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HUMAN CAPITAL

Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems

GAO

Accountability ★ Integrity ★ Reliability

GAO-05-832SP

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Highlights

Highlights of GAO-05-832SP

HUMAN CAPITAL

Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems

Why GAO Convened This Symposium

Critical to the success of the federal government's transformation are its people—human capital. Yet the government has not transformed, in many cases, how it classifies, compensates, develops, and motivates its employees to achieve maximum results within available resources and existing authorities. One of the questions being addressed as the federal government transforms is how to update its compensation system to be more market based and performance oriented.

To further the discussion of federal pay reform, GAO, the U.S. Office of Personnel Management, the U.S. Merit Systems Protection Board, the National Academy of Public Administration, and the Partnership for Public Service convened a symposium on March 9, 2005, to discuss organizations' experiences with market-based and more performance-oriented pay systems. Representatives from public, private, and nonprofit organizations made presentations on the successes and challenges they experienced in designing and managing their market-based and more performance-oriented pay systems. A cross section of human capital stakeholders was invited to further explore these successes and challenges and engage in open discussion. While participants were asked to review the overall substance and context of the draft summary, GAO did not seek consensus on the key themes and supporting examples.

www.gao.gov/cgi-bin/getrpt?GAO-05-832SP.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov.

What Participants Said

While implementing market-based and more performance-oriented pay systems is both doable and desirable, organizations' experiences show that the shift to market-based and more performance-oriented pay must be part of a broader strategy of change management and performance improvement initiatives. GAO identified the following key themes that highlight the leadership and management strategies these organizations collectively considered in designing and managing market-based and more performance-oriented pay systems.

1. Focus on a set of values and objectives to guide the pay system. Values represent an organization's beliefs and boundaries and objectives articulate the strategy to implement the system.

2. Examine the value of employees' total compensation to remain competitive in the market. Organizations consider a mix of base pay plus other monetary incentives, benefits, and deferred compensation, such as retirement pay, as part of a competitive compensation system.

3. Build in safeguards to enhance the transparency and ensure the fairness of pay decisions. Safeguards are the precondition to linking pay systems with employee knowledge, skills, and contributions to results.

4. Devolve decision making on pay to appropriate levels. When devolving such decision making, overall core processes help ensure reasonable consistency in how the system is implemented.

5. Provide training on leadership, management, and interpersonal skills to facilitate effective communication. Such skills as setting expectations, linking individual performance to organizational results, and giving and receiving feedback need renewed emphasis to make such systems succeed.

6. Build consensus to gain ownership and acceptance for pay reforms. Employee and stakeholder involvement needs to be meaningful and not pro forma.

7. Monitor and refine the implementation of the pay system. While changes are usually inevitable, listening to employee views and using metrics helps identify and correct problems over time.

These organizations found that the key challenge with implementing market-based and more performance-oriented pay is changing the culture. To begin to make this change, organizations need to build up their basic management capacity at every level of the organization. Transitioning to these pay systems is a huge undertaking and will require constant monitoring and refining in order to implement and sustain the reforms.

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Abbreviations

CHCO	chief human capital officer
FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
MSPB	U.S. Merit Systems Protection Board
NAPA	National Academy of Public Administration
OCC	Office of the Comptroller of the Currency
OPM	Office of Personnel Management
SES	Senior Executive Service
SRS	standardized rating score

Comptroller General of the United States

United States Government Accountability Office
Washington, D.C. 20548

July 27, 2005

The federal government must adapt to a range of major trends and challenges in the nation and the world, and to respond, it must have the institutional capacity to plan more strategically, identify and react more expeditiously, and focus on achieving results. Critical to the success of this transformation are the federal government's people—its human capital. Yet the government has not transformed, in many cases, how it classifies, compensates, develops, and motivates its employees to achieve maximum results within available resources and existing authorities. One of the questions being addressed as the federal government transforms is how to update its compensation system to be more market based and performance oriented.[1] In this type of system, organizations consider the skills, knowledge, and performance of employees as well as the labor market when making pay decisions.[2] Recognizing that the federal government's pay system does not align well with modern compensation principles, Congress has provided various agencies exemptions from current statute in performance management and pay administration, as outlined in various chapters of title 5 of the *United States Code*.[3] Most recently, the Departments of Homeland Security and Defense received the authority to establish "flexible and contemporary" human capital and pay systems.

To further the discussion of federal pay reform, the U.S. Government Accountability Office, the U.S. Office of Personnel Management, the U.S. Merit Systems Protection Board (MSPB), the National Academy of Public Administration (NAPA), and the Partnership for Public Service convened a symposium on March 9, 2005, to discuss organizations' experiences with market-based and more performance-oriented pay systems. Representatives from public, private, and nonprofit organizations made presentations on the successes and challenges they experienced in designing and managing their market-based and more performance-

[1] GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

[2] GAO, *Human Capital: Implementing Pay for Performance at Selected Personnel Demonstration Projects*, GAO-04-83 (Washington, D.C.: Jan. 23, 2004).

[3] GAO, *Human Capital: Selected Agencies' Statutory Authorities Could Offer Options in Developing a Framework for Governmentwide Reform*, GAO-05-398R (Washington, D.C.: Apr. 21, 2005).

oriented pay systems.[4] These organizations are the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Commonwealth of Virginia, IBM Corporation, and American Red Cross. We invited these organizations because they have been implementing this type of pay system and consider it to be important to achieving their missions and goals. To learn from their experiences, further explore these successes and challenges, and engage in an open discussion of ideas, a cross section of senior leaders attended the symposium, including congressional staff who have oversight responsibility for federal management issues, chief human capital officers or other officials from the executive branch who are responsible for managing human capital in their respective agencies, employee representatives who are currently engaged in pay reform efforts, and academics and other human capital stakeholders who have experience with and knowledge of human capital issues.

Overall, the symposium highlighted a variety of approaches that organizations have used in designing and managing market-based and more performance-oriented pay systems. While we believe that implementing this type of pay system is both doable and desirable, these organizations' experiences show that the shift to market-based and more performance-oriented pay must be part of a broader strategy of change management and performance improvement initiatives. Market-based and more performance-oriented pay is only one part—albeit a critical one—of a larger effort to improve the performance of an organization.

Further, market-based and more performance-oriented pay cannot be simply overlaid on most organizations' existing performance management systems. Rather, as a precondition to effective pay reform, individual expectations must be clearly aligned with organizational results, communication on individual contributions to annual goals must be ongoing and two way, meaningful distinctions in employee performance must be made, and cultural changes must be undertaken. Most fundamentally, to implement these types of pay systems successfully, the organizations found that they must change the culture from compensation that is based on position and longevity to one that is performance oriented, affordable, and sustainable. Specifically, these organizations recognize that pay increases are no longer an entitlement but should be based on employees' contributions to the organization's mission and goals.

[4]For more information on these organizations' missions and key milestones for implementing their pay systems, see app. IV.

To begin to make this cultural change, there was widespread recognition that organizations need to build up the basic management capacity of their organizations. In particular, there needs to be growth and development at every level of the organization: top leaders with the vision, commitment, capabilities, and persistence to lead and facilitate the change; managers with the skills and abilities to fairly and honestly assess employee performance; and individual employees who are engaged and empowered to seek opportunities to enhance their careers. In addition, human capital professionals will need to acquire a new set of skills for implementing market-based and more performance-oriented pay systems. Transitioning to these pay systems is a huge undertaking for organizations and will require constant monitoring and refining in order to implement and, very importantly, sustain them successfully. How it is done, when it is done, and the basis on which it is done can make all the difference in their success.

The organizations described the tools and techniques they used for designing and implementing their pay systems in order to best meet their needs. Based on these organizations' experiences and following discussions, we identified several key themes that highlight the leadership and management strategies these organizations collectively considered in designing and managing market-based and more performance-oriented pay systems. These key themes are as follows.

1. Focus on a set of values and objectives to guide the pay system.

2. Examine the value of employees' total compensation to remain competitive in the market.

3. Build in safeguards to enhance the transparency and ensure the fairness of pay decisions.

4. Devolve decision making on pay to appropriate levels.

5. Provide training on leadership, management, and interpersonal skills to facilitate effective communication.

6. Build consensus to gain ownership and acceptance for pay reforms.

7. Monitor and refine the implementation of the pay system.

As I discussed at the symposium, it is possible to enact broad-based human capital reforms that would enable agencies to move to market-based and more performance-oriented pay systems. However, any such effort should require that the agency implement key reforms only after it meets certain procedural management assessment and independent certification requirements relating to its institutional infrastructure.[5] This institutional infrastructure includes, at a minimum, a human capital planning process that integrates the agency's human capital policies, strategies, and programs; the capabilities to develop and implement a new human capital system effectively; and a modern, effective, credible, and validated performance management system that provides a clear linkage between institutional, unit, and individual performance-oriented outcomes, and adequate safeguards to ensure the fair, effective, and nondiscriminatory implementation of the system, including internal reconsideration and third-party appeal processes.

Appendix I of this document provides a more detailed summary of the key themes from the symposium discussion along with examples from the presentations to illustrate these themes. Appendix II presents the symposium agenda. Appendix III lists the hosts, moderators, presenters, and human capital stakeholders who participated in the symposium. Appendix IV includes the presentations and background information on the organizations' pay systems. Appendixes V and VI include the presentations given by directors at NAPA and MSPB on issues related to market-based and more performance-oriented pay systems.

The purpose of the symposium was not to reach a consensus on how market-based and more performance-oriented pay systems should be designed and managed, but rather to engage in an open discussion of the leadership and management strategies the presenting organizations have considered with their systems. We asked the participants to review the overall substance and context of the draft summary of the symposium discussion and incorporated their comments, as appropriate. Therefore, no assumptions should be made that every participant agreed with the key themes and supporting examples.

I would like to thank the hosts, moderators, presenters, and participants in the symposium for taking the time to share their experiences and

[5]For more information, see GAO and the National Commission on the Public Service Implementation Initiative, *Highlights of a Forum: Human Capital: Principles, Criteria, and Processes for Governmentwide Federal Human Capital Reform*, GAO-05-69SP (Washington, D.C.: Dec. 1, 2004).

knowledge on this important matter. I look forward to working with the participants on other important issues of mutual interest and concern in the future.

David M. Walker
Comptroller General
of the United States

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Key Themes from the Symposium

To further the discussion of pay reform, the U.S. Government Accountability Office (GAO), the U.S. Office of Personnel Management (OPM), the U.S. Merit Systems Protection Board (MSPB), the National Academy of Public Administration (NAPA), and the Partnership for Public Service convened a symposium on March 9, 2005, to discuss organizations' experiences with market-based and more performance-oriented pay systems. Representatives from public, private, and nonprofit organizations made presentations on the successes and challenges they experienced in designing and managing their market-based and more performance-oriented pay systems, followed by an open discussion among key human capital stakeholders to learn from their experiences. The organizations described the tools and techniques they used for designing and implementing their pay systems in order to best meet their needs. Based on these organizations' experiences and following discussions, we identified several key themes that highlight the leadership and management strategies these organizations collectively considered in designing and managing market-based and more performance-oriented pay systems.

Focus on a Set of Values and Objectives to Guide the Pay System

In their discussions, the presenters highlighted the need to focus on a set of values and objectives when designing and managing their market-based and more performance-oriented pay systems. Values are inherent and enduring principles that represent the organization's beliefs and boundaries. In addition, objectives articulate the strategy an organization plans to take to implement a market-based and more performance-oriented pay system to help it recognize and reward employees and maintain a competitive position in the market.

The Comptroller General of the United States highlighted GAO's experiences in implementing its competency-based performance management system. GAO's core values—accountability, integrity, and reliability—were a focus in identifying and validating the competencies in GAO's new system. Most recently, GAO received additional authority to adjust the rates of basic pay on a separate basis from the annual adjustments authorized for employees of the executive branch. With additional authority from Congress, GAO is implementing a market-based and more performance-oriented compensation system that places greater emphasis on a person's skills, knowledge, and job performance and not the passage of time while, at a minimum, protecting the purchasing power of employees who are performing acceptably and are paid within applicable competitive compensation ranges. Employee compensation will now consider current salary and allocate individual performance-based compensation amounts between a merit increase (e.g., salary increase) and a performance bonus (e.g., cash).

Similarly, OPM's Acting Director stated that as the federal government moves forward with modernizing the civil service system, the shift to market-based and more performance-oriented pay should be grounded in the core values of the civil service system: merit system principles and prohibited personnel practices. Examples of these merit principles include promoting employees based on merit and protecting employees against arbitrary action or personal favoritism. An example of a prohibited personnel practice is violating veterans' preference requirements. Protecting merit principles and prohibiting certain personnel practices must remain intact as the federal pay system is modernized, according to OPM's Acting Director.

While core values define the organization's beliefs and boundaries, objectives articulate the strategy the organization plans to take to implement a market-based and more performance-oriented pay system to help it recognize and reward employees and maintain a competitive position in the market. To this end, among IBM's pay objectives is to "differentiate strongly" among employees by giving larger pay increases or bonuses to those employees who are most deserving. IBM's Director of Global Services Compensation noted that IBM believes that by rewarding its highest performing employees with the largest pay increases, these employees will stay with and lead the organization, and as a result, other employees will stay as well. For example, the highest performing employees who were in the top of their pay bands and were considered to be paid over the market average still received pay increases because IBM wanted to "protect them" from its competitors. He attributed this approach to helping IBM weather both the late 1990s talent wars and the current market for information technology positions. To help differentiate among employees in making pay decisions, IBM provides general guidance on the "differentiation ratio" whereby the largest pay increases are to be far greater than the smallest increases. Further, IBM employees understand that pay increases are not an entitlement but are based on each individual's contributions to IBM's goals. Specifically, in 2003, the Director said a significant percentage of the population did not receive increases because they were already paid competitively for their level of contributions and performance. This approach allows more of the budget for merit pay increases to go to the highest contributing employees.

