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To: Members of the Executive Board

From: The Acting Secretary

Subject: Nature and Scope of the 1984 Staff Compensation Review

The attached paper on the nature and scope of the 1984 Staff Compensation Review has been tentatively scheduled for discussion by the Executive Board on Friday, July 29, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Ms. Dorothea Anderson (ext. 73779), or Mr. Terrence Checki (ext. 75228).

Att: (1)

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INTERNATIONAL MONETARY FUND

Nature and Scope of the 1984 Compensation Review

Prepared by Administration Department

July 8, 1983

The Joint Committee on Staff Compensation issues recommended that:

"After an initial period of three years, there should be a comprehensive review when the competitiveness of the selected comparators (the sample of U.S. private and public sectors) would be tested nationally and internationally. Job matches would be re-examined, the organizations to be included in the sample would be reviewed, and there would be a full-scale survey of levels of compensation in the U.S. private sector and the U.S. civil service measured against comparable positions in several other countries. These comprehensive reviews would continue to be held every three years unless, after the first review, the Board decided that a longer period between reviews would be justified, though the period should never exceed five years."

The last comprehensive review was undertaken for 1980. In considering "Procedures for the 1982 Compensation Review," Executive Directors agreed that the next review need not take place before 1984.

1. Summary of experience with 1980 Review

The main objective of the 1980 comprehensive compensation review was to provide a solid basis for decisions on compensation policy, an objective that in the view of all parties to the exercise was met satisfactorily. The cornerstone of the review was a report prepared by Hay Associates on a survey of domestic compensation in France, Germany, and the United States. The survey was not without its difficulties; it was a protracted and very costly exercise with the final decisions on the 1980 compensation adjustments being taken more than 15 months after the effective date of March 1, 1980 and the cost, in excess of \$3 million, being triple the original estimate. In designing the 1984 survey, therefore, special efforts are being made to preserve the quality of the 1980 exercise while saving in time and cost.

2. Objectives of the review

The primary objective of the 1984 compensation review is to adjust compensation levels in a manner that will ensure the continued competitiveness of Fund compensation. The review will also be geared toward the collection of data to be used in the study of the relationships of core and noncore career streams in the Fund--an area where the findings of the 1980 survey pointed to disparities--without, however, pointing to definitive conclusions.

3. The choice of consultant

The survey in 1980 was conducted by Hay Associates, the leading firm of compensation consultants in the United States who also possess a substantial presence in overseas markets. The wealth of reliable data collected in the 1980 Survey was attributable in large measure to the employment of Hay Associates' job measurement technique. Previous surveys had been plagued by a dearth of job matches--a phenomenon associated in large measure with the Fund being virtually a "one-of-a-kind" organization. In contrast to the traditional job matching technique, which essentially looked at comparator organizations for mirror images of Fund jobs, the Hay job measurement technique rests on the comparability of jobs when measured by three yardsticks: (a) know-how (or knowledge brought to a job); (b) problem solving (how a job requires that acquired knowledge be applied); and (c) accountability (or contribution to the objectives of the organization). In view of the general satisfaction of the users with the quality of the survey results, the familiarity that has been acquired with the Hay method, and the productive contacts that have been established with comparators, it is judged that the 1984 Survey should also be undertaken by Hay Associates provided it can be carried out in a much less costly manner than in 1980.

On the issue of containing contract costs, some specific approaches will be discussed below. On a general level, however, effective working relationships (between Hay Associates, the Bank and the Fund) have been established and an appropriate methodology for the collection and analysis of comparator compensation data exists, so that these potentially costly and time-consuming aspects of a review are not expected to impinge significantly on the conduct of the survey.

4. The choice of market

In considering the Managing Director's recommendation on the 1980 Compensation Review, the Executive Board decided that:

"Fund compensation should continue to be set with a premium of 10 per cent above a combined U.S. market with equal weights for the public sector and private sector, provided U.S. Civil Service salaries are adjusted for deviations from their comparators due to domestic policy considerations. For staff in ranges A-E, this market consists of the U.S. Civil Service and private companies in the Washington area. In addition, checks would be made on the basis of salary movements in comparators abroad and compensation levels in other international organizations for F-M staff, and against local embassies and international organizations for A-E staff."

a. Ranges F-M

(1) The U.S. market

In line with the above decision, the main market for the 1984 review will be the United States, with the public and private sectors receiving equal weight. In checking the competitiveness of U.S. compensation levels against salary levels abroad, there seems to be no reason to depart from the 1980 precedent of using French and German comparators.

