

***Introducing New Public Management
in Pay Determination***

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Introducing New Public Management in Pay Determination. From fixed pay scales towards local and performance-related pay. The Danish Experience.

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Introduction

Since 1997 pay determination in the public sector in Denmark has entered a new and decisive phase. After 10 years of experiments with centrally fixed wage pools for decentralised renegotiations, 1997 saw a breakthrough in terms of a pay reform, which creates a serious possibility for using performance-related pay in the public sector. The centrally controlled local pay has, in two bargaining rounds, been abolished in favour of a completely new pay system, comprising a basic salary combined with locally fixed pay additions related to job functions, qualifications and performances. According to the strategy of the public employers the new types of pay will function as an incentive system for streamlining, managerial efficiency and flexibility in public agencies and service institutions. In this sense the new types of pay are seen as the starting point of a so-called "company-based" and locally fixed pay determination as an alternative to centrally fixed pay. It is the counties and municipalities who are leading the way, while the central state administration has mainly agreed limited trial schemes for about 10 % of the employees. In 1997 the central parties to the agreement in the municipal sector agreed a permanent transition to a new pay system for approx. 56% of the 640,000 employed in counties and municipalities. And at the central agreements in 1999 practically all the remaining employees joined up. The individual trade unions have entered into separate agreements along similar lines on a reconstituted system for basic pay scales for particular professions or occupational groups supplemented by a new local pay.

The new settlements raise many questions. Will the agreements lead to the establishment of a real company-based pay determination in the public sector, will the public managers be able to use the new types of pay as a human resource management tool and are the various occupational groups at all receptive of those incentives, on which the new types of pay are based? The coming years will show whether it is possible to carry out this quite radical break with earlier pay determination in the public sector. Also, whether it involves, and if it is possible to carry out, such a comprehensive change through a collective bargaining system without threatening its unity at the same time. Initially, it could appear as though we have reached the limit for how many objections the central parties to the agreement can manage to co-ordinate and negotiate, within the central bargaining systems'

present organisation. It is uncertain whether a new balance can be created between central agreements and co-ordination, on the one hand, and local negotiations and human resource management on the other. In the Danish case we might talk of a kind of "negotiated management", since local pay still requires collective framework agreements and local negotiations, but the new settlements can also be seen as the start of a new governance regime that will imply a radical break with the tradition of collective bargaining and bring new public management at the forefront of public pay determination.

The purpose of this article is to describe the institutional conditions that create the possibility for this combination of change and stability, and hereby deliver a theoretical framework, wherein the managerial implication of the actual change in the public pay system can be grasped. The character and possible consequences of the changes are emphasised. Firstly, the last ten years' trial with decentralised pay determination are put into a historical institutional perspective, and the main principles in the actual, proposal for company based pay are described. Based on this, the experiences so far and the managerial implications for a local pay determination are evaluated. Finally, the possible consequences for the collective bargaining system are discussed.

Pay determination at a crossroads

The demand for increased flexibility in public pay determination is not new. The same applies to the adaptation of the central bargaining system as a "transition tool" for new public management reforms. Since the start of the 1980s public pay determination and personnel policies have been open to debate. A start was made in 1983 with the first governmental modernisation and renewal program, which pointed to the growth of the public sector and the lack of adaptability and productivity, as one of the most important problems for Danish macroeconomics. The program launched a series of new public management ideas, which were followed by a strategic offensive from the public employers organisations; The Ministry of Finance, The National Association of Municipalities (KL) and The Association of Counties (ARF), who ever since have bombarded their opponents, the trade unions for public employees, with demands for greater flexibility and less automation in the public pay determination. The rigid pay system, and the thoroughly regulated agreement and collective bargaining system, was identified as a barrier for transition and innovation. Objections against the pay system were that comparability criteria, predictability and standardisation had dominated, in preference to demands for flexibility, efficiency and productivity (Finansministeriet, 1988). Actually, the first co-ordinated employer initiative was taken with the appointment of a pay commission in 1986. The task suffered a shipwreck however, when the trade unions, due to internal disagreement chose to withdraw. The main parties in both state and municipalities still agreed a trial scheme with flexible wage pools to be implemented

locally. In 1989 the trade unions accepted not only a follow up, but also a further development, which involved local wage pools, not classified by particular trade unions. Later, local renegotiations were extended incrementally to approx. 0.7 % of the total wage sum and the formulation of local wage policy criteria was requested by the central parties to the agreement. Finally, in 1995, the parties agreed on a phasing-out scheme, in favour of talks about the development of a new, decentralised pay model (Pedersen, 1996c).