A main objective of the Office of the Comptroller of the Currency's (OCC) pay system is to maintain comparability regarding compensation and benefits with the other federal financial regulatory agencies that are subject to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).[1] OCC defines its market as other FIRREA agencies, the Federal Reserve Banks, and other agencies such as the U.S. Securities and Exchange Commission that are exempt from certain provisions of title 5. To maintain comparability with this market, OCC participates in an annual survey administered by the HayGroup, which gathers data on these organizations' total compensation packages in order to benchmark against various positions and job families, such as bank policy and bank supervision. The OCC presenters said that the 2004 survey results showed that OCC's base pay was on average 8 percent above the market average, which was within its competitive range of plus or minus 10 percent of the average pay rates of the FIRREA market. These data helped OCC set its pay increase budget for 2005.

The American Red Cross's Director of Corporate Compensation noted that the Red Cross recognizes that salary is its main lever to fulfill its mission and values, and thus one of its pay objectives is to pay salaries that are externally competitive and internally equitable. To meet this objective, the Director said the Red Cross sets its employees' pay slightly higher than the market in order to remain competitive. The Director noted that since the Red Cross is a not-for-profit humanitarian organization, this pay objective is critical as the Red Cross does not have variable pay, stock options, or other incentives to attract, motivate, and retain its employees, as organizations in the private sector can offer.

Examine the Value of Employees' Total Compensation to Remain Competitive in the Market

The presenters underscored that a competitive compensation system that provides employees a mix of base pay plus other incentives can help organizations attract, motivate, and retain a quality workforce. In addition to base pay, total compensation includes features such as geographic differentials; monetary incentives, such as awards and bonuses; benefits, such as health care and tuition reimbursement; and deferred compensation, such as retirement pay. The presenters noted it is important for organizations to be flexible in the mix of what constitutes total

[1]FIRREA gives specific federal financial regulatory agencies the authority to establish their own compensation and benefits programs without regard to the provisions of title 5 of the *United States Code*.

compensation so they can remain competitive with the market. On the other hand, a presenter also identified challenges that the federal government may face, such as statutory pay caps and other limitations, as it shifts to market-based and more performance-oriented pay that may hinder its ability to offer competitive compensation.

In discussing what incentives attract individuals to public service, the Director of the Office of Policy and Evaluation at MSPB reported that people come to work for and stay with the federal government for a variety of reasons besides base pay. Among these reasons is the desire to make a contribution and the personal pride or satisfaction in their work as well as the variety of benefits provided to employees, as reported in MSPB's "Merit Principles Survey 2000" that obtained federal employees' views on how well the workforce is being managed. Pay alone usually does not influence whether employees remain with an organization in the private sector as well. IBM's Director of Global Services Compensation believes IBM has been successful in competing in the market and retaining its employees because of the "total rewards" package it offers its employees along with pay. For example, the package includes work-life benefits such as tuition reimbursement for employee development, along with retirement and health care benefits.

To make it more competitive in local markets, OCC offers a pay differential based on local labor costs. OCC recently shifted to a cost of labor system called "geo pay" from a "complex" methodology largely based on cost of living. According to OCC presenters, the newer OCC salaries better reflect the local market labor rates. Specifically, as part of its geo pay system, OCC groups its cities where it has offices into seven pay zones by using the Economic Research Institute's cost of labor data to identify the differentials in labor costs between its employees and the labor market. For example, employees in zone 1 (e.g., Atlanta) receive no differential, employees in zone 3 (e.g., Washington, D.C.) receive an 8 percent differential, and employees in zone 7 (e.g., San Francisco) receive a 28 percent differential. OCC presenters said that with the new geo pay system, 49 of its 80 cities have no geographic differentials. Of the employees who receive a differential, most receive from about 3 to 13 percent. OCC presenters noted that about two-thirds of the employees receive a smaller differential under the geo pay system than the previous differentials OCC used. During the transition to the geo pay system, the presenters said OCC has promised to "maintain the total compensation" of these employees who now receive a smaller differential by rolling most of these differences into the employees' base pay.

In addition, to help its employees settle into more expensive cities, OCC offers relocation incentives in the form of lump sum payments that are not built into employees' base pay. One OCC presenter noted that these incentives helped OCC recruit employees for critical jobs in New York City in 2004. For example, the enhanced mortgage and rent subsidies are 3-year allowances designed to help employees get into the housing or rental markets when moving to selected higher cost cities from cities in a lower geo pay zone. In addition, OCC offers an annual lump sum for 3 years to employees when they move to selected high-cost cities from cities in a lower geo pay zone to compensate for the higher living costs in the new city.

However, a presenter identified challenges that the federal government as a whole may face in offering competitive compensation to its senior leaders who are subject to a statutory pay cap. The Director of the Human Resources Management Consortium at NAPA discussed how the statutory pay cap could restrict rewards, demoralize employees, and nullify market-based pay for senior leaders. Participants also commented on how the statutory pay cap may have a negative effect on the retention of the senior leaders if they could receive higher pay in the private sector. The Director noted that about 70 percent of the members in the Senior Executive Service (SES) had their pay capped in 2004, which reflected the agencies' limited ability to offer performance-based rewards and market-based pay. She also observed that the recently enacted SES performance-based pay system provides an interim solution to this pay compression by allowing agencies to increase the pay cap for their senior executives.[2]

However, the Director and other participants noted that pay compression may return despite the higher pay cap for SES members. The new performance-based pay system replaces the six SES pay levels with a single, open-range pay band for all SES members. A participant noted that having one pay band is being perceived as loss of rank among some of the SES. To help make distinctions in rank among their SES members, this participant said some agencies are grouping their executives into smaller pay bands according to their responsibilities. As a result, the participant

[2]By law, a SES member's total compensation may not exceed the total annual compensation payable to the Vice President for agencies that have their performance management systems certified by OPM with the Office of Management and Budget's concurrence. For more information on senior executive pay and performance management, see GAO, *Human Capital: Senior Executive Performance Management Can Be Significantly Strengthened to Achieve Results*, GAO-04-614 (Washington, D.C.: May 26, 2004).

observed that these SES members may in effect have their pay capped more quickly based on the placement in these smaller pay bands. Another participant commented that SES pay compression might return if agencies do not demonstrate the necessary rigor and discipline in applying their new SES performance management systems to ensure performance ratings and pay adjustments are consistent with the performance of the organizations and make meaningful distinctions in performance. The Director agreed that the long-term effect of SES pay compression remains to be seen.

To help address the issue of market-based and more performance-oriented pay for the government's senior leaders, the National Commission on the Public Service suggested, in its 2003 report, that the challenge is to convince Congress that the pay cap undermines rewarding performance and to help build the rationale for tying government pay to relevant markets across all three branches of government.[3] For example, the Commission reported that in the judicial branch, the salaries for U.S. federal court judges are considerably less than those of deans and senior professors of top law schools.

However, a participant observed that he felt the federal government's main pay system—the General Schedule—is already market based and performance oriented. Specifically, in setting the pay levels for federal employees, the participant stated that the Department of Labor conducts extensive market-based surveys for comparing the knowledge, skills, and responsibilities of federal positions with the private sector market. He also commented that the pay system is performance oriented in that agencies can reward employees' exceptional performance with quality step increases, bonuses, and nonmonetary incentives. He added that another performance-based aspect of the General Schedule system is within grade increases, which require agencies to certify that an employee is performing at an acceptable level.

Federal agencies now have more flexibility in terms of the total compensation they can offer employees in addition to base pay. A participant pointed out that through the recently enacted Federal Workforce Flexibility Act, agencies have the authority to use recruitment, relocation, and retention incentives or bonuses in more strategic ways to help them improve their competitiveness in recruiting and maintaining a

[3]The National Commission on the Public Service, *Urgent Business for America: Revitalizing the Federal Government for the 21st Century* (January 2003).

high-quality workforce. However, the participants discussed the impact of using bonuses or other monetary incentives on employees' retirement calculations. They observed that bonuses are not included in calculating retirement benefits and suggested that potential legislative changes could have cash bonuses calculated toward retirement and thrift savings benefits. Specifically, it was suggested that bonuses should be factored into an employee's "high-3" average basic pay when retirement benefits are calculated. A participant also observed that federal employees' decisions to remain in government or seek nonfederal employment could depend on the specific retirement system that covers them.

Build in Safeguards to Enhance the Transparency and Ensure the Fairness of Pay Decisions

Agencies need to have modern, effective, credible, and as appropriate validated performance management systems in place with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, to ensure fairness and prevent politicization and abuse. Performance management systems with adequate safeguards are the precondition to linking pay, incentive, and reward systems with employee knowledge, skills, and contributions to organizational results. The presenters gave examples of safeguards in their organizations' market-based and more performance-oriented pay systems that were designed to help promote reasonable transparency as well as achieve consistency and equity across employee groups and teams.

The presenters discussed how their organizations provided both general and individualized information on pay decisions to help promote reasonable transparency in their market-based and more performance-oriented pay systems. For example, the Director of Corporate Compensation at the Red Cross stressed that employees need to know the details of how the pay system is designed and implemented in order to understand how pay decisions are made. The Red Cross provides its employees general information on what the salary ranges are for each pay band, how their pay compares to the market, and how their performance ties to the pay decisions. According to OCC presenters, to help foster transparency on its geo pay system and help employees understand how the system works, OCC posted on its intranet site formulas for calculating the geo pay rate for each zone and the resulting rates, as well as the other information sources OCC uses to establish the rates.

In addition to general information, IBM believes showing each employee how he or she fits into the organization's pay system is critical to the understanding of how the pay system works. IBM provides each employee with an annual total cash summary statement showing, among other things, where he or she falls in the pay range and relative to the market along with the performance rating, and pay increase, if applicable. IBM's Director of Global Services Compensation noted that there should be no mystery about how employees' pay compares to others in their pay range in any given market and whether they deserve a pay increase based on their contributions that year.

To help achieve consistency and equity in pay decisions across employee groups and teams, organizations built in several accountability mechanisms, such as conducting predecisional internal checks to help ensure there is no discrimination in pay decisions. For example, IBM conducts a base pay equity analysis to review the pay of women or minority employees if their proposed pay is one standard deviation away from the mean of the majority of employees. The Director said IBM looks for an explanation for these pay differences, such as poor performance, a recent promotion into the pay band, or an extended leave of absence.

In addition, the IBM Director stated that while there is a total commitment from all levels of management to ensure consistency in the compensation process, IBM built in second-level reviews of pay decisions before employees receive any pay increases. Specifically, the first-line managers propose pay increases for the employees they supervise. These managers then discuss their decisions with other first-line managers and managers at the next level—the up-line managers—to ensure the assessments and justifications are consistent across groups. Up-line managers can also shift pay allocations across groups if necessary in order to ensure employees who perform similarly are compensated the same regardless of their first-line managers. As a final check, the senior managers sign off on the pay decisions for each employee.

The Comptroller General discussed GAO's recent use of standardized rating scores (SRS) for employees to ensure consistency in ratings and in applying performance standards within and across GAO's teams. Implemented for the first time for the fiscal year 2004 performance appraisal cycle, the SRS indicates the employee's position relative to the average rating of that employee's team. Employees in different teams with the same SRS have the same relative performance, thus achieving better comparability in ratings across teams. Employees' SRS and the midpoint for their pay range are key factors in calculating their performance-based compensation for that year. The Comptroller General noted that he plans to continue working with the employees to identify the best way to communicate the SRS information as part of GAO's ongoing commitment to employee feedback on the new system and transparency about pay decisions.

The organizations also discussed grievance processes to address employees' complaints about pay or performance management decisions. Both IBM and Virginia have internal grievance processes in place for their employees if they want a review of their pay decision. For example, Virginia's Director of Human Resource Management stated that Virginia's process provides for grievances to be elevated up to the central office—the Department of Human Resource Management—if necessary. In addition, IBM's Director of Global Services Compensation noted that IBM has an open-door policy, and employees may appeal pay and performance management decisions through its internal grievance process up to the corporate office if they feel that these decisions were not fair.

Devolve Decision Making on Pay to Appropriate Levels

In implementing market-based and more performance-oriented pay systems, organizations will need to determine what parts of their pay systems should be maintained centrally and what can be devolved to "lower" levels of the organization. For example, IBM devolves its pay decisions to first-line managers, and Virginia devolves these decisions to its agencies. Regardless of the context, the presenters noted that as decision making is devolved, organizations will need to build in overall core processes to help ensure reasonable consistency in how their systems are implemented.

IBM designed its compensation program to be as simple and flexible as possible in order to keep the control at the first-line manager level. The Director of Global Services Compensation noted that IBM uses the phrase "lower the center of gravity" to mean that line managers need to have central roles in pay and related compensation decisions since they are the best sources of knowledge about their employees. Nevertheless, IBM maintains certain overall core processes. For example, the corporate office determines the funding for employee pay increases that is necessary to maintain competitiveness with the market and the managers within the business units are held accountable for planning how to allocate the money to the employees. To help distribute the money among the employees, IBM provides managers with an automated salary planning tool that identifies a variety of factors considered in determining pay increases for each employee. These factors include the employee's job family, performance rating, current pay, and the "market reference point" or midpoint in the pay range for the employee's pay band. Using the tool, the manager is responsible for allocating money for pay increases among the employees before the pay decisions are approved by higher levels of management and employees receive the increases.

