



Office of the Comptroller of the Currency (OCC)

Compensation and Performance Management: Principles, Tradeoffs and Decisions

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Table of Contents

- Why Change?
- Project Structure and Process
- Leadership Interviews and Focus Groups
- Education
- Decision Making: Key Elements
 - ★ Base Salary
 - ★ Variable Merit and Special Increases
 - ★ Performance Management
- Where Are We Now?
- Key Learnings: Summary



Why Change?

- Reward a flexible and technology-proficient workforce
- Reinforce knowledge, skills and certifications/accreditations
- OCC repositioning, including right-sizing, downsizing, and restructuring
- It had been seven years since implementation of current system
- Requirements:
 - Stakeholder input
 - Pay philosophy
 - Data driven
 - Clear expectations and updated information
 - Safeguard employee morale



Project Structure and Process

Web

E-mail

Newsletter

Q&A

Training

Briefings

Executive Committee

- Interviews
- Decision Making



- Design



- Input
- Feedback





Leadership Interviews

Many external forces demand OCC nimbleness and skill

- Bank consolidations have changed the structure of the industry (number and types of banks supervised)
- OCC seen as a premiere bank regulator
- Success demands striking a difficult balance
 - Enabling appropriate risk vs regulation vs. consultative services
- Partnerships are critical - e.g.,
 - Other bank regulators



Leadership Interviews

- Project leaders must:
 - be clear with employees about scope
 - get thorough and diverse input, including from “person on the street”
 - communicate every step of the way
 - involve and train supervisors in program design and implementation
 - assure leadership involvement and focus



Interviews and Focus Groups

Perceptions of Classification System

■ Strengths

- 25 grades allow frequent promotions — good for recognition
- Career ladders provide good opportunity for growth
- Higher grades for examiners recognize primary line of business and provide status

■ Weaknesses

- Complex system
- Too many position descriptions
- Too many grades -- difficult for managers/employees to differentiate
- OCC culture encourages precision, which intensifies classification focus
- Grades exist but not enough real promotional opportunity
- Limited flexibility to move people around



Interviews and Focus Groups

Perceptions of Base Salary System

■ Strengths

- Perceived as generally equal with other FIRREAs
- Allows recruitment of high-quality talent
- Incorporating part of Geo Pay improves base for pension, etc.

■ Weaknesses

- Not believed to be competitive with private-sector financial institutions
- Little differentiation between new and long-term employees
- Salary “stops” seem unfair and discourage performance



Interviews and Focus Groups

Perceptions of Performance Management System

■ Strengths

- Complies with Federal law/regulation
- Provides some financial differentiation among performance levels
- Generic standards make process easier and more consistent

■ Weaknesses

- Perceived inconsistencies among rating officers
- Evaluation creep
- Limited merit budget and differentiation make promotions too important
- Generic standards are not accurate for all employees



Education Precedes Design!

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Education Precedes Design!

Two Most Common Approaches for Compensation Systems

- Job-based
 - Evaluate and pay for the job
- Person-based
 - Evaluate and pay for the person's skills and competencies
- Most organizations use a combination of the two

