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0404

INTERNATIONAL MONETARY FUND

Secretary's Journal of Executive Board Informal Session 89/7

3:00 p.m., April 14, 1989

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
	C. Enoch
	Zhang Z.
	C. S. Warner
	G. P. Alzetta, Temporary
	L. B. Monyake
	R. J. Lombardo
L. Filardo	
R. Filosa	
M. Finaish	
M. R. Ghasimi	
G. Grosche	
	E. Kiriwat
	L. E. N. Fernando
	J. R. N. Almeida, Temporary
	D. McCormack
	J. K. Orleans-Lindsay, Temporary
	I. A. Al-Assaf
J. Ovi	
H. Ploix	
G. A. Posthumus	G. P. J. Hogeweg
	M. J. Shaffrey, Temporary
	S. Yoshikuni

J. W. Lang, Jr., Acting Secretary
M. Primorac, Assistant

Also Present
L. H. Landriault, Executive Secretary, Joint Bank/Fund Committee of Executive Directors on Staff Compensation. Administration Department: G. F. Rea, Director; D. S. Cutler, Assistant Director; D. A. Anderson, T. Cole, A. D. Goltz, P. D. Swain, L. A. Wolfe. Legal Department: J. S. Powers. Advisors to Executive Directors: M. B. Chatah, P. D. Péroz. Assistants to Executive Directors: S. Appetiti, G. Bindley-Taylor, B. A. Christiansen, C. L. Haynes, J. Heywood, V. K. Malhotra, W. K. Parmena, S. Rouai.

1. JCC REPORT ON STAFF COMPENSATION - PRINCIPAL ELEMENTS OF PROPOSED COMPENSATION SYSTEM AND SALARY STRUCTURE

The Executive Directors resumed from the previous meeting their consideration of a staff paper on the principal elements of the proposed compensation system and salary structure (EBAP/89/85, 3/30/89) and the consultants' report on the 1988 compensation survey (EBAP/89/85, Sup. 1, 4/3/89). They also had before them a paper prepared by the Staff Association Committee on the proposed compensation system and salary structure (EBAP/89/91 and Sup. 1, 4/5/89).

Mr. Ovi agreed with Mr. Warner that it would be more reassuring to base the support staff salaries on a relevant market than to extrapolate them. However, that raised the question of how to define the market and even then some sort of test against the international market would be necessary. He would welcome clarification by the U.S. chair on precisely how they suggested that support staff salaries be determined.

Mr. Rieffel said that his chair had requested the staff to produce a pay line based on some sort of U.S. market, applying a formula such as the 75th percentile or the average plus 10 percent; the resulting pay line would probably be close to that obtained from extrapolation but would offer the reassurance that it had been based on the U.S. market.

Mrs. Ploix reiterated her desire that any decision on international competitiveness take into account the great difficulty that the Fund had in recruiting staff members from overseas, and in particular, from Europe. Members of the support staff also had to be recruited from overseas and the Fund ought to be able to offer recruits who had come to the United States a salary that was competitive with that which they could have received at home. Therefore, she still considered the extrapolation of the A9 midpoint to be the best solution to determining support staff salaries.

Mr. Alzetta said that, on international competitiveness, expatriation allowances and other specific tools should not be considered even as a last resort. They were potentially highly divisive and would adversely affect staff morale. The issue of international competitiveness had been extensively discussed during the meetings of the JCC and he was not aware that any enthusiasm had been expressed over the possible introduction of such measures. Using such incentives as recruitment premiums took care of recruitment problems but did not address the problem of retention, which he considered was serious in both the Fund and the Bank. The statistics on turnover in the two institutions were artificially low and did not reflect the choices that expatriate staff members would make if they were not committed to employment at the Fund as long as they stayed in the United States. Many staff members were in midcareer and had established a family in the Washington area, and their resignation from the Fund would require searching for a job in another country with which contacts had decreased over time. In addition, upon resignation, they would have to leave the United States within 30 days. Such decisions were not taken lightly, and he could easily imagine that a number of staff members might be more willing to accept their frustration and lower their salary expectations than to go through such an ordeal. However, that was clearly not good for morale.

Mr. Grosche said that he fully agreed with Mr. Alzetta on the recruitment and retention problem. In talking about recruitment, one tended to concentrate on the immediate problem of attracting a person to the institution, but it was easy to forget that recruits also had to make long-term career decisions. Accordingly, the recruitment problem had to be considered as a general one affecting almost all Fund staff members.