With its statewide compensation reform initiatives, Virginia shifted responsibility for administering pay from its central office, the Department of Human Resource Management, to the agencies and their managers. The Director of Human Resource Management noted that by increasing their accountability, it reduces the agencies' and managers' excuses, such as "HR won't let me" for not making needed revisions in their pay systems. The Director said there is a statewide salary plan that provides broad guidelines for all the agencies regarding the commonwealth's overall compensation philosophy, funding for pay increases, and the pay ranges for the employees' positions that reflect market conditions, but each agency is held accountable for developing its own salary administration plan. As part of this plan, the agency is to select from among designated "pay practices" that it considers useful to best meet its specific needs. These practices—such as promotions or in-band pay adjustments to recognize employees for taking on additional duties—are designed to provide agencies with approaches to reward and recognize high performance among employees while providing a higher degree of accountability in reaching pay decisions. The Department of Human Resource Management approves each agency's salary administration plan before it is implemented.

Provide Training on Leadership, Management, and Interpersonal Skills to Facilitate Effective Communication

There was widespread agreement that clear, consistent, and frequent communication was critical to the successful implementation of market-based and more performance-oriented pay systems. A presenter discussed how the organization trained individuals to ensure they would be able to clearly and simply communicate information so that employees at all levels understood how these compensation reforms would be implemented. Using employee groups to develop the training without using technical compensation terms was especially valued. There was also acknowledgment among the presenters that there needs to be a renewed emphasis on leadership, management, and interpersonal skills, such as setting expectations, linking individual performance to organizational results, and effectively giving and receiving feedback, to make market-based and more performance-oriented pay succeed. Lastly, defining a new role for employees by holding them accountable for their own careers and for identifying the necessary training to develop their skills was also mentioned as beneficial to the individual as well as the organization.

Virginia's Department of Human Resource Management developed a central "train the trainer" approach to provide comprehensive communication on the compensation reforms that agencies then customized and delivered to their employees. Trainers were nominated by the agencies' human resources directors based on their interpersonal skills, experiences, and knowledge of compensation, among other things. Further, the Director understood that employees need information on the compensation reforms in as simple and clear a format as possible with little room for misinterpretation. She observed that sometimes the misinterpretation of information is caused by the use of technical compensation terms or "HR" terminology to explain the initiative. As a result, Virginia has used its Employee Advisory Committee to help develop training and supporting materials on the compensation reform initiatives and communicate the information to the other employees. According to the Director, using the committee to clearly communicate the information was very effective because the straightforward discussion allowed employees to better understand how the reforms would affect them directly.

The presenters acknowledged that there needs to be a renewed emphasis on leadership, management, and interpersonal skills to make market-based and more performance-oriented pay succeed. For example, the Chief Human Capital Officer (CHCO) from the Federal Deposit Insurance Corporation (FDIC) discussed how managers need "the will" along with the tools to make distinctions in employees' performance based on their contributions to FDIC's goals and then give the appropriate pay increases. In his experience, the CHCO said that some managers have trouble making the distinctions because they have to face the people they are evaluating the next day, and they would prefer to give all employees the same pay increase rather than to have to make these distinctions. Providing training on how to make these distinctions helps the managers implement the pay system successfully.

Similarly, IBM's Director of Global Services Compensation recognized the value in training managers on how to give ongoing feedback to employees on their performance and its affect on pay decisions. Such training is especially important to managers since IBM holds them accountable for assessing employee performance and making pay decisions. To help managers in giving feedback, IBM developed scenarios where managers could play roles to help them have these meaningful discussions about the employees' contributions to IBM's goals throughout the year. IBM also is committed to training employees on how the system works to help prepare them to receive performance feedback from their managers.

Similarly, the Director of MSPB's Office of Policy and Evaluation emphasized that supervisors will need to develop leadership and management skills that will help engage employees in order for the organization to be successful in its implementation of its pay for performance efforts and help improve its overall performance. These skills include

- clearly articulating organizational goals and how the employee fits into the goals of the organization,
- setting realistic performance expectations,
- adapting to changing circumstances,
- finding solutions to problems, and
- demonstrating honesty and integrity.

Virginia is defining a new role for employees by holding them accountable for their own careers and for identifying the training they need to enhance their skills. For example, the Department of Human Resource Management developed career guides to inform employees on what they may personally need to do to develop, advance, or change their careers. Posted on the Virginia Jobs Web site, the guides provide important occupational information for employees interested in developing their careers and improving opportunities for advancement in any work environment. The Director noted that an added benefit is that these career guides help employees understand that they have knowledge, skills, and abilities that cut across different occupations and that are transferable across the commonwealth's government. For example, the career guide for accountants states that these positions are primarily assigned to the financial services career group, but accountants also have opportunities in other groups, such as program administration, procurement services, and policy analysis and planning.

Build Consensus to Gain Ownership and Acceptance for Pay Reforms

To help improve internal and external acceptance for pay reforms, the presenters discussed how they involved stakeholders when designing or implementing their market-based and more performance-oriented pay systems to build a reasonable degree of consensus on the reforms. Involving employees and other stakeholders helps to improve overall confidence and belief in the fairness of the system, enhance their understanding of how the system works, and increase their understanding and ownership of organizational goals and objectives. The Comptroller General observed that inclusion of employees and their representatives needs to be meaningful, not just pro forma. Similarly, the President of NAPA remarked that it is important for the organization to integrate any pay reforms within a larger strategy to help the organization achieve its mission and program operations. Because employees are critical to an organization's success, the President of NAPA also noted that it is important for them to understand and accept the pay reforms. Without a sustained, disciplined, and focused commitment from top leaders, managers, and employees, a participant noted that it may be possible to do more harm than good when implementing these types of pay systems.

Virginia involved stakeholders in designing and implementing its compensation reforms. For example, Virginia established the 12-member Commission on Reform of the Classified Compensation Plan that included representatives from Virginia's legislative and executive branches, such as state senators and delegates and cabinet heads, as well as human resource representatives from private sector organizations. To serve as internal consultants to the Commission throughout the process, Virginia established a Technical Advisory Committee comprising central agency representatives, chief human resource officers from agencies, and legislative fiscal analysts from the Senate Finance Committee and House Appropriations Committee. In addition, Virginia formed an Employee Advisory Committee comprising 20 nonsupervisory employees from diverse occupations, demographic groups, and geographic locations. The Director noted that the charge for the employees was to help the commonwealth as a whole improve its compensation program, not just for their select interest groups. Further, to implement the new statewide compensation program, Virginia's Department of Human Resource Management collaborated with 150 human resource staff members and 60 different agencies to form 10 implementation teams representing various priority areas, such as funding, compensation management, performance management, training, and communications. The Director noted that these implementation teams helped to ensure the details of the various compensation reforms were consistently communicated to all the employees across the commonwealth.

Similarly, the FDIC CHCO found that it was better to have the union involved in the implementation of its pay reforms. The CHCO said when negotiating compensation for its bargaining unit employees with representatives of the National Treasury Employees Union, he views them as true partners instead of following an “us versus them” approach. FDIC is to negotiate a new pay for performance system with its union this summer and he noted that they both want to work together to reach an agreement in terms of compensation levels that will satisfy both parties.

Monitor and Refine the Implementation of the Pay System

High-performing organizations understand they need to continuously review and revise their performance management systems to achieve results and accelerate change.[4] The presenters acknowledged that when implementing their market-based and more performance-oriented pay systems, they identified problems and corrected them along the way. The presenters identified ways they monitor their systems, including listening to employees’ and stakeholders’ views—informally and formally—on the pay systems and using metrics to track the effectiveness of the pay systems over time. While the need for refining the system is inevitable, especially when new initiatives are introduced, they also observed that there is value in stabilizing the pay system for a period of time to let employees get accustomed to the new initiative and see how it works.

The presenters discussed the importance of listening to employees’ and stakeholders’ views—informally and formally—to monitor the implementation of the pay system. To ensure the pay for performance system has integrity among the employees and stakeholders, FDIC has found that listening to stakeholders, such as the union, is essential in evaluating the effectiveness of the pay system. The FDIC CHCO noted that the organization needs to listen to the “level of noise” among the employees and the union to find out whether an initiative is working well. In addition to informally tracking employee views, IBM sends out a pulse survey with only a few questions on the compensation program to a sample of its 300,000 employees every quarter. IBM’s Director of Global Services Compensation noted that he feels IBM is doing well in implementing the

[4] GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

compensation program if over 70 percent of the employees' responses to these questions are "neutral" or "favorable."

The organizations also identified metrics to track the effectiveness of their pay systems. For example, IBM tracks its attrition rates to determine why employees are leaving and compares them to its competitors' attrition rates. Specifically, during the late 1990s, the Director stated that IBM had attrition rates that were considerably lower than its competitors. In addition, IBM and Virginia consider the use of the employee appeal process as an indicator of the employees' acceptance of pay and performance management decisions. For example, IBM tracks the total number of grievances that are initiated by the employees. The Director indicated that typically employees' appeals are resolved at a second-level review. Virginia's Director of Human Resource Management tracks the number of employee grievances that are forwarded to the next level for resolution because she considers grievances that are resolved between the manager and the employee to be "successes" since both sides reached an acceptable outcome. She said her office works with managers to educate them on what these metrics mean and how they affect their agencies and employees.

According to the presenters, organizations should be open to refining their systems to address unintended consequences that may arise when implementing their pay systems. For example, in order to spread the pay increases among as many employees as possible, FDIC found that managers tended not to award merit pay increases to top-performing employees when they were to be promoted in the career ladder. As a result, the CHCO said these high-performing employees were not getting the merit pay increases they deserved. The CHCO said FDIC recognized that this unintended consequence needed to be corrected in future iterations of the pay system and managers needed help in learning how to make the necessary distinctions in employees' contributions.

Virginia made the appropriate refinements to its pay system based on employee feedback. For example, when consolidating Virginia's classification structure, the Director of Human Resource Management developed a crosswalk between the old and new classification structures to show employees how, for example, approximately 1,650 individual job classifications would be consolidated into 256 broader job roles. The Director noted that while most employees accepted the new structure, her office nevertheless made some revisions as a result of employee feedback so that employees could more easily see where they fit into these new job roles. According to the Director, it is especially important that employees perceive that specific actions have been taken in response to their feedback. Anticipating that there may be unidentified issues as the classification structure is implemented, the Director said her office plans to continue soliciting feedback at least annually to see if further refinements need to be made to the structure.

While the need for refining a system is inevitable especially when new initiatives are introduced, the presenters noted there is value in stabilizing the pay system for a period of time to let employees get accustomed to the new initiative and see how it works. For example, the OCC presenters said OCC plans to reassess its geo pay rates every 3 years rather than annually in order to provide continuity in implementing the system. This continuity benefits employees because they know how much their geographic differential will be for a period of time and benefits OCC because it makes managing the pay system more stable. The FDIC CHCO said that FDIC has not had its pay systems in place without any revisions long enough to determine if employees have accepted the new systems. Nevertheless, the CHCO said it is his opinion that there is much more acceptance surrounding pay for performance than when FDIC first began implementing the systems in 1997.

In closing, the President and CEO of the Partnership for Public Service asked participants to identify what they regarded to be the next steps for pay reform in the federal government. There was general consensus among the participants that a shift from administering the federal government's current pay system—the General Schedule—to managing a market-based and more performance-oriented pay system will be a fundamental change for agencies' human capital offices. Specifically, participants noted that human capital professionals will need to acquire a new set of skills for implementing these types of pay systems. In the changing human capital environment of increased flexibilities, human capital professionals will need to transition to a larger strategic role rather than one of compliance. This transition will require training to play an active role in helping to determine the overall strategic direction of an organization.

Overall, there was general agreement that basic management capacity needs to be built at all levels of the organization, starting with senior leaders who are to direct the change management initiatives that need to accompany pay reform. Market-based and more performance-oriented pay are best understood as only one part—albeit a critical one—of larger efforts to improve the performance of an organization. As such, market-based and more performance-oriented pay cannot be simply overlaid on most organizations' existing performance management systems. Rather, as a precondition to effective pay reform, individual expectations must be clearly aligned with organizational results, communication on individual contributions to annual goals must be ongoing and two way, meaningful distinctions in employee performance must be made, and cultural changes must be undertaken.

Symposium Agenda

U.S. Government Accountability Office · *U.S. Office of Personnel Management* · *U.S. Merit Systems Protection Board*

National Academy of Public Administration · *Partnership for Public Service*

Human Capital:
Symposium on Designing and Managing Market-Based and More Performance-Oriented Pay Systems

March 9, 2005

Agenda

8:30 a.m. Arrival and coffee

8:45 a.m. ***Opening Remarks*** by
- Dan G. Blair, Acting Director, OPM
- C. Morgan Kinghorn, President, NAPA
- David M. Walker, Comptroller General of the United States, GAO

9:00 a.m. ***Overview of GAO's Classification and Compensation Efforts*** by David M. Walker, Comptroller General of the United States, GAO

9:30 a.m. ***How is your organization managing the transition to a market-based and more performance-oriented pay system, in particular, the cultural dimensions of this change?***
- Presentation by Miguel A. Torrado, Chief Human Capital Officer, Federal Deposit Insurance Corporation
- Questions from the audience

10:15 a.m. Break

10:30 a.m. ***How do you manage the pay system across the organization?***
- Presentation by Sara Redding Wilson, Director, Department of Human Resource Management, the Commonwealth of Virginia
- Presentation by Arthur Amler, Director, Global Services Compensation, IBM Corporation
- Questions from the audience

12:00 p.m. Working Lunch

"The Elephant in the Room - How to Approach the Pay Cap"
- Presentation and open discussion led by Hannah Sistare, Director, Human Resources Management Consortium, NAPA

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1:00 p.m.	***How does your organization manage pay given ongoing changes (e.g., cost of labor and budget pressures) while remaining competitive in the market?*** • Presentation by Ben Katcoff, Director, Compensation and Benefits, and Rhonda Jones, Lead Expert, Compensation and Benefits, Office of the Comptroller of the Currency • Presentation by Philip A. Melita, Director, Corporate Compensation, Human Resources, American Red Cross • Questions from the audience
2:30 p.m.	Break
2:45 p.m.	***"Facilitating Employee Engagement Through Pay for Performance"*** • Presentation and open discussion led by Steve Nelson, Director, Office of Policy and Evaluation, MSPB
3:00 p.m.	***Next Steps*** by Max Stier, President and CEO, Partnership for Public Service ***Closing Remarks*** by J. Christopher Mihm, Managing Director, Strategic Issues, GAO
3:30 p.m.	Adjourn

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Symposium Participants

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Neil A.G. McPhie
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U.S. Merit Systems Protection Board

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President
National Academy of Public Administration

Max Stier
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Moderators

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Marcia Marsh
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Erica Woods
Program Manager
Partnership for Public Service

*Title as of the date of the symposium, March 9, 2005.