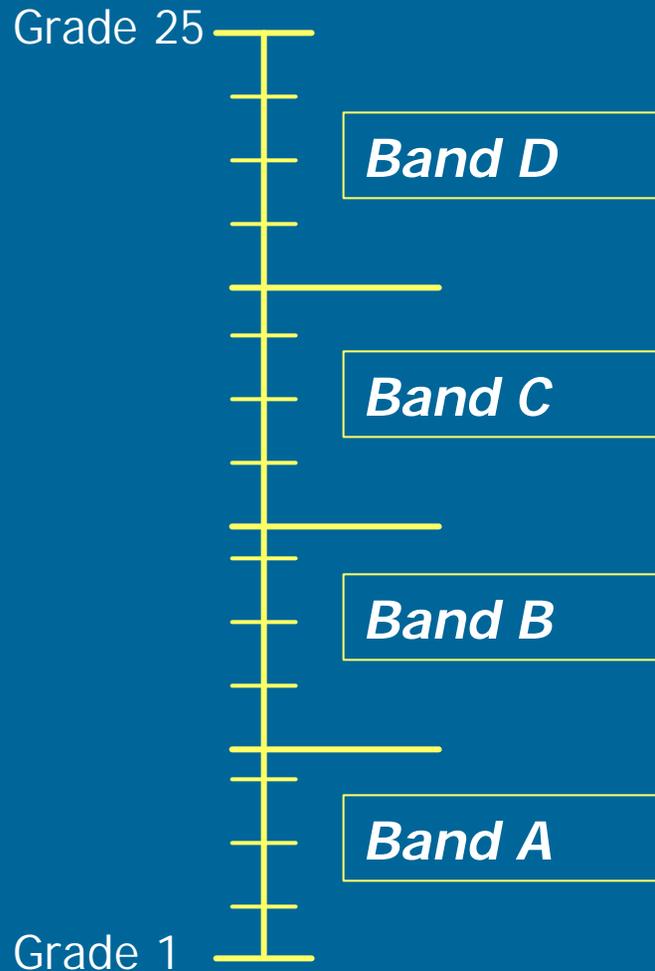
The question is -- how to balance the two?



Multiple Grade Systems vs. Broadbands: A "Schematic"

Grades

Broadbands



There are Pros and Cons to each system

Considerations include:

- Internal equity vs. management flexibility
- Motivational impact of promotions
- Ability to distinguish between grades
- Desirability of predictability
- Burden of administration
- Employees' perception of management fairness



Geographic Differentials

- Cost of Labor (Locality Pay)
 - Based on surveys of actual salaries in various cities
 - Cost of living is subsumed in data
 - Data for actual jobs used; not a “model employee”
- Cost of Living (Geo Pay)
 - Based on cost of living in various cities
 - Market basket of goods and services
 - “Profile employee” expenditures measured

*There are advantages and disadvantages
to both systems*



Development of an OCC Reward Philosophy

- What is a reward philosophy?
 - Articulates how an organization leverages its pay and benefits programs to support its business objectives
 - Consists of the following elements:
 - ★ **Money**
 - comparator groups
 - targeted competitive level(s)
 - reward elements
 - ★ **Mix** (degree of emphasis among reward levels)
 - base vs. incentive
 - cash vs. non-cash
 - short-term vs. long-term



Development of an OCC Reward Philosophy

- ★ **Messages** (what the organization wants its people to “hear” from its pay program)
 - “We’re all in this together.”
 - “The market drives our pay because we need talent.”
 - “We pay for performance.”
 - “We pay for skills.”
 - “Stay with us for your entire career.”
 - etc.
- Must be tempered (but not driven) by budget considerations

What messages does the OCC want to send its people?



Culture Sort Discussion

Culture -Sort Analysis

- Brief survey tool
- Provides an assessment of OCC's current desired work culture
- Identifies priority gaps
- Provides input into the design of a compensation system that will support OCC's goals
 - 56 behaviors/activities (culture attributes) were ranked from most supported to least supported
 - ★ For the current work culture
 - ★ For the desired work culture