With regard to the support staff issue, Mr. Grosche indicated that the JCC had wanted to base the support staff salary structure on market data, applying the same methodology to the support staff pay line as that used for the professional staff. However, it turned out that the data available on the support staff comparator market in Washington was extremely unreliable, partly because Hay Associates had never performed such a survey on Hay point methodology comparators in the Washington area. It was therefore very difficult to base a salary structure on the currently available information, and he would be skeptical of doing so. He doubted, in any case, whether it was advisable to base the support staff salary structure on market information because that might create internal problems, in that it could result in a break in the salary structure pay line between grades A8 and A9 that would be difficult to accept for reasons of internal progression. Since it had been agreed that the salary structure would not be based on market information for the upper professional grades, there was no rationale against doing the same thing for the support staff. It seemed perfectly reasonable to base the pay line for the majority of the staff--the economists and division chiefs--on the market and to extrapolate that line in both directions from the core staff group upward and downward, particularly in light of the weaknesses in the data base for the support staff.

The Director of Administration said that he endorsed the remarks of Mr. Grosche regarding support staff salaries. There was a great deal of difficulty in finding meaningful data in the market, given the tremendous diversity of practices and attitudes of different employers toward their support staff and the great differences in the quality of support staff that they were recruiting. In effect, each group of employers was developing their own system of compensation for support staff, and he did not consider that the Fund should feel constrained from developing a system that suited its own needs. The pay line that had been proposed by the management based upon extrapolation of a regular progression of midpoints down through the grades did bear a relationship to the market, at the 90th percentile of the private sector. That was not an unreasonable relationship given the very particular and unusual qualifications of the support staff that the Fund was recruiting and the assignments that those recruits were given.

On the use of devices other than the salary structure to respond to competitiveness, the Director said that Mr. Grosche and other Executive Directors had correctly identified the problems of trying to rely on such tools. Either such allowances would be paid across the board to all staff members, which would make them very expensive, or they would be paid differentially at different grades according to the somewhat accidental criterion of which grades were competitive at various levels, which would distort internal relativities. The goal of the Fund's compensation policy was not only to be competitive with the market at different grades, but also to have a relatively clear and appropriate progression in pay from grade to grade. In addition, as Mr. Grosche had also pointed out, what could be viewed as a recruitment problem in a narrow sense actually soon became a retention problem because the Fund was recruiting an international career staff. The Fund therefore had to offer its recruits a competitive salary at all levels to which they would hope to aspire, which was why it was considered important to have a reasonable relationship to the market at all professional salary ranges up to and including grade B2--the grade to which the Fund's best staff members could reasonably hope to aspire as division chiefs.

On the construction of the proposed pay line, the Director of Administration continued, the staff would be happy to develop the step-by-step approach to that procedure more clearly. He would point out, however, that the staff had already presented a pay line that it considered to be competitive; the proposed pay line was competitive not only in the United States but also, the staff believed, in France and Germany, though that remained to be proved. He did not think that management had anything better than that pay line to offer, and he would add that the pay line had been developed together with the Bank management. While the Fund might have an opinion on a competitive salary for its staff members at a particular grade, the Bank also had such opinions, which had been taken into account in the proposed pay line. What could be done was to calculate the percentile relationship of the proposed pay line to the U.S. market, and use that as the provisional standard for competitiveness in the United States. That standard could be used as the starting point for the development of future years' pay lines, with tests being applied to assess its competitiveness in the United States and against the French and German markets.

Mr. Grosche remarked that he would not be surprised if the pay line resulting from his approach was similar to that proposed by management. However, he considered it important in terms of methodology to start from the primary market. It was conceivable, although not likely, that if the U.S. dollar kept strengthening, competitiveness in the United States would be lost if one started by comparing the Fund's pay line against the international market.

Mr. Warner agreed with Mr. Grosche that the first step was to ensure competitiveness in the primary market since variables affecting international competitiveness made the latter a more contentious issue. The

Director of Administration had indicated that he would recommend against the provision of special allowances, but did he include recruitment premiums in that category?

The Director of Administration considered that recruitment premiums would eventually distort the Fund's staff compensation policy and would not resolve staff members' career-oriented concerns. As he had mentioned before, it did not seem logical to offer a recruitment premium to economist program recruits but to eliminate that premium at the time that the recruit was deciding whether to make a career with the Fund as a regular staff member.

Mr. Warner suggested that the staff calculate a pay line that reflected margins of international competitiveness of 8 percent and 10 percent in addition to the proposed 12 percent margin. If the staff considered that recruitment premiums were not a viable option, then he would like to have more choice as to the margin to be used.

Mr. Posthumus said that he supported Mr. Grosche's proposal that the staff set out the methodology behind the pay line. He considered it too early to begin any discussion on allowances.

The Director of Administration said that it would be difficult for the staff to determine the precise percentile relationship to the market that various pay lines had. Hay Associates was in control of the data and the consultants had provided the Fund with pay lines at various percentile relationships.