Organizations' Pay Systems: Background Information and Presentations

Federal Deposit Insurance Corporation

Mission of the organization	The Federal Deposit Insurance Corporation (FDIC) is an independent agency that is to maintain the stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions, and managing bank receiverships.
Number of employees	Approximately 5,000 employees.
Union participation	The National Treasury Employees Union for its bargaining unit employees.
Key milestone dates	• **1933**: Congress established FDIC and gave it the authority to set the compensation of its employees without regard to federal compensation laws. • **1989**: Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which gave financial regulatory agencies pay authorities similar to FDIC and required these agencies to maintain compensation comparability so they would not compete with each other for employees. • **1995**: FDIC eliminated a pay system with increases in steps based on years of service. • **1997**: FDIC instituted pay for performance. • **2003**: FDIC began to implement three different pay systems for executive level employees, as well as bargaining unit and nonbargaining employees.
Source for additional information	http://www.fdic.gov

Source: FDIC.

Pay For Performance at the FDIC

13 Lessons On Changing Culture

Miguel A. Torrado

March, 2005

Pay For Performance at the FDIC

- Executives & managers under "pay at risk"
- Non-bargaining-unit employees in a 5-level system (CBC)
- Bargaining unit employees in a 2-level system (CSA)

Pay For Performance at the FDIC

- The FDIC twist:

  A pass/fail performance appraisal system with pay raises based on comparative contributions for those who pass

Pay For Performance at the FDIC

- Executives & Managers:

  -- 0% to 10% annual pay raise

  -- Half can receive 2% to 8% bonus

Pay For Performance at the FDIC

- **Non-bargaining unit employees:**

  Group I (10%): 5.5% raise + 2% bonus

  Group II (15%): 4.5% raise +1.5% bonus

  Group III (25%): 3.5% raise + 1% bonus

  Group IV (45%): 3.2% pay raise

  Group V (5%): zero pay raise

Pay For Performance at the FDIC

- **Bargaining unit employees:**

  --Everyone gets 3.2% pay raise

  --Top 1/3 of contributors gets an additional 3% pay raise

Pay For Performance at the FDIC

- First pay-for-performance system began on October 1997
- We are on our 4th iteration
- We negotiate compensation with NTEU
- Will negotiate a new system this summer

Pay For Performance at the FDIC

- Lesson 1:

  The cultural divide is between pay for *performance* and pay for *longevity*

Pay For Performance at the FDIC

- **Lesson 2:**

You have to have the *money* to reward good performance

Pay For Performance at the FDIC

- **Lesson 3:**

You need the means, *and the will*, to make significant distinctions

Pay For Performance at the FDIC

- **Lesson 4:**

  You need to make significantly *different rewards*

Pay For Performance at the FDIC

- **Lesson 5:**

  More graduated *levels of rewards* are better than fewer levels

Pay For Performance at the FDIC

- **Lesson 6:**

  Do it *first for executives*, then managers, then employees

Pay For Performance at the FDIC

- **Lesson 7:**

  Know that you will need to adjust, change, and *evolve*

Pay For Performance at the FDIC

- **Lesson 8:**

The s*ize* of the pools matters

Pay For Performance at the FDIC

- **Lesson 9:**

***Listen* to employee feedback**

Pay For Performance at the FDIC

- **Lesson 10:**

  ***Group* employees by grade levels**

Pay For Performance at the FDIC

- **Lesson 11:**

  There will be *unintended structural anomalies* that you will need to correct

Pay For Performance at the FDIC

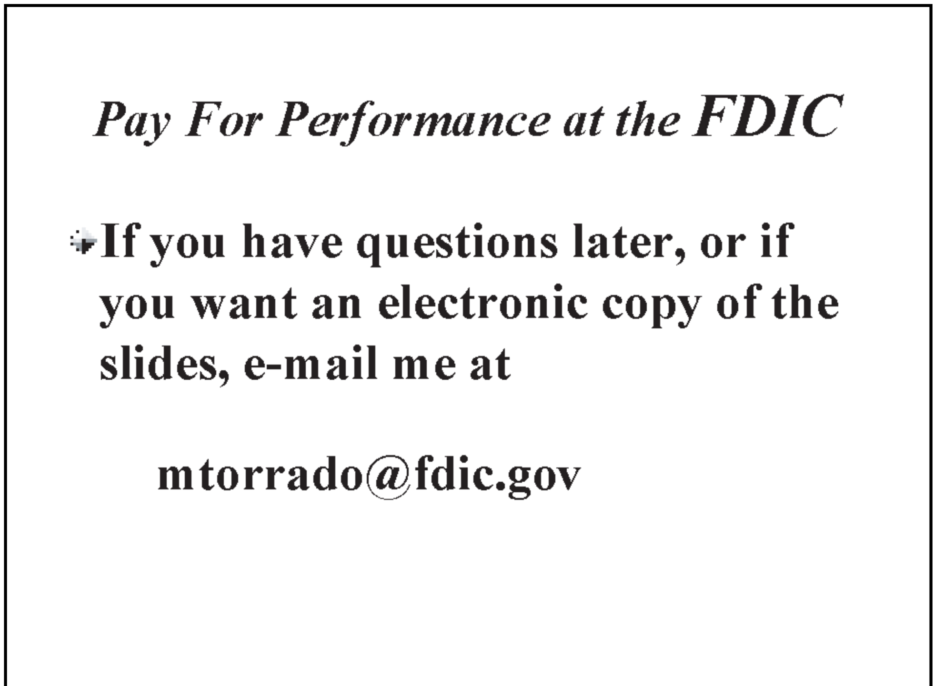
- **Lesson 12:**

  There is value in *stability*

Pay For Performance at the FDIC

- **Lesson 13:**

  Better to have the *union* along for the ride


Pay For Performance at the FDIC
If you have questions later, or if you want an electronic copy of the slides, e-mail me at
mtorrado@fdic.gov

Source: FDIC.

Commonwealth of Virginia

Mission of the organization	The commonwealth's Department of Human Resource Management is to address the diverse human resources needs of its customers through guidance, consultation, and training throughout the commonwealth.
Number of employees	Approximately 54,000 employees in various agencies across the commonwealth.
Union participation	The commonwealth does not negotiate compensation with the unions.
Key milestone dates	• **1998**: The Commission on Reform of the Classified Compensation Plan was formed to recommend modifications to the commonwealth's classified compensation plan. • **2000**: The Governor and Virginia General Assembly approved the Commission's recommendation to develop a new compensation system for employees. • **2000**: The new compensation system took effect with new pay practices and goals of greater opportunities for career growth within state government, greater management flexibility and accountability, and new ways to recognize and reward exceptional employee performance and acquired skills.
Sources for additional information	http://www.dhrm.va.gov http://www.dhrm.virginia.gov/compreform/comp.htm

Source: Commonwealth of Virginia.

HUMAN CAPITAL:
A Symposium on Designing and Managing a Performance-Oriented and Market-Based Pay System

Washington, D.C.
March 9, 2005

Background

- Joint Commission established in July 1998
- Phase I implemented Sept. 2000
- Phase II implemented Nov. 2001

- Established 12 member Joint Commission Included both public and private sector
  - Included both Legislative and Executive Branches
- Assisted by 12 member Technical Advisory Committee of subject matter experts
  - Included both central and line agencies
  - Included legislative staff
- Assisted by 20 member Employee Advisory Committee of non-supervisory employees
  - Included diverse jobs, demographics, geographic location, and skills

2

System Constraints Addressed

- Classification System
- Salary Compression
- Market Competition
- Performance Management
- Career Progression

3

Commission Recommendations

- Implement new pay structure
- Merge classifications
- Enable career progression
- Establish pay factors
- Make salaries competitive with the market
- Revise the performance management program
- Develop new pay practices
- Recommend a stable funding mechanism

4

VA COMP REFORM

Agency Salary Administration Plan

- One statewide plan
- Agencies select needed tools
- Agencies document use of tools

- Each agency develops its own plan within broad guidelines
  - Compensation philosophy
  - Culture
  - Funding
  - Market
- Reward and recognition
- Benefits of plan
  - Emphasizes management accountability
  - Recognizes that "one size does not fit all"
  - Reduces use of "HR won't let me"
  - Communicates management expectations

5

VA COMP REFORM

Classification Structure

- Reduced groups by 12%
- Reduced classes by 85%
- Reduced class series by 90%
- No change number of positions

Old	New
8 Occupational Groups	7 Occupational Families
580 Class Series	56 Career Groups
1650 Job Classes	256 Roles
Positions	Work Titles

6

VA COMP REFORM

Pay Structure

- Created broader roles
- Expanded ranges
- Enhanced career growth opportunities
- Developed crosswalk
- Salary neutral

OLD			September. 25, 2000		
	Range			Range	
GRADES	Minimum	Maximum	BANDS	Minimum	Maximum
1	$ 12,689	$ 19,811			
2	$ 13,871	$ 21,657	1	$ 12,689	$ 26,042
3	$ 15,164	$ 23,675			
4	$ 16,577	$ 25,881			
5	$ 18,122	$ 28,292	2	$ 16,577	$ 34,021
6	$ 19,811	$ 30,929			
7	$ 21,657	$ 33,811	3	$ 19,811	$ 40,659
8	$ 23,675	$ 36,962			
9	$ 25,881	$ 40,406			
10	$ 28,292	$ 44,171	4	$ 25,881	$ 53,116
11	$ 30,929	$ 48,287			
12	$ 33,811	$ 52,787			
13	$ 36,962	$ 57,706	5	$ 33,811	$ 69,391
14	$ 40,406	$ 63,083			
15	$ 44,171	$ 68,961			
16	$ 48,287	$ 75,387	6	$ 44,171	$ 90,653
17	$ 52,787	$ 82,412			
18	$ 57,706	$ 90,092			
19	$ 63,083	$ 98,487	7	$ 57,706	$ 118,432
20	$ 68,961	$ 107,665			
21	$ 75,387	$ 117,697			
22	$ 82,412	$ 128,665	8	$ 75,387	$ 154,719
23	$ 90,092	$ 140,654			
OVER 23	NO CURRENT RANGE		9	$ 98,486	MARKET

7

VA COMP REFORM

Pay Practice Goals

- Encourage growth and career development
- Eliminate reliance on reclassifications
- Recognize and reward high performers
- Respond to market changes
- Provide tools to address agency needs
- Emphasize management accountability

8

VA COMP REFORM

Pay Practices

- Agency selects pay practices
- Documented in Agency Salary Administration Plan
- No further approval needed
- DHRM provides advice and counsel
- DHRM reports on statewide usage.

Practice	Old	New
In-Band Adjustment ▪ Duties ▪ Development ▪ Retention ▪ Alignment	None	0-10% (base or bonus)
Recognition Award	None	Team or Individual
Starting Pay	Up to 10%	Up to 15%
Performance	Fixed	Formula based
Reallocation/Role Change	Fixed 9.3%	Up to 10%
Promotion	Fixed 9.3%	Up to 15%
Annual General Increase	Across-the-board	Performance

9

Pay Practices Consider 13 Factors

- Agency business needs
- Current salary
- Work experience and education
- Performance
- Knowledge, skills, abilities, competencies
- Market availability
- Training, certification, license
- Internal salary alignment
- Budget implications
- Salary reference data
- Duties/responsibilities
- Total compensation
- Long term impact

10

Exceptional Incentive Options

- Used by agencies for hard to fill jobs
- Documented in Agency Salary Administration Plan
- Requires Cabinet Secretary approval
- Agency funded
- Written agreements between agency and employee

Type	Incentive Option
•Sign-on Bonus	Up to $10,000
•Retention Bonus	Up to $10,000 per year
•Project-Based Bonus	Up to $10,000 per year
•Compensatory Leave	Allows carry-over beyond 12 months
•Annual Leave	30 days granted or advanced
•Applicant Referral	Up to $1,500 per referral hired

11

Performance Management Goals

- Evaluate employees each fall based on goals communicated in advance
- Link employee performance to agency goals
- Create employee development plans each year
- Establish employee and manager perceptions of fairness, trust, and consistency
- Reward better performers
- Address non-performers
- Recognize group performance
- Receive employee input
- Emphasize management accountability

12

Performance Evaluation Parameters

- Agencies may use more ratings
- Agencies report on 3 levels
- Agencies may use input in addition to the supervisor
  - employee self-assessments
  - 360° assessments

Topic	Old	New
Ratings	5 levels	3 levels
Probationary period	6 months	12 months
Salary increases	Fixed	Formula-based
Appraisal instrument	Fixed	Customized

13

VA COMP REFORM

Performance Increase Formula

Example:
3% average increase

Non-Contributors
➢ No increase

Contributors
➢ 2.4-3.0% increase

Extraordinary Contributors
➢ 3.0-7.5% increase

- Agency funding based on an average increase
- Employee increases vary based on performance
  - Varies by agency based on their compensation plan

Rating	Performance Increase
Below Contributor	No increase
Contributor	80%-100% of Average Increase
Extraordinary Contributor	100%-250% of Average Increase

- Approved, but not implemented due to funding constraints

14

VA COMP REFORM

Compensation Summary

Employee Increases	Pay Practices	Performance
Basis	13 factors	Performance
Timing	Event driven	Annually on Nov. 25
Funding	Absorbed by agency budget	Central Appropriation

15

VA COMP REFORM

Keys to Success

- Change Management
- Collaboration
- Role Clarity
- Communication
- Training
- Resources
- Support
- Accountability
- Continuous Learning

16

VA COMP REFORM

Change Management

- Identify the problem
- Identify solutions
- Identify what is different and why
- Manage expectations

- Does everyone agree that there is a problem?
- How ready is agency for change?
- What are areas of concern?
- What should be done now to address concerns?
- What is being done to prepare employees and managers for implementation?

