CONCLUSIONS AND FINAL RECOMMENDATIONS

REMUNERATION OF SENIOR MANAGERS IN THE PUBLIC SECTOR – AN ANALYSIS OF THE LATIN AMERICAN COUNTRIES

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1. GENERAL CONCLUSIONS

This study sought to compare and analyze salaries paid to senior managers in the public sector in some Latin American countries. Since economies have differing levels of cost of living, economic development and productivity, which give rise to differences between salary levels paid in the various countries, it was decided to focus the analysis on salary indicators (which neutralize this effect), rather than concentrate upon absolute values. These relative indicators correspond to relationships between salaries paid to managers in the public sector and the average salary (representative) paid in the economy, the per capita GNP and the salaries paid to managers in the private sector. Once calculated, these indices are compared between the countries.

So initially, the salaries converted to a single currency (which could also suffer distortions due to variations in the rate of exchange in relation to an assumed level of equilibrium in periods of valuation and devaluation, frequently observed in Latin America) were compared, but later, the analysis was directed at a comparison between such relative indicators.

In carrying out this study, data under two methodologies were gathered and calculated. In the first, information regarding the salaries paid to managers at the highest hierarchical levels of the public sector was gathered from the governments of the countries. In doing so, we asked for the salaries of the most senior-level managers within each government branch – Executive (ministers), Legislative (senators and deputies) and Judiciary (President of the highest court in the country) – and for the three hierarchical levels immediately below. In the case of the judiciary branch, we asked for the salaries of the first three levels of the legal structure (below the President), and also the salaries of the first three levels of the administrative structure. The data refer to salaries paid at the time the data were gathered, between June and August 2003, and are restricted to public administration *strictu sensu* (they do not include such decentralized entities as foundations and public corporations) within the sphere of the central governments of the countries included in the sample.

In the second methodology used in this study, integrated data from studies of a sample of households carried out by statistical institutes in the countries that comprise this study were analyzed. These studies, based upon questionnaires completed by families included in a representative sample of the country's population, gathered information (among other data) relating to the personal characteristics of the members,

what sector they worked in, their occupation and their salary. Based upon these data, it is possible to analyze the personal characteristics that influence the formation of the salary paid to an individual (educational level, age, time of service and sex, among others), and to calculate, based upon statistical analysis and regression curves, the differences in salary, isolating the effects of such characteristics on the latter, which is the equivalent of estimating the difference in salaries for two individuals with similar characteristics.

Initially, the data deriving from the information gathered in the countries were analyzed. When we observe the salaries paid in each country, we can verify that the highest salaries are, as a rule, paid within the judiciary branch. This fact, common in the public sector, derives from the extrapolation of the autonomy with regard to decision-making (an autonomy that is fundamental within a democracy) in the judiciary branch to the administrative and budgeting sphere (which is not justified in the same manner and intensity), and from the absence of social control over this branch, which is quite hermetic, and defends this situation using the argument of the necessity for autonomy. It is certainly fundamental that the body of magistrates is highly qualified, and immune to attempts at corruption; but this necessity applies to all of the branches, even though the dissemination of corruption among judges might signify the death of a country's institutions.

Benefits represent a significant proportion of salaries – mainly within the legislative branch – in the majority of the countries in which it was possible to obtain information relating to indirect salaries, as in Brazil, Colombia, Ecuador and Mexico.

Also, when benefits are considered in the analysis, the salaries paid within the legislative branch actually exceed those paid within the judiciary branch in some countries. However, if only direct remuneration is considered (excluding benefits and deferred portions, such as Christmas bonuses and aperiodic gratuities) in the analysis of the salaries of senators and deputies, their earnings are not at levels significantly higher than those paid within the executive branch. It should also be noted that the direct salaries of deputies and senators are, in some cases, lower that those of managers in the administrative structures of their respective institutions.

The reduced direct remuneration for deputies and senators is the result of societal pressure to impede the payment of elevated salaries in the public sector, which is even demagogic, and leads to inadequate solutions. The same behavior is observed in the executive branch in some cases, where the salary of a Minister is lower than that

of his subordinates, generating a negative salary gap (difference between the salary for the highest and the lowest position among those included in the sample).

Of the 14 countries included in the study, eight present situations in which the salary hierarchy (highest positions receiving higher salaries) is broken. Of the situations in which it was possible to analyze the occurrence of a rupture in the salary hierarchy (by country and branch of government, for those in which the information was available), 25% of them show such an inconsistency. This problem is the result, in part, of the practice of dissemination of such benefits as were described above, and in part, the existence of an accentuated and unnecessary number of salary portions that wind up disorganizing the remuneration structure. This distortion represents a serious difficulty with regard to the management of human resources in the public sector, since the breakup of the salary hierarchy is the cause of lowered motivation for a group, as in the case of senior level managers, which, in truth, should stimulate the entity's employees. Among the countries that do not present any problems relating to a rupture of the salary hierarchy, we can cite only Bolivia, Brazil, Costa Rica, Ecuador, the United States and Venezuela.

When converted to a single currency – despite all of the problems that this type of conversion can generate – it is noted that the highest salaries (considering all of the portions that make up the remuneration) are paid in Mexico (even higher than in England and the United States, which are next, at least with regard to the executive branch; for the judiciary branch, the salaries paid in England are the highest, and in fact, the highest of all); after those, we can place the salaries paid in Spain, Ecuador and Chile; after that comes Brazil, followed by the other group, with the lowest salaries, represented by Bolivia, Colombia and Costa Rica; Argentina (probably due to the grave crisis through which the country has passed in recent years) and the Dominican Republic follow, and the lowest salaries of all are paid in Venezuela.

Some countries present a better position in this relative ranking if we include total salaries in the analysis (which includes direct monthly payments, deferred payments and benefits), as compared with the ranking observed when only the direct gross monthly salary is considered (which includes only the portions paid every month, and does not include benefits), by virtue of the significant relevance of the indirect and deferred

portions of the salaries. The analysis of the values converted to dollars caused Ecuador, Brazil[1] and Colombia to stand out as components of this group.

