A CENTRAL BANK COMPENSATION PROGRAM

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- Compensations program - Job descriptions - Salary structure - Promotion
- Performance evaluation - Compensation -

1. COMPENSATIONS IDEAL PROGRAM AND ITS COMPONENT ELEMENTS

Compensations ideal program is composed of some component elements closely related to one-another. To make this program work, it is necessary that all elements function appropriately and give the required input to the next element. Therefore, to create a complete image of compensations ideal program, we are first analyzing its components.

1.1. JOB DESCRIPTIONS

Job descriptions represent a summary of information for every work position. This information contains the type, the level of responsibility, knowledge and necessary skills, lines of reporting, the space of operation, main duties per specific work position described in the job description. It is important that these job descriptions be contemporarily adequate, thus reflecting the job performed in the present, neither in the past nor in the future, and not in detail. Every unit must review them periodically once a year, as by rule, and more frequently, when necessary.
Relevant units must prepare new descriptions per every new job and the Human Resource Division must further approve them afterwards. New job descriptions are also needed for new tasks and responsibilities that reflect a significant change.

Job descriptions should not be confused with the regulations or work procedures. Regulations describe rules every employee must apply during his work relations to the bank, thus it is clear that job descriptions are utterly different from the regulations and work procedures as they describe the tasks and responsibilities of a certain work position and not a group of work positions included in an organizational unit.

To further clarify the concept of job descriptions, we are unveiling the contents of a typical job description:

The title of work position – clearly and briefly describes the level and the nature of work, thus identifies the work position.

The level and the current payment structure - presents the class or the payment interval where the actual job is currently included.

The sector / division - the job is part of.

Reporting scale - presents the managerial scale in the managing structure where the assigned person of a certain work position reports.

Summary - gives in a clear and concise mode the scope of the job.

Main duties and goals - describes only those duties occupying at least 5 percent of the working time of the job described. These duties are ranked by priority, the time lines or performance. Generally, in this paragraph, there must be included from four up to ten responsibilities per work position.

The level of necessary factors for performance evaluations - these factors are different for supervisory or non-supervisory
jobs and are used to relatively evaluate the performance before it comes to be classified under the payment structure. Some of the factors that need to be included in this paragraph are:

- The required minimum of knowledge or skills per described job. These requirements must be justified from job assignments.

For non-supervisory positions there must be also included:

- The assigned supervision – the scale of direct or indirect control directly exercised from the superior, the responsibility taken on by the employee and the review per work position;
- The necessary guidance and evaluation from the superior;
- Work complexity-reflects the difficulty and the originality during the working process;
- The effect of work position within the organizational unit either inside or outside the bank;
- The scale and the purpose of personal contacts either inside or outside the bank;
- Physical requirements and work environment giving the risks and different difficulties that may exist;

For supervisory jobs, there must be also included:

- The relative importance of the sector, department, office, program or functions it supervises;
- The level of authority it has been endorsed;
- The level and the scope of personal contacts either inside or outside the bank;
- The scale of supervision exercised by the number of subordinates.

1.2. JOB EVALUATION

Job evaluations consist in setting a relative institutional value to any work position systematically and this is focused
on the characteristics, contents of job and not on the individual performing it.

Stages of job evaluation consist in:

• The formulation of contemporary and suitable job descriptions is the most important stage. On the basis of the information provided by these job descriptions, the analysis and evaluations of work positions is made.
• Analysis per work position consists in analyzing the information submitted in job descriptions, based on evaluation factors per work position, which must be different for supervisory and non-supervisory positions.

Thus, the factors used in analyzing non-supervisory positions consist in:

• Required knowledge to perform the duties in these work positions;
• Allowed supervision on these work positions;
• Necessary management or direction;
• Complexity of charged duties;
• The impact of duties and responsibilities of the work position in the overall performance of the institution;
• Level of personal contacts and purposes;
• Physical requirements;
• Difficulty of tasks.

Factors that might be used in analyzing supervisory positions consist in the following:

• The impact on the organizational unit where these jobs are included;
• The rate of reporting or the ranking of work position in organizing the chart of the institution;
• The given authority to work position;
• Personal contacts and their aim;
• The complexity of supervision allowed to these work positions;
• The level of work positions supervised from the above position;
• The number of subordinates supervised from this position;
• Relative importance of work positions, where for every factor of evaluation, work position analyzed are assigned a number of points. Based on total points collected, a certain wage interval is classified in the wage structure.

1.3. MARKET ANALYSIS

Market analysis consists in setting a price to jobs in the market and in finding competitive intervals for payments from our institution in this market. This market analysis must be periodically performed each year, as it is the main source of information over the wages offered by other companies for similar work positions in the industry our institution is part of, in the banking system or other industries for current work positions that exist even at the Bank of Albania.

Job descriptions represent the basis for fixing job similarities for compared salaries. These jobs collected data consist in providing payment intervals offered by other companies. These data are further analyzed and compared to the payments offered by our institution for these work positions. Analyzing the current scale of offered payments from our institution, their competitive capacity in the market is also defined and their review is undertaken, if necessary.