In the selection of comparators every effort will be made to ensure that the organizations (i) be leading employers with national, as distinct from regional, pay scales; (ii) have interests in a number of countries and therefore seek to attract a staff that is likely to be international in outlook; (iii) compete in the labor market for staff with the same kinds of skills as are sought by the Bank and Fund; and (iv) be recognized as having good personnel and pay practices. The U.S. private sector comparators chosen in 1980 met these criteria, and, subject to their agreement, they would be surveyed again for the 1984 review. An effort will be made, however, to add some new comparators: it goes without saying that the larger the samples the greater will be the degree of statistical validity when survey results are analyzed. We place particular emphasis on this aspect of the survey for 1984 since a more extensive examination than in the past of comparator pay practices for the noncore jobs will need to be made in connection with the career streams study now being conducted within the Fund. It is recognized that an increase in the number of comparators would add proportionately to project costs unless offsetting savings could be effected. It seems, however, that this should be possible as discussed below.

(2) International checks

The agreed principle is that the U.S. market should provide the main reference point in establishing Fund compensation, provided that U.S. comparator pay levels are internationally competitive. France and Germany have been the countries used as a check on the international competitiveness of our U.S. comparator pay levels and we propose that they should play that role again in the 1984 review. We propose, however, to simplify the check by choosing, to the extent possible, a few leading French or German private sector firms which are counterparts of some of our U.S. comparators. By the judicious matching of, say, three industrial and three financial organizations in each country we should be able to establish satisfactorily the relationships between the pay levels of leading employers in the three countries, thereby meeting adequately the objective of conducting international checks.

We propose to confine these intercountry comparisons to private sector firms since pay relationships in the private sector tend to reflect the competitive labor market relativities. We believe this simplified approach would provide a pragmatic solution to a potentially expensive

element in our surveys, while still permitting a substantive check on the international competitiveness of the U.S. market. There is a further reason for not conducting such an extensive survey in France and Germany, namely, the exchange rate developments over the past three years. While decisions on the type of market survey to be conducted should not rest solely on exchange rate developments, such developments, when considered in conjunction with the cost of an in-depth survey in France and Germany, argue for a simplified approach in 1984. This argument could, however, be invalidated if exchange rate trends were to change sharply over the next ten months.

A preliminary list of organizations which appear to meet the above criteria is shown at Attachment I. We would expect the final list of comparators to be chosen from amongst them but, depending upon the willingness of the suggested organizations to participate and their ability to provide the data required, it may be necessary to add others.

(3) International Organizations

As in the 1980 review, we intend to compare the U.S. market and the Fund salary scale on the basis of grade matches with the UN, EC and OECD salary scales.

b. Ranges A-E

The market for Ranges A-E continues, under the decision quoted in the previous subsection, to consist of the U.S. Civil Service and private companies in the Washington metropolitan area, with checks to be made against local embassies and international organizations. It will be recalled that, in examining the result of the 1980 survey, questions arose concerning the quality of the private firms surveyed and, accordingly, a survey was made of selected companies in the New York area to see if their inclusion would have altered the results of the "main" survey. The New York survey indicated that compensation there was, on average, somewhat less than that of the Washington private sector. For this reason, and in order not to complicate unduly the conduct of the survey, it is not proposed to incorporate a check of New York private sector comparators as part of the 1984 review.

The questions raised at the time of the 1980 review about the quality of the chosen comparators are probably still valid. Apart from the U.S. Civil Service, there are few, if any, employers of stature and significant presence in the Washington area. The private sector is characterized by utility companies, trade associations, professional firms, retail banking and merchandising firms--employers that do not meet the criteria applied to comparators for Ranges F-M such as having a strong market presence.

Every effort has been made, in compiling the attached group of private sector comparators, to select those firms that, in the opinion of the Consultant, are top-rated locally in terms of good personnel and pay practices (Attachment II).