The differences between the dollar values of the salaries paid in the various countries (whether consideration is given only to the gross direct salary or to total salary, which is broader) can be explained on the basis of several factors: a) distortions caused by the conversion to the dollar, as cited above; b) differing levels of productivity, economic development and cost of living in the countries, which would cause not only the salaries of the group analyzed in this study to be higher, but also the average salary paid in a country, in all sectors, to be higher than that in the other countries; c) different degrees of distribution of income, which would be a reflection of the payment of salaries well higher to managers in general (in the public sector and the private sector) in relation to the salaries paid for other workers, in the countries where income is more concentrated; d) different remuneration policies adopted for the group of public managers in each country, including in relation to payments observed for managers in the private sector.

As expected, the most highly developed countries present salaries which fall within the most elevated group (converted to a single currency), such as England, the United States and Spain. However, when the set of countries in Latin America is observed, this correlation is not necessarily true; what is more, the fundamental issue is not the evaluation of which country pays the highest salaries when converted to a single currency, but to analyze whether the public sector pays reasonable salaries to its managers, given the economic conditions in each country, a fact that would be the result of the application of an efficient salary policy for this group.

Before presenting the results of the analysis of relative salaries, it is important to emphasize some important personal characteristics of the managers in the public sector (gathered from household studies), since such attributes are also important to the definition of salaries; a more qualified work force should certainly be receiving a higher level of remuneration.

The personal characteristics of a set of workers in the public and private sectors (called the general universe) were compared, as well as those of the groups of managers in the two sectors (called the restricted universe). For the general universe, the average number of years of education of the public employees is well higher than for

[1] Even though, in this case, the indirect benefits are not offered indiscriminately to everyone, but only to those who meet the requirements described in Annex IV, which details the rules for the reception of deferred and indirect salaries.

the employees in the private sector; for the group of managers it is practically equal. This equality probably causes the variable of “educational level” not to be a factor that contributes to any differentiation between the salaries paid to managers in the public sector and in the private sector. However, the former have a higher average age, which could mean more years of experience, and this may contribute to the difference in average salaries paid to both groups.

Within the group of managers, the percentage of males is greater than the percentage of females, both in the public sector and in the private sector, in most of the countries (it is lower in the public sector in Argentina, Venezuela, the Dominican Republic and Brazil; in the private sector, it is lower for Bolivia and the Dominican Republic).

However, women appear to have greater opportunities for achieving management positions in the private sector than in the public sector, surprising (and positive) as this conclusion might appear, since the percentage representation of women increases when the highest positions in the hierarchy are analyzed (in comparison with the results observed for the general universe) in six countries for the private sector, while in only two countries it increases in the public sector.

In addition, it can be said that workers in the private sector, both in the general universe and in the restricted universe, tend to work more hours than those in the public sector.

In order to evaluate whether the various levels of remuneration paid to managers is due to different treatments of the salary question for this group in the various countries, an attempt was made to neutralize the effects of the three primary factors cited above - currency conversion, different levels of development, productivity and cost of living and concentration of income - through a comparison of the salaries paid to managers in the public sector and the average level of remuneration observed in each economy, then between remuneration registered in the public and private sector of each country, and finally, between the senior managers in the two sectors. In addition, indicators relating to the distribution of income in the countries selected for this study were considered.

Three different indices were estimated: the first measures the relationship between monthly salaries paid (from the data gathered in the countries, and without considering benefits) to managers in the public sector, and an indicator representing the average salary paid in the urban sector of the economy; the result of this index, called

the relative salary, measures how many times the salary of a manager is greater than that average. The second is similar to the first; however it compares total salaries (which include deferred portions and benefits) with the per capita GNP. The third is quite different from the other two: based upon the data from household studies, it compares the salaries paid to workers in the public and private sectors, and then, between the managers in both sectors, neutralizing the impact that personal characteristics might have upon levels of salaries paid. The result is called the public/private salary differential.

The chart below summarizes the results obtained under each of these calculation criteria, for the relative salary, as well as indicators of the distribution of income in each country. Thus, the analysis that follows will seek to synthesize all of this information, so as to evaluate the behavior of relative salaries in the various countries included in the sample.

For each country, an average was calculated of the relative salaries available for the various hierarchical positions in each branch (based upon information made available by the countries). Primarily, it is noted that the highest average relative salaries are not paid in the most developed countries (from the economic standpoint) included in the sample, such as the United States, England and Spain; quite the contrary: these countries pay the lowest relative salaries (see Columns 2 and 4 of the table). The rank ordering of the relative salaries appears to present the most significant correlation with the classification of the countries in accordance with their degree of distribution of income (see Column 6).

SUMMARY OF RESULTS FOR SALARY DIFFERENTIALS							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Gross direct monthly salary/Average salary in the economy	Rank ordering – Gross salary/Average salary	Total salary/ Per capita GNP	Relative ordering Total salary/Per capita GNP	Gini Index	Relative ordering Gini Index	Differential salaries Public managers/Private managers (Hshld. Study)
Argentina	9.8	7	7.7	10	49.6	5	36.1
Bolivia	20.4	2	38.2	1	44.7	10	-37.8
Brazil	11.6	5	20.3	6	60.7	1	12.0
Chile	12.9	3	16.4	7	57.5	2	-26.7
Colombia	8.7	8	23.0	5	57.1	3	Not significant
Costa Rica	7.0	10	9.6	9	45.9	9	Not significant
Ecuador	12.9	4	28.5	4	43.7	11	-32.3
Spain	3.7	13	3.7	14	32.5	14	Not available
United States	4.3	12	4.5	12	40.8	12	Not available
England	5.5	11	6.7	11	36.0	13	Not available
Mexico	43.6	1	34.7	3	51.9	4	-22.2
Peru	11.3	6	36.2	2	46.2	8	Not calculated
Dom. Republic	7.2	9	14.5	8	47.4	7	Not significant
Venezuela	2.0	14	4.2	13	49.1	6	Not significant

Gross salary/Average salary: measures how many times the gross monthly direct salary for the country is greater than an indicator representing the average salary in the economy.