The staff representative from the Administration Department said that one of the more serious problems with the data was the lack of reliable percentile information on the U.S. public sector. Accordingly, an "average plus percentage" formula would have to be used as a proxy for any percentile relationship with the public sector; for example, the 75th percentile had been approximated by the average plus 10 percent formula. Some more judgmental issues would also come into play. Hay Associates had provided data on the basis of the 75th, 80th, 85th, and 90th percentile relationships to the U.S. private sector for both the industrial and financial markets. Those data were unweighted, so that they did not correspond to the 75th percentile information in the staff paper, which had been functionally weighted. The staff paper showed that the proposed pay line was approximately 11 percent above the 75th percentile of the U.S. market. The 75th percentile line could be tilted to be higher at lower levels and lower at higher levels, but it would still be, on average, 11 percent lower than the proposed pay line. She had made some estimates of the 80th and 85th percentile lines, but in each case a judgment had to be made on how the line would be tilted. The average difference between the proposed pay line and the 80th percentile pay line was 8-9 percent, and between the proposed pay line and the 85th percentile, about 6 percent. She could prepare for Directors an illustration of that process.

Mr. Enoch noted that the extrapolated pay line for support staff was related to the market, although at a higher percentile relationship than the 75th. He would remind Directors that the JCC had suggested extrapolation as an interim solution only. Some Directors' comments had implied that it might be more permanent, but time constraints dictated that the longer-term solution be decided upon at a later date. On a related matter, he would welcome information on recruitment and retention figures for the support staff.

Mr. Grosche remarked that some Committee members, including himself, had considered that it would be advisable to derive support staff salaries through extrapolation permanently, both because of the lack of data on support staff and because of the goal of internal relativities.

While he recognized the extent of the work being requested of the Administration Department, Mr. Grosche said, he did consider it important to undertake a percentile analysis of the U.S. market in order to establish at which percentile the Fund would be competitive. It was clear that a great deal of judgment was involved in deriving a pay line from the U.S. market, particularly given the fact that the U.S. market reflected a very steep pay line, which would have to be modified in order to meet the Fund's internal needs. The fact that such tilting at the same time improved the Fund's competitiveness at the lower ranges was a welcome outcome, but the pay line could not be tilted so much that the Fund lost competitiveness at the A15-B2 levels. He would be wary of trying to reach a solution by taking away compensation that the market suggested for the higher grades and giving it to the lower grades while maintaining a constant percentile relationship. It was probably necessary to use a higher percentile relationship in order to be equally competitive across the board.

Mr. Warner remarked that tilting the U.S.-based pay line in order to suit the nature of the institution raised the lower end of the pay line, which in turn distorted an extrapolated pay line for the support staff.

The staff representative from the Administration Department said that the proposed pay line for the support staff was extrapolated from the internationally competitive pay line, which contained a 12 percent margin. That latter line was significantly higher than the U.S. 75th percentile, and indeed than most U.S. percentile relationships. She did not consider that any purely U.S.-based pay line, even if it were tilted, would raise the support staff pay line that was extrapolated from it. In fact, downward extrapolation of the U.S. 75th percentile pay line would probably produce a support staff structure that would be about 10 percent below the Washington market-based pay line.

The Assistant Director of the Administration Department recalled that the question of nonsalary allowances had been brought up at the time of the Kafka Committee report, when the market had suggested higher increases than were considered politically acceptable. As a result of that situation, the Fund had introduced the settling-in allowance, which was regarded as a form of recruitment allowance, and the separation grant, which effectively added two weeks salary for each staff member each year and was distributed upon a staff member's resignation. Those benefits were perceived as a trade-off for a lower salary increase than had been warranted. It might have been better if the increases had in fact been firmly entrenched into the salary structure.

When the JCC met in 1984 and first discussed benefits, the Assistant Director of the Administration Department continued, the settling-in allowance, which had been introduced in 1980 to attract expatriate staff, and the separation grant, had been attacked by one of the Committee members. In fact, the JCC had proposed to halve the separation grant. It was as a result of that experience that the Staff Association Committee and the staff at large was skeptical of using devices other than an increase in the salary structure to meet the Fund's competitiveness needs. The lessons of the past should convince the Board that the most equitable solution was to provide a salary structure that was internationally competitive and met the needs of the organization both externally and internally.

Mr. Grosche agreed that the Board, in introducing a new compensation system, ought to implement it with confidence and authority. Having said that, the termination grant did have features that were quite justifiable, and the fact that the JCC had recommended not to completely do away with it supported that point. It was true, however, that the grant had been introduced as a type of trade-off for an increase in salaries that had been considered politically unfeasible.

The Acting Chairman remarked that the staff, in preparation for the next informal session on compensation, should examine the implications for the salary structure of the U.S. pay line at different percentiles. Directors had expressed the view that the salary structure should be competitive with the U.S. market and that adjustments to the U.S. pay line would be preferable to making adjustments in the form of special allowances.

Mr. Grosche reiterated that he was very much interested in establishing a methodology for future negotiations. While it was important to resolve the compensation issue as soon as possible, at the same time the introduction of a new system ought not to be rushed since precedents were being set for the future. Certainly, the salary structure ought to be competitive in the U.S. market before the matter of international competitiveness was considered.

The Executive Directors then adjourned their discussion of the principal elements of the proposed compensation and salary structure.

LEO VAN HOUTVEN
Secretary