17

VA COMP REFORM

Collaboration

- 150 HR Staff Members from across the state
- 60 Agencies
- 10 Implementation Teams
  - Implementation Management
  - Funding
  - Policy
  - Salary Survey
  - Compensation Management
  - Performance Management
  - Employment/EEO
  - Training
  - Communications
  - Systems

18

VA COMP REFORM

Management Role

- Increased responsibility and accountability
- Increased availability of tools to support agency strategic initiatives
- Increased awareness of HR management issues
- Increased focus on fairness and equity
- Increased management of change
- Reduced use of "HR won't let me"

19

VA COMP REFORM

Employee Role

- Sustained performance that contributes to agency strategic initiatives
- Increased focus on self assessment
- Increased opportunity for feedback
- Increased responsibility for personal career development
- Increased acceptance of change
- Greater understanding that "one size does not fit all"

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VA COMP REFORM

DHRM Role

- Increased HR consulting
- Increased support of agency strategic initiatives
- Increased program evaluation
- Increased post-audit review
- Increased utilization of best practices
- Increased change management
- Reduced gatekeeper function
- Eliminated "one size fits all"

21

Agency HR Role

- Increased partnerships with managers and supervisors
- Increased support of agency strategic initiatives
- Increased focus on fairness and equity
- Increased capability in compensation management
- Increased change management
- Reduced gatekeeper function

22

Communications

- Multiple audiences
  - Customized communications to each audience
- Multiple delivery channels
  - Statewide
    - Employee newspaper
    - Frequently asked questions
    - Web site with feedback mechanism
    - Video
    - Prototype plans and guidelines
    - Hotline
  - Agency
    - Agency meetings
    - Agency newsletters

23

Training

- Developed centrally
- Delivered locally
- Used train-the-trainer

- Human Resource Directors
- Cabinet & Agency Heads
  - Overview
- Human Resource Staff
  - Overview
  - Career Group Descriptions
  - American Compensation Assoc.
- Managers & Employees
  - Overview, Pay Structure, Pay Practices
  - Performance Management
  - Performance Evaluation

24

Resources

- Human Resource Management Manual
- Policies and Procedures
- Crosswalk
- Toolkit
  - Sample Agency Plan
  - Sample Agency Checklist
  - Training Materials
  - Communication Materials
  - Skill-based Plan Guides
  - Competency-based Plan Guides
  - Reference Guides
  - Reader's Guides
  - Glossary
  - Video
  - FAQs

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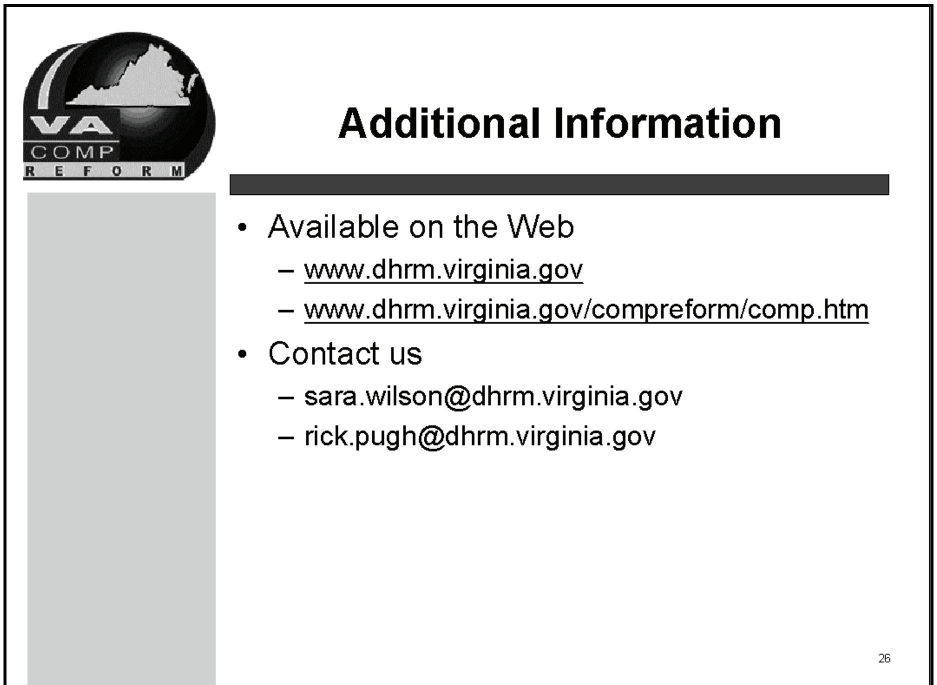


Source: Commonwealth of Virginia.

IBM Corporation

Mission of the organization	IBM strives to lead in the invention, development, and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems, and microelectronics. IBM translates these advanced technologies into value for its customers through its professional solutions, services, and consulting businesses worldwide.
Number of employees	Approximately 300,000 employees in more than 160 countries.
Union participation	In the United States, unions do not represent IBM employees, but in other countries, some IBM employees belong to unions and/or work councils. Often, these arrangements are either encouraged or mandated by law.
Key milestone dates	• **1991**: IBM introduced the employee bonus program where payments are based upon straight calculation with no manager discretion. • **1996**: IBM made multiple changes: • Implemented broad bands. • Started an annual common review date for salary increase decisions (instead of anniversary reviews). • Introduced a compensation planning tool in the United States and Canada. • **2005**: IBM changed the employee bonus program to give managers more discretion for bonus payments.
Source for additional information	http://www.ibm.com

Source: IBM Corporation.

IBM Compensation Programs

Pay For Performance: Managing Pay Systems Across Organizations

Art Amler
Director, Global Services Compensation

IBM Compensation Programs

Agenda

- **Compensation Objectives**
- **Position Classification**
- **Salary Increase Program**
  - Manager Process
- **Key Factors For Success**
- **How IBM Ensures Fairness**
- **Questions**

2

IBM Compensation Programs

Compensation Objectives

- **Pay for Performance:** Pay our best performers like the best in the marketplace.
- **Pay Competitively:** Attract, retain and motivate, as well as enable competitive prices for IBM services and solutions.
- **Differentiate Strongly:** Give larger increases/bonuses to those who are most deserving.

IBM's compensation programs are kept as simple and flexible as possible in order to keep the control at the first line manager level.

3

IBM Compensation Programs

Total Rewards Package

- **Cash Compensation**
  - Base Pay
  - Performance Bonus
  - Incentives
  - Awards
- **Retirement**
  - 401(k)
  - Pension Plan
- **Asset Protection**
  - Long-Term Disability
  - Short-Term Disability
  - Group Life Insurance
- **Employee Development**
  - Training
- **Health**
  - Medical Coverage
  - Dental Plan
  - Vision Plan
  - Mental Health
  - Healthcare Flexible Spending Account
- **Life**
  - Vacation
  - Holidays
  - Leaves of Absence
  - Dependent Care Flexible Spending Account
  - Tuition Reimbursement
  - Flexible Work Arrangements

4

Position Classification

- **Backbone of compensation programs to ensure consistency and fairness throughout the enterprise**
- **Managers responsible to make sure employees are classified correctly**
- **Used for benchmarking and to determine base pay ranges**
  – 10 Broad Bands: Bands 1-5 Non-Exempt, Bands 6-10 Exempt
  – 24 Job Families

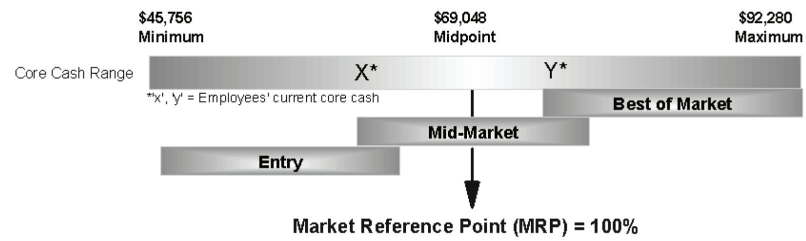
Salary Increase Program

- **Deployed in two ways: funding is determined by Corporate, and planning is managed by the business units.**
- **Funding/Guidelines**
  – External market data is reviewed by Corporate to determine how much funding is required for each job family to remain competitive
  – Business units may use some discretion based upon affordability
  – Guidelines are determined by Corporate and given to business units, sometimes in ranges. Business Units may give guidance within the range to their managers
- **Planning Cycle**
  – Salary planning tool deployed to all managers
  – Managers are given an allocation for their department
    - Allocations are determined by job family, band and the employee's position in the range
    - Managers must first focus on top contributors and determine which employees will not receive an increase since they are already competitively paid for their level of contribution
  – Similar process used to determine Performance Bonus

IBM Compensation Programs

IBM

Salary Increase Decision Making



Employee X's core cash is $54,700 and is at 79% of the MRP. If the employee receives a....

- high overall assessment, the employee *would be* an ideal candidate for an increase.
- middle overall assessment, the employee *could be* a candidate for an increase.
- low overall assessment, the employee *probably does no*t warrant an increase.

Employee Y's core cash is $80,500 and is at 117% of the MRP. If the employee receives a....

- high overall assessment, the employee *may* receive an increase.
- middle overall assessment, the employee *probably would not* receive an increase.
- low overall assessment, the employee is already well paid and *does not warrant* an increase.

7

IBM Compensation Programs

IBM

Salary Increase Program

- **All measurement targets should be met at the unit level, not at the individual department level.**
- Specific measurements will be provided by your business unit.

Measurements	Comments
Coverage Percent	– The number of employees receiving increases divided by total number of employees – Lower coverage allows for larger increases to receiving employees
Promotional Coverage Percent	– The number of employees receiving promotions divided by the total number of employees – Based on full-year activity – Should not exceed 7% (excluding promotions from bands 1, 2 and 6) – For promotions, give 3-5% increase above merit
Allocation Spending	– All base pay, promotion, base pay equity (up to first 2%) and pre-cycle increases are included in this measurement – Merit and promotional increases given before receiving the tool are deducted from your allocation
Differentiation Ratio (Guidance)	– The largest 20% of increases should be at least 3 times larger than the smallest 20% of increases
Minimum Merit Increase Size (Guidance)	– Merit increases should not be less than 2%.

8

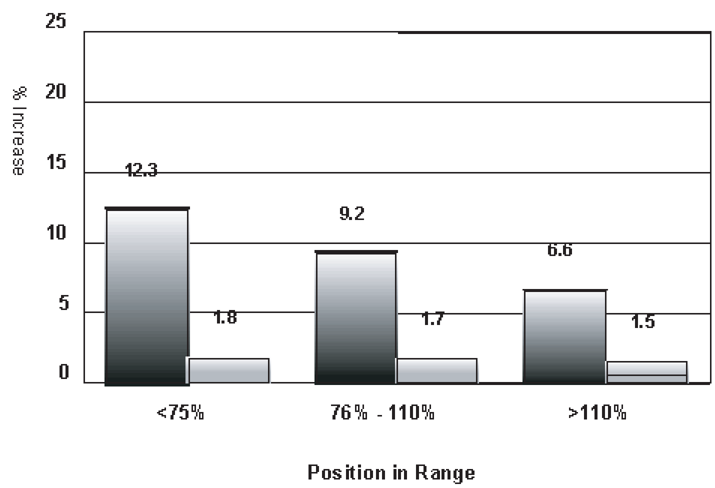
IBM Compensation Programs

Salary Increase Program - Differentiation

★ **Differentiating Base Pay:**

- 40% received no salary increase in 2003
- Frees up a smaller merit budget to reward the highest contributors
- **5X Differential between top and bottom performers receiving increases**

Differentiation Between the Top 20% and Bottom 20% Who Received Increases



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IBM Compensation Programs

Salary Increase Program - Manager Process

- **Manager Training – Sessions cover design points and operational information.**
- **Planning**
  - Factor Weighting – Four factors for each job family: Job Scope, Critical Skills, Retention and Performance Rating
  - Assessments – Rate each employee on the four factors to calculate an overall assessment, which ranks the employees
  - Decision Making – Manager decides who will receive an increase and who will not
- **Employee Communication – Managers are given total cash summary statements for each employee and a department meeting training module that is similar to the manager version to explain how salary increase decisions are made.**

10

IBM Compensation Programs

Salary Increase Planning – Factor Weightings & Assessments

- **Factor Weightings**
  - The first evaluation is assigning each job family a weight for four factors: Job Scope, Critical Skills, Retention and Performance Rating (PBC)
  - The functional organization assigns the weightings for each job family to maintain consistency
- **Assessments**
  - Each employee is assigned a rating for the four factors
  - The weightings and assessments are then used to calculate an overall assessment, which will rank the employees

11

IBM Compensation Programs

Salary Increase Planning – Decision Making

Base Pay Planning

IBM Confidential

- **To input increases, promotions, comments,** or **view information** about an employee, click on the button beside the name to access the Employee Planning screen. You also can input increases on this screen, but it is recommended that you review the Employee Planning screen first.
- **% Mkt Ref Pt** is the Core Cash projection divided by the Market Reference Point. Market Reference Point is the middle of the Core Cash Range (the range of cash compensation paid in the market, consisting of base pay, variable pay, and commissions where applicable).
- **Find** button can be used to list employees with promotion projections, stock-based awards, international assignments, comments, etc.