Total salary/per capita GNP: measures how many times the total salary (gross monthly, deferred and indirect) is greater than the per capita GNP.

Relative ordering: classification of greatest to lowest value.

Gini Index: indicator of the degree of concentration of income within an economy; the closer to one, the greater the concentration of income in the country.

Salary differential between managers in the public and private sectors: percent difference between salaries paid to managers in the public and private sectors, neutralizing the impact of different personal characteristics upon the determination of the salaries.

Not significant: the results not significant from a statistical standpoint; the probability of error is considerable (>20%), and was therefore not considered in the analysis.

Not available: the datum is not available, because household studies were not analyzed in these countries.

Not calculated: the datum was not calculated because the sample was small and the calculation would not produce satisfactory results.

Although they are not included in this table, it is important to point out that the results of the calculation of the salary differentials between the set of employees in the public and private sectors was positive in almost all of the countries, with the exception of Bolivia, the value for which is not statistically significant, and therefore, it is not possible to say that it is correct within reasonable confidence limits.

On the other hand, the results of the calculations of the salary differentials between the managers in the public and private sectors (calculated on the basis of data gathered through the household studies), which are included in the table, are significant for only six countries. For Peru, it was not possible to do the calculation, while for the other four Latin American countries the results are not reliable; for this reason, it was decided not to include them in this summary table. Based upon this criterion, the differential was not calculated for the United States, England and Spain.

We can state that the group that presents salaries that are relatively higher (compared with the average salary observed in the country and the per capita GNP) is comprised of Bolivia, Mexico, Ecuador and Peru.[2] However, the first three of these four present a negative salary differential between managers in the public and private sectors, calculated based upon the data of the household studies (for Peru, as already stated, the differential was not calculated, since the size of the sample, which was quite small, did not make the calculation possible). This apparent contradiction between the results - high relative salaries (comparison between the salaries of the managers and the average remuneration in the economy), and negative salary differentials between managers in the public and private sector - can be explained on the basis of one of the following factors, or both:

a) A different composition in the samples used in the two calculation methodologies; the data from the household studies may include personal advantages not considered in the data gathered from the countries, and they are broader, since they include information from all spheres of government and from a greater number of types of managerial positions; if these factors were exercising a strong influence on the difference between the results presented under the two methodologies, then such calculations become almost impossible to compare. In fact, the definition of a

[2] In this case, it is important to emphasize that the calculated average includes only the salaries for the legislative and judiciary branches, since those for the executive branch were not obtained. This fact certainly elevates the value of the result, since in the two first branches, as already stated, higher salaries are paid.

managerial job in the household study in Mexico is quite broad (see Annex II), and could explain the results observed for the salary differential between public and private managers;

b) Although the public sector pays relatively high salaries (compared with the per capita GNP and the average salary) to its managers, they are not sufficient to compete with those observed for the managers in the private sector, due to the high concentration of income in the country. Actually, in Mexico, the concentration of income is significant, while in Bolivia and Ecuador it is less so. Meanwhile, the indicators of concentration of income in these two countries are calculated using criteria that differ from those adopted for the other countries, and they are therefore not directly comparable with the others. So we cannot state with certainty whether income is really less concentrated in Bolivia and Ecuador. So the argument presented here is plausible;

c) The public sector is not able to pay salaries that are similar to those observed in the private sector, due to a lack of resources, political restrictions (the society is not ready to accept high salaries for public managers) or, those in charge of salary policies understand that there is a series of advantages of a non-monetary sort for those who work in the public sector, such as greater stability, access to power and influence and personal preferences which cause an individual to choose to enter into or remain within a position as a manager in the public sector, even though the salary is not fully competitive with those paid in the private sector;

d) Those in charge of salary policies in the public sector do not adopt, as a parameter for the determination of salaries for managers, the salary policies used in the private sector. This possibility, if true, has a strong influence on the management of human resources to the extent that an alternative market, or at least an important parameter of comparison for the employees, is not considered in this process.

In the case of Mexico, since income is concentrated and the classification of managerial positions in the household study is quite broad, both factors could contribute to an explanation of the negative salary differential. In any case, it is important to emphasize that, for all of the above calculations, the relative salaries (and also the absolute value in dollars) paid in that country are among the highest.

Immediately following this group is a group of countries that also present relatively satisfactory salaries. They are Brazil, Colombia and Chile. In the case of Brazil, the differential between public and private salaries for managers, according to the calculation based upon the household studies, is positive, indicating that the public

sector pays competitive salaries (in relation to those observed in the private sector) to its managers, even with the high degree of concentration of income in this economy (the highest among the countries studied).

A factor which probably also contributes to this result is the breadth of jobs considered in the Brazilian household study; it is much larger than that for the information gathered in the other countries (see Annex II), including various other senior management posts, the salaries for which certainly generate results that are different from those obtained with the sample restricted to the main managers.

Other studies on public/private salary differentials in Brazil also show positive results for public employees at all levels of formal education.[3] Empirical observation leads us to state that only in some situations at the extreme high levels of the hierarchy (such as general directors of companies and ministers, for example) can a negative differential be observed in the public sector. The average salary in the federall government is extremely high as compared with that paid in the private sector; in the state governments, the difference is also positive, and in the municipalities, the differential is close to zero. In the legislative and judiciary branches, the salaries are even higher.

In addition, one of the factors that makes income very concentrated in Brazil is the extremely low salaries paid to less qualified workers in the private sector (a fact that is reflected in the strong positive differential between salaries paid in the public sector and those paid in the private sector, when the totality of all workers is observed).