In 1997 exactly 10 years after the first trials, the decisive steps were taken in the direction of a new pay system, based on the private sector model. The question is, whether the parties to the agreement, after 10 years testing decentralised wage pools, are equipped to get at the root of the problem: to reform the pay system itself. It is still the employers who lead the way as innovators. The main source of inspiration is still from the private labour market, or to be more exact, from "the pay system of the 90's" in the industrial sector (Dansk Arbejdsgiverforening, 1990). It is time now to end the fixed pay scales and the long seniority process in the public pay system. Instead the first steps are taken towards a sort of a company-based pay determination, which takes as its starting point a locally formulated pay and personnel policy. The new pay schemes should be based neither on the traditional pay system's occupation hierarchy and comparability criteria nor on general norms for distribution (wage policy solidarity), but on the contrary, on awards for specific job functions, individual qualifications and performance so-called internal business criteria. These local pay additions should be used as a management tool. In this way, public pay determination is at a crossroads - away from the current attempts to create flexibility through common framework agreements followed by local renegotiations, towards a more "tailored" and managerial model. The new types of pay should now, in principle, be initiated from below i.e. from the individual public executive agency or service organisation ("the company level").

Reform by a small step method

Implementing radical restructuring of public pay determination would, in most other countries, occur through a comprehensive law reform. In Denmark, where the public labour market has been characterised by a durable institutional structure and a stable bargaining process revolved around competing employer and employee approaches to pay determination, central law reforms have become a rare phenomenon. The last time we in Denmark carried out an actual reform of the public pay system, was the civil service reform in 1969. The national, civil service pay system from 1919 was simplified and adapted to the demands, at that time, for flexibility. At the same time, however the civil servants had their bargaining rights enshrined in law, and were thereby accorded equal status with the growing number of those employed on a collective bargaining basis. The basis for an even more independent, public agreement and bargaining system, based on the model of private labour market,

was thus created (Pedersen, 1993). Since then, there has not been a public wage commission with a permanent mandate appointed by the parliament. Adjustments and changes are solely agreed upon between the parties representing public employers and employees in the state administration and in the counties and the municipalities. The collective bargaining system has ever since and to a notable degree during the new public management reform period from the beginning of the 1980 's displayed an incredible degree of stability and adaptability.

The autonomy of the collective bargaining system, in relation to the legislative authority, was further enhanced from the mid-1980s. Then the parties from both the public and the private bargaining systems, (after periods of income policy interrupted its functioning on a number of occasions) accepted voluntarily to co-ordinate collective bargaining on wage increases with a general, pay and expenditure control. The parties even committed themselves to being socio-economically responsible in future agreements on wage increases (LO, 1988). At the same time, a number of new public management campaigns carried on by the employer organisations pointed at new harmonisation problems with the efficiency and flexibility of the public sector. In this way the bargaining system gradually came to play an even greater role, not only concerning pay and employment conditions in the narrow sense, but also for the public sector's renewal and streamlining, in the broader sense. This occurs first and foremost through a further centralisation of the bargaining system. The contractually employed joined the central bargaining committees respectively for the state administration and for the counties and municipalities. The central bargaining committees were reorganised and renamed; Central Organisation Joint Committee (CFU) for civil servants and other employees in the state administration, and Municipal Civil Servants and Contractually Employed (KTO) for civil servants and other employees in the counties and municipalities. The two central bargaining committees under the CFU and KTO respectively have, ever since, taken upon themselves a major co-responsibility for the renewal of the public sector, by entering into a number of framework agreements and by initiating a number of projects, which are dependent on the details being filled out locally. Apart from framework agreements on local pay, it is a matter of providing a framework for a number of administrative and personnel policy possibilities. For example, such as retraining, streamlining and reorganisation agreements, senior employee and redundancy schemes, as well as an endless number of projects on quality-measurement, reorganisation, functioning of work committees etc. The central parties to the agreement even formed The Personnel Policy Forum, which formulates general strategies of personnel policy and management, initiates projects, and organises discussions (Pedersen 1998).

