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# Advisory Committee

*on Senior Level Retention  
and Compensation*

FIRST REPORT: JANUARY 1998

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FIRST REPORT OF THE ADVISORY COMMITTEE ON SENIOR LEVEL  
RETENTION AND COMPENSATION

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# Preface

**A**s Chairman of the Advisory Committee on Senior Level Retention and Compensation, I am very pleased, on behalf of the Committee members, to submit our first report to the President of the Treasury Board. The Committee has learned much about the federal Public Service in the past nine months. In the process, we have received excellent input from central agencies, as well as current and past public sector executives and leaders in the business community.

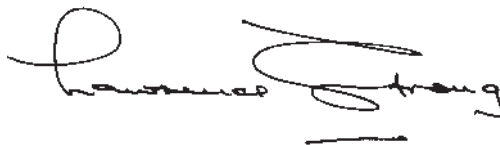
This first report contains our analysis of the current situation and highlights what we believe are the critical issues and opportunities as Canada enters the new millennium. It is evident that, to remain competitive as a country, we will require continued exceptional leadership, creative thinking and new operating skills and competencies from the public sector. However, if current trends persist, we clearly see a potential human resource deficit within the senior ranks of the Public Service. If left unaltered, this situation would represent a major challenge to the quality of the Public Service and, inevitably, to Canada's economic well-being.

As the Committee has been asked to serve for three years, the recommendations contained in this first report address the concerns we consider most pressing or requiring urgent attention. I refer specifically to the Public Service vision for the future, the need for cultural and human resource renewal, and compensation. We feel strongly that these recommendations represent an essential investment in the future excellence of the federal Public Service and that there will be a tremendous cost if no corrective action is taken.

With respect to compensation in particular, our recommendations focus on three different levels, namely, principles, structure and implementation. In doing so, we have tried to present solutions that are both fiscally responsible and equitable.

I look forward to discussing both our findings and the specific recommendations we have identified. My Committee colleagues and I are prepared to deliver the key messages to the public and will endeavour to seek out opportunities to do so.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Lawrence F. Strong". The signature is written in a cursive style with a large initial "L" and a long horizontal stroke at the end.

Lawrence F. Strong



# The Future of the Public Service

*Canadians and their elected representatives have long enjoyed an ethical, non-partisan and professional Public Service — a Public Service respected as one of the best in the world. We believe that these core values need to form the foundation for the Public Service in the next millennium.*

The context in which government is operating has changed fundamentally in the past decade. Citizens are demanding greater accountability, improved service, greater openness, enhanced accomplishment and, above all, results. In a world of greater economic insecurity and scarce resources, citizens require more effective social programmes that pool risk while creating opportunities for them to work and to be self-reliant. The corporate sector requires a competitive framework of laws and skilful representation abroad if it is to succeed in global markets. And all of this needs to be accomplished in an efficient way. These challenges will require exceptional leadership, creative thinking, and new operating skills and competencies — whether Public Service employees are negotiating global trade agreements, managing new service delivery mechanisms, or responding to the needs of citizens.

While we do not wish to sound overly dramatic, it is our view that the government has reached a watershed with respect to the quality of the Public Service leadership group. To continue the current approach to human resources will lead to an inevitable weakening of this cadre. Not only will departures accelerate over the short term, but the Public Service will not be able to attract and retain the people it needs to replace the very high proportion of managers expected to retire in the next decade. This, in turn, diminishes the country's economic potential and could even pose a risk to the government's credibility. On the other hand, an opportunity exists today to articulate a new vision for the Public Service

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entering the next millennium. This vision should set high standards of performance and restore a sense of pride and hope for all employees, especially the cadre responsible for leading and managing the system. Supporting this vision should be a revitalized human resource strategy, modernized structures and a new Public Service culture. Such a ‘high performance’ Public Service will not only serve all Canadians better but will also contribute to Canada’s economic well-being and global competitiveness.

Necessarily, our initial priority has been to understand today’s environment and identify immediate human resource issues that need to be addressed. Since the Advisory Committee has been asked to serve for three years, this first report provides recommendations for dealing with only the most pressing concerns, namely the Public Service vision going forward, the current low morale and in particular cash compensation, and the issue of renewal.

# Where does the Public Service Stand Today?

**D**uring the nineties, the federal government has undertaken a comprehensive renewal initiative, 'Getting Government Right.' Many of the outcomes are well-known publicly, particularly the improved fiscal health of the country, the downsizing of the Public Service and new service delivery models. What is less well recognized is the considerable human resource challenge of managing this unprecedented change in the public sector.

There is an urgent need for a compelling, widely understood vision of where the Public Service is going. An effective programme for managing the extensive change that has occurred requires such a vision. This vision can best emerge through a meaningful debate on the role of the Public Service in Canada. Such a debate could also help reduce uncertainty about the future and address poor morale, which some argue is at an all-time low.

As the government has moved to deal with the country's financial crisis, concern for the senior people in the public sector does not appear to have received adequate attention. The extended pay freeze has not only affected their standard of living but has served to undermine their sense of the importance of the jobs they perform. Senior managers perceive themselves as unappreciated by the public they serve and undervalued by the government that employs them. This, coupled with the loss of 30 per cent of their colleagues through downsizing, more limited job opportunities and promotion prospects, and the increasing demands on their time, has further contributed to the poor morale. As a result, good people are leaving at a time when government needs the best and the brightest. In short, the Public Service is no longer able to retain the people it needs and frustration among those who stay could eventually impact productivity negatively.

*The Public Service is no longer able to retain the people it needs.*

*The Public Service leadership has begun the difficult challenge of reinventing human resource strategies and much has been accomplished.*

The Public Service leadership has begun the difficult challenge of reinventing human resource strategies and much has been accomplished. The major initiatives fall under the umbrella of *La Relève*. In fact, there is considerable convergence between the work being done by the team of deputy ministers and our own Advisory Committee. However, there are three important differences. Firstly, our Committee is looking at senior management only and not at the entire Public Service. Secondly, our perspective is from the outside looking in. Thirdly, as an independent group, we will make specific recommendations about compensation, which is, without question, the most important factor in restoring morale in the short term. In the Committee's opinion, work must continue to ensure there is an integrated set of actions and clear priorities for managing human resources. Since, in the past, several human resource initiatives have fallen well short of expectation, it is also critical that current efforts be translated collectively into tangible results.

As we have gone about our work, we have been exposed to many examples of the Public Service culture as it relates to human resources. While there are very good arguments for treating the executive group as distinct, the impression given is that this has not really been the case in the past. Negotiated benefits are 'passed along'; salary awards tend to be 'across the board'; performance management systems are not discriminating; past practice is a major determinant of behaviour. From a private sector perspective, responsibilities for managing human resources appear to be organized in a way that is unnecessarily complex and administration seems to be overly burdensome. We suspect that one of the reasons behind this lies in the patchwork quilt of historical regulation that impacts human resource management in the Public Service. This is a topic we will review in the future.

Against this background, we wish to focus in this report on the two most critical problem areas in human resource strategy — compensation and future quality of the Public Service. However, we have also been exposed to a comprehensive list of other workplace issues and human resource challenges. Their absence from this report does not necessarily reflect a Committee view that change is not required. It merely reflects our decision to focus on immediate priorities in this first report.

## COMPENSATION – DEPUTY MINISTERS (DMs) AND EXECUTIVE (EX) COMMUNITY

In our view, compensation policy should be designed to attract and retain the appropriate calibre of employees to achieve an organization's objectives. Such compensation policy needs to be internally equitable, to be responsive to the economic and social environment, and to encourage and reward outstanding performance. Salary is usually the major driver of such policy. Salary depends upon responsibility, individual performance and comparability with relevant markets. Typically, standard practices and techniques are used to evaluate each of these objectively and transparently.

### MEASURING RESPONSIBILITY

The Public Service historically has used a job evaluation system based upon the Hay management methodology. Consistently applied, this forms a good basis for measuring relative responsibility. However, since the salary freeze and despite high levels of reorganization, there has been a decline in the proportion of jobs being evaluated. For example, on January 1, 1992, two levels of Public Service management (the former SM and EX1) were regrouped into a single pay band and classification level, the new EX1. At that same time, and in an ongoing way since, there were other significant changes — delayering, downsizing, and reorganizations. The impact of these changes on individual job responsibilities is, in many cases, unknown today. Furthermore, the most senior positions, deputy ministers, have not been evaluated using Hay.

### COMPARING COMPENSATION EXTERNALLY

Prior to the salary freeze of 1991, the Burns Committee had established clear principles for external compensation comparisons: first level managers should receive total compensation on a par with the private sector and compensation at higher levels should be derived from internal relativities. External measures were routinely made through surveys and those were used to recommend changes to salary structure as well as actual salaries. The freeze of both ranges and salaries has created a significant discontinuity and external comparisons have not been rigorously made for some time. As a result, the Committee has, through William M. Mercer

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Limited, benchmarked today's compensation against various groups, namely the provincial public services, a 'third' sector comprising municipalities, utilities, hospitals, universities and other not-for-profit associations, and then the private sector. In this report we will refer to this 'third' sector as the broader public sector. It should be stressed that we have chosen to use as our key measure *total* compensation, which includes salary, variable or incentive pay, pensions, other fringe benefits, perquisites and conditions of work.