In conducting the check of local embassies, reference should be made to the problems encountered in 1980 when few job matches were found and pay practices between embassies and within embassies varied considerably, depending on the recruitment status of the staff. Such deficiencies argued against using the results as a sound basis for our salary policy, although embassies are an important source of recruitment for A-E staff. It is, however, not possible at this stage to venture any firm opinion on the usefulness of continuing with the check of embassies. In line with agreed procedures, a check will also be made on the Washington-based international organizations PAHO, OAS and IDB.

5. The basis for comparison

The customary way of comparing Fund jobs with those of comparators was, as noted in Section 3 above, by seeking out job matches--a task that frequently proved futile. A major departure from the job matching approach occurred in 1980 when the Hay job evaluation technique was applied for the first time. The 1980 survey did not, however, totally abandon job matching for, in selecting jobs to be evaluated, primary emphasis was placed on jobs that had similar characteristics to Fund positions--an imprecise judgement made at the job collection stage of the exercise. The main difference occurred at the job evaluation stage where in the past jobs would have been disregarded if they failed to meet strict matching criteria. In the evaluation process in 1980 it became clear to the staff involved that the job evaluation technique lessened the need for firm job matches. This arose because the quantitative approach to job evaluation that is an integral part of the Hay system resulted in different point values which reflected different levels of duties and responsibilities of the positions.

The approach to job comparison and evaluation followed in 1980 should be adhered to in the 1984 exercise; it contributed significantly to what the Consultants in their 1980 Report referred to as "a wealth of sound data upon which to base (compensation) decisions" (Volume 1, p. 4) and has the added advantage of being accepted by all parties as fair, objective and productive.

For 1984, it is proposed that the emphasis in comparing Fund with comparators jobs be on seeking out families of jobs that require similar background and skills and have similar operational responsibility. When these "job families" have been successfully identified and representative benchmark jobs within the family have been evaluated, a broader picture of comparator pay practices will emerge. This will offer greater assurance that inferences drawn for Fund compensation are based on general practice rather than exceptions.

It is proposed to conduct the survey for F-M staff on the basis of compensation for Ranges F-J with salaries at higher levels being determined by extrapolation. It will be recalled that in the 1980 review a special examination was made of the effects of compression on senior staff salary differentials. Such an examination is not proposed in connection with the 1984 review.

6. Method of comparison

In 1979, when considering the Joint Committee's recommendations, the Executive Board decided that comparison for staff remuneration should be made on the basis of direct compensation. At the same time, there was general support for the recommendation of the Joint Committee that "the value of the benefits provided by the Bank and Fund should be in the same broad relationship to benefits in the comparator organizations as direct remuneration." In keeping with these positions, it is proposed to conduct the 1984 review on the basis of direct compensation. At the same time, however, the Fund will join the Bank in updating the survey of benefits undertaken in 1980 to check if benefits remain in the same broad relationship to comparator benefits as does direct compensation.

As in the past, comparison of salaries will be made on the basis of net salaries. We propose to engage the services of Arthur Andersen & Co. to compute tax tables on the basis of average deductions. For F-M comparators, computations will be made on the basis of a married person with a nonworking spouse and two children, and for A-E comparators on the basis of a single person.

7. Consultations

The survey will be conducted jointly by the Bank and the Fund. Within the Bank and the Fund consultations will be held with the respective Staff Association Committees during each stage of the survey process.

8. Methodology

The methodology to be applied in connection with the data analysis for the 1984 review will be essentially identical to that applied in 1980. We anticipate considerable cost savings in this connection since the methodology for calculations such as netting and date adjusting has thus been established.

9. Coordination with Career Streams Study

As mentioned earlier, a Career Streams Study is proceeding in the Fund with the aim of developing clear and consistent criteria which identify differences in levels of duties or responsibilities, and establish equitable relationships between occupational groups. The study is being undertaken in two stages. The first is the identification of levels within each of 12 career streams. The second stage is to determine the appropriate relationship between jobs in different career streams, in connection with which comparisons with the outside market are needed and are to be obtained as part of the comprehensive review. The two studies, career streams and compensation, are therefore closely linked,

primarily by the reduction of all job information to a common denominator through the application of the Hay job evaluation system. The compensation data collected for the various career streams in the 1984 survey will, in turn, be provided to a senior staff committee, to assist the Committee in formulating its recommendations on the appropriate internal alignment of the different occupational groups in the Fund.