Thus, the introduction of new public management ideas and the implementation of plans and programs have not occurred through central reforms adopted in

parliament on the basis of commissions' recommendation, or through detailed central agreements and accords. In the Danish case, the comprehensive changes are created through a long-term and continuing process that could be called "the small steps method", facilitated by "the dynamics of micro-decisions". Framework agreements, management by objectives and governmental plans and programs have played the leading part. In the framework agreement, some overall procedural rules are specified, which are left to the decentralised or local parties to complete. Where previously there were centrally fixed rules that only required local administration, the framework supervision opens the way for an extensive struggle about interpretation, and a process of evaluation and learning between a central and a local level. Within the framework of the bargaining system, it has usually taken place through comprehensive analyses in internal working groups and project groups, and a campaign struggle to set the agenda for future negotiations. Afterwards, it is typical that a framework agreement is entered into, a project or a pilot scheme is established. The parties evaluate the local implementation of the agreement. In subsequent negotiation rounds the agreement is adjusted and guidelines on the agreements' local application are circulated. So, changes do not occur through one single reform, agreement or political decision, but on the contrary, through a series of provisional agreements and micro-decisions taken over time in many different units, involving several actors centrally as well as locally.

Through the development of this dynamics of change and stability, the bargaining system has slowly been geared to play an ever-greater role in the continuing new public management reform process. This is true not only of increased flexibility in pay determination, but also, and to a considerable degree of the framework for local personnel development, restructuring and streamlining of the public sector. Thus, the Danish example until now refutes a major thesis in the international literature on new public management; namely, that new public management doctrines per definition will entail a decline or breakdown of the internal corporatism in the public sector (Chubb & Moe, 1990; Dunleavy & Hood, 1994; Naschold, 1996). In Denmark it is not a matter of de-corporatisation or decline of existing institutions. On the contrary it is a matter of the development from a second generation to a third generation integration between organised public employers and employees. Collective agreements are combined with political explanations, campaigns and ad hoc talks: trade union institutions are supplemented by professional secretariats and a number of working and project groups, while simultaneously an itemised negotiation and participation is woven into a net of stable and complementary forms of participation (Pedersen, 1998).

On the basis of this development, it is no longer only the fixing of civil servants and other employees' pay and employment conditions, but also questions concerning the entire public sectors limits, organisation, personnel and management, which are fixed

through a combination of central and local negotiations, in a complex interaction between political, administrative and professional institutions.

The attempt being made to implement the proposal for the new pay system, are once again pilot schemes and voluntary agreements. Changes do not occur from day to day; they have already been on the way for a long time. In any case, the current agreements on new types of pay are a sign of the start of something new. It may turn out to be the first step on the way to a company based pay determination, i.e. a pay determination that takes the operation of single public "companies" as its starting point, instead of the overall wage and expenditure control and the overall governmental modernisation and renewal programs, which since the start of the 1980's has set the framework for the central bargaining rounds. In this respect, it can emerge that, what appears as an innocent small step in the short term, will imply radical changes in the long term. Likewise, the implementation of the new pay system prospectively will have considerable consequences - not solely for pay determination - but for the basic organisation, steering and management model of the public sector. In accordance with the small step method these consequences can be both intended and unintended and this is why, structural changes and managerial implications will often first occur with the benefit of hindsight. Before I turn to the possible consequences and implications, I will describe the first step agreements on the transition to a new pay system.

Agreements on new types of pay

With the agreements on the transition to a new pay system in the bargaining rounds in 1997 and 1999, it looks as though the central bargaining parties have chosen to take upon themselves a new challenge: to create the framework for a locally embedded pay determination. More specifically the challenge is to replace the current, centrally initiated and general pay schemes, with a new pay model that creates the possibility for greater local autonomy of action and financial independence of the individual areas of operation in public services. The proposed model takes as its starting point a basic salary, which consists of a foreshortened pay scale, combined with, respectively, centrally and locally determined additions for job functions, personnel qualifications, as well as the possibility for locally agreed performance-related pay. This model has been temporarily realised in a number of separate agreements that entail different combinations of the basic model elements and different combinations of grading and supplements.