Culture Sort Discussion

General Conclusions

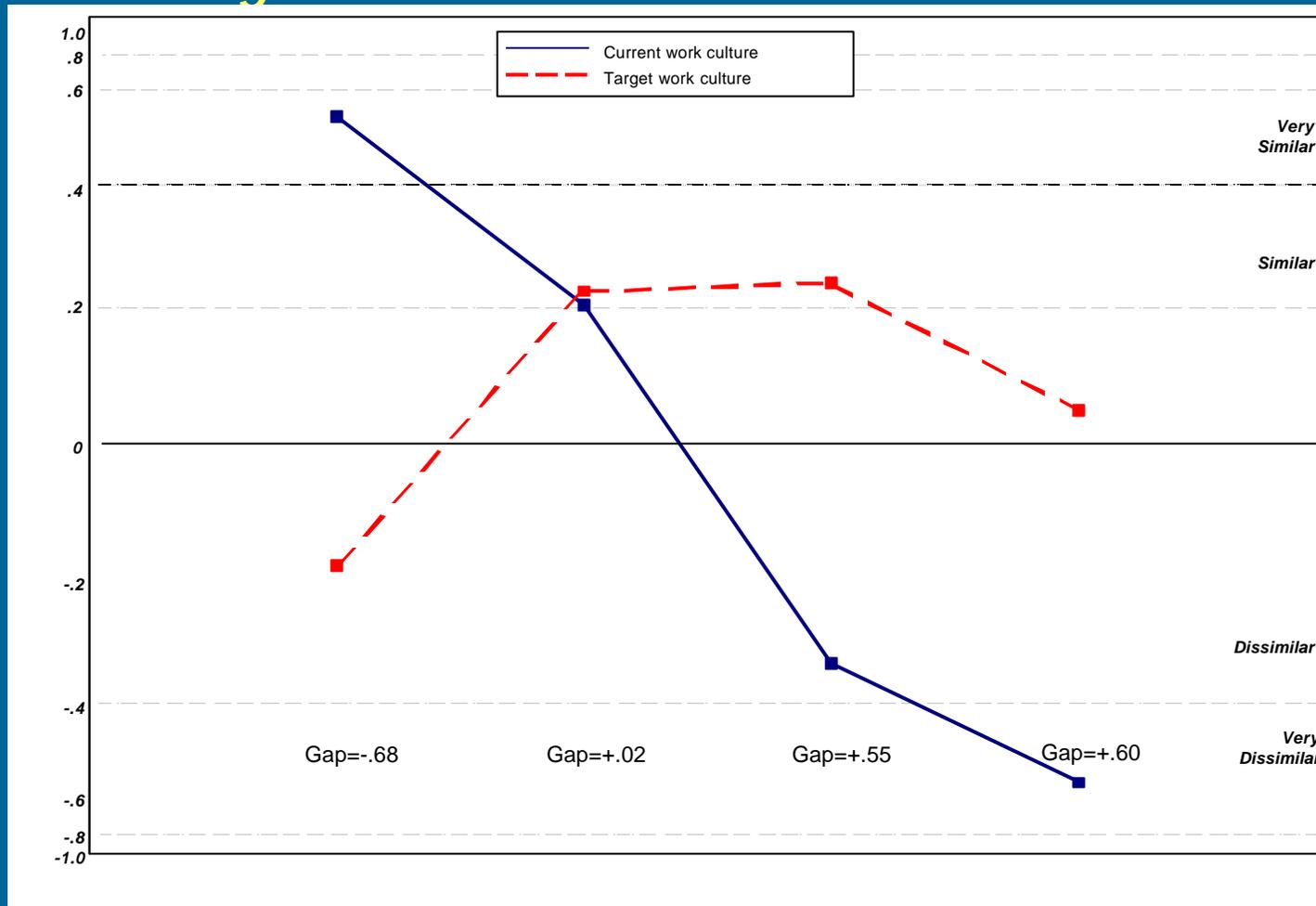
- Across all groups, four themes emerged around the types of changes that are most needed to achieve the target culture
 - *Increase innovation, risk-taking, and flexibility*
 - *Trade hierarchical culture for empowerment and speed*
 - *Attract and retain top talent*
 - *Create a new employee-employer expectation*



