration processes based on equity by actively discriminating in favour of high performers. The principle of parity with the private sector goes well beyond the traditional notion of providing for ‘comparative wage justice’ in the public sector: the ultimate objective is found in “minimizing the boundaries and relativities between the public and private sectors” (Halligan 1994: 301). Converging the
boundaries entails not just similar levels of remuneration, but also the similarity in the conditions of employment, particularly the use of employment contracts.

These principles allow for a limited degree of combination based on a primary orientation to either public service or private sector employment conditions\textsuperscript{9}. There are three feasible combinations, each of which define a distinct underlying philosophy about remuneration within a specific public service\textsuperscript{10}. The characteristics of these three combinations are described below. As with any description of a ‘pure’ form, the actual end result may further blur distinctions between the three combinations proposed.

1. Maintain largely traditional public service conditions based on tenured employment and a career structure with open entry and remuneration based on internal consistency and external parity with other relevant public service jurisdictions.
2. Adopt a closer linkage with private sector conditions of executive employment, including contracts, performance pay and salaries more aligned to median levels of the external market.
3. Maintain broad public service conditions and career structure but with contract employment and performance pay with a general aim of maintaining a defined total remuneration position against either the public sector or external market.

In reality, the first option has disappeared. The second option is consistent with calls for maintaining capability within the public service such as that sounded by David Kemp then Federal Minister for Employment, Education, Training and Youth Affairs:

“Countries are competing internationally not only in the market place but on the quality of their public sectors. The globalization of economies is placing sustained and strong pressures on governments to improve competitiveness

\textsuperscript{9} The 2005 Hay Group report on Victorian SES remuneration appropriately uses these models to provide options for the SSA to make recommendations for establishing a clear policy position for future reviews.
\textsuperscript{10} These combinations differ from Halligan’s original proposed approaches. At the time that Halligan was writing, contractual employment and performance-based pay were not as universal within the private sector as they are now. Thus his notion of private sector market combined with performance pay would now be considered redundant.
across the board and, as a result, public sectors everywhere are under the spotlight” (cited by Palmer & Dunford 2001: 3).

However, political imperatives make the second option difficult to sustain. Despite the rhetoric of Premier Greiner in introducing the SES into New South Wales, he rejected an independent tribunal recommendation to raise salaries to be more competitive with private sector levels and subsequently froze pay and cut SES numbers (Renfrow et al, 1998): nor did he introduce performance pay during his term in office. As several commentators note, and the Federal Remuneration Tribunal clearly states, “It is recognised that the community expects that the remuneration paid to public sector chief executives will be below that paid in the market place” (Secretaries of Departments - Review of Remuneration 1999).

The third model, particularly where a specific policy positioning against other public services is maintained, remains the most pragmatic choice. It is politically and socially defensible and directly reflects remuneration practices in the general market from which Victoria recruits (and potentially, loses) staff nationally.

Not only is this third model pragmatic, but it receives strong support from those who see values as playing a significant part of what attracts and retains capable executives into the service. In an interview with Bill Scales, previously Secretary to the Victorian Department of Premier and Cabinet, he put the view that it was not necessary to match private sector remuneration as there are strong ‘psychic income’ issues in the public service. He saw these ranging from wanting to be involved in important public policy issues with a direct and lasting effect on the lives of people, being close to sources of power and residual perceptions of greater security of tenure than in the private sector. Nevertheless, he saw it important that the level of remuneration is not de-motivating by being totally disconnected from remuneration in the private sector. According to his view, remuneration levels need to be carefully balanced to ensure that the explicit or implicit trade-offs made by being in the public sector remains relevant to individuals.

_A Public Service in Transition_
The reforms of the past two decades have had a major impact on executive roles across Australian public services. The operating environments have become more complex with jurisdictions devolving increased managerial powers to Secretaries as ‘employers’, an increasing focus on agency performance and outcomes, greater accountability and public scrutiny of executive decisions and actions and greater contestability in delivery of services, including policy advice (Shergold 2004). Added to these issues is a growing need for policy development to be “marked by consultation, discussion, negotiation and iteration” (Shergold 2004: 9) and the requirement for executives to work within – and be responsive to - a whole-of-government perspective (Halligan 2005; Shergold 2004).