Within the state sector, the trade unions for the academic staff entered in 1997 into an independent agreement on the introduction of a new pay system, while for the other groups agreement has been reached for a number of 3-year pilot projects. All academics, who are employed after 1 January 1998, automatically follow the new

pay model, whereas it has been voluntary for other employees whether or not they will transfer to the new system. The pilot scheme for other state employees opens the possibility for individual departments and institutions, or parts of them, to enter into agreements on participation, while the pilot projects are, expected primarily to take as their starting point the individual public workplace and assumes that both the local management and trade union representative in question, express a wish to take part in a project. Afterwards, the actual preparation and formulation of bargaining procedures and guidelines for implementation are to a large extent entrusted to the local parties through the establishment of a local pay commission. Especially the public employers however, has wished for a continued central pay control, partly of the overall pay structure and partly of the overall wage increases (Finansministeriet,1997a).

At the municipal level the parties have generally had a more ambitious strategy, since there was already agreement at the separate negotiations in 1997 between a number of the 61 trade union organisations for municipal employees, on a permanent transition to new types of pay for almost half the employees. In 1999 practically all the remaining groups followed up with entry into similar agreements. The common basic model contains a number of general principles for the transition to the new pay system, including principles for costing, different tailored models as well as guideline and general criteria for payment of supplements for functions, qualifications or performance. The agreements between the municipal employers' organisation and the individual trade union organisations hereafter entail a further specification by stipulation of a particular pay model, a transition model, stipulation of the basic pay scheme and prospective centrally agreed pay additions for job functions, qualifications or performances for specific occupational groups. Local negotiating procedures and time limits requires local agreement, such that it can be taken as a starting point that negotiations can take place annually. It is expected that there will also be annual talks on the wage policy and personnel policy in the single municipality or county (KTO, 1997).

The overall pay control takes its starting point in the local adjustments. Apart from this, an estimated percentage rise for the increase in pay level in the local use of resources is centrally agreed. Questions of adjustments in relation to a possible, increased consumption are taken up at the recurring, general agreement negotiations. In this way, the framework agreements should ensure that an unrestrained local pay drift for certain groups does not take place at the expense of others. On the other hand, even after three years, it is still not certain to what degree the transition to new types of pay will involve a stronger pay drift for chosen groups and thus, to what degree the arrangement will lead to greater pay differentiation between different groups and, perhaps not least, internally within the individual profession or occupational group. The answer very much depends on, if public

agencies and institutions are prepared for a real company based pay determination; whether they will have the incentives to use local pay additions and whether they will be able to exploit the new pay system as a management tool to support local "business plans" and personnel policies.

Managerial challenges

If we look at the experience of the last ten years of experiments with local renegotiations of decentralised wage pools, we must note that this, clearly, was a matter of a centrally initiated project, which had difficulty gathering support among large groups of employees, as well as among many local managers. The general schemes have been regarded by many as a "pool tyranny", in other words something that had been agreed centrally, and which the local parties therefore were more or less forced to find a "creative" use for, regardless of whether or not they could see a local purpose with it (Ibsen et al., 1994). The many years of experience, together with a general increase in decentralisation and the introduction of management by objectives and framework adjustment has, however, also entailed a learning process at the local level. Local negotiating procedures and routines have been developed, and it has become more usual for local pay instruments to be used purposefully, in that the local parties have begun to develop strategies for the use of pay additions. At the same time, several institutions have formulated a personnel policy and, to a greater degree, have begun to substantiate concrete implementations with explicit reasons. Again, though, there are big differences at the local level, both in respect of the degree of decentralisation, concrete negotiating models and the character of formulated policies and strategies (Pedersen, 1996c).

Since the public employers and the majority of the trade unions now feel prepared to begin developing new types of pay, the springboard will therefore be whether the preconditions for this have been created at the local level and whether the conditions for a new governance regime, which facilitates the "company orientation", have been developed in the area in question. The possibilities for an actual company based pay model in the public sector cannot be regarded only as an isolated agreement question. This has to be compared with what kind of steering and management philosophy lies behind the 1980s and 1990s modernisation and renewal programs, and to what degree and how, this philosophy is developed and implemented in a given part of the public service sector, whether it be within a given ministry, a municipality, or a more detached public institution.