The survey results are summarized in Figure 1 and the major conclusions are:

- For jobs of similar content, scope and responsibility, senior federal public servants have total compensation that is:
  - ahead of the provinces in most instances,
  - less than the broader public sector, and
  - significantly less than the private sector.
- The shortfalls compared to the private sector increase markedly for the higher level positions.
- The major differences lie in base salary and incentives (variable pay).
- Pension arrangements are generous in the Public Service. However, since employee contributions are relatively high, the cost to the government is not broadly out of line with the comparator groups. The only exception is the plan for deputy ministers which, in percentage terms relative to salary, is more costly than in the private sector.
- Differences between sectors tend to even out in other fringe benefits, conditions of work and perquisites.

## ESTIMATED MEDIAN VALUE TOTAL COMPENSATION

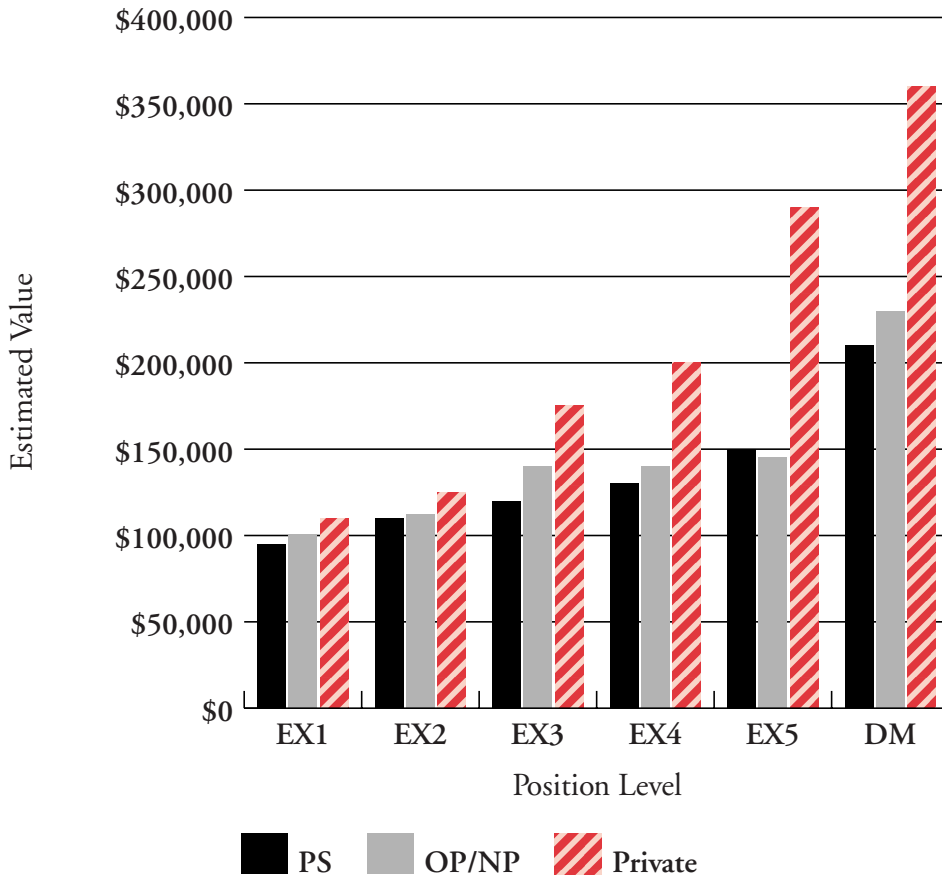


FIG.I. COMPARISONS OF TOTAL COMPENSATION

A number of academic and private sector studies indicate that, below the executive level, federal Public Service employees receive salaries comparable to or higher than those in the private sector. Since this is beyond our mandate, we have not sought to verify this result rigorously. However, the studies have fostered public resentment of the job security and pay arrangements for the bargained groups in the federal Public Service which has also carried over to the senior ranks. That resentment appears, in turn, to have discouraged the federal government from compensating the executive group appropriately, even when evidence has been solid that their compensation falls well short of comparator groups.

## INTERNAL EQUITY

One of the most undesirable side effects of the salary freeze is that many managers are no longer being paid in relationship to their current performance. This is a fundamental flaw. The problem is most acute at the EX1 level, where over two-thirds are being paid at a salary well below the job rate, i.e., the rate of pay merited by sustained, fully satisfactory performance in a job. Managers who were low in their range at the start of the freeze have been denied performance-justified movement to the job rate for five years. The extent of this problem tends to diminish at higher levels, although it is still material at the EX2 level.

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## DISTRIBUTION OF EXECUTIVE GROUP BY SALARY INTERVALS

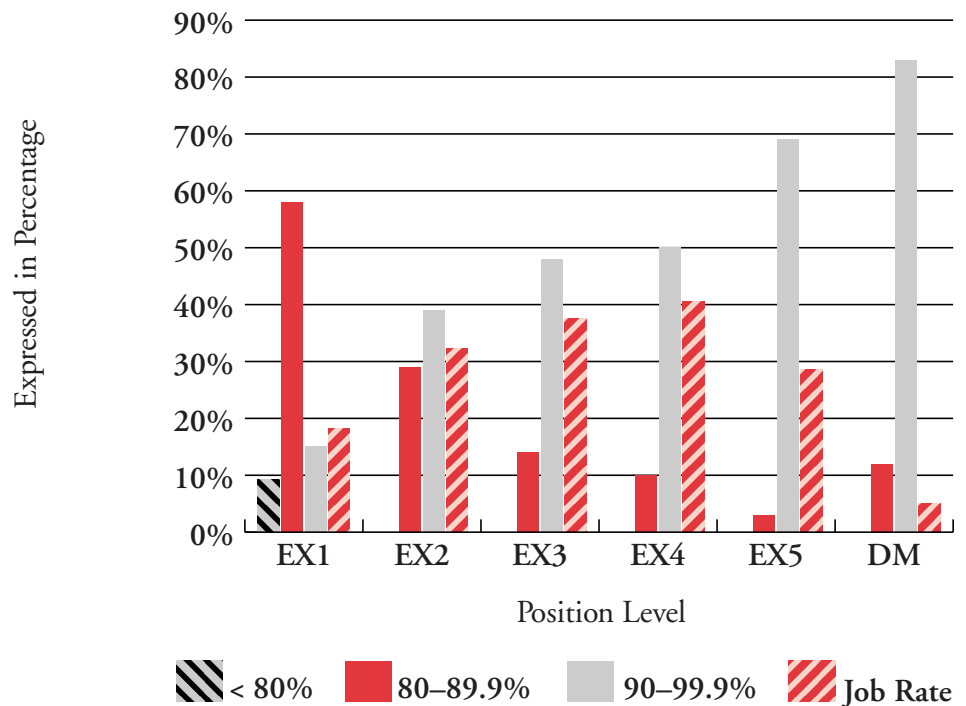


FIG. 2. INTERNAL EQUITY: DISTRIBUTION IN SALARY RANGES



A second problem is that the freeze has severely restricted management's ability to correct known inequities. For example, numerous managers at the EX1 level have subordinates who are being paid more than they are. While the lack of an integrated human resource management information system has denied us a complete picture, a sampling of five departments has established that the problem is real. Layer on top of this situation a high incidence of compression (salaries for different levels of responsibility which are very close) and the fact that a manager's unionized subordinates receive overtime whereas the manager does not, and there is a severe problem of equity.

There are also examples of compression between management levels. For example, despite the fact that they are performing higher rated jobs, the lowest paid 25 per cent of EX2 managers are being paid in the same salary band as the highest paid 25 per cent of EX1 managers.

These significant problems notwithstanding, our greatest concern is that the differentials between job rates are inadequate. The current spreads simply do not reflect the far greater responsibilities of the most senior managers.

And finally, there has been a reluctance to deal with pay for individuals who assume temporary assignments at a higher level. As the length of time of these assignments has extended during the intense period of organizational change this has become a source of great irritation, and has further undermined the integrity of the entire salary infrastructure.

## PERFORMANCE PAY

A review of actual salary administration practices over the past years indicates numerous inconsistencies in approach to what today is called performance pay. Where unionized workers move through their salary ranges in automatic annual increments, executives were expected to earn such movement through performance. The system was established in 1981, when the government moved away from traditional job ranges consisting of a minimum, a job rate and a maximum. That portion of the range between job rate and maximum (approximately 15 per cent of job rate) was eliminated, thus capping salaries at job rate. In its place a system of performance pay was introduced. This performance pay which, in any year,

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could be up to 10 per cent of job rate for an individual, has assumed various guises but can best be described as a form of re-earnable merit pay for those managers at job rate. For those below job rate, it constituted a means to move to the job rate.