Since Chile presents a negative salary differential between managers in the public and private sector, it is not possible, in the case of that country, to make the same comments as those presented for the Brazilian case. Income is quite concentrated in Chile, and so the arguments relating to the influence of the distribution profile, which helps to explain the behavior of the negative differential in Mexico, also apply to the case of Chile.[4]

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[3] See, for example, a text by one of the authors (Nelson Marconi) entitled "Evolution of the profile of the workforce and of salaries paid in the public and private sectors during the decade of 1990," published in the Revista do Serviço Público, No. 1, year 54, Jan.-Mar./2003, Brasília: ENAP, Brazil.

[4] The problem of a broad classification of managerial jobs in the household study carried out in Mexico does not apply to the analysis of Chile, since the household study in that country defines the set of such positions in a more specific fashion.

When comparing total salary (which includes deferred and indirect payments) with the per capita GNP, Chile falls within this group of relative salaries that are intermediate in value. If consideration is given only to the direct portion of remuneration (with benefits excluded) received

The salary differential between managers in the public and private sectors was statistically significant in the case of Colombia. But it is possible to state that the relative salaries of its public managers (calculated in relation to the average salary in the economy and the per capita GNP) is at a satisfactory level as compared with the other countries[5] (income is also quite concentrated in Colombia, which corroborates the level of the relative salaries paid), and that indirect salaries are an important component of the structure of the remuneration for public managers in that country.

The following group of countries, whose relative salary levels for its managers are slightly below average, is comprised of the Dominican Republic, Costa Rica and Argentina.

Unfortunately, in the case of the first two countries, it was not possible to obtain a result, with a reasonable probability of accuracy, for the salary differential between public and private managers, calculated on the basis of the data from the household studies. But since income is better distributed in the Dominican Republic and Costa Rica than in various other countries included in the study, it is possible that the salaries paid for public managers, while not among the highest in the study, are reasonably competitive with those paid to their counterparts in the private sector. But this last affirmation is based only upon a hypothesis; the only conclusion that is more certain, based upon the available data, is one relating to the levels of relative salaries.

Although the relative salaries paid to public managers in Argentina (estimated on the basis of data provided by the countries) are not high, the salary differential (calculated on the basis of the household studies) is positive, indicating that the salaries paid to public managers would be competitive in relation to those paid in the private sector. This combination - relatively low salaries and a positive public/private salary differential - can be explained on the basis of several factors.

First, this may indicate that the private sector in Argentina is also paying salaries that are relatively low to its managers, which would be an indication of the precarious situation relating to the level of activity in this economy (which affects everyone

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monthly, Chile falls within the group that pays relatively higher salaries. In part, this change -from the group with relatively high salaries to the group with intermediate ones - is based upon the nonexistence, according to the information supplied, of indirect salaries for public managers in this country.

[5] Only for the comparison between total remuneration and the per capita GNP, since the weight of indirect salaries in the composition of remuneration is significant in that country, which makes the total salary, including all of the portions considered in this study, considerably higher than in the direct monthly salary.

indiscriminately), or a specific impoverishment for this level of managers, which depending upon its intensity, could bode ill for the management of companies in the private sector and entities in the public sector.

Another possible explanation for the results is the difference between the composition of the samples used under the two methodologies, already described above. It is possible that the public managers in other sectors of the government (including the local government), and functions not included in the information obtained in the data received from the countries, are receiving higher salaries than those who occupy positions that figured in the study. In addition, personal advantages not included in the study, but considered in the interviews conducted as part of the household studies, could also be contributing in such a way as to make the salary differentials in public sector positive, as compared with the private sector.

In summary, since the values provided (in the data received from the countries) for salaries in Argentina are very low, this is probably due to the fact that the private sector would also have to pay quite low salaries to its managers in order for the differential to be positive for the public sector. If this is true, the conditions in the labor market in Argentina have deteriorated significantly; however, if this argument is not valid, the personal advantages and other aspects (discussed below) not considered in the remuneration reported in the information provided by the countries could be responsible for the apparently contradictory results for the two methodologies.[6]

Finally, the group of countries that presents the lowest relative salaries is comprised of England, the United States, Spain and Venezuela. In the first three cases, this behavior is certainly associated with the pattern of distribution of income in these countries (very much less concentrated than in the others included in the sample), while in the case of Venezuela, it really appears to reflect a policy that calls for the payment of low salaries to managers in the public sector, due either to a lack of resources, or based upon a deliberate choice.

The public/private differential is not statistically significant in the data relating to Venezuela; however, income is more concentrated there than in the other three countries that comprise this group, which is an indication that the salaries for managers in the private sector should not be very low. Thus, it is possible that the public sector in

[6] The Ginipara index in Argentina, available in the United Nations report for 2003, refers to 1993. Considering that this country has experienced profound alterations in its economic scenario over the past few years, there would be no correlation between this indicator and the present relative salary.

Venezuela is having difficulty in hiring, retaining or stimulating managers in the public sector. Such a policy obviously has a negative impact on the country's development, since the design of satisfactory public policies requires the existence of a corps of public employees that is well-qualified.

One should remember that a conjoint analysis of the information provided by the countries and by the household studies should be made with some caution, since the sources of the data and the methodologies for calculation are different. We have tried to consider and explore such differences in the analysis of the results, presenting the conclusions that can be obtained on the basis of each of these methodologies, and to the extent possible, to associate them.

Based upon the analysis presented above, we can affirm that the correlation between the salary levels paid to public managers and the degree of concentration of income is more significant than the correlation between those levels and the economic development of each country.

In addition, is noted that the treatment given by various countries to the question of the remuneration of public sector managers is not uniform. Only a few of them try to pay salaries that are competitive with those in the private sector. In some of the countries, it is observed that the salary levels, although high, may not be sufficient to guarantee an equilibrium between salaries paid to directors in the public and private sectors.