The last 10-15 years' framework management, rule simplification and decentralisation have not only changed administrative, legal and agreement structures in the public sector. By the incremental method, the steering conditions have also been changed in a number of crucial ways. Constitutional principles are

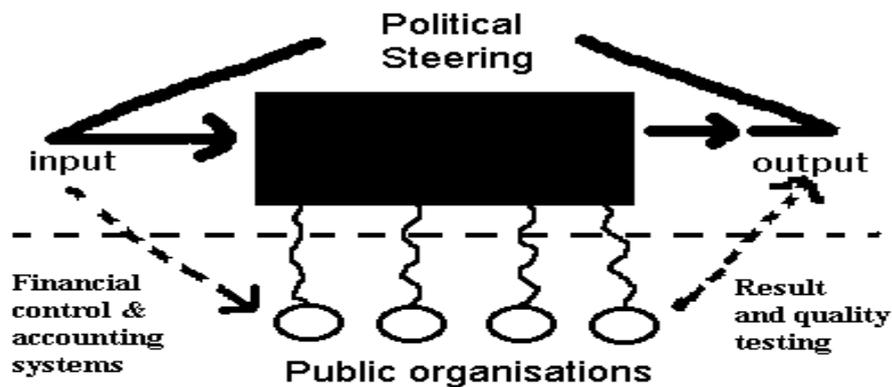
still in force, but today they function in an interaction with an economic steering philosophy. An important part of the modernisation and renewal programs has been about: developing new steering mechanisms that can reduce and control the wildly growing welfare state and remedy bureaucratisation and the "tyranny of regulations", as it is called. The individual executives at the local level can no longer grasp the extensive framework of regulation and the complicated procedures, which limit the single public organisations' possibilities for action, effectiveness and flexibility in the solving of public tasks (Finansministeriet, 1991, 1992).

The indicated steering problems are mostly tackled through different forms of economic steering of "input and output". "The Extended Total Balance Principle" and a general principle of financial framework control was launched at a central budget reform in 1984 as a radical means of achieving a determined steering through controlling "input" i.e. the financial supply of resources instead of steering by detailed rules. This "bag-of-money principle" has since generally been in effect in both the state administration and in the counties and municipalities. A number of central barriers are removed through rule simplification and framework steering and are at the same time handed over to the executive level to dispose of within a fixed economic framework. From the 1990s on, supplementary resource steering was tried with different kinds of control of "output", for example by measurements of productivity and performance, service declarations and quality evaluation. Through the dissemination of contract management by contracting out to private contractors, but also inside government and municipal organisations as well, administrative policy experts, especially in the Ministry of Finance, wish to gradually to open up the walls" of the administrative hierarchy and thereby create the possibility of "reciprocal relations" between politicians and top managers on the one hand and the individual executives and line managers on the other. Where rule management, clearly was a question of instruction and over-subordination relationships, the new contract management should be based on mutual adjustments according to operational accountability criteria (Finansministeriet, 1996).

The limits for public management should, to a greater degree, be fixed through the development of new management mechanisms in the relationship between the corporate level (top management in the ministry, county or municipality), the department level (sector administration or task areas) and finally the operational level (the single executive organisation). According to the "input-output model" (see figure below), it should take place through firstly, the development of tailor-made financial control systems and local accounting principles, which gives the individual governmental or municipal organisation the incentive to act in a financially rational way and operate effectively (for example, generate a profit from the implemented rationalisations and invested human capital). Secondly, it should occur through a more precise response from the operational level to the results attained and their

quality (for example through certification, service declarations, performance measurement, price competition, marketing testing etc.) (Finansministeriet, 1996).

The Black Box Model



This "input - output model" entails a completely different understanding of steering, than the one we previously have known from the public sector. The execution of public tasks is seen as a production of services, which make it possible to turn the "production process" itself, and the particular production preconditions into a "black box". The politicians shall no longer be interested in detailed procedural demands, but only in input and output. Creating coherence between objectives, financial resources, quality and performance (the difficult triangle) is left to the "producing" units at the operational level. That also means that strategic competence is partially delegated to the individual public organisation. It is out here that business plans have to be made, organisational development and human resource management strategies have to be conceived, and wage policy criteria have to be formulated.