However, performance pay has been implemented in only 7 of the 17 years since 1981. For executives, this has meant no movement through the range in 10 of the last 17 years. And even when performance pay has been implemented, it has been done in a way that is far from ideal (see Appendix D for complete history). As a result, the concept of performance pay has been totally discredited, despite its merit in principle. Performance pay is seen as neither linked to achievement of business plans, nor as transparent and fair. Further, its rather checkered history has created an alarming lack of trust between senior levels of the Public Service management and the government.

## PERFORMANCE MANAGEMENT

While some excellent experiments on performance management have begun, there is still discomfort in setting quantified goals against which performance can be evaluated. We should add that, for some positions, this is not easy and, for certain Governor in Council appointees, not even desirable. No doubt influenced by the highly constraining salary programmes in the recent past, as well as by an apparent reluctance to really reward outstanding performance, the culture appears to be one of ‘averaging out’ — almost sharing around whatever funds are available.

The introduction of disciplined planning processes into the way the government carries out its business is an important recent development. This initiative needs to be continued and refinements made as further experience is gained. It is the creation of business plans with quantified goals, together with a clarified understanding of how the different departments and agencies interact horizontally, that will permit a more effective regimen for evaluating the performance of senior managers.

## SUMMARY

For reasons of history, past salary administration practices and the politics of compensation, the DM and EX compensation schemes today exhibit significant internal inequities as well as major gaps or inequities when measured against

comparable external groups. However, no single solution is appropriate to all DM or EX members. When measuring total compensation, the most significant inequity is found at the more senior executive levels and among deputy ministers. At these levels, the job rate is significantly lower than not only the private sector but also the broader public sector. A different problem exists among EX1s and, to a lesser extent, EX2s. If executives were being paid at the job rate, they would be close in comparability to the broader public sector. However, many are paid far below the job rate and, in many cases, are paid less than their subordinates. It is therefore clear that immediate attention should be given to the gap between actual pay and job rate at the EX1 and EX2 levels. For more senior executives, the solution resides in a change of compensation structure, to be implemented over time.

## COMPENSATION – OTHER GOVERNOR-IN-COUNCIL (GIC) APPOINTMENTS

While deputy ministers and the EX community form a logical continuum as far as scope of responsibility and hence compensation is concerned, the same cannot be said of the remaining GIC community. This latter community is very diverse. In total, it comprises approximately 500 full-time individuals who can broadly be grouped as follows:

- chief executive officers (CEOs) of Crown corporations (such as the presidents of Via Rail Canada and the Farm Credit Corporation);
- heads of agencies, advisory councils and other organizations, including some senior officers (such as the National Librarian, the presidents of the Canadian Space Agency and National Research Council Canada); and finally
- heads and members of administrative tribunals and regulatory agencies (such as the chairmen and members of the National Parole Board and the National Energy Board).

The Governor in Council is responsible for appointing these leaders and for setting their remuneration. Typically, these appointees are selected from outside the Public Service and are appointed for relatively short terms of office. Their remuneration is generally based on the level of responsibility of the job as measured by the Hay system.

*The public sector compensation freeze, which also applied to CEOs of Crown corporations, has had a perverse effect on internal relativities within the senior management cadre of these organizations and, in many cases among the larger corporations, has led to retention and recruitment difficulties.*

The first grouping, CEOs of Crown corporations, have responsibilities and accountabilities that are generally much closer to the private than to the public sector. Most are accountable to an independent board of directors appointed by the government. Chief executive officers of Crown corporations are not a homogeneous group, however. Some corporations clearly operate in a more private sector-like environment, are not dependent on government financial support and must compete with the private sector for their senior resources below the CEO level. Other corporations have a strong public policy mandate and depend on government funding.

The Hay evaluation of the CEO positions does allow for a quantitative measurement of the difference in responsibilities between the smaller and the larger corporations. There have, however, been significant changes in the mandates and scope of several Crown corporations since the compensation structures were last reviewed in 1990. Furthermore, each corporation has in place its own compensation structure for executives below the president. These structures, reviewed and approved by the independent boards referenced above, are not only beyond our mandate but are unavailable to us even to test for internal consistency with the president's compensation. However, we believe that the public sector compensation freeze, which also applied to CEOs of Crown corporations, has had a perverse effect on internal relativities within the senior management cadre of these organizations and, in many cases among the larger corporations, has led to retention and recruitment difficulties. Clearly, a comprehensive review is needed for this grouping.

The second grouping, the heads of agencies, advisory councils and other organizations (including some senior officers), are responsible for the management of their organizations and the direction of their officers and staff. The mandate of each organization is set in legislation and, although they are part of government portfolios and accountable through ministers, they enjoy a certain degree of autonomy from the government. Because these individuals occupy positions that are at comparable levels of responsibility to those of Public Service executives and deputy ministers, their salaries and terms and conditions have traditionally been similar. The Committee believes that this practice should continue. Furthermore, because of the significant managerial responsibilities attached to these positions, performance management and 'at risk' pay should also be applied.

The third grouping, heads and members of administrative tribunals and regulatory agencies, numbers more than 300 and consists of the majority of Governor-in-Council appointees.

The appointment of members of these organizations is very specific: they are appointed 'during good behaviour' and enjoy tenure similar to that of judges. This statutory requirement is imposed to ensure independence from government influence in the decision-making process. These positions are evaluated using Hay, which allows for proper determination of relativity among the various organizations. Like judges, all members of a given organization are generally paid the same salary. This practice, although sound, has raised questions in the past, particularly from heads and members of administrative tribunals and regulatory agencies. The requirement to maintain the independence of these organizations clearly supports the current practice of not providing performance pay. Nonetheless, there needs to be a mechanism to ensure these individuals progress to the job rate. The Committee would be pleased to review this particular issue in a subsequent report and provide the government with recommendations on a compensation system best adapted to the specific needs of these organizations.

The heads of these organizations provide a somewhat different challenge. Appointed as members 'during good behaviour', they are designated to serve as the head 'during pleasure'. As head, they exercise full CEO responsibilities in addition to quasi-judicial functions they may be required to perform. As we are talking about individuals at the pinnacle of their respective organizations, measuring their performance and appropriate compensation poses some interesting challenges. The main one is to ensure equity among the various individuals of this community while protecting their independence from government influence in decision making.

# Future Quality of the Public Service

**W**e have very serious concerns that the quality of the Public Service management could erode in the future. Four factors are at play:

- (1) the downsizing has already resulted in the loss of personnel with many years of experience;
- (2) today's low morale and uncompetitive compensation create a significant short-term risk of further departures, which could be influenced positively or negatively by government actions flowing from this report;
- (3) the demographics of today's senior managers suggest that retirements will create a significant resource gap in the next 5 to 10 years;
- (4) the Public Service is no longer able to attract the highest calibre of people because compensation is inadequate and these careers have a negative image in the eye of the public.

*The loss of experience and know-how implicit in this potential exodus is staggering and is likely the most significant long term Public Service issue facing the government.*

Consider first the demographics of today's senior Public Service executives. Thirty per cent of the EX1 to EX3 group will be able to retire by the year 2000 and 70 per cent by 2005. When analyzing the EX4 and EX5 groups (the DMs of tomorrow) these percentages rise to an incredible 50 per cent by 2000 and 90 per cent by the year 2005. To exacerbate matters, the group from which management candidates are selected internally has broadly similar demographics although not quite as extreme. The loss of experience and know-how implicit in this potential exodus is staggering and is likely the most significant long-term Public Service issue facing the government.

## RETIREMENT POTENTIAL 1995-2005

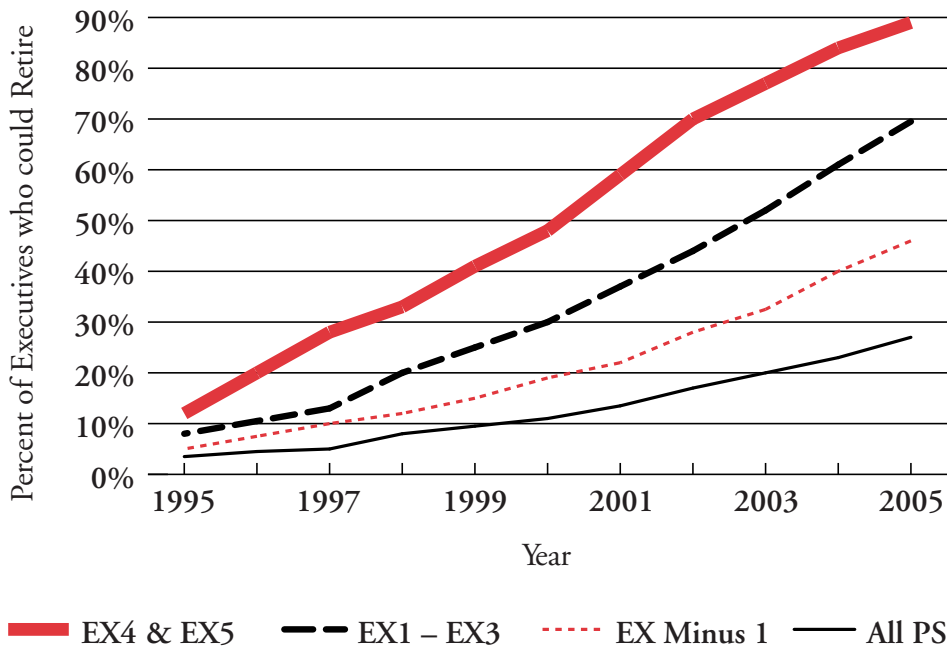


FIG. 3. POTENTIAL RETIREMENTS BY THE YEAR 2005

However, there are other shortcomings in human resource practices that are constraining the quality of management. The most significant has been the lack of movement of managers across departments. This reflects both the lack of an effective mechanism for creating horizontal movement and the insecurity felt by public servants. As a result, there are serious deficits in experience among the executives who should be candidates for promotion to more senior responsibilities. This is a major weakness from the viewpoint of human resource development.

*La Relève* has already identified these issues and programmes like the Accelerated Executive Development Programme, the Assistant Deputy Minister Pre-Qualified Pool and the collective management regime for ADMs have been initiated. These and more are required if the Public Service is to achieve a smooth transition into

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the next millennium. *La Relève* is an important first step in putting human resource management and planning issues “on the front burner.” However, all senior managers need to recognize, endorse and be held accountable for effective human resource management. Similarly, it seems highly likely that a concerted and highly targeted recruitment effort is required. With the continual public and political criticism of senior public servants, and their relatively poor compensation, it has grown increasingly difficult to attract high performers into the government sector.

The trend towards alternative service delivery, outsourcing and privatization has altered the relationships between the federal government and its partners in other economic sectors. This has created a need for different skills and competencies at the senior levels. Training and management development programmes for senior leaders need to address these trends effectively.



# Recommendations

**O**ur recommendations are made in the belief that the federal Public Service has a critical contribution to make to the well-being of our country as we enter the new millennium. While the role of government is changing, the need for high calibre leaders in the public sector is more critical than ever. The government has taken many difficult decisions in its recent efforts to deal with the financial deficit. We believe that the government needs to be similarly decisive today if it is to avoid a serious human resource deficit in the Public Service.

## I. VISION AND CULTURE OF THE PUBLIC SERVICE

The government has been engaging public servants, elected officials and interested Canadians in setting the path for Canada's Public Service into the new millennium. The Committee recommends that this initiative be expanded and formalized.

The ensuing discussion should validate and refine Public Service values as a foundation for renewal, give direction for enhancing policy capacity, and establish a credible and meaningful programme for setting targets and measuring results. A shared understanding of core values and changing roles and responsibilities, a sense of common purpose and a performance regime that helps to define and measure success should also help to inspire and challenge the Canadian Public Service and strengthen its relationship with those it serves.

The process of developing a performance management regime based upon Public Service values would itself contribute to the renewal of pride, the pursuit of excellence, and the continued evolution of the culture of the Public Service. It is important that the core values and beliefs be explicit since we believe that there is a need for both change and greater consistency.

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## 2. COMPENSATION

As observed in the previous section of this report, the senior levels of the Public Service do not form a homogeneous group when it comes to recommending appropriate changes to compensation. The Committee has therefore divided executives into two groupings. The first consists of EXs and deputy ministers and the second consists of all remaining GIC appointees. Within each of these two groupings, we have then addressed the principles on which compensation should be based. These principles have in turn led us to recommend certain compensation structures. And then finally, we have made recommendations for moving from today's regime to the proposed one. While our recommendations may need to be revisited once the visioning exercise is complete, there is a critical short-term requirement for new directions if the government is going to stem the rate of departure of key human resources.

*The competencies required to create a world-class executive group demand a human resources and compensation approach that is entirely different from that used in traditional collective bargaining systems.*

### A. DEPUTY MINISTERS AND EX COMMUNITY

#### Compensation Principles

Firstly, we recommend that the total compensation package for this management group be made quite distinct from that offered to unionized employees. This will recognize executives' very different responsibilities and will also be an important contributor to the cultural change that is needed. The competencies required to create a world-class executive group demand a human resources and compensation approach that is entirely different from that used in traditional collective bargaining systems.

Secondly, we are proposing a compensation system where the job rate, the fixed component of compensation that is paid for fully satisfactory performance, is adjusted at intervals using market comparisons of total compensation in appropriate comparator groups. The proposed compensation system would have no overtime payments or automatic annual increments. It would, however, include a considerable amount of pay 'at risk' – a variable component of compensation that is tied to corporate and individual achievement against targets, but that is integral to the total package.

Thirdly, we would like to see processes put in place which, to the greatest extent possible, remove the year-to-year administration of Public Service compensation

from the political arena. Endorsement of the principles and proposed structure would go a long way toward achieving this. We would then recommend that, at least every two years, the Treasury Board conduct an independent compensation survey amongst relevant comparator groups and implement the appropriate changes to salary scales. This intention to facilitate administration should not be confused with a lessening control of overall budgets and spending, nor the right of the government of the day to review principles and structures.

Fourthly, with respect to the appropriate external comparison for total compensation, the Committee believes that, at least until the performance management regime and visioning are complete, the Burns Committee yardstick — EX1 comparable to the private sector with higher management levels based upon internal relativities — is still appropriate. We would add as a caveat that the structure also needs, at the very least, to be competitive with broader public sector compensation. This is a new consideration. However, due to the importance and complexity of the federal positions, we believe they should be compensated somewhat above the median of the broader public sector. This is especially the case for the most senior deputy minister levels where the scope of responsibilities is far greater than in the vast majority of the broader public sector organizations used in the comparator group.

Fifthly, we do believe that the relationship between compensation of various management levels needs to be a proper reflection of the differences in responsibility. The Burns Committee consistently identified this as an issue with the current structure but it has remained unresolved. We are recommending new differentials in job rates and new salary minima.

## **Compensation Structure**

### *Salary Ranges*

The proposed new structure is driven by two of the principles enunciated earlier:

- External comparability at EX1: the proposed structure is comparable to the medians for both the private and the broader public sectors, which are very close: \$87,400 for the private sector and \$87,200 for the broader public sector. These numbers are based upon the 1997 Mercer survey results cited earlier in this report, plus the 2.1 per cent increase that Mercer's national compensation survey has projected for 1998.

*We would like to see processes put in place which, to the greatest extent possible, remove the year-to-year administration of Public Service compensation from the political arena.*

*We are recommending a new salary structure that is driven by two principles: external comparability at the EX1 level and internal relativity at the higher level.*

- Internal relativities between executive levels: a 12 per cent differential between levels of responsibility would address some of the severe compression between successive levels. There are two significant career break points which deserve a more significant step. These occur between EX3 and EX4 and between DM1 and DM2, where the increase in responsibilities merits a 15 per cent differential.

These two proposals give rise to the salary job rates shown in Figure 4.

### JOB RATES

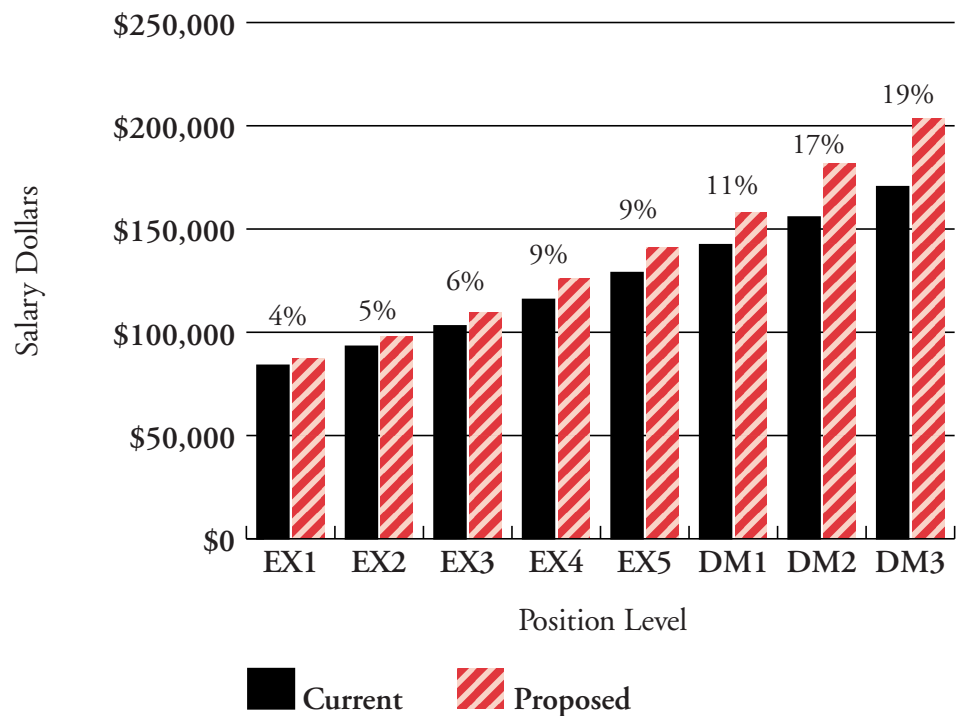


FIG. 4. PROPOSED SALARY STRUCTURE – EXs AND DMs

\* The percentages above the columns represent the increases in the proposed job rates compared to the current.