Culture Sort Discussion

Overall Results: Graphic Depiction of Current vs. Target Work Culture

Degree of Correlation to Hay's Culture Models





Decision Making Tool: OCC's Top 10 Compensation Objectives

	Option 1	Option 2	Option 3
Top 10 Compensation Objectives	25 Grades (with Amendments)	12 Grades	9 Grades
External Competitiveness to Recruit/Retain			
Built-in Controls and Cost Constraints			
Understandable and Perceived to be Equitable			
Reward Perf. Thru Salary W/O Grade Promos.			
Parallel Career Paths for Mgrs/Technical			
Reward Skill Acquisition			
Flexibility to Adapt Quickly to Market Changes			
Mgt. Flexibility to Assign Wide Range of Duties			
Internal Equity Among Employees			
Pay for the Person Rather than the Job			



OCC's Top 10 Compensation Objectives

	Option 1	Option 2	Option 3
Top 10 Compensation Objectives	25 Grades (with Amendments)	12 Grades	9 Grades
<i>External Competitiveness to Recruit/Retain</i>	<i>M</i>	<i>M</i>	<i>M</i>
Built-in Controls and Cost Constraints	H	M	M
Understandable and Perceived to be Equitable	H	M	M
<i>Reward Perf. Thru Salary W/O Grade Promos.</i>	<i>L</i>	<i>M</i>	<i>H</i>
Parallel Career Paths for Mgrs/Technical	M	M	M
<i>Reward Skill Acquisition</i>	<i>L</i>	<i>M</i>	<i>H</i>
Flexibility to Adapt Quickly to Market Changes	L	L	H
Mgt. Flexibility to Assign Wide Range of Duties	L	M	H
<i>Internal Equity Among Employees</i>	<i>H</i>	<i>M</i>	<i>L</i>
Pay for the Person Rather than the Job	L	M	H



Decision-Making Tool: Performance Management

Type of System

5 Level	4 Level	3 Level	2 Level



Decision-Making Tool: Performance Management

Type of System

5 Level	4 Level	3 Level	2 Level
Simple, easy transition	Greater performance distinction/differentiation	Simple system	
Greater differentiation between performance	No murky middle level	Creates management accountability by getting rid of the warning level	Potentially less employee anxiety over ratings
Familiar with and accepting a 5-level system	Change in levels communicates to employees that OCC is serious about change		
Greatest predictability	Changes distribution of employees among categories		
	Mandates investment on training in delivery of the PM system		



Decisions

Representative Decisions Made

- Compensation System
 - 9-grade structure effective 1/1/01
 - Whole job slotting classification system
 - Special increases paid out twice yearly
 - Promotional increases enhanced
 - Retain current differentials, i.e., Geo Pay

- Merit Increases
 - Variable merit payouts
 - Common anniversary date for all employees
 - Manage increases for each department via budget pools
 - Merit calculated off of actual salary



Decisions

Representative Decisions Made (cont'd)

- Cost Controls
 - New system with all components will be cost neutral
 - Budget pools primary internal control
 - 100% lump sum at range maximum
- Performance Management
 - Implement new system 10/1/01 (FY2002)
 - 4 level system
 - Individual outcome-based performance planning
 - Competencies for development in 2001
 - Competencies replace skills-based standards



The Paradox





Variable Merit Increases

- Range of merits
- Budget pool
- Reconciliation process
- Pilots!



Special Increases

- Permanent 5% increase to base salary to a set % of workers
- Recognizes how an employee's *job has changed* vs. *how well* employee performed
 - Employee has *clearly* increased contributions
 - Employee *applies and demonstrates* new skills and/or carries out expanded duties
 - New or expanded contributions are *ongoing*
- Funding is control



Where Are We Now?

- Getting Ready for 2002:
 - 2002 Salary Planning
 - ★ FIRREA Survey
 - ★ Geo Pay
 - Performance Management
 - ★ 360° Feedback
 - ★ Finalizing Competencies
 - ★ Finalizing Rating System
 - Training
 - ★ Pay
 - ★ Performance Management
 - Ongoing Communication / Focus Groups



What Have We Learned?

- Leadership/Employee Involvement is Critical
- Education
- Tradeoffs
- Systematic Change Requires Inter-disciplinary Collaboration
- Effort pays

Tradeoffs...and Alignment

It Takes Time!