Department Allocation (MANAGER)	
Increase Allocation	$103,915
Allocation Spent before CM	$9,600
Allocation Spent in CM	$56,813
% Allocation Spent	63.91%
Allocation Remaining/Overspent	$37,502

Employee Name (11 Employees) **X** = In Executive Resources Program **T** = In Technical Resources Program **S** = Holds Stock-Based Awards **E** = Highlighted for ESO Linkage **P** = Selected for Promotion (US only)	Job - Band Family	Overall Assess	Current Annual Base Pay / Sal Equiv	Current % Mkt Ref Pt	Projected Total Increase %	Projected Annual Base Pay / Sal Equiv	Projected % Mkt Ref Pt
COW, Z **S**	06A - 10	2.00	129,610	95	3.0	133,498	98
FROG, WE **S**	01A - 10	2.25	146,618	108	12.0	164,212	121
GERBIL, S **T,S**	06B - 10	2.00	126,125	93	0.0	126,125	93
GIRAFFE, TE **S**	06B - 10	2.25	109,127	80	4.0	113,492	83
HAMSTER, D **S**	06A - 10	1.25	138,000	102	6.0	146,280	108
HAWK, CS **S**	01A - 08	1.50	95,495	109	10.0	105,044	116
MOUSE, MJ **S**	06B - 10	2.75	116,720	86	0.0	116,720	86
OTTER, IM **P**	03A - 09	1.50	120,001	95	5.0	126,001	83
RACOON, CH **P**	17A - 04	1.50	25,875	50	3.0	26,652	43
SNAKE, MR **S**	01A - 09	1.75	113,411	98	2.0	115,679	100
TURKEY, BN **X,S,P**	01A - 09	2.00	108,146	94	7.0	115,716	82

12

Key Factors For Success

- Management Communications
- Employee Communications
- Upline management is involved in the decision making process with managers in their organization. This ensures fairness and equity.
- Senior management is involved in discussions before major compensation changes are implemented.

How IBM Ensures Fairness

- **Clear message to managers to make sure employees are treated fairly; Non-discrimination policy mentioned as the managers enter the planning application**
- **Base Pay Equity Analysis conducted before the planning cycle to review women or minority employees who are paid one standard deviation away from the mean of the majority**
  - Look for possible reasons for the difference in pay: poor performance, promoted quickly so it takes time to catch up, had been on an extended leave of absence
  - If appropriate, recommendations are made, giving allocation relief to managers to correct potential problems that are identified
  - Managers must either follow the recommendation or enter a valid reason for not doing so, which is reviewed
- **All plans reviewed by upline managers**
- **Factor weightings and assessments helps to rank employees objectively**
- **Employees may appeal decisions if they do not feel that they are fair**

Source: IBM.

Office of the Comptroller of the Currency

Mission of the organization	The Office of the Comptroller of the Currency (OCC) is a bureau of the U.S. Department of the Treasury. OCC is to charter national banks; oversee a nationwide system of banking institutions; and assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.
Number of employees	Approximately 2,800 employees located in offices throughout the country.
Union participation	The National Treasury Employees Union.
Key milestone dates	**1989**: Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), which gave financial regulatory agencies, including OCC, similar pay authorities and required these agencies to maintain compensation comparability. **1999**: OCC conducted a comprehensive survey on the pay systems of the FIRREA agencies, other title 5-exempt organizations, and the Federal Reserve Banks, which served as the basis for a major review of its pay programs. **2001**: OCC implemented a new, broad-banded pay plan designed to encourage employees to achieve and to develop skills that support the mission of OCC. **2002**: OCC implemented a new performance management system. **2004**: OCC introduced changes to its "geo pay" system using cost of labor data to help ensure that pay is locally competitive and comparable to the FIRREA community.
Source for additional information	http://www.occ.treas.gov

Source: OCC.

Office of the Comptroller of the Currency

Maintaining Pay Competitiveness

Pay Symposium at GAO
March 2004

Public Law 101-73, Financial Institutions Reform, Recovery and Enforcement Act of 1989

Gives OCC the authority to establish its own Compensation and Benefits

- Rates of basic pay for all employees of the OCC may be set without regard to the provisions of …. of title 5, U.S. Code.
- The Comptroller may provide additional compensation and benefits to OCC employees if the same type are provided by any other Federal bank regulatory agency.
- The FDIC, OCC, NCUA, etc. shall seek to maintain comparability regarding compensation and benefits.

1

Survey Participants

The following organizations provide the data which form the basis of the OCC pay competitiveness study:

FIRREA Agencies
- Office of the Comptroller of the Currency (OCC)
- Farm Credit Administration (FCA)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)
- Office of the Thrift Supervision (OTS)
- Federal Housing Finance Board (FHFB)

Other Title 5 Exempt
- Board of Governors, Federal Reserve Board (Fed Board)
- Securities and Exchange Commission (SEC)
- Office of Federal Housing Enterprise Oversight (OFHEO)

Federal Reserve Banks
- Atlanta
- Boston
- Chicago
- Cleveland
- Dallas
- Kansas City
- Minneapolis
- New York
- Philadelphia
- Richmond
- San Francisco
- St. Louis

2

Methodology

The data collected included:

- Base salary data
- Geographic differentials
- Salary administration and pay practice data
- Compensation program change information

The survey included 59 benchmark positions from the following thirteen (13) job families:

- Executive Management
- Bank Supervision
- Bank Policy
- Chief Counsel
- Economic and Policy Analysis
- Information Technology
- Ombudsman
- Clerical and Secretarial
- Public Affairs
- Administration
  - Finance
  - Human Resources
  - Training
  - Contracting

3

Methodology, continued

Survey data were quality controlled and screened.

- Survey conducted by the HayGroup.
- Hay corresponded with agency representatives to encourage participation, answer questions, and provide clarification.
  - On-site visits were conducted at several agencies to match survey jobs with subject matter experts.
- Job descriptions were collected, as needed, for those agencies providing new matches.
- Hay then followed up with each agency for quality control and clarification on job matches.

4

Findings by Job Family - FIRREA Only

	2003 FIRREAS Only OCC Weighted Average*		2004 FIRREAS Only OCC Weighted Average*	
Job Familes	**Base Salary**	**Base + Geo**	**Base Salary**	**Base + Geo**
Information Technology				
Bank Supervision				
Bank Policy				
Chief Counsel				
Economics and Policy Analysis				
Clerical and Secretarial Staff				
Executive Management				
Admin/Finance/Contracting/Training				
Public Affairs				
Ombudsman				
Overall OCC to Market Average	8%	7%	8%	6%

The FIRREA market includes FCA, FDIC, NCUA, OTS plus the Fed Board.

* Calculated weighing the data so that the jobs most heavily populated at the OCC have the most influence in determining the market relativity.

5

Conclusions

- OCC's median pay is within an acceptable competitive pay range.
  - Consultant's view is that an organization's pay rates are considered to be competitive if they are within plus or minus 10% of the comparison group's average pay rates.
- In order for OCC to maintain a competitive position among FIRREA's, and based upon the survey findings, pay increase budget for 2005 established so that pay will remain within 5-10% of the FIRREA market.

6

OCC Geo Pay Methodology

Implemented January 2004

WHAT IS THE PURPOSE OF GEO PAY?

Possible objectives include:

OBJECTIVE	METHOD
• Locally competitive salaries	Differentials based on Cost of Labor Data
• Equalized purchasing power	Differentials based on Cost of Living Data
• Mobility	Relocation Bonuses or Temporary Stipends

8

Best Practices Research

Best Practice for those who pay differentials:

Objective: Pay Locally Competitive Compensation

- National Pay Structures.
- Cost of Labor Geographic Pay Differential- based approach.
- Grouping of cities into zones.
- Use of Economic Research Institute (ERI) Cost of Labor data .
- Some consideration of Cost of Living.
- Relocation packages tailored to meet specific needs.

9

OCC Intent

The purpose of Geo Pay should be to provide locally competitive pay

and

Mobility issues should be addressed separately as required through the Relocation Program

10

OCC Geo Pay Methodology

Seven zones created using ERI Cost of Labor and Runzheimer Cost of Living data.

Step 1: Rank duty stations from high to low using ERI data for a 50-mile radius of the location

Step 2: Divide duty stations into zones with breaks at each 5% increment

Step 3: Set Geo Pay zone rates at midpoint of each grouping rounded up:

Zone 1 =	0	Zone 5 =	18%
Zone 2 =	3%	Zone 6 =	23%
Zone 3 =	8%	Zone 7 =	28%
Zone 4 =	13%		

Step 4: Adjust for cost of living where Runzheimer data differs substantially from Zone Rate. Also adjust for salary differential where FIRREA survey data indicates substantial local pay disparity.

Moving Up Zones:

• Move up one zone where Runzheimer index for that city is at least 5 percentage points higher than the Zone rate or FIRREA survey data indicates OCC at least 5% behind the local market data .

• Move up two zones if the Runzheimer index for that city is at least 20 percentage points higher than the Zone rate or FIRREA survey data indicates OCC at least 20% behind the local market data .

11

Zone Rate Structure

New Zone Rate	Highly Populated Cities (2004 Geo Rate)
Zone 7 = 28%	*San Francisco (37.0)
Zone 6 = 23%	*New York (26.3)
Zone 5 = 18%	*Los Angeles (23.4)
Zone 4 = 13%	*Boston (18.1), Detroit (7.7), San Diego (11.6)
Zone 3 = 8%	Chicago (14.5), Seattle (12.6), Denver (5.0), Philadelphia (10.3), Wilmington (10.3), Washington (13.2)
Zone 2 = 3%	Milwaukee (9.0), Phoenix (0), St. Louis (3.0), Cleveland (4.0), Miami (5.0), Minneapolis (9.1), Houston (6.0), Dallas (3.0)
Zone 1 = 0	Kansas City (1.0), Atlanta (3.0), Charlotte (0), Pittsburgh (3.0), Salt Lake City (3.8)

* Cities moved up due to Runzheimer Cost of Living Data

12

Relocation Program Enhancements

Enhanced Mortgage Subsidy

- Would apply when an employee moves from a city in a zone lower than the one s/he is moving to and the cost of living (as measured by the Runzheimer data) in the new city is greater than our Geo Rate
- Currently would assist staff moving to SF, LA, NY, Boston, Chicago, DC, Orange County, Seattle, Minneapolis, Miami if moving from a city in a lower zone
- Mortgage interest subsidy would be 3%(year 1), 2%(year 2), 1%(year 3) of a new home mortgage with a principal loan of up to $500,000
- Mortgage would need to be acquired from our relocation vendor; OCC would pay the subsidy directly to our vendor

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Relocation Program Enhancements

Enhanced Renters Subsidy

- Would apply when an employee moves from a city in a zone lower than the one s/he is moving to and the cost of living (as measured by the Runzheimer data) in the new city is greater than our Geo Rate
- Currently would assist staff moving to SF, LA, NY, Boston, Chicago, DC, Orange County, Seattle, Minneapolis, Miami if moving from a city in a lower zone
- Renters subsidy would be 3 months rent in year 1; 2 months rent in year 2 and 1 month in year 3, subject to a monthly rental maximum of $5,000
- Mortgage would need to be acquired from our relocation vendor; OCC would pay the subsidy directly to our vendor

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Relocation Program Enhancements

Transitional Cost of Living Allowance

- Would apply when an employee moves from a city in a zone lower than the one s/he is moving to and the cost of living (as measured by the Runzheimer data) in the new city is at least 5% greater than our Geo Rate
- Currently would assist staff moving to San Francisco, Los Angeles, New York and Boston if moving from a city in a lower zone
- Cost of Living Allowance would be paid as an annual lump sum for three years and would be equal to the full difference in the COL percentage and the Geo Rate x annual salary at move in year 1; 2/3's this amount in year 2 and 1/3 this amount in year 3

15

Source: OCC.

American Red Cross

Mission of the organization	As a humanitarian organization led by volunteers and guided by its congressional charter and the Fundamental Principles of the International Red Cross Movement, the American Red Cross is to provide relief to victims of disasters and help people prevent, prepare for, and respond to emergencies.
Number of employees	Approximately 35,300 employees overall: • About 3,300 employees in the National Headquarters (primarily in Washington, D.C.) who are part of the broad-banded, pay for performance system. • About 18,000 employees in Biomedical Services across the country who are under a pay for performance system with graded salary structures. • About 14,000 employees in 864 chapters across the country who are under a pay for performance system with graded salary structures.
Union participation	None at the National Headquarters.
Key milestone dates	**2002**: The American Red Cross instituted broad salary bands for the National Headquarters. **2003**: The American Red Cross began using formal job family and survey job descriptors in lieu of job descriptions and instituted a fully automated, market-based job evaluation system. **2005**: The American Red Cross began using a fully automated salary planning or compensation management system.
Source for additional information	http://www.redcross.org

Source: American Red Cross.