Given that the current structure dates back to 1991-92, the increases at the lower levels are relatively modest. However, as would be expected from the earlier analysis, the percentage increases do rise with responsibility.

The minimum salaries for each level of responsibility are proposed at job rate less 15 per cent. Movement through the salary ranges to the job rate will be based on fully satisfactory performance over two to three years.

### *Compensation “At Risk”*

We are recommending a new scheme of variable, ‘at-risk’ compensation that will be paid on the basis of performance measured against agreed targets and the achievement of business plans. This would replace the existing performance pay scheme. Targets would be individual, team-related, and corporate, and would encompass a range of elements including effective management of resources, leadership linked to quality service, policy advice, innovations and, most importantly, results and exemplification of core values.

Such a variable pay plan must be rooted in sound principles of performance management and must be designed to reflect the values of a Public Service focussed on the public interest. The performance management framework will have to ensure a proper balance between long- and short-term results, and between softer measures of values and rigorous measures of achievement. It would also have to incorporate feedback from diverse clients.

While the details need to be worked through, it is important that:

- a small number of targets are agreed upon before the start of each measurement period following a process which ensures client input;
- there is a mechanism for reviewing significant changes during a measurement period;
- performance is evaluated continually and annual evaluations are completed within 60 days of the end of the measurement period;
- payments are made within 60 days of the end of the measurement period; and
- the proportion of pay ‘at risk’ will increase with the level of responsibility.

Given this last point, we propose an approach that would provide opportunities to earn variable pay of 10 per cent for levels EX1 to EX3; 15 per cent for EX4, EX5 and DM1 levels; and 20 per cent for DM2 and DM3 levels.

This variable pay scheme is an integral part of total compensation. It is not paid or withheld as part of an annual review of salaries. It is paid or not paid on the basis of actual performance compared to agreed targets.

*We are recommending a new scheme of variable, ‘at-risk’ compensation that will be paid on the basis of performance measured against agreed targets and the achievement of business plans.*

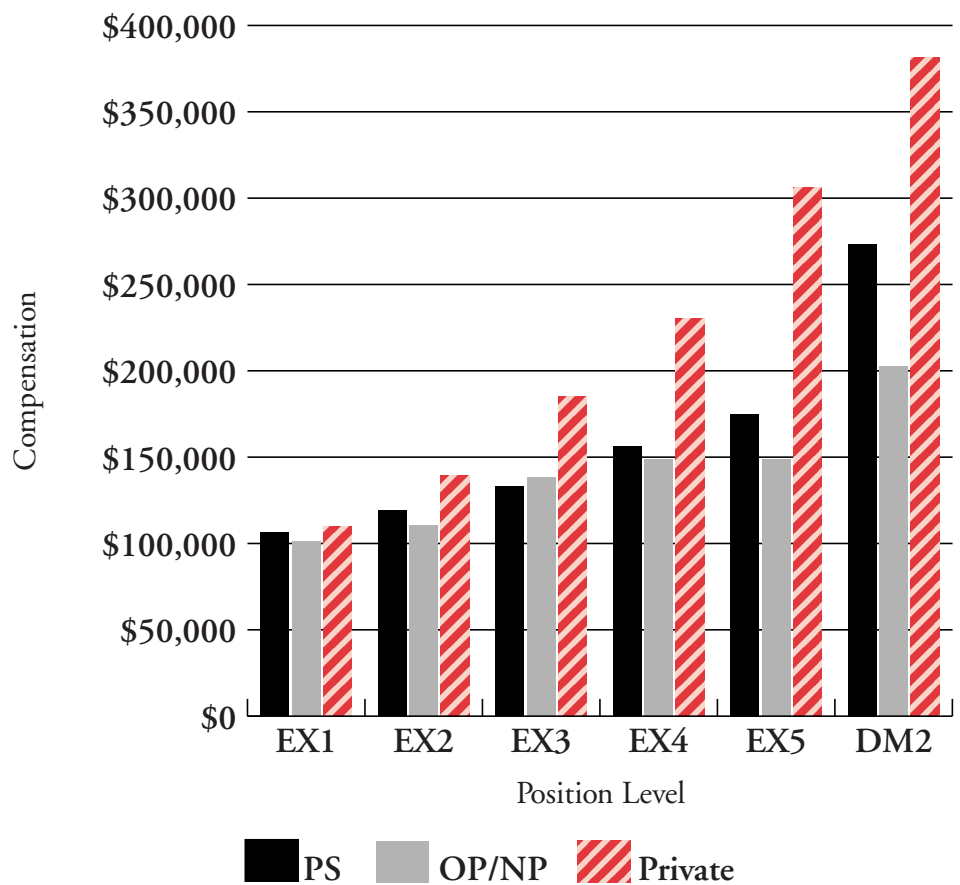
*A variable pay plan must be rooted in sound principles of performance management and must be designed to reflect the values of a Public Service focussed on the public interest.*

The Committee will review whether or not this ‘at risk’ compensation should be pensionable prior to its implementation and following a detailed review of the total pension arrangements.

**External Comparability of Total Compensation Recommendations**

The graph below compares the proposed total compensation for EX1 to EX5 and DM2 (our survey did not find sufficient job matches at the DM1 and DM3 levels) with comparable jobs in the broader public sector and the private sector.

**PROPOSED TOTAL COMPENSATION**



**FIG. 5. PROPOSED TOTAL COMPENSATION – EXTERNAL COMPARABILITY WITH BROADER PUBLIC SECTOR AND PRIVATE SECTOR**

The proposed structure matches the broader public sector quite closely at the lower management levels, but is above at the most senior positions. The proposed structure matches the private sector at the EX1 level, but thereafter lags by an amount that tends to increase with responsibility.

### Implementation

As a starting point, we assume that in fiscal year 1997/98, managers will receive performance pay in respect of the 1996/97 year (not addressed in this report). We assume also that a start is made on addressing the significant internal inequities that exist, particularly at the EX1 level, where there is a high incidence of compression and inversion. The issue of EX1 and EX2 incumbents being paid below job rate must be addressed. Subject, of course, to satisfactory performance, EX and DM salaries should therefore reach at least 90 per cent of the current job rate.

We believe that the new salary structure should be adopted in 1998, with the variable pay component to be implemented over time. Advantages of this way of proceeding are:

- immediate adoption would send a clear message to the EX and DM communities and
- gradual implementation would ensure a fiscally responsible and equitable approach.

We therefore propose the following principles be used to guide implementation of the new structure:

- Urgent attention should be given to addressing the inequities created by compression and inversion for those well below the job rate.
- Position relative to job rate should be maintained for good performers, that is the introduction of the new compensation structure should not exacerbate the gap between salary and job rate.

*We believe that the new salary structure should be adopted in 1998, with the variable pay component to be implemented over time. Advantages of this way of proceeding are:*

- *immediate adoption would send a clear message to the EX and DM communities and*
- *gradual implementation would ensure a fiscally responsible and equitable approach.*

- Movement to job rate should basically occur within three years of introducing the new structure, providing performance is fully satisfactory. Progress could be faster for outstanding performers and slower for those less satisfactory.
- The new performance management programme should be designed and appropriate training provided to all managers before launching the 'at-risk' pay component.
- The new 'at-risk' system should be introduced gradually, to be fully implemented by fiscal year 2000-01, following two years of access to 50 per cent of the maximum potential.
- Movement to job rate and phase-in of the 'at-risk' compensation which is in addition to base salary will be accommodated by setting a maximum increase on the overall cash compensation budget. This will ensure good fiscal discipline.

This implementation would be as follows:

*Fiscal 1997-1998*

Using the old system of performance pay, make payments under the old rules and set the funds aside in the payroll budget. Attempt to move fully satisfactory performers to 90 per cent of the job rate to the extent possible within the allocated budget.

*Fiscal 1998-1999*

Adopt the new salary structure and maintain the position of employees relative to the job rate. Where warranted, move fully satisfactory performers towards the job rate and be prepared to make lump sum payments above the job rate as a transition between the old performance pay system and the new pay 'at risk' programme.



*Fiscal 1999-2000*

Continue to move those who perform fully satisfactorily towards the job rate. Introduce the new performance management programme effective April 1, 1999 and establish objectives for 'at-risk' pay. Make payouts at 50 per cent of potential at the end of May 2000.

*Fiscal 2000-2001*

Continue movement to the job rate for those who are below it and who perform fully satisfactorily, and expand the payouts under the new performance pay scheme to 100 per cent of potential.

*April, 2001*

By this time, full integrity should be restored to the salary structure, i.e., the vast majority of managers should be at their proper position within the salary structure as merited by their performance.

Assuming that the period from the time of publishing this report to 2001 will continue with low inflation, it will in all likelihood be appropriate at this time to revisit the underlying salary structure.