However, this should be the main guideline for salary policies in the public sector, principally with regard to its managers: to pay salaries that are attractive to qualified individuals who have, as an alternative, the possibility of working in the private sector. A competent public service is fundamental to the development of any country.

The differences between the salaries paid to managers in the public and private sectors can be explained on the basis of:

a) restrictions of a fiscal nature (lack of availability of resources) or a political nature (the erosion of the society that results from the payment of high salaries to managers);

b) the existence of non-monetary advantages such as stability, influence and power deriving from holding a management position in the public sector, of personal preferences for the development of an activity in the sector, or even of monetary advantages, such as more generous rules for retirement than those observed in the private sector, which cause people to enjoy positions of management in the public

sector, even though they receive salaries that are lower than those found in the private sector;

c) reduced bargaining power in this segment, which is unlikely based upon its proximity to the decision-making process;

d) the absence of any relationship between the definition of policy guidelines and salary levels, as compared with practices observed in the private market.

In this sense, the objective of those in charge of salary policy could be the maintaining of a not very accentuated distance between the salaries for public managers and those for private managers which, given the other advantages associated with employment in the public sector, discussed above, could even stimulate individuals to enter and remain in the public sector, and to perform adequately their responsibilities in the government or in the other branches.

However, it must be emphasized that the stability of managerial jobs is quite restricted, given their very nature, and the Social Security benefits for public employees, which was different from that adopted for the private sector in most of the countries, have been in the process of modification over recent years, and the indirect advantages that existed in relation to the private regime has been reduced or eliminated. According to the information gathered, the special arrangements which have continued in effect are aimed mostly at the judiciary branch.

In Argentina and Costa Rica, the retirement programs were unified, and only a few special systems remain; in Colombia, Bolivia and Chile, there is no difference between programs for public employees and those who work in the private sector; in Mexico and in Brazil, the programs are different, and those for the public employees are more advantageous than those defined for workers in the private sector. In Venezuela, they are also different, but the information available does not allow for an evaluation of the advantages of each; in the Dominican Republic, the systems were unified starting in 2001; in Spain, there are two programs (a more general one, and the one restricted to public employees), and a state employee may opt for one (or a combination of both). There is no information available on the differences between programs for the public sector and the private sector in Ecuador, Peru, England and the United States.[7]

[7] Annex IV presents a report on the rules for the granting of retirement and the calculation of its value in the public sector for the countries included in this study.

Therefore, some non-salary advantages which were previously significant are ceasing to be so, which reinforces the role of salary in defining the attractiveness of employment in the public sector.

In addition, if the salary differential is considerable, or if the salary policy for public managers simply does not adopt private market practice as at least one of its references, this increases the difficulty in recruiting and retaining qualified staff in the public administration.

It can be argued that public employees will not quit their jobs if employment opportunities in the private sector are scarce (or if the private market does not represent an employment alternative, because it is very differentiated, or requires abilities that are quite different from those required in the public sector), but in any case, those who remain will become unmotivated.

There are certainly other factors that cause an individual to enter and remain within the public service, such as political power, influence, ideology, personal relationships, greater stability (which is not as significant, however, for senior-level positions) and the preference for activities developed within this sector. However, salary is certainly a relevant factor in this decision, and, unless other factors are a great deal more important, low salaries tend, at the very least, to demotivate public employees, and in extreme situations, cause them to seek out alternatives relating to underemployment or corruption. Thus, the maintenance of competitive salaries is fundamental for the adequate management of human resources in the public sector.

Other characteristics of the salary structure frequently observed in the data gathered from the countries deserve to be emphasized. The first of these is the break in the salary hierarchy, which constitutes a problem for the management of human resources to the extent that it becomes a strong negative stimulus to the performance of managers, by reducing the correlation between salaries paid, the organizational hierarchy, and as a result, responsibilities and functions that fail to be performed.

There is a lack of mechanisms for the evaluation of remuneration, and the implementation of those that exist is complex and controversy. The existence of an excessive number of remuneration portions also makes the salary structure confusing, reduces its transparency and contributes to the rupture of the salary hierarchy. Employees themselves find it difficult to understand the structure, and those responsible for human resources may commit errors in the formulation of policy, given the excessive number of rules they must follow, some of them quite ancient.

One of the serious problems detected in the analysis of the information is the frequency and intensity with which indirect remuneration mechanisms are utilized. Although they can be used in a flexible fashion at any time, an attribute that makes their utilization defensible, they are not very transparent (by virtue of their own flexibility), and they wind up contributing to the disorganization of the salary structure, and having a negative impact upon the management of human resources.

Based on the analysis made and the conclusions reached, what follows will be a presentation of recommendations that may contribute to the improvement of salary policies for managers (and, in some cases, for ordinary public employees) in the public sector.

2. POLICY RECOMMENDATIONS

There is a series of factors that contributes to the definition of the average salary for public employees, including those at the managerial level, which will be presented below:

a) the availability of fiscal resources, which represents an important restriction on the granting of increases;

b) the involvement of fiscal resources deriving from other governmental spheres in the funds received at a given locale (through transfers, for example, from the federal government to local governments) may also be relevant, to the extent that it may diminish the resistance of the population at that locale to the concession of salary increases for public employees. However, a lack of information available to the population regarding the expenses relating to personnel, and as a result, a lack of social control, could, on the other hand, facilitate the concession of salary adjustments, since it could avoid negative repercussions in the society.

c) local conditions in the labor market (and therefore, in the economy itself), despite the segmentation that exists between the public and private sectors, are not unimportant, because the level of the salaries paid for alternative types of employment should be taken into account in determining salaries in the public sector, and especially those of its managers.

d) the political pressures of groups close to the source of decision-making, in the case of senior-level positions, the relevance of the functions performed (for the proper functioning of the public sector) and the number of public employees and family members who are voters, for the most numerous and organized categories, strongly influence their bargaining power and their pressure to receive salary increases.