1.4. PAY STRUCTURE

This structure must be the basis for a fair, impartial and competitive compensation for the Bank’s staff. It is a combination of the inward hierarchy resulting from the relative importance of work positions and outward market conditions analyzed along the labour market inspection. An ideal pay structure is graphically presented as below:
Pay structure is composed of a group of intervals that may intersect one-another. To clearly understand pays (salaries) falling into different intervals, we must first of all clarify the notion “compa-ratio”, that is a comparing coefficient calculated with the following formula.

\[
\text{Compa-ratio} = \frac{\text{The current payment (salary)}}{\text{Salary}} \times 100\%
\]

This coefficient serves to define the pay position for an employee or a related group of employees with an average market wage for the same jobs.

Thus 3 major points, minimum, average and maximum, comprise any pay interval in the pay structure.

The minimum pay is the received salary from an employee with an adequate performance.

The average is the pay of a fully trained employee for his/her work position with an adequate performance for a relatively long time. This salary corresponds with the average market salary.
The maximum is the highest salary for the work positions included in the salary interval.

However, any interval is composed of some other subdivisions, apart of the minimum, the average, and the maximum. These subdivisions have got a special comparative coefficient (compa-ratio) and are based on performance evaluations. Shifting the interval to a higher subdivision, including his/her current salary, is based on his or her performance evaluation, thus the pay rise of employees within a certain interval is different. The pay for new recruits is generally put under the lowest subdivision; in view of his training or experience this payment may be set at higher subdivisions.

The salary rise is based on the performance evaluation. Therefore, any employee receives an extra payment in percent of his/her salary, based on his/her performance evaluation at year-end. This percentage depends totally on performance evaluation; however, indirectly it also takes into account the work experience as the collected increases in percent of the base salary, always based on the performance evaluation, reflecting the work experience and can not exceed the maximum limit of the interval including the salary. The available budget must always be ahead to these increases in percent of the base salary.

Factors conditioning the budget consist in:

- The competitive position of employees in the market;
- The budget of competitive companies for annual increases in percent of the base salary;
- Overall economic conditions;
- The supply and demand for employees with the same experience and skills;
- Financial and budget conditions of the institution.

After approving the total budget for extra payments in percent of the base salary always based on performance evaluation, every unit is availed of a special budget stated in percent of the total fund for staff salaries.
The staff may pass from a salary interval to another as a result of the three processes listed downward:

1.5. CLIMBING THE STEPS OF CAREER

Climbing the steps of career consists in being promoted in career with much more responsibility and a higher salary consequently and this is acceptable only if the employee has got an excellent performance in the previous job. Employees are promoted in office based on an open competition, which might be an interview or analysis of the performance of all employees, candidates to get a promotion at a higher step of career.

1.6. PROMOTION

Promotion implies getting on a higher step of career when a job vacancy exists. The vacancy has got higher duties and responsibilities than the current job. Even this promotion is based on the competition though the candidates considering training, work experience and performance.

1.7. RECLASSIFICATION

Reclassification represents the classification of specific work position to a new grade of career, due to the change of duties and responsibilities of work position. This reclassification may be raised, lowered or remain unchanged in the scale career for the work position, whose characteristics change.

1.8. EXCELLENT PERFORMANCE BONUS PROGRAM

This program must serve as complementary to the increase in percent of the base salary based on performance evaluation at year-end. Bonuses included in this program are accorded for
the very high performance and completed tasks exceeding the work position. There are two ways of according these rewards:

a) Bonuses in cash

Every individual employed from the institution has the right to receive bonuses in cash for special contributions rendered to the institution, either inside or outside his duties or responsibilities specified for every work position. The superior of the unit, where the employee works, makes the proposal for the reward.

b) Bonuses for special achievements

A special committee accords these rewards once a year. Directors of all units at the bank propose this committee to reward all the staff (not managerial rank) that has given a special contribution to achieving the mission and the targets of the institution either directly or indirectly.

2. THE BANK OF ALBANIA CURRENT PROGRAM OF COMPENSATIONS AND DEFICIENCIES COMPARED TO THE IDEAL PROGRAM

2.1. JOB DESCRIPTIONS

The current job descriptions of the Bank of Albania do not have the appropriate characteristics and qualities to be the basis for the rest of the stages of compensations program. Frequently they do not appropriately describe the duties and responsibilities of a certain work place. Even their review has not been periodical and based on changed duties and responsibilities of a certain occupation. Consequently, it is necessary that the current job descriptions be analyzed in detail by an “ad-hoc” committee and be prepared in such a way that they be as contemporary as to represent the further basis of the following stages in the program.
2.2. RANKING JOBS BY PAY INTERVALS

This component is totally absent in the Bank of Albania compensation program. Subsequently, any work position relative importance or effect is not yet evaluated or used to classify jobs under certain payments intervals. Thus, matching a certain job with base salary has been arbitrary and not objective until now. One of the main disadvantages of this arbitrary correspondence is the non-acknowledgement of the contribution offered from tasks and responsibilities of different work positions in achieving the Bank of Albania targets, thus discouraging the staff charged with more important tasks and responsibilities to give their maximum to the advantage of the institution.

Finally, it must be stressed that this component should be included and bear proper importance in the compensation program of our institution, regardless of the costs and difficulties that may arise ahead. The development of an evaluation program for work positions will result in acknowledging or the right estimation of the contribution for each work position to the achievement of the Bank of Albania targets, in the adequate classification of occupations in the structure of wages and subsequently in the fair compensