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To: Members of the Executive Board
From: The Acting Secretary
Subject: Recent Experience in Recruitment and Retention

There is attached for the information of Executive Directors a paper on the Fund's recent experience in recruitment and retention of staff.

Mr. Swain (ext. 6565) or Mr. Goltz (ext. 7387) is available to answer factual questions relating to this paper.

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Department Heads

INTERNATIONAL MONETARY FUND

Recent Experience in Recruitment and Retention

Prepared by the Administration Department

December 5, 1988

Recently the Fund has been encountering increasing difficulties in recruiting suitably-qualified career staff, particularly for its two main career streams of economists and secretaries. There has also been a material increase in the number of highly-regarded professional and support level staff who have resigned after only a few years in the Fund's service. These developments are of particular concern at a time when the demands on the institution are very high and staff resources are under strain. If action is not taken to reverse the current trends, the ability of the Fund to carry out its mission in the future could be seriously undermined. This paper reviews the Fund's recent experience in recruitment and retention, and seeks to identify some of the main reasons for the present problems.

1. Recruitment Experience

a. The Economist Program

The Economist Program, which was instituted in late 1970, has become the Fund's primary source of career economist staff. Approximately 40 percent of the Fund's current stock of career economists, and around 50 percent of new entrants into the economist stream, have been recruited through the Program. Up to 25 young economists each year are admitted to the Program, and a rigorous selection process assures that only the most qualified candidates, representing as wide a nationality distribution as possible, are chosen.

Since the Program began, 57 percent of participants have been recruited from universities in the United States and Canada. This reflects the fact that in North America there are a large number of universities which offer advanced training in macroeconomics, and which attract students from around the world. Program participants recruited from U.S. universities have included nationals of 40 countries. The other major recruitment source has been universities in European countries, from which 35 percent of Program participants were recruited.

In the last two or three years, it has become increasingly difficult to attract suitable applicants for the Program. For example, from 11 of the top-ranked U.S. universities which traditionally have proven a rich source of candidates, the number of applications received this year is 30 percent lower than the number received last year. There has also been a disturbing increase in the rate of rejections by applicants who, having successfully passed through the interview and selection process, were offered places in the Program. Historically, the great

majority of successful candidates have accepted the Fund's offer: in 1988, however, having increased to over 20 percent in the 1985-87 period, the rejection rate rose sharply to 40 percent, with 16 out of 40 offers declined. This is more than double the average rate experienced prior to 1985.

One important factor in these recruitment difficulties seems to be that the supply of highly-trained macroeconomists emerging from U.S. universities, which had remained fairly stable over the years, has begun to decline. The number of economists entering the 1989 job market from the eleven top-ranked universities referred to earlier is 20 percent lower than last year. Another is that other employers are competing strongly for economists with the qualifications required by the Fund. There has been a particularly strong resurgence in demand for economists to fill faculty positions in the universities themselves, following a period of restricted hiring in the late 1970s and early 1980s; this is expected to continue for at least several more years. Many potential candidates for Fund positions are attracted by the advantages associated with academic employment, including generous facilities for individual research and the opportunity to supplement salary with consulting income. A few have also referred explicitly to perceived drawbacks of Fund employment, including the lengthy time period normally required for advancement to a supervisory position, more burdensome work responsibilities, and limited research opportunities.

In the past, the Fund was able to offer highly competitive starting salaries which helped to offset these perceived disadvantages. In recent years, however, this competitive margin has been substantially eroded, due to the sharp and continuing rise in salaries paid by U.S. academic institutions and other employers with whom the Fund is competing. Of the 16 candidates (representing 11 different nationalities) ^{1/} who declined offers to participate in the Economist Program this year, 14 accepted positions with other employers located in the United States. Eight of these have taken up teaching and research posts at universities at starting salaries which, on average, are only marginally (2.5 percent) lower than the gross equivalent of the salaries offered by the Fund, while two have taken up similar posts at business schools at salaries 40 percent higher than those offered by the Fund. In addition, several have received annual housing allowances of between \$8,000 and \$10,000. A further three individuals rejected the Fund's offer in favor of public sector employment. Of these, two have joined the Federal Reserve Board at salaries 5 and 7 percent, respectively, below those offered by the Fund; one of the employment incentives offered to them by the Board was the opportunity to undertake research work. The third opted for a staff position with the Senate Budget

^{1/} United States (6), Canada, India, Iran, Italy, Korea, the Netherlands, New Zealand, Peru, Sweden, and United Kingdom.

Committee at a salary 20 percent higher than that offered by the Fund. The remaining individual has joined the World Bank's Young Professional Program.