Despite the development of new financial control and accounting systems, operating agreements and attempts at contract management, this ideal model is, though, by no means fully implemented in the public sector. The continued decentralisation to the individual public organisation and the development of new management relationships between a political, an administrative and an operational level is still an open laboratory. Administration experts, both in the Ministry of Finance and in the municipal organisations, are continuing to strive to develop new management instruments. At the same time, new organisational and company models are being developed within specific areas of operation, such as customs and tax administration, post services, the railways, public schools, care for the elderly and day-care institutions, to name but a few. So far, we have seen many temporary local solutions to the input-output problem that implies different degrees of operational autonomy

and different alternative control and evaluating mechanisms too. The preconditions for implementing the new pay system, therefore becomes a much more local question of concrete steering model, organisational structure, strategic capability and management competence.

However, the profound and more radical decentralisation i.e. company- and even market-orientation of public agencies and organisations indicates a break with the "centralised-decentralisation" of NPM reforms of the 1980's towards a more poly-centric institutional order, which again implies the introduction of a new governance regime (Pedersen, 2000).

Theoretical, it is a paradox in that autonomy¹ becomes a precondition for steering. Where the central regulation control and rule management depended on "remote control", (i.e. that all local practice was based on clearly detailed rules, fixed by legislation or central agreement), a locally embedded steering depends on "self steering", (i.e. that the executive element is itself able to formulate objectives, lay strategies and take responsibility for their attainment).² The new pay model implies that the local and executive level should be capable of not only filling out the contents of the overall framework and principles with concrete criteria. It should also be able to formulate and explain plans and strategies in connection with a given area of public service or a single public organisation. It is no longer enough to administrate according to formal rules and let others direct you. Now, one's own self-assured profile and objectives should be formulated on the basis of local procedures and forms of interaction. The individual public organisation or "company" should, to a much greater degree, be able to manage itself. It is no longer perceived as the outermost element of an administrative hierarchy, but on the contrary, as a still more independent strategic unit, a public organisation or company under separate management (Pedersen, 1998).

In fact, the poly-centric state requires that managerial preconditions for the desired company-orientation can be created. In that perspective, we are still faced with a number of dilemmas:

The *first* dilemma concerns the relationship between the individual organisations' operational effectiveness and the overall budget adjustment policy: how, and to what degree, incentives are created for the individual public company to invest in the personnel's qualifications and performances. It is still relevant to ask; where are the

¹ Autonomy comes from *autos-nomos*; "to give one self the law". Thus, autonomy does not refer to formal competence

or authority, but to the capability and resourcefulness to take competence and responsibility on one self.

² This way of addressing the concept of management is inspired by newer contributions in legal sociology and neo-functionalism in terms of reflexive legislation, supervision state and indirect political management as

incentives and where is the "bottom line", that the return on investments is to be measured by? Can public companies see a financial advantage investing in development and streamlining, or is the money channelled back into the "mahogany box", i.e. clawed-back via appropriation or budgetary regulations? It is still unclear, what operational calculations can be permitted in a completely, or partially, publicly financed service sector, that in principle should be run politically by governmental institutions.

The *second* dilemma concerns the relationship between operational effectiveness, the rule of law and professional standards and considerations. There is an important discussion on whether the quality of public service provision can be ensured solely through a quantitative or standardised measurement of quality and performances and, whether we are prepared to relax the general principle of rule by law as well as professional standards to ensure the effective operation of the public companies based on accountability criteria. When one attempts to implement an incentive system, based solely on the precondition of a rational code of behaviour and an appraisal of quality and performance, based solely on quantitative measurement criteria, there unavoidably arises a conflict, partly with the legal regulation of public service provision and administration tasks, partly with an extensive technical and professional knowledge, associated with different sectors and profession groups. Clear limits and balancing mechanisms have not as yet been established between the legal administrative, the professional and the operational management of public organisations.

The *third* dilemma concerns the relationship between management and negotiating principles. It is still uncertain, whether the ongoing radical and comprehensive decentralisation of pay determination, combined with the development of local personnel policies and human resource management strategies, will impose the principles of collective bargaining. The introduction of still more independent local negotiations indirectly implies a weakening of the agreement institution, because there are no legal rights of conflict, though both strikes and lock-outs are not allowed in relation to local negotiations. Furthermore, the employers' organisations have asked for and even taken a trial in High Court on a deviation from the collective agreements' rights for top-managers and other groups. In a broader sense this could be seen as a development toward a still more profound individualisation of jobs, working conditions and pay determination, which conform the efforts to improve the qualities of leadership and management skills in public organisations. This consequently questions the limits of and the individual balance between the management right and the right of making collective agreements, today almost 100 years after the first negotiation rights were established on the public labour market.