10. Other issues

As in the 1980 survey, data on European pay levels will be converted to U.S. dollars at nominal exchange rates and at purchasing power parity exchange rates, using the same indices as were then used.

As provided for at EBM/82/95, July 9, 1982, the possible case for the reintroduction of a Home Currency Option scheme will be reviewed (EBAP/82/218, Supplement 1).

The review will also capture information on other compensation practices of comparators, such as deferred compensation and termination pay practices, as a means of checking the adequacy of Fund policies in such areas.

11. Timetable

Attachment III shows the proposed timetable for the 1984 Comprehensive Review. The timetable is expected to be tight but, in our view, as well as that of the Consultants, it is not unreasonable and careful adherence will avoid the need for extraordinary retroactivity.

Attachments (3)

1984 Compensation Survey

Preliminary List of Comparators

Ranges F-M

UNITED STATES---Private Sector

A. Industrial Organizations

- Alcoa
- Ashland Oil
- Conoco
- Dow Chemical
- E.I. duPont de Nemours
- Exxon Company, U.S.A.
- General Electric 1/
- General Foods
- Gulf Oil
- Honeywell
- International Telephone and Telegraph 1/
- Merck
- Miles Laboratories
- Mobil Oil
- PPG Industries
- R.J. Reynolds
- Rockwell International
- Sperry
- Standard Oil (Ohio)
- Texas Instruments
- Union Carbide 1/
- Westinghouse Electric
- Xerox

B. Financial Organizations

- American Express
- Bank of America 1/
- Chase Manhattan Bank 1/
- Citicorp 1/
- Continental Illinois 1/
- Goldman Sachs 1/
- Lehman Brothers Kuhn Loeb 1/
- Manufacturers Hanover Trust
- Merrill Lynch
- Morgan Guaranty Trust 1/

1/ Participant in 1980 Survey.

FEDERAL REPUBLIC OF GERMANY--Private Sector

A. Industrial Organizations

- Bosch-Gruppe 1/
- Daimler-Benz AG 1/
- Degussa 1/
- Hoechst Aktiengesellschaft 1/
- Metallgesellschaft AG 1/
- Siemens AG 1/
- Thyssen Aktiengesellschaft 1/

B. Financial Organizations

- Bayerische Vereinsbank 1/
- Berliner Handels - und Frankfurter Bank (BHF) 1/
- Deutsche Bank AG 1/
- Dresdner Bank AG 1/
- Commerzbank

FRANCE

A. Industrial Organizations

- Compagnie Francaise des Petroles 1/
- Creusot Loire 1/
- Pechiney Ugine Kuhlman 1/
- Rhone-Poulenc 1/
- St-Gobain 1/

B. Financial Organizations

- Banque Francaise du Commerce Exterieur 1/
- Compagnie Financiere de Paris et des Pays-Bas 1/
- Compagnie Financiere de Suez 1/
- Credit Agricole 1/
- Credit Industriel et Commercial 1/
- Credit Lyonnais 1/
- Institut de Developpement Industriel 1/
- Banque Nationale de Paris

1984 Compensation Survey
Preliminary List of Comparators
Ranges A-E

A. Industry, Finance, Communications, Law

- Amtrak
- Arthur Andersen & Company
- Arnold & Porter
- Baker & McKenzie
- Communications Satellite Corporation 1/
- Covington & Burling 1/
- Federal National Mortgage Association
- GEICO
- MCI
- PEPCO 1/
- Student Loan Marketing Association

B. Associations and Institutes

- American Bankers Association 1/
- American Chemical Society
- American Gas Association
- Brookings Institute
- Chamber of Commerce 1/

C. Other Large Out-of-town Employers

- IBM
- Mobil

1/ Participant in 1980 Survey.

1984 Compensation Review

Timetable

<u>Major Elements</u>	<u>Approximate Timeframe</u>
1. Nature and Scope of 1984 Compensation Review	Executive Board discussion: July 29
2. Evaluation of Fund benchmarks	August-September
3. Survey planning and questionnaire design	August 1-September 15
4. Contact comparators	September
5. Comparator visits	October, November, December
6. Comparator job evaluation	December, January
7. Comparator data collection and analysis	January, February, March
8. Consultant report	April
9. Recommendations to Executive Board	May 1984