*By 2001, full integrity should be restored to the salary structure, i.e., the vast majority of managers should be at their proper position within the salary structure as merited by their performance.*

## **Other Steps for Restoring Integrity**

### *Acting Pay*

We recommend that acting pay be introduced immediately for federal executives in the EX1 to EX3 categories who temporarily take on a more senior position. Acting pay would automatically apply after a person has been in such a position for three months, and it should involve a minimum five per cent increase. An acting assignment should extend beyond 12 months only with the approval of officials of Treasury Board of Canada, Secretariat.

### *Job Evaluation*

All outdated executive job evaluations need to be completed by July 1, 1998, with priority given to reviewing outstanding EX1 positions, which anchor the compensation strategy.

The Committee also believes that a strong argument exists to create a new, very senior level of deputy minister. It is our judgment that certain DM3 jobs are clearly at a higher level of responsibility than others but this needs to be confirmed by objective analysis. We recommend that the Privy Council Office conduct an evaluation of a significant and relevant sample of the two types of deputy minister positions, operational and policy. This project should also include the most senior deputy minister positions and should provide comparison with outside counterparts.

Finally, as part of the development of a revitalized human resources strategy in support of the new vision for the Public Service, we recommend that the process for evaluation of senior level positions be reviewed. The objective would be to determine whether the current method is optimal or whether it would be preferable to select a different approach.

### *Performance Management*

In parallel with the work to develop a new scheme of variable pay, special programmes should be developed to assist in the two vital components of implementing the variable compensation plan — target setting and performance assessment. This recommendation is critical if the desired cultural change is to be effected and the scheme successfully implemented.

The existing performance management process has received a substantial amount of criticism. It is perceived to be subjective and inequitable and restricted by arbitrary quotas regarding the number of higher level ratings. A new performance management programme will require the use of clear objectives and accountabilities that contribute to achieving an organization's specific priorities and goals as articulated in its business plan, and to advancing the corporate goals of the Public Service. Measurements must clearly establish an individual's level of performance against agreed targets.

The Treasury Board of Canada, Secretariat would outline key elements of the performance management framework. Departments would be responsible for annually preparing plans that describe how they would administer their performance management programme, including the criteria for payouts under the variable pay plan. These plans would be reviewed by the Treasury Board.

The Privy Council Office should consider improvements to the performance management framework for deputy ministers, and should consolidate the necessary central review mechanisms to ensure equity and consistency of treatment.

### *Flexible Benefits*

With respect to fringe benefits, consistent with our belief that the leadership community should be treated as distinct, we recommend that a study of flexible benefits be undertaken. This study would review the feasibility of adopting a 'cafeteria' style approach to non-cash portions of the compensation package for executives, deputy ministers and GIC appointees. Typically, the cost to the employer of such flexibility is not great, whereas the value to the employee is significant.

*In parallel with the work to develop a new scheme of variable pay, special programmes should be developed to assist in the two vital components of implementing the variable compensation plan — target setting and performance assessment.*

## B. OTHER GIC APPOINTEES

### Compensation Principles

Unless dealt with specifically in this section, the principles referred to in the previous section apply broadly to other GIC appointees. There are, nonetheless, some specific issues that are different.

#### *Heads of Crown Corporations*

There are material differences in principle that should apply to many of the Crown corporation CEOs given the unique situation of their corporations. The Committee therefore recommends that the Privy Council Office undertake a full review of how CEO compensation structures are established and actual compensation is managed. This review would consider the scope and responsibilities of the positions and should address compensation relativities and policies within each corporation. This study should also cover compensation practices in the economic sector the corporation operates in and the relative balance between the public sector and commercial nature of the corporation. The Advisory Committee would review these findings and then make recommendations as to appropriate remuneration structures and policies, including performance measurement and related 'at-risk' compensation.

#### *Regulatory Agencies and Administrative Tribunals*

'At risk' compensation is judged to be inappropriate for the members of these organizations. Therefore the job rates would constitute the maximum remuneration available for this group of GIC appointees.

### Salary Structure

The compensation structures for Governor-in-Council appointees whose job responsibilities are comparable to executives and deputy ministers should parallel these groups. For the lower GIC levels (GIC1 to GIC5), we recommend that the new job rates be based on the job rate adjustment proposed for the EX1 level.

*The Committee therefore recommends that the Privy Council Office undertake a full review of how CEO compensation structures are established and actual compensation is managed.*

On this basis, we recommend the following salary structure:

### GOVERNOR-IN-COUNCIL GROUP JOB RATES

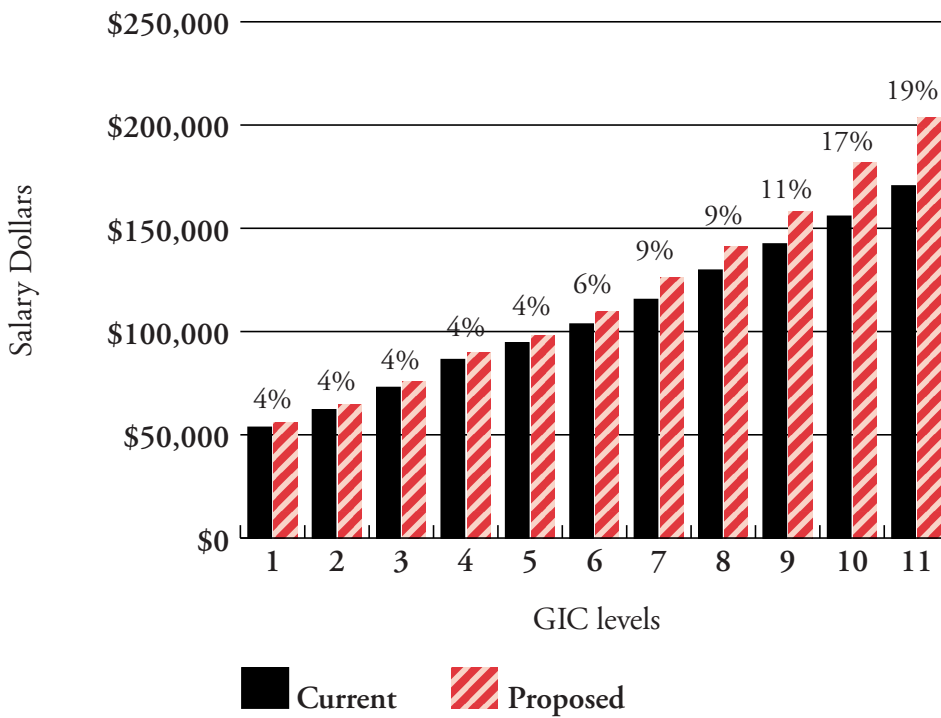


FIG. 6. PROPOSED SALARY STRUCTURE –  
GIC APPOINTEES

\* The percentages above the columns represent the increases in the proposed job rates compared to the current.

*Creating a new vision for the Public Service and ensuring an appropriate total compensation policy are important precursors to the challenge of Public Service renewal.*

### **Compensation “At Risk”**

The new scheme of ‘at risk’ compensation described earlier would make sense for Governor-in-Council appointees who have managerial responsibilities. The Committee recommends therefore that work be initiated to develop the necessary supporting elements for an effective performance management system for heads of agencies, heads of advisory councils and appointees other than members in regulatory agencies or in administrative tribunals. The maximum variable pay for this group should be up to 10 per cent for levels GIC1 to GIC6 inclusively and up to 15 per cent for higher GIC levels.

### **Implementation**

Implementation would follow the same steps used for the EX and DM communities. The salary scales for heads of major Crown corporations would be increased by the same percentage as DM2s pending further study by the Committee of the comprehensive compensation review proposed earlier. As these corporation heads are presently equal to or above the DM2 level, the appropriate future adjustment would likely be higher.

## **3. THE QUALITY OF THE PUBLIC SERVICE LONGER TERM**

Creating a new vision for the Public Service and ensuring an appropriate total compensation policy are important precursors to the challenge of Public Service renewal. However, additional actions are required if the quality of our Public Service leadership is to be maintained and strengthened. We recommend, as a start, giving one person clear responsibility for corporately managing the most senior executives, i.e., EX4s and EX5s. An analysis needs to be done of succession needs over the next decade, including DMs. Then, a programme of training and development must be put in place, supplemented if necessary with a programme of outside hiring, to ensure the availability of suitably experienced candidates for advancement. It is also important to establish a corporate database with information on executives’ experience, skills and competencies, and to review the executive appointment process.

The *La Relève* programmes for personal development need to be supported, expanded and fully integrated into the human resource management process. Also, while self-identification is a very important component, it must be supplemented by a more proactive role of management in the identification of high potential managers as part of overall performance evaluation; this is in keeping with management's responsibility for managing its human resources. This, together with personal development, should be institutionalized into the performance evaluation system.

The demographics of today's federal Public Service suggest an immense turnover during the first decade of the new millennium. While this provides an opportunity to 'manage' the resource base, it will, without doubt, create an experience deficit. This needs to be analyzed so that, with the new vision helping to define the required skills and competencies, the government can identify critical hiring needs – both at the entry and mid-career levels. We view this as a necessary investment in the future excellence of the Public Service.