Pari passu with the establishment of a new functional domain for public management at an operational level of single public organisations or companies the system of collective bargaining is challenged by the adoption to new demands for flexibility, and as a novelty, possibly also a more modest and withdrawn role in pay determination and in NPM reform processes as well.

The future of the collective bargaining system

Public pay determination is at a crossroad. After many years of central co-ordination of pay determination with ever more income, expenditure and administrative policy considerations, the bargaining system is now in the process of creating the framework for a company-based pay determination in the public sector. Thus, the bargaining system is moving from a strong centralisation to a greater degree of decentralisation, from common and transverse agreements towards several different kinds of separate agreements and finally, from a decentralised co-ordination towards an actual company orientation. There is no doubt that this development, in the longer term, will change the role of the bargaining system.

It is clear that such a development will entail many partial conflicts, since the parties to central agreement have to cede sovereignty to a new, and ever more independent, company level. However, nothing indicates that we are faced with the bargaining system's imminent collapse. Firstly, it is through the established bargaining system, that it is now being attempted to set common limits for separate agreements about company-based types of pay. Secondly, both parties to the agreement have expressed a wish to continue central steering and co-ordination, which apart from the fixing of the general wage increases, will involve a number of regulation and harmonisation schemes and qualitative elements. Thirdly, the bargaining system has, during the last ten years, gradually expanded its own area of competence, by being involved to a much greater degree in setting the limits for the decentralised restructuring and renewal policy, for social, educational and employment conditions and finally for the implementation of EU directives (Pedersen, 1998).

The pressures of restructuring and reprioritising in the central bargaining system have, however, gone into a new and crucial phase. Carrying out and further developing the new types of pay imply that the central agreements on basic pay schemes and general wage increase will be combined with locally fixed pay based on operational parameters. The main points of contention will be; how the parties will manage a so-called "wage drift" in the public sector and how, afterwards, to regulate in relation to those groups, who have not had a local wage drift. The employers are being pressured to give up the overall wage control a cornerstone in budget reforms in favour of a local streamlining of individual operational areas and organisations. They will demand fewer ties in the central agreements, in order to get a more local and flexible pay determination, while the employees' organisations will attempt to

maintain the central management by regulations. The risk is that the many separate and "tailor-made" agreements and the decentralised construction of different pay models will create a renewed bureaucratisation, and thereby eliminate the extensive rule simplification of the bargaining system, which was made possible by the centralisation of the 1980's.

The employees and their organisations are under pressure to relax the solidarity in the central bargaining committees in favour of a so-called "spearhead strategy", that will lift some groups locally, but not all. To make pay determination dependent on streamlining the operation can certainly prove expensive over time. The employees will accept in return a softening of professional boundaries, increased working tempo and internal pay differentiation within different professions or occupational groups. In return, the reward, could be that there will be a better connection between local wage and personnel policies to the benefit of qualification and job development at the individual workplace, which becomes an ever more important negotiating arena for the employees' representatives and their organisations.

Generally the development is an expression that the traditional profession and trade orientation, which has created the basis for the whole of the existing collective bargaining system, and the common, labour orientation, which until now has been the basis for unity in the central bargaining committees, is being challenged by an ever stronger workplace orientation or even individualisation. The concrete wage and personnel policies are determined, to a greater degree, in the individual workplace and it therefore becomes a major challenge to equip both local managers and staff representatives to take upon themselves the responsibility for wage and personnel policies. Likewise, it will also be a challenge to create new forms of co-ordination between the top and the bottom in the trade union organisations and between top managers and line managers.

A fully developed pay reform, however, will not be established with the first generation of new pay agreements. So far, we have taken the first crucial step, but if we are to learn from experiences, a real company-based pay determination in the public sector will take at least 10 years to be fully implemented. Company orientation does not come by itself. The preconditions are only beginning to be installed. In the meantime the central and local parties on both sides of the negotiation table have a great opportunity to experiment and make their influence felt. Many so-called tailor-made models can be imagined and many real Danish compromises will certainly pave the way.

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