The information obtained from these individuals corroborates the findings of a survey recently carried out for the Fund by Hewitt Associates on starting salaries offered by the Fund's major competitors in the United States. ^{1/} This survey concludes that by early 1988 the competitive salary margin formerly enjoyed by the Fund had been severely eroded, and in the case of business schools completely eliminated. It seems likely that within a year or so the small competitive edge still retained over U.S. universities will disappear altogether: during recent recruitment visits to U.S. universities, several placement officers indicated that they expect starting salaries for the coming academic year to be at or close to \$50,000 gross, ^{2/} which corresponds to the current EP starting salary. The absence of a salary premium will make it very difficult for the Fund to compete successfully for the best candidates in this market. It is also known that the Federal Reserve Board is currently undertaking a compensation survey with a view, inter alia, to improving the competitiveness of its junior economist entry level salaries.

The decline in the number of candidates from U.S. universities has been accompanied by increasing difficulties in attracting suitably qualified applicants from universities in Europe. Because of the different ways in which the European employment markets are organized, statistical data such as exist for the United States market are unavailable. However, on the basis of recruitment experience and information from recruitment contacts, a clearly discernible trend is evident. Recruitment from U.K. universities, once the predominant source of candidates in Europe, has declined significantly in recent years. While intensified recruitment efforts in other European countries, especially France and Germany, had started to yield results, the response since early 1987 has been very disappointing. Information from recruitment contacts in Europe indicates that there is a strong local demand for economists, particularly from the financial sector, while in many cases the supply is shrinking. This has driven up salaries to the point where, at prevailing dollar exchange rates, the Fund compensation package is no longer attractive.

b. Fixed-term and regular economist staff

Outside the Economist Program, the Fund is also facing increasing difficulties in attracting experienced, mid-career candidates for both

^{1/} A summary of the survey results was presented in Attachment I to the memorandum on Recent Experience in Recruitment and Retention from the Director of Administration to Executive Directors (April 20, 1988).

^{2/} This figure does not include consulting income which, particularly after the individual has become established in the university, can substantially raise total annual income.

short-term secondments and long-term employment. Despite increased recruitment efforts, which have kept the overall volume of applications fairly high, there has been a significant reduction in the number of applicants who possess the necessary qualifications for Fund work. There is little doubt that the demand for macroeconomists has increased, especially in the industrial countries, and that among the pool of applicants available to the Fund there is a diminishing incentive to relocate to Washington. Despite the fact that only the most serious applicants, with a strong motivation to work for the Fund, pursue their application as far as the offer stage, out of the 31 candidates who were offered economist positions over the past year, five declined. These included an Australian national, who took up a higher paid alternative offer with the OECD, and a Malaysian national who, taking into account his wife's employment situation and the cost of living in Washington, decided that the Fund's compensation package provided no inducement to move.

c. Secretarial staff

The Fund, like other organizations in the Washington area, is also confronting a very tight market for competent secretarial staff. The situation is particularly difficult for the Fund, however, because of a growing shortage of candidates who possess the special combination of technical, linguistic and personal qualifications needed by the Fund - qualifications which only come with extensive training and experience. An informal survey of organizations in the area indicates that, while few require the shorthand skills demanded of Fund secretaries, they are often prepared to offer salaries in excess of those offered by the Fund. Where shorthand skills are required, mainly in law firms, starting salaries of 20 percent or more above Fund starting salaries are often paid. The Fund's declining competitiveness in the secretarial market is particularly disturbing at a time when the support staff resources of departments are already tightly stretched in coping with a heavy workload.

2. Retention Experience

a. Staff in Grades A9 and above

The rate of total separations from the professional staff (Grades A9 and above) has remained fairly constant over the years in the 4.5-5.5 percent range, with the exception of 1987 when it rose sharply to 9 percent, reflecting the impact of the Early Retirement Assistance Scheme. Total separations include staff leaving the Fund at the expiration of a fixed-term appointment, and those taking mandatory retirement at the age of 65. They also include two very important groups, namely, (i) those who resign at or after the age of 55, with an early retirement pension; and (ii) those who resign prior to this age, before they qualify for a pension.

Nearly all staff who opt for early retirement have spent a long career in the Fund, and many have moved to relatively senior levels in their career stream. As a general principle, it is in the interest of the Fund that a reasonable proportion of these individuals should retire each year, since this helps to open up advancement opportunities for other career staff coming up through the system and ensures a healthy infusion of new blood in the more senior levels of the institution. The primary concern of the Fund is to maintain a suitably balanced turnover, and to avoid a situation in which too many of its fully experienced and capable older staff choose to take early retirement in any given period. At least up to the present time, there does not appear to be any strong evidence of an unduly high turnover rate among this group of staff.

There is, however, ground for concern about recent trends in resignations among staff members who are too young to qualify for an early retirement pension. This is the group which the Fund must rely upon for its long-term career staff, and turnover rates among this group - particularly among the more highly-regarded members of the group - are a significant indicator of the Fund's ability to maintain a qualified and experienced career staff in the future. Experience has shown that the great majority of voluntary resignations are likely to occur in the initial years of service, when recruits are still relatively young, still retain links to the employment market, and thus remain relatively mobile. A staff member who stays longer tends to become committed to the institution as his ties with the market diminish, his family becomes firmly established in Washington, and his choice of the Fund as the place he wishes to pursue a career is confirmed. Thus, as would be expected, over 50 percent of the voluntary resignations among this group in the 1983-88 period occurred during the first five years of service.

An examination of data for the past decade shows the emergence in the last two years of a pronounced upward trend in the voluntary resignation rate of younger staff members i.e., those under 55. This rate, which averaged 2.3 percent in the period 1977-80, declined to 1.4 percent in 1981-84. It increased to 2 percent in 1985-86 and rose further to 2.7 percent in 1987-88. It is particularly disturbing to note that economist staff accounted entirely for the increase in 1987-88; the voluntary resignation rate for economists rose to 4.4 percent, having averaged 2.4 percent over the preceding four-year period. Of added concern has been a significantly higher proportion of resignations in the past year involving staff members who were highly regarded by the Fund. Thus, while 35 percent of those who resigned in the period 1983-87 had performance records which suggested that they were highly regarded, 54 percent of those who left during the past year had performance records in this "highly regarded" category. These are the individuals who find it easiest to get alternative employment, and whom the Fund can least afford to lose. Interviews with a number of current staff members who joined the Fund within the last few years indicate

that a certain ripple effect is occurring, in that several of them also are actively exploring employment possibilities outside the Fund.

A major factor contributing to this situation has been a strengthening in the job markets of the industrial countries. This is evidenced by the fact that, of the 28 staff who resigned during the past year, 12 took alternative employment in the United States and 11 in European countries. Exchange rate factors undoubtedly also played a major role in the decision of those who relocated to Europe, almost all of whom indicated that they would be earning salaries equal to or greater than their Fund salaries.

b. Staff in Grades A1-A8

Mirroring the experience with staff in Grades A9 and above, the voluntary resignation rate for staff in Grades A1-A8 has shown a marked increase during 1987-88. After averaging around 3.4 percent for a number of years, the rate increased by approximately one-third, to 4.5 percent, in each of the last two years. In large part this increase reflects the competitive employment opportunities for secretaries in the local market. It is significant to note in this connection that, whereas in past years the average length of service of those who resigned was 5.4 years, during 1988 those who resigned averaged 10.4 years of service. This would appear to confirm that prevailing market conditions are highly favorable to secretaries, particularly the more experienced and able ones whom the Fund would wish to retain.

3. Conclusion

The emergence of the negative trends in recruitment and retention experience, as outlined in this paper, is already having adverse effects on the Fund's ability to properly conduct its business. The recruitment difficulties, combined with the larger number of voluntary resignations, are reflected in a sharp rise in the average number of staff vacancies over the past two years; during this period, the staff vacancy rate increased by 25 percent. Not only has this added significantly to the operational work burden of existing staff, it has also required departments to devote additional time and resources to personnel issues including the selection and reallocation of staff. Moreover, with a decline in the supply of suitably qualified candidates, the Fund faces the prospect of having to lower its recruitment standards and, thereby, the quality of its staff. At a time when work pressures are severe and staff resources are pressed to the limit, this prospect is a disturbing one which the Fund will need to address as it reviews its current compensation and personnel policies.

In the personnel area, a number of measures designed to improve the current situation have already been taken or are currently being considered. Recruitment activities are being expanded, both in terms of

the breadth and numbers of government agencies, research institutions, and universities visited, as well as the amount of publicity given to the Fund's recruitment drive. Additional efforts will also be made to ensure that the most highly-regarded staff receive timely feedback on their contributions and career prospects, and that challenging assignments are made available to them. Recruitment and retention trends will continue to be monitored very closely over the next year. While the experience of the past two years is certainly cause for concern, it is hoped that these and other personnel measures, to be developed over the coming years, will strengthen the Fund's ability to recruit and retain a well-qualified and geographically diverse staff. Critical to the success of these efforts, however, is the Fund's adoption and maintenance of a competitive compensation policy.