# Summary

**T***o summarize, then, our Committee believes that while the financial deficit has been the main challenge of the past decade, addressing the potential human resource deficit in the Public Service is a major challenge of the next decade. We propose dealing with this by:*

- (1) creating a new vision and Public Service culture;
- (2) revising the salary structure;
- (3) introducing a new concept of pay 'at risk' which is soundly based in a new performance management culture; and
- (4) reviewing human resource needs over the next decade with a view to upgrading training and development and identifying hiring needs.

Furthermore, all of our recommendations need to be integrated into *La Relève*, with proper priorities and accountabilities agreed upon.



Our Committee views our recommendations as an essential investment in the future excellence of the federal Public Service. We believe that there will be a tremendous cost if no action is taken — a cost that will have a negative impact on Canada and Canadians. On the other hand, the opportunity exists to build a strong base for a highly competitive Canada in the next millennium.

*All of our recommendations need to be integrated into La Relève, with proper priorities and accountabilities agreed upon.*

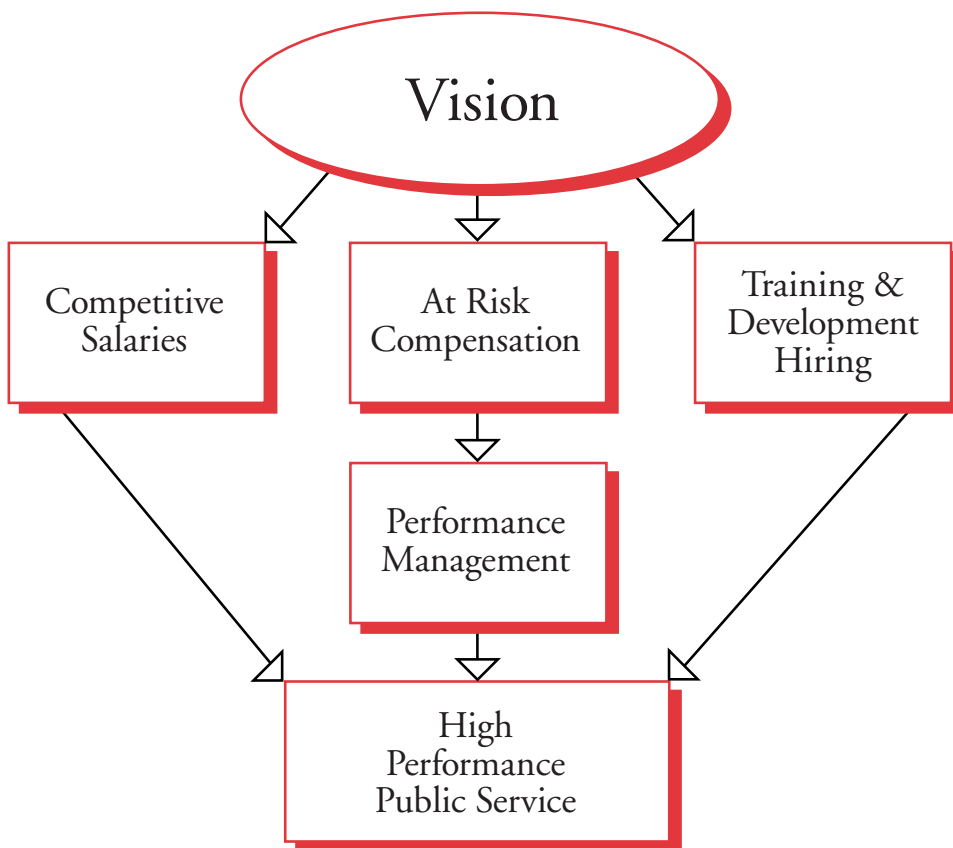


FIG. 7. MODEL OF COMMITTEE'S RECOMMENDATIONS



# Appendices

# Appendix A

## COMMITTEE MEMBERS

**Lawrence F. Strong, B.Sc. – Chair**

**President and Chief Executive Officer, Unilever Canada Limited**

Director, UL Canada Inc., and Unilever Canada. Past President and COO, Unilever Canada. Past Vice-President, Finance, Unilever Canada. Past President, Monarch Fine Foods and Chesebrough-Ponds (Canada). Past Chair, Food and Consumer Products Manufacturers of Canada. Trustee, Grocery Industry Foundation ... Together. Trustee, Electronic Commerce Council of Canada. Chair, Public Policy Forum.

**Jacques Bougie, O.C., LL.L.**

**President and Chief Executive Officer, Alcan Aluminium Ltd.**

Past President and Chief Operating Officer, Alcan Aluminium Ltd. Past President, Alcan Enterprises (Canada and U.S.). Chairman of the Canada-Japan Business Committee. Director of Bell Canada, Royal Bank of Canada, Asia Pacific Foundation, Business Council on National Issues and the Conference Board of Canada.

**John L. Fryer, C.M., B.Sc.(Econ.), M.A.**

**President Emeritus, National Union of Public and General Employees (NUPGE)**

Senior Partner, Negotiated Solutions Inc., Victoria, B.C., an international consulting firm. Visiting Professor, School of Public Administration, University of Victoria.

**Marilyn H. Knox, B.Sc., RD****Senior Vice-President, Nutrition and Corporate Affairs, Nestlé Canada Inc.**

Past Deputy Minister, Tourism and Recreation, Government of Ontario. Past Assistant Deputy Minister, Ministry of Agriculture and Food, Government of Ontario. Past Executive Director, Ontario Premier's Council on Health Strategy. Past Vice-President, Grocery Products Manufacturers of Canada. Former consultant, Health Protection Branch, Health and Welfare Canada.

**Gaétan Lussier, O.C., B.Sc.(Agr.), M.Sc., D.Sc.****President and Chief Executive Officer, Culinar Inc.**

Past Assistant Deputy Minister and Deputy Minister, Quebec Ministry of Agriculture. Past Deputy Minister of Agriculture Canada. Past Deputy Minister and Chairman, Employment and Immigration Canada. Past President, Les Boulangeries Weston Québec Inc.

**Judith Maxwell, C.M., B.Com., D.Com.****President, Canadian Policy Research Networks**

Past Director, Policy Studies, C.D. Howe Institute. Former consultant, Esso Europe Inc. Former consultant, Economics, Coopers & Lybrand. Past Chairman, Economic Council of Canada. Past Associate Director, School of Policy Studies, Queen's University. Past Executive Director, Queen's-University of Ottawa Economic Projects. Director, Bank of Canada and Mutual Life Assurance of Canada.

**Courtney Pratt, B.A.****Chairman and Director, Noranda Inc.**

Past Senior Vice-President, Human Resources and Administration, Royal Trust Company. Chairman and Director, Noranda Forest Inc. Director, The Consumers' Gas Company Ltd., The Empire Company, Falconbridge Limited, and Norcen Energy Resources Limited. Past Executive Vice-President and past President, Noranda Inc. Member, Advisory Group on Executive Compensation in the Public Service (Burns Committee). Member, Ontario Advisory Committee on Deputy Minister and Senior Management Compensation.

# Appendix B

## COMMITTEE MANDATE

To provide independent advice and recommendations to the President of the Treasury Board concerning executives, deputy ministers and other Governor-in-Council appointees of the federal Public Service and public sector on:

- developing a long-term strategy for the senior levels of the Public Service that will support the human resource management needs of the next decade,
- compensation strategies and principles, and
- overall management matters comprising among other things human resource policies and programmes, terms and conditions of employment, classification and compensation issues including rates of pay, rewards and recognition.

To present recommendations in a report to the President of the Treasury Board. The report will be made public by the President of the Treasury Board.

# Appendix C

## GLOSSARY OF TERMS

**Base salary:** The portion of total cash compensation that is not ‘at risk’.

**Broader Public Sector or OP/NP** (Other Public/Not for Profit Organizations):

This refers to the sector of the Canadian economy that includes schools, universities, municipalities, utilities and non-profit organizations such as the Canadian Cancer Society.

**Burns Committee:** An external Advisory Group on Executive Compensation, created in 1968 to advise the Prime Minister on compensation and related matters. The committee is chaired by Mr. James Burns, Deputy Chairman, Power Corporation of Canada.

**‘During good behaviour appointment’:** An appointment that may be terminated by the government only for cause (e.g., for reasons such as misconduct or incapacity).

**‘During pleasure appointment’:** An appointment that may be terminated at the discretion of the government.

**Governor-in-Council or GIC:** GIC appointees are persons appointed by the Governor General on the advice of Cabinet. Governor-in-Council appointees include deputy ministers, associate deputy ministers, chief executive officers of Crown corporations, heads of agencies and heads and members of administrative tribunals and regulatory agencies.

**Hay methodology:** A point factor job evaluation system that evaluates jobs with respect to “know-how”, “problem-solving” and “accountability.”