Following shortly upon this outcome, the desired to recover the relative salary levels (in relation to the other categories) causes other groups to press for salary increases, as well.

The influence of each of these factors on the process of the determination of salaries varies in each country, and should be taken into account in the design of any salary policy relating to the public sector and to its managers.

In addition, it is not unusual to observe in the public sector the adoption of policies that emphasize salary increases for the public employees that hold the more operational positions, to the detriment of improvement in the remuneration for positions within the higher levels. This option appears to be based upon pressure from the operational categories, greater in number – that is, with a greater number of voters – and upon the social character of the government's comportment, which does not permit the payment of salaries as low as those paid in the private sector for non-skilled workers, who fall outside the formal sector of the economy; there does not appear to be any close connection between the strategy and the productivity or performance of this segment of public workers.

With regard to senior level managerial positions, the opposite is observed. Despite their being closer to the decision-making process, the salaries for these managers can wind up being lower than those paid to their counterparts in the private sector, because the society does not easily approve the payment of high salaries to public managers. The visibility and the relevance of the position that such managers occupy winds up endowing them with a symbolic significance, representative of the dissatisfaction (justified or not) of the population with the public sector, and, as a result, its unwillingness to support the allocation of resources deriving from taxes to the payment of salaries. Public opinion notoriously holds the belief that managers earn salaries that are much higher than they deserve based upon performance. Although this belief may be warranted in some situations, it is not in keeping with the general rule.

Given the negative impact of salary increases, those in charge tend to restrict them, and to offer salaries to this group that are relatively non-competitive. As a result, the breadth of salaries in the public sector tends to be narrower than is observed in the private sector, which has a negative impact, in that it inhibits the recruitment and retention of more qualified individuals in the public administration.

The solution found for this distortion (relatively low salaries for the managers) causes even greater problems. In order to attract individuals to managerial positions,

the public sector winds up offering a series of benefits, not classified as personnel expense, and more flexible, including with respect to value, but, for this very reason, these are less transparent and less subject to control, and therefore more subject to fraud. So, the public sector may wind up allocating an uncertain amount of resources to the payment of direct and indirect remuneration to its directors, which may even be greater than the expense would be if, instead of benefits, salary increases were conceded as part of direct remuneration.

The widespread practice of the concession of indirect benefits, despite being more flexible from the point of view of salary administration, may have a significant negative impact on public funds, as well as on the structure of the salary hierarchy,[8] since the values involved may oscillate too much for the various positions and their respective occupants. Its adoption, if desirable, has to be linked to the adoption of very clear rules with regard to rights, obligations, values and controls upon its utilization. If not, it is recommended that it be reduced to the minimum number necessary.

All of the flexible measures created in the public sector should be offset by the definition of very clear rules regarding their function, since not to do so makes them susceptible to all types of distortion and deviation, and as a result, dooms them to failure. This principle is certainly true, as well, with respect to salary questions.

It is also common to observe a significant number of salary portions within the remuneration structure. This is an instrument frequently utilized in order to make possible the concession of some sort of salary correction for categories, specific groups or specific activities, and to avoid characterizing this as a linear adjustment. In this form, it has a function to perform, since it allows salary management to be more flexible, but, on the other hand, it makes the salary structure less transparent by creating an extensive series of salary portions.

The widespread adoption of indirect benefits and other large numbers of salary components disorganizes the salary structure, making it less transparent, reducing salary breadth and, as a result of all of these factors, inhibiting the correlation between the level of salaries and the responsibilities performed by public employees. It is suggested that those in charge of remuneration policies in the countries covered in this study, who are confronted with the picture described here, seek to reduce the number of salary portions, including those described as indirect, to the lowest possible minimum.

[8] A fact which, in turn, demotivates the public employees and makes the management of human resources more difficult.

Salary transparency in the public sector is fundamental, and will contribute decisively to the stimulation of public employees, improve management and inhibit abuses, so that the society can exercise a better and broader control over personnel expenses, which is a relevant item in public costs. It is the only effective way to avoid fraud. If governments prefer to choose to maintain some mechanisms for indirect remuneration, they should create them under very clear and transparent rules, facilitating the monitoring and control of these expenses.

The Brazilian federal government, for example, has been reducing the number of portions that comprise the salary structure for public employees, and Ecuador has recently adopted a similar measure (which is also applied to the group of senior public managers). All of the portions that can be combined should be contained within a single amount, so as to make possible the recognition and reorganization of the salary hierarchy. Only the portions that are really characterized as deferred, or that cannot be assigned a fixed value (such as bonuses relating to performance) would continue to be paid under some other rubric (or denomination).

Those in charge of salary policy should establish, as a more generic goal, a mechanism which permits that the remuneration of public employees (including senior-level management), from the individual standpoint[9], bear a satisfactory correlation with assignments, responsibilities, abilities and performance. Salary increases should be associated with changes in the cost of living, and the evolution of these factors. Although other events may also influence the determination of salaries in the public sector, as cited above, it is possible to adopt measures that at least link salary behavior to such variables in a closer way.

In order to associate salaries to responsibilities and abilities, it is necessary first to reduce the number of salary portions (including indirect benefits), and then clarify the salary structure and reorganize its respective hierarchy[10] through a gradual adjustment of the amounts paid to those who hold senior-level positions.

This adjustment may be the cause of resistance on the part of the society, but, if the government engages in a campaign that clarifies the cost of maintaining the present benefits, and as a result, the actual remuneration of the managers, as well as the impact on public expenditures of the changes being proposed (which could, depending upon the

[9] And not for the aggregate for the category, whose factors that contribute to the definition of average salary level were discussed above.

[10] The necessity for which results from an evaluation of the amounts paid at present, as discussed below.

present degree of lack of control of the remuneration structure, actually lead to a reduction in expenditures) associated with earnings in terms of greater transparency, the negative repercussions may be more modest over the long term of the process.