Figure 1 Age Profile of VPS Executives 2001-2005

Within this context there is evidence of an ageing demographic structure of senior executive services in Australia. Figure 1 shows the shift in the age profile of Victorian executives from 2001 to 2005 where those aged 50 years and over represented some 43 percent of executive ranks in 2001 but rose to approximately 53 percent by the end of the five year period\textsuperscript{11}. Similar trends have been noted for the APS where the proportion of SES employees aged less than 45 years has fallen from 34 to 29 percent over the period from 1995 to 2004, while the proportion aged over 50 years has increased from 33 to 44 percent (Demography of the SES leadership group 2004). A 2003 survey of Western Australia’s SES employees indicated that 70 percent of the

\textsuperscript{11} Figure 1 provided by State Services Authority of Victoria for this report.
259 respondents were aged 45 years or more and 18 percent over 55 years (The wealth within: Pathways to leadership in the Western Australian public sector 2003).

This demographic shift poses some significant workforce planning issues if the public service is to maintain the capability of its executive leadership in the future. First, there is a need to compete with the private sector, not just for graduates, but also to retain capable middle level managerial and professional staff. Hall-Taylor’s (2000) study reports members of the New South Wales SES commenting on the reduced career opportunities at senior levels and the uncertainty surrounding executives coming to the close of their contracts. The Western Australian survey of 259 SES and ‘feeder group’ employees reports that 23 percent see a lack of vacancies as a major barrier to career progression and, perhaps more alarming from a workforce planning perspective, 53 percent indicated that they did not intend to stay in the public sector for the rest of their career.

The second key challenge is to identify and develop the future leaders. Current demographics indicate the strong possibility of a leadership gap within the next 5 years as the tranche of executives now aged over 50 begins to leave the service. Replacing these departing executives is a matter of retaining their specialised knowledge and practice of operating at senior levels in a political environment where the public service values and ethos are distinctive and integral to the work (Halligan 2005; Shergold 2004). The conclusions of the Western Australian survey were very clear in the recommendations for the future. In summary, the study saw three major issues to be addressed for managing this transition:

1. Succession planning meeting the joint needs of demand and supply, retention of ‘corporate memory’ and handing on the public service ethos;
2. Building quality in terms of professional credentials, executive development and diversity and ethics within the senior levels; and
3. Concern for the future quality of public sector CEOs.

The study ends by posing two questions which need to be addressed if the transition is to be successful: First, how to gain support for capacity building approaches to leadership when the outcomes may be remote in time? Second, how to ensure that developing leadership capability is treated as a discipline?
Conclusions

The public service reforms of the past two decades have clearly brought some significant convergence between the public and private sector executive labour markets. This is most apparent in two areas. First is the change from public administration to public management and the associated emphasis on the broader managerial skills required for meeting established performance objectives. In this respect, public service executives, as with their private sector counterparts, are continually faced with the challenge of allocating limited resources to meet competing priorities. Second is the change from a tenured career structure to contractual employment, thus changing one of the basic tenets of traditional public service employment.

Notwithstanding these changes, executive roles within the public service are still distinguished by the political context of the work, its focus on public policy and service delivery and transparent and stringent mechanisms of accountability. It is this work context that promotes a distinct sense of professional integrity and personal values as a basis for success in senior roles. Alongside this is the fact that executive remuneration levels are significantly less than those paid to equivalent roles externally and are, in all probability, likely to remain so. Remuneration, particularly executive remuneration, is a controversial issue within the community for both public and private sector executives. In such a sensitive political environment, and despite any rhetoric about matching private sector conditions, a significant gap between the two sectors will continue to be a distinguishing feature between the two sectors.

The clearly emerging issue for senior levels of the public service appears to be the shift in the age structure such that current executive ranks represent a growing proportion of people aged 50 years and over. This presents an immediate challenge to identify and retain existing junior executives and capable managers and professionals from the executive ‘feeder group’ and to accelerate their development and experience base to ensure executive continuity over the next five years and into the future. It also indicates a need to maintain a flow of entry level capability by promoting the public
service as offering a challenging and unique work environment and significant professional development opportunities.
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