**Increments:** A fixed annual increase to base salary that moves the salary by steps up to the maximum rate of pay established for the range.

**Job rate:** The maximum salary an organization is prepared to pay for satisfactory performance by a fully trained incumbent.

**La Relève:** An initiative the Clerk of the Privy Council launched in concert with the deputy minister community, in January 1997, that aims to renew and revitalize the Public Service. The goal of *La Relève* is to create a modern and vibrant organization where people are valued, recognized, given opportunities for self-development and treated in accordance with the core values of the Public Service.

**Median:** The median is the value found in the middle of a group of values that have been ranked from lowest to highest. For example, of the group '2,4,7,10,12,' 7 is the median. The median is often used in salary surveys to measure the middle of the market.

**Performance management:** A comprehensive approach to improving performance that includes defining expectations and accountabilities, setting performance measures, and assessing results. Variable pay may be a feature of such a programme.

**Perquisites:** Additional elements of a compensation package provided to selected employees on the basis of status or income level.

**Salary compression:** This exists when there is an insignificant difference between the salary of a subordinate level and that of the superior level. A difference of less than 10 per cent between the salary maximums can create compression problems.

**Salary freeze:** As a result of the 1991 *Public Sector Compensation Act*, employees of the federal Public Service for a period of time received no increments, performance pay or increases to base salaries.

**Salary inversion:** This exists when the salary of an employee at a lower level is higher than that of the supervisor (even if the difference is only a dollar).

**Salary minimum:** The lowest rate of a salary range.

**Total compensation:** The total dollar value of the combined elements of a compensation package including base salary, variable pay, benefits (e.g., pension, medical coverage) and perquisites.

**Variable pay:** The portion of an employee's salary that is dependent upon rated achievements over a fixed period of time. A portion of the pay is said to be 'at risk' or re-earnable.



# Appendix D

## LIMITATIONS ON PERFORMANCE PAY, 1981-96

- 1981 When the Management Category (now called the Executive Group) was created in 1981, a new performance pay plan was introduced. The new plan eliminated the top 15 per cent of the base salary ranges and converted that portion of potential cash income to a lump sum that could be earned only by those who were at their range maximum and had superior or outstanding performance.
- 1982-83 The *Public Sector Compensation Restraint Act* suspended performance pay for two years.
- 1984 A modified application of performance pay was used that limited the overall payroll increase to four per cent, which included a 3.5 per cent range increase for performance assessed as fully satisfactory or better.
- 1985-90 Performance pay was applied with only minor modifications to the original plan design.
- April 1991 Performance pay was applied but departmental budgets were limited to the 1990 per capita of 4.75 per cent instead of the 5 per cent budget provided in the pay plan design.
- 1992-93 Performance pay was suspended by government policy decision.
- 1994-96 The performance pay suspension was extended for an additional two years by the *Budget Implementation Act*, 1994.
- July 1996 The Treasury Board reintroduced performance pay but modified it to limit base salary increases to 2.5 per cent, deferred to January 1, 1997. Budgets for performance pay were five per cent, in accordance with the pay plan design.

# Appendix E

WATSON WYATT  
*EXECUTIVE RETENTION ISSUES IN THE  
FEDERAL PUBLIC SERVICE*

## BACKGROUND

During the summer of 1996, Watson Wyatt undertook a qualitative analysis of what a number of key executives believed to be most critical to their retention by the Public Service. The sample consisted of twenty current and former executives.

## GENERAL IMPRESSIONS

- A set of broadly shared views among the participants indicated that a good number were ready to leave the Public Service for the right offer in the near future or within the next few years, if current trends continue unabated. Watson Wyatt concluded that, if the executive group as a whole shared these perceptions, the current and future leadership of the Public Service could be at risk.
- Compensation was seen to be very important to the participants. Although it is only one element, it becomes increasingly important as other elements such as confidence in leadership, sound corporate management and the intangible rewards of public service, begin to weaken.
- The participants felt that the government would have room to restore some degree of competitiveness to executive compensation with the lifting of restraint.
- It was acknowledged that the freedom to change policy may be some way off, but the participants felt that greater fairness could be achieved within the existing system.
- An holistic, corporate approach to the management of the executive group was also mentioned by participants. This corporate resource concept was described as the central agencies working in an integrated way as the comprehensive centre of the Public Service, in partnership with departments, to open and nurture a constructive career-long dialogue with executives.

# Appendix F

## **PUBLIC MANAGEMENT RESEARCH CENTRE** *FOCUS GROUP CONSULTATIONS EXAMINING ISSUES RELATED TO ORGANIZATIONAL RETENTION AND COMPENSATION*

### BACKGROUND

The Public Management Research Centre completed a series of focus groups in the National Capital Region, Toronto, Vancouver, Montreal and Halifax. During these sessions, 116 current and 23 past Public Service executives discussed opinions concerning their work environment, compensation and future plans. The most common and most strongly expressed issues are highlighted below. (It should be noted that the general thrust of comments and perceptions echoes the views expressed during the 'Watson Wyatt' survey of 20 executives which took place a year earlier, in the summer of 1996.)

### ISSUES

#### **Compensation**

- Salary has never been viewed as competitive with the private sector. In the past, however, the relative security of a Public Service career was viewed as an 'offset'. The salary gap is now far wider, and there is no longer a 'security' offset.
- Executives view the current performance pay process as subjective, inconsistent, inequitable, and artificially constrained by 'quotas'. In addition, they consider the amount of performance pay awarded to be inadequate for recognising and compensating high performance.
- The perceived inflexibility of the Public Service pension plan is considered to restrict mobility, and further, to serve as a disincentive in attracting new employees.

- Executives should be compensated when required to perform the duties of higher level positions for extended periods of time.
- Executives frequently cited the requirement to work excessive hours over extended periods without compensation or “time off” as an irritant.
- Restrictions on travelling “business class”; not being allowed to retain “travel points” for personal use; being required to travel on personal time and to take advantage of lower fares by extending absences over weekends were identified as significant irritants.

Executives also identified a requirement for improvements in the following areas:

- Greater support for the Public Service from the political level — a public affirmation of the quality of the Public Service, and its contribution to Canadian society.
- Recognition of the need for executives to balance work and personal lives.
- Management of executives as a corporate resource — reaffirmation of career possibilities.
- Mobility: greater opportunities within and external to the federal Public Service.
- Greater clarity and vision from leaders regarding the future role of the Public Service and a need to “rebuild” the trust and value system of Public Service employees.
- More flexibility and fewer administrative restrictions on managing.
- More tolerance for risk taking and recognition of the need for taking risks when implementing change and innovation.
- Recognition of the value of the work of executives in the regions.

# Appendix G

## PUBLIC MANAGEMENT RESEARCH CENTRE *EXECUTIVE COMPENSATION AND RETENTION: PERSPECTIVES FROM THE PRIVATE SECTOR*

### BACKGROUND

The Public Management Research Centre undertook a series of round table discussions with CEOs and vice presidents of human resources. The purpose was to discuss the problems of senior level retention and compensation in the federal Public Service, and the perceived tolerance of the business community for a number of possible options.

Participants were unanimous in the belief that a highly effective federal Public Service is critical to Canada's competitiveness. They expressed a growing concern regarding the quality of the federal Public Service and its continued ability to attract and retain a competent and challenged workforce.

### GENERAL OBSERVATIONS FROM ROUND TABLES

- Politicians must be willing and able to champion Public Service renewal, and assert the value of the Public Service.
- Professional pride must be re-instilled, and an environment created that would allow senior management personnel to feel valued, challenged and empowered.
- The traditional employer-employee contract has been broken, and new ways of compensating and rewarding executives must be developed.
- The federal government must offer challenging job opportunities, relevant skill development, and rewards based on performance.
- Major changes are required to the overall human resource management framework for senior Public Service managers.

- The human resource function must become an integral part of the senior management team and be strategically linked to the business planning process.
- Participants acknowledged the federal Public Service's inability to adopt or adapt private sector, business-like solutions, and the need to balance pressures to reduce government expenditure against the need to pay people what they are worth.
- Participants recommended that the Advisory Committee's first task be to define the problems associated with senior level compensation, and to substantiate the need for change.
- Discussions also highlighted the need to confront the issue of demographics, and the need for succession planning.
- A need for leadership and vision on the part of politicians was emphasized, and a strong conviction that now is the time to act — leadership must be shown, and results must be demonstrated.

## MOST SIGNIFICANT RECOMMENDATIONS

- Compensation is not the primary driver, but addressing the salary issues should be the first priority in an overall review of the management, retention and recruitment of executives.
- Compensation and performance pay should be removed from the control of politicians, and disconnected from compensation for unionized employees, or from that of politicians.
- Performance pay should be based on organizational, team and individual objectives, and provide the rewards and recognition essential to motivating individuals and reinforcing desired behaviour.
- The government must implement a management infrastructure to ensure the performance pay system is perceived as legitimate and is used properly.
- Competitiveness is essential; the base salary of executives should be equalized relative to salaries outside the Public Service if the government wants to attract prime recruits.

# Notes