This correction of the remuneration of managers, if necessary, will result in an expansion of the salary structure in the public sector, and this should also be very well explained to the society, since it will add to its resistance, pointing out that the correction is necessary to the extent that it results in a salary policy that is responsive to the responsibilities and abilities required for each position. The reduced amplitude that is characteristic of the public sector in various countries at the present time has the effect of reducing this correlation.

The analysis of the need for redefining the amounts paid to managers requires not only the reduction in the number of salary portions, but also a prior study of the relative responsibilities in various positions, in accordance with the abilities required and the responsibilities involved in each, of salaries paid for equivalent positions in the private market and of other advantages received (monetary or non-monetary, such as specific Social Security benefits and greater job stability, when these apply to senior-level positions), which should be taken into account in calculating the value of the contributions made by public employees over time. Only with this study in hand would it be possible to evaluate whether the amounts paid presently are satisfactory.

This task requires considerable time and dedication. However, once it is ready, the study will be an important point of reference in defining salary policy and the remuneration level for senior-level public managers (this can also be applied to the total complex of public employees), since it will define salary levels appropriate to the responsibilities and abilities required in each management position.

The implementation of this strategy will certainly involve a series of departures with respect to the goals established since, as cited above, there are various other factors, mainly of the political sort, that influence the process of defining salaries in the public sector. These factors will cause the salaries for senior-level managers (as well as other levels of public employees) to be differentiated from the values defined by the technical analysis of the correlation between salaries, responsibilities and abilities, since the process of salary negotiation generates pressures from the best organized categories or from groups close to the decision-making process, and frequently leads to results that are different (but inevitable) from those expected. In any case, negotiation is an important principle in the correct management of human resources, and such

departures may result in other kinds of benefits, such as a greater commitment on the part of the public employees.

For this reason, it is always important to consider that these factors also influence the process of defining salaries, and despite departures from the goal that occur during such a process, it is fundamental that those in charge of salary policy have guidelines which take into consideration the technical aspects already discussed - assignments, responsibilities, abilities, performance, remuneration in alternative markets, cost of living and other monetary and non-monetary advantages - in the definition of salaries, and should be pursued during the process of negotiation. The role of those in charge is to bring a technical position to the negotiations; in order that the proposal be coherent, consistent and have a recognizable focus, and therefore be deserving of respect, there must be policy guidelines of the most general order.

It is also very important to associate a salary portion to performance, in order to compensate those with better performance in an appropriate fashion. However, making that linkage is a task that is loaded with controversy and difficulty in the public sector (as well as in the private sector).

Some positive aspects relating to the adoption of remuneration mechanisms associated with individual performance are: a) allowing the employee to take greater responsibility for his actions: b) the relationship between the behavior of one portion of personnel expenses and results, which differs completely from the concession of automatic increases with no relationship to performance and c) a greater stimulus for public employees to improve their performance.

However, there are a number of negative aspects in the adoption of this system, such as: a) the difficulty in establishing criteria and measuring objective results; b) the difficulty in making a realistic evaluation of performance when this is associated with the definition of the employee's remuneration, since its result relates to monetary earnings, which could inhibit the assignment of low grades; c) the socio-cultural resistance to the implementation of individual evaluation mechanisms; in the private sector, an individual who loses his managerial position leaves his job; in the public sector, if he is a member of the permanent staff, he will perform other functions. And one of his ex-subordinates could become his boss. So, everyone avoids unpleasantness with his subordinates, understanding that the management of human resources is not within his sphere of competence, and winds up evaluating his subordinates on a formal basis.

A significant portion of the experiences in evaluating individual performance, as already known and applied, indicate a certain difficulty in defining individual goals and in performing realistic evaluations. Therefore, despite the fact that this is an appropriate instrument, it needs to be improved.

One possible alternative, which appears to be more efficient, is the application of evaluations to groups or organizations, rather than to individuals. In this case, various advantages can be cited: a) the evaluation is not personalized, and the evaluator therefore feels less constrained; b) there is an enhancement and stimulation of working as a group; c) in the case of senior-level managers, there is a reinforcement of the role of managers, and of their actuation within a network and with coordination of teams for the achievement of good results for the organization; d) this system minimizes the dilemma relating to the need for uniformity of rules and for flexibility in differentiating various levels of performance; in the public sector, defining general rules is fundamental in order to avoid arbitrariness and even lawsuits based upon discrimination; at the same time, there should be an adequate reward for those within an organization who achieve better results than others. A mechanism that could resolve this dichotomy is the bonus, or something similar, associated with the performance of the organization (or of any group of employees who perform the same tasks).

In order for this device to be implemented, the organization needs to have very clear, objective and measurable goals. This is one of the most difficult phases in this process, but good strategic planning can contribute well to the definition of the goals. This process can even be launched as a pilot project in some specific area, or with just a few goals that involve indicators that are simpler, are generally understood or are more relevant for the institution. A management contract with a supervisory entity, in which the objectives of the organization for a given period are established, and which requires that the results desired and those achieved be published, can also contribute significantly.

Institutions that achieve a determined expected result would have the right to distribute a bonus among their employees (or utilize it for the improvement of the management of human resources, as with training, for example), based upon rules that are also clearly defined.

Of course, the system involves a degree of reasonable complexity in its implementation. Thus, it is a phase that follows upon the improvement of the salary structure, and it should necessarily go through an initial testing period in some area.

However, over the course of its development, the benefits of its adoption (such as greater stimulation and involvement of employees) should more than compensate for the difficulties in implementation, and such dividends will be even more visible to groups of senior-level managers in public organizations who, with the definition of goals, can take on greater responsibilities, but also be better rewarded for their performance, and also demand results from their subordinates in a more effective fashion.

It is better to use an institutional performance evaluation - applied to groups or organizations - as a salary instrument and for the evaluation of individual performance for purposes of job progression and the definition of training needs. When the latter loses its link with salary, it also becomes more efficient.