American Red Cross

Managing Pay Competitively at the American Red Cross

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American Red Cross

Compensation Philosophy

- Fulfill our mission and values as a not-for-profit, humanitarian organization by:
  - Attracting, retaining, motivating, and rewarding the staff required to achieve Red Cross objectives
  - Paying salaries that are externally competitive and internally equitable
  - Basing salary decisions on organizational and individual performance

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American Red Cross

Compensation Practice

- Market Pricing
  – Information
    • Capture key responsibilities, function, scope, and requirements of the job
  – Analysis
    • Select surveys and benchmarks within relevant market/industry
    • Determine job level within organization
  – Result
    • Average the market price medians of matched benchmark jobs
    • Set salary range of job based on market composite

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American Red Cross

Compensation Structure

- Broad Salary Bands
  – Facilitate career development in job families within a single salary band
  – Enable flexibility in setting pay with emphasis on the person
  – Allow more accurate and quicker response to labor market fluctuations.
  – Help keep the Red Cross competitive in the labor market

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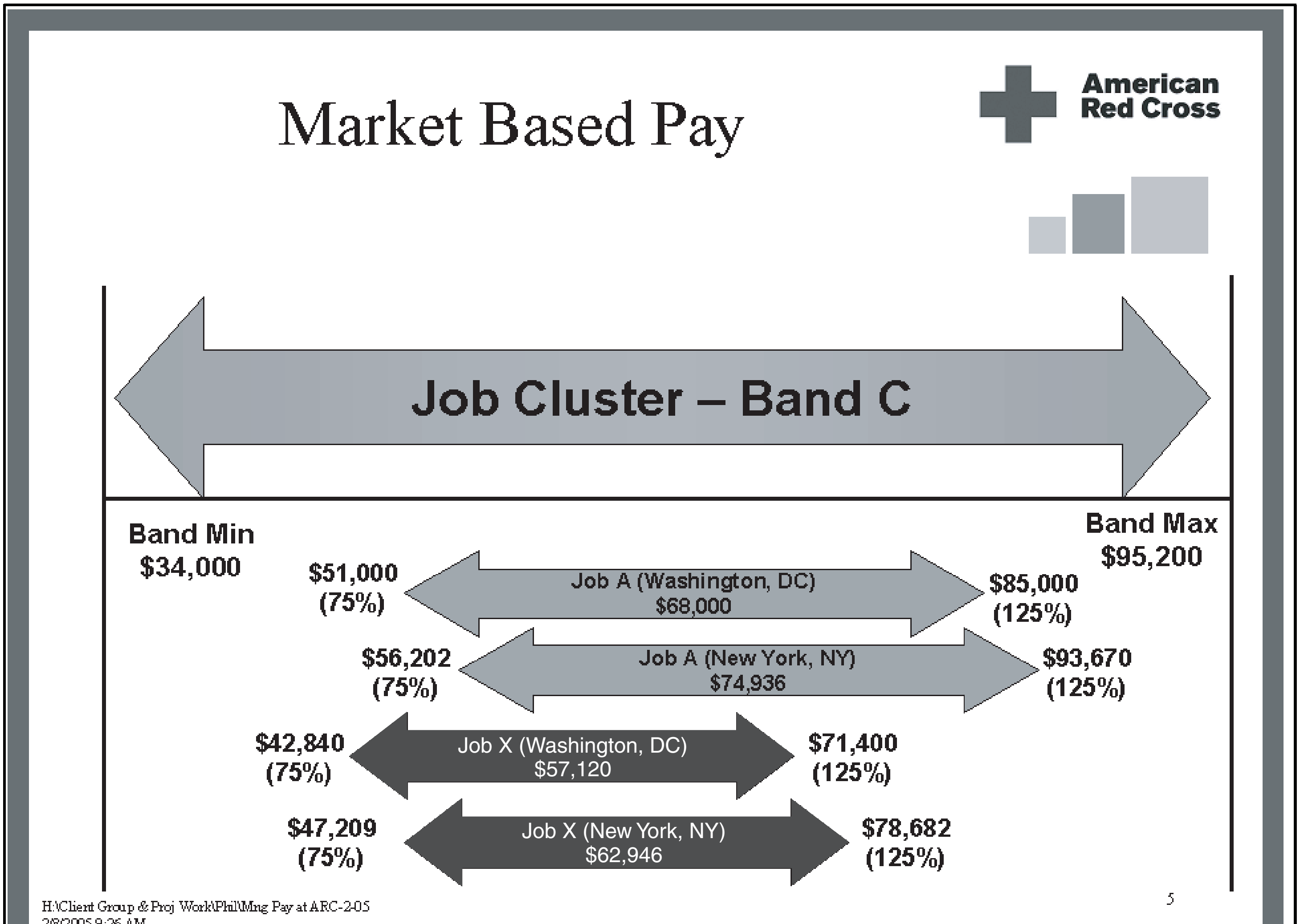
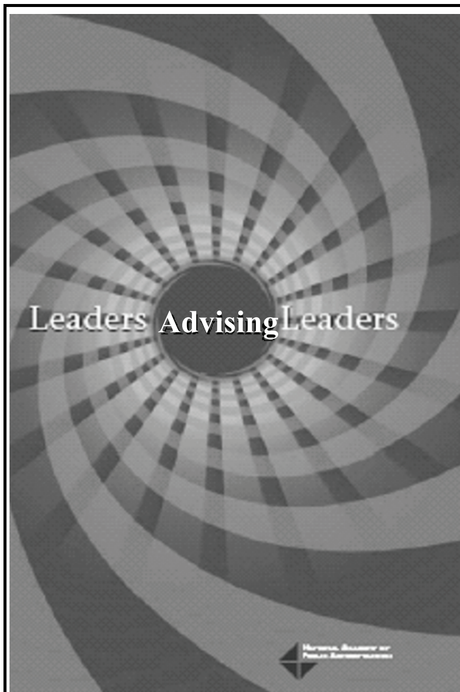


Source: American Red Cross.

Presentation by the Director of the Human Resources Management Consortium of the National Academy of Public Administration



The Elephant in the Room:

How to Approach the Pay Cap

Hannah Sistare
Director, NAPA Human
Resources Management Consortium

1

THE CHALLENGE

What can be done to prevent a new round of pay compression from undermining the effectiveness of performance based pay systems?

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THE PROBLEM

The pay cap undermines performance based pay:

- Restricts rewards
- Demoralizes workers
- Is arbitrary and nullifies market based pay

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THE RESULTS

- By 2004, about 70% of SES employees had their pay capped.

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AN INTERIM SOLUTION

- Congress raised SES cap for agencies with certified performance based systems.
- January 2005: 5,000 of 7,000 top executives were covered.
- Now: OPM collecting data. When will the new cap be reached?

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SEARCHING FOR A LASTING SOLUTION

National Commission on the Public Service
Chaired by Paul A. Volcker

The pay cap has had a damaging effect on government leadership across all three branches of government.

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6

CHALLENGES

- Convince Congress that an arbitrary cap undermines pay for performance.
- Help Congress build the rationale for tying all pay to relevant markets.

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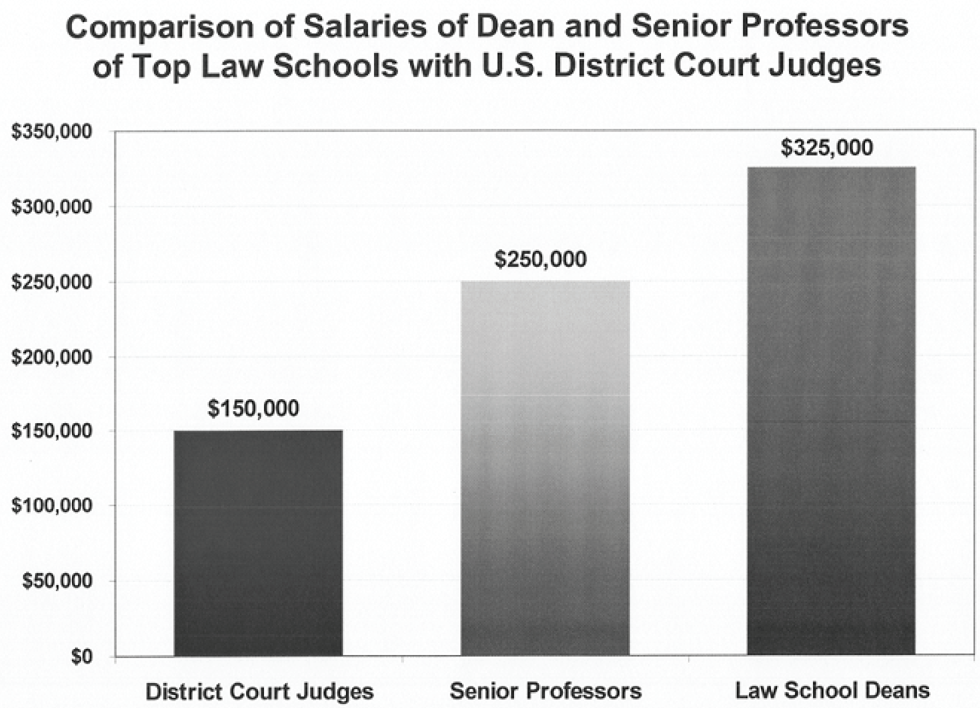
CHART FIVE



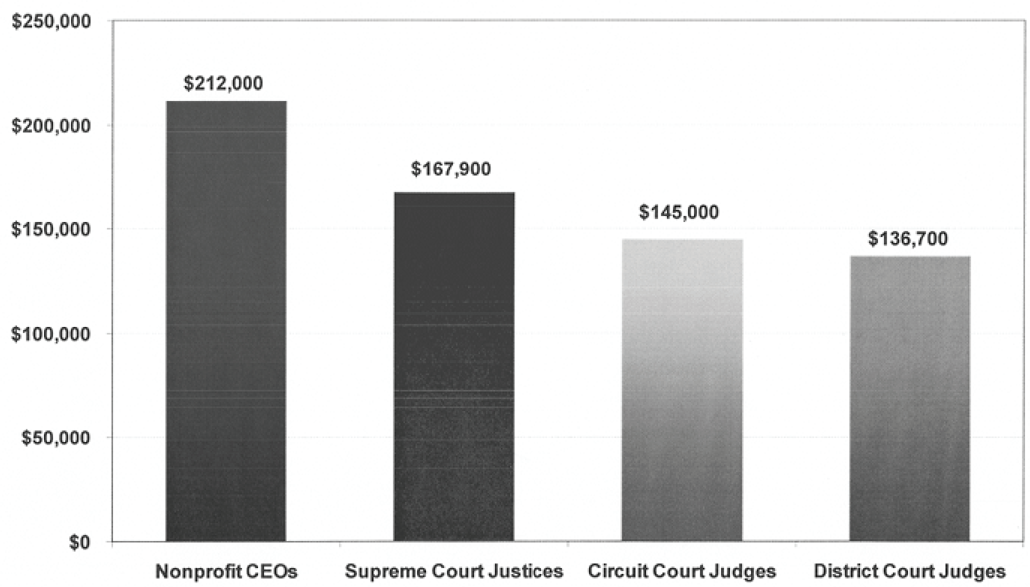
Data based on informal and confidential survey of law school administrators.
Professors' salaries based on an 11-month long teaching and research schedule.

Prepared by: Administrative Office of the U.S. Courts

8

CHART THREE

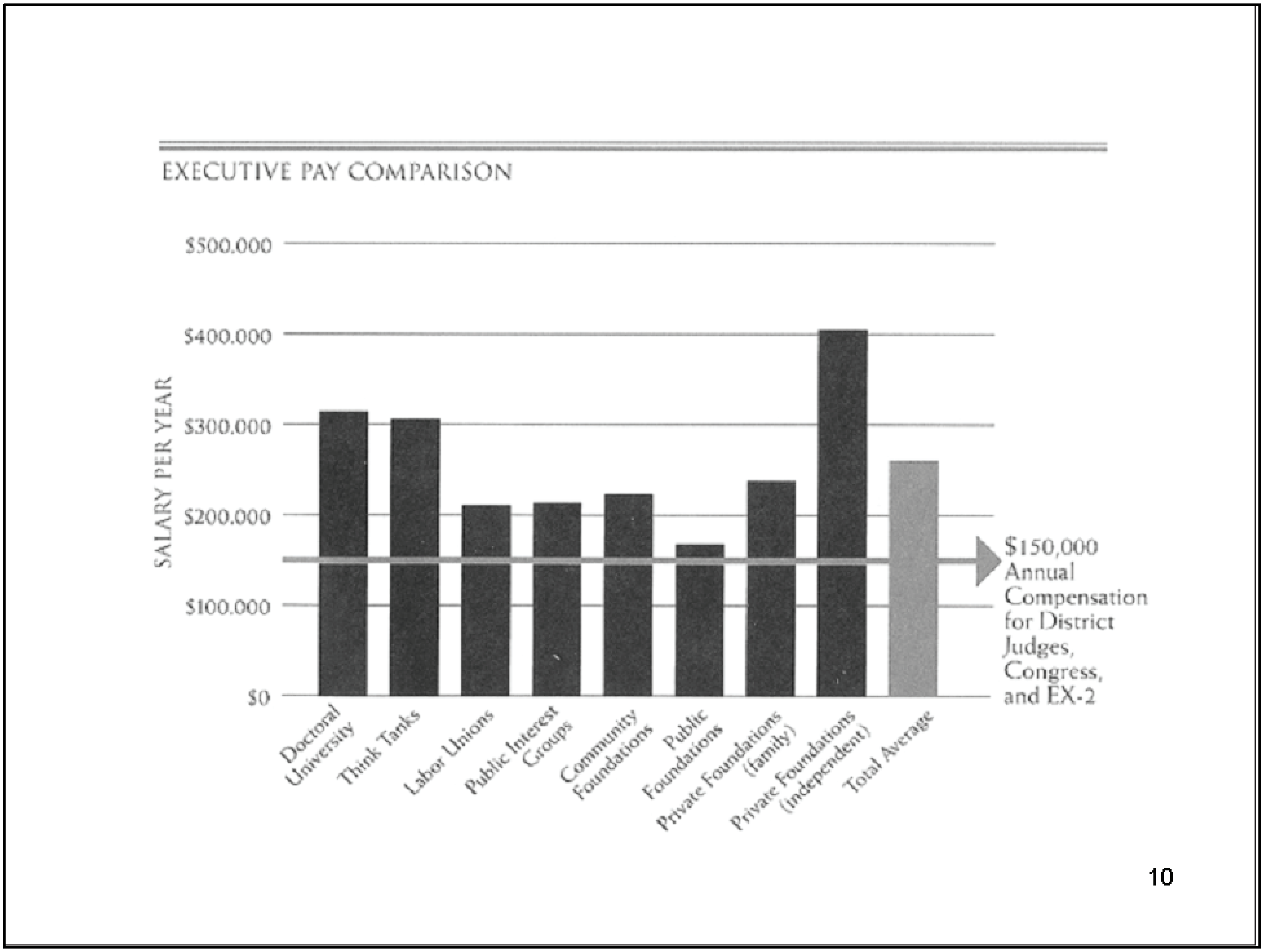
Comparison of Salaries of U.S. Federal Court Judges and Chief Executive Officers of Large Nonprofit Organizations - 1999



Data derived from Table 6 of Comparing the Pay and Benefits of Federal and Nonfederal, CBO Memorandum (November 1999)

Prepared by: Administrative Office of the U.S. Courts

9


EXECUTIVE PAY COMPARISON
SALARY PER YEAR
$500,000
$400,000
$300,000
$200,000
$100,000
$0
Doctoral University
Think Tanks
Labor Unions
Public Interest Groups
Community Foundations
Public Foundations
Private Foundations (family)
Private Foundations (independent)
Total Average
$150,000 Annual Compensation for District Judges, Congress, and EX-2
10

Questions for Discussion

Is this a viable solution?