It should be emphasized that the performance bonus (or whatever name is given to this instrument), as a percentage of total remuneration, should not be excessive; otherwise variations in its amount would be the cause, in turn, of great variations in the value of salaries, and as a result, this type of evaluation would also become ineffective, since the results would not reflect reality, but rather the necessity for keeping salaries relatively stable.

Ideally, its payment should be made on a deferred basis, semi-annually, for example, so as to avoid its characterization as a permanent portion of the salary of senior-level managers and other employees. In this design, the only deferred portions of the salaries of the senior-level managers would be this bonus and the annual additional salaries (at years end, for example).

From the point of view of the management of human resources, a variable salary portion linked to performance is more advantageous than some other that is associated with time of service, which involves automatic salary adjustments not linked to the employee's performance. However, if the latter were to be substituted for the former, for example, this alteration should be made only to the extent that the institutional evaluation mechanisms have already been consolidated, in order to avoid resistance to its implementation. Similarly, elimination of salary increases associated with time of service require efficient mechanisms for job progression, linked to the results for the evaluation of individual performance. So, the employee could continue to receive increases in accordance with the progression of his career, but these would not be automatic; they would be related to his performance.

As with any process that aims at greater flexibility, the rules for evaluation and distribution have to be very objective and clear. If not, the system is doomed to be

discredited. Similarly, any process of salary alteration, or of the application of this bonus, must be on the basis of a realistic and feasible budgetary program which makes promises of salary improvement believable.

It is fundamental that public employees (including senior-level managers, who in general have more information) interpret the announcement of future salary improvements as a realistic promise; in this case, such increases need not even be immediate; they can follow a program for implementation in the medium term, so long as they have credibility. Unexpected salary demands during the period of implementation of a strategy for changes in deferred compensation that involve significant changes in the program, should not be met, or all kinds of precautions, including policies, should be adopted so as to make such demands unviable. If they are inevitable, it is better to announce a budgetary alteration that frustrates employees in the future, since this a very relevant demotivating factor.

Given their administrative autonomy, the other branches – legislative and judiciary – tend to grant significant salary increases to their employees, increasing remuneration to levels that are higher than those that would result from any technical analysis. The lack of transparency and control associated with such autonomy often generates a corporate character within these branches that is not restricted to senior-level managers, but extends to all employees on the staff. This strategy tends to interfere with attempts at reorganization of the salary structure within the executive branch, since it generates strong demands for the adjustment of relative salary (in relation to that paid in the legislative and the judiciary branches.

One of the ways to stanch this process is the legal definition of limits for expenses categories in all of the branches, without wounding the autonomy for decision-making of those branches. In Brazil, for example, the Law of Fiscal Responsibility was created, which establishes very clear limits for the evolution of personnel expenses for the entire public sector, and this has produced good results, since, even if a certain branch in a given locality wants to grant an increase, it can do so only within the established limits. And such a mechanism has been a strong brake upon excesses in the granting of salary adjustments in sectors that have been presenting excessive expenses (or an evolution of expenses). In addition, it has been constitutionally defined that any salary adjustment should be defined by law; thus, the branches cannot define salary corrections without discussing them with the congress and with the society.

In addition, a broad body of managerial information should be available to technicians and managers that make decisions relating to salary policy. It is common in the public sector to define salaries without an understanding of the financial, legal and even motivational impact of a given measure. As a result, there are often increases in expenses that are unexpected or inefficient. Any decision should be based upon a sufficient amount of information in order to result in the implementation of good policies, and, in an area that is so sensitive from the political and fiscal standpoint, such as the salaries of public employees, this concern should be even greater. The same applies to legislation relating to the management of human resources, usually quite complex and full of recourse to ancient documents. In general, few people understand this tangle, and the probability that errors will arise in the text of new legal instruments, which errors will generate future problems, increases.

Finally, it is fundamental to cite that the payment of competitive salaries is a basic requisite for good management of human resources.[11] However, experience shows that this strategy appears to be appropriate to guarantee attraction of and retention of employees, but not necessarily to their satisfactory performance.

In order to stimulate the performance of employees (and also, of course, of senior-level managers) it is fundamental to create positive stimuli, such as evaluation mechanisms associated with training and progression; a greater involvement of managers in the professional development of their subordinates; bonuses associated with performance (as presented) and the discussion of goals - which should be objective - with the team, so as to commit that team to the desired results.

Negative results that should be cited are the possibility of charging and then dismissing employees, even though the emphasis of evaluation is aimed at professional development, and the creation of punitive mechanisms, with severe rules, and effectively applicable for those who become involved in corruption. The payment of high salaries, in and of itself, is not sufficient to do away with this practice; the risk of punishment and its associated intensity has to be greater than the probability that the infraction will be successful.

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[11] In general, the parameter for comparison is the private market, but for some positions, the parameter is actually the salary in the public sector, as in the case of the police; in this case, in order to evaluate salary competitiveness, reference should be made to indicators of the number of people who want to enter this career category, or to the flow of avoidance of such a career; in any case, this exception to the general rule does not appear to apply to the group of senior-level managers.

The possibility of dismissing employees from senior-level positions is fundamental to the management of public organizations; there are disastrous experiences in Brazil in which managerial positions are stable, and when the performance of the holders of such positions is unsatisfactory, it becomes necessary to appoint a substitute, thereby having two individuals occupying the same function. Stability is not compatible with performance within a senior-level positions; the risk of dismissal that is inherent to these positions cannot be eliminated.

On the other hand, employees who are stimulated and involved are fundamental to the achievement of an organization's desired results, even more so in the public sector, where the charging mechanisms are deficient. The role of managers in this process is crucial; if they are not committed to the achievement of results and the improvement of the organization, subordinates will be even less so. So, improvement in the management of human resources requires a specific strategy for training in leadership and the stimulation of managers, which indicates the relevance and the urgency of all of the discussion presented here regarding recommendations for an effective policy of remuneration relating to senior-level managers in the public sector.