Are there other solutions?

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11

Source: NAPA.

Presentation by the Director of the Office of Policy and Evaluation of the U.S. Merit Systems Protection Board

Facilitating Employee Engagement
Through
Pay for Performance

Steve Nelson
Director, Office of Policy and Evaluation
U.S. Merit Systems Protection Board

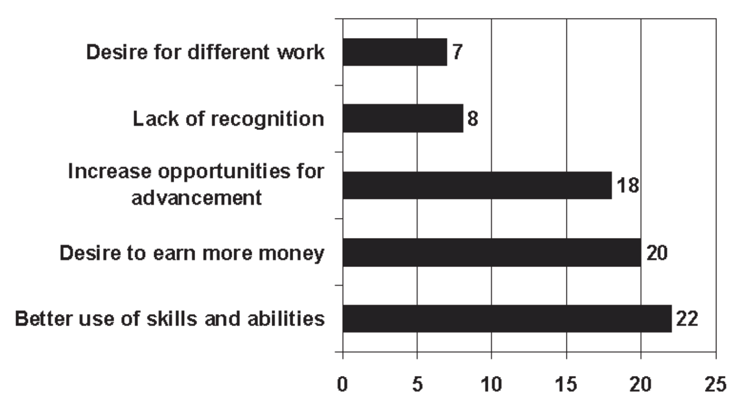
Pay for Performance is a better way to pay

- Meets the merit principle of equal pay for work of equal value and reward excellence.
- May be fairer than the GS because it recognizes contributions, not tenure.
- Helps recruitment and retention of HiPos.
- Aligns employee effort to organizational mission.
- Shows little evidence of moving organizational performance *by itself.*

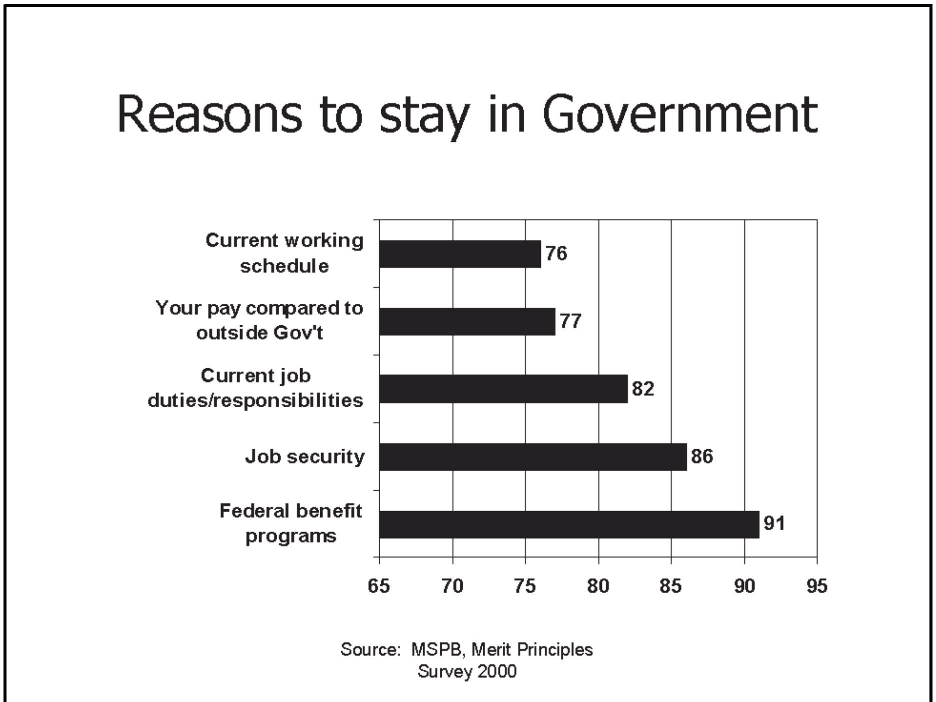
Impact of Pay on Employees

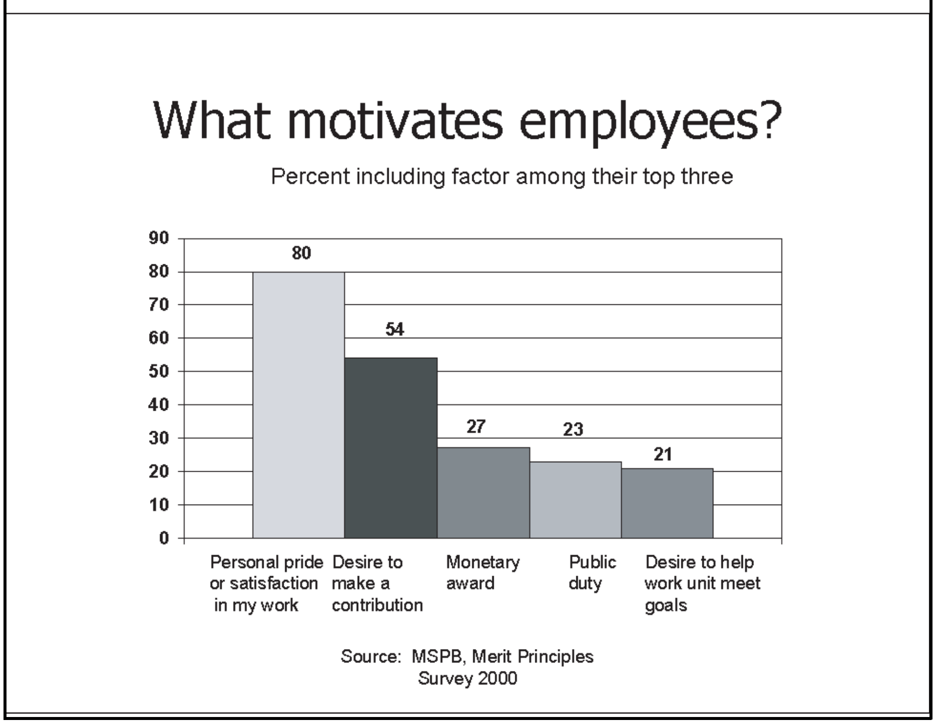
- Top pay increases → Retention of "superstars"
- Average pay increases → Impact on "B" employees
- No pay increases → Turnover of underperformers

Reasons to leave Government



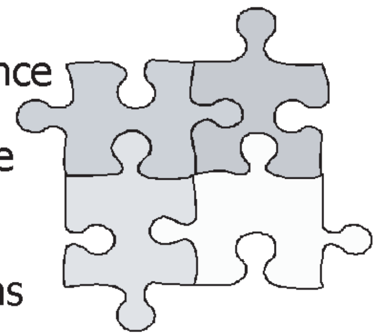
Source: MSPB, Merit Principles Survey 2000


Reasons to stay in Government
Current working schedule
Your pay compared to outside Gov't
Current job duties/responsibilities
Job security
Federal benefit programs
76
77
82
86
91
65
70
75
80
85
90
95
Source: MSPB, Merit Principles Survey 2000


What motivates employees?
Percent including factor among their top three
90
80
70
60
50
40
30
20
10
0
80
54
27
23
21
Personal pride or satisfaction in my work
Desire to make a contribution
Monetary award
Public duty
Desire to help work unit meet goals
Source: MSPB, Merit Principles Survey 2000

Increasing Organizational Performance

- Employee performance
- Organizational performance
- Whole is greater than the sum of the parts
- Increasing the B player as well as the Hipo



Corporate Leadership Council research

- Pay for performance helps recruitment and retention of high performers
- Pay for performance does not necessarily improve organizational performance
- Employee engagement is the key to improving organizational performance

Source: CLC 2004 Employee Engagement Survey

Employee Engagement

The extent to which employees commit to something or someone in their organization and how hard they work and how long they stay as a result of that commitment.

Components of Engagement

Rational Commitment:	Emotional commitment:
Are the employee's financial, developmental or professional needs being met?	Does the employee value, enjoy and believe in their job, manager, team, or organization?

Impact on Outcomes

Engagement

– Rational → Attraction/Retention

– Emotional → Discretionary Effort

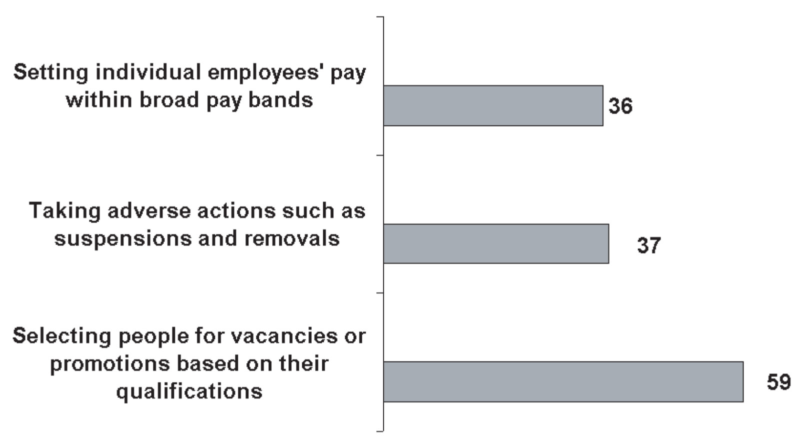
Relationship between Pay for Performance and Employee Engagement

- Allow pay setting flexibility to attract and retain high performers.
- Emphasize new supervisory behaviors facilitating emotional commitment.
- Aligning employee effort to mission.
- Supervisory behaviors affect employee engagement.

Supervisory Behaviors Maximizing Discretionary Effort

- Clearly articulates organizational goals
- Sets realistic performance expectations
- Adapts to changing circumstances
- Helps find solutions to problems
- Demonstrates honesty and integrity
- Possesses job skills
- People in the right roles at the right time
- Commitment to diversity

"To what extent do you think your supervisor will exercise the following authorities in a fair and effective manner?"



Source: MSPB, Merit Principles Survey 1996

Opportunity for Significant Improvement and Innovation

- Jointly Building the Performance Evaluation System.
- Incorporating checks and balances to ease suspicions and raise trust levels.
- Open Communication of goals and results.
- Building trust in the fairness – transparency.
- Continually evaluating the system.

Pay for Performance is a better way to pay

- Meets the merit principle of equal pay for work of equal value and reward excellence.
- May be fairer than the GS because it recognizes contributions, not tenure.
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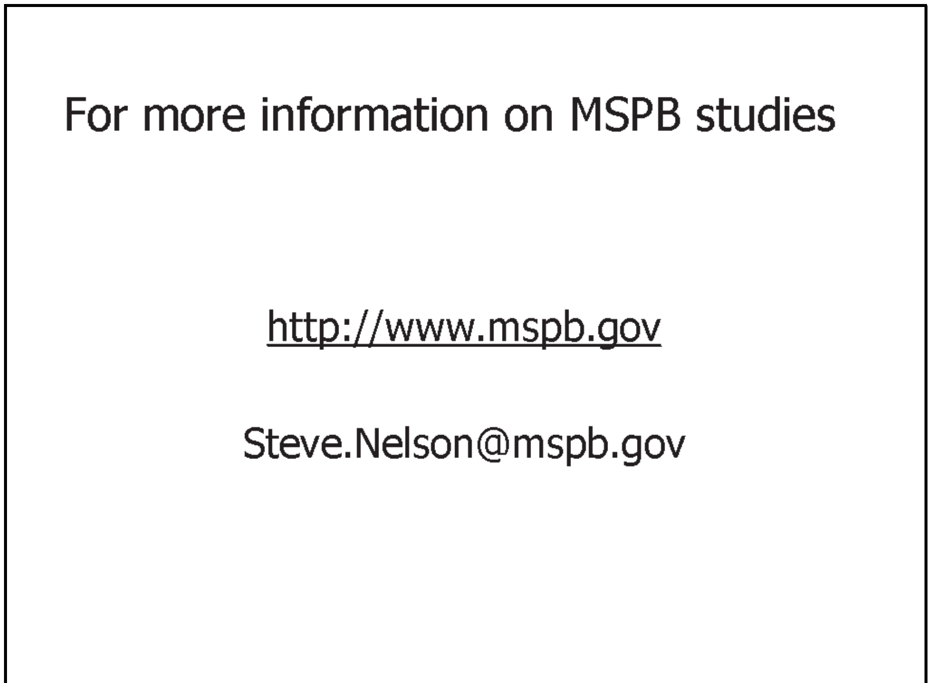
- Shows little evidence of moving organizational performance *by itself.*


For more information on MSPB studies
http://www.mspb.gov
Steve.Nelson@mspb.gov

Source: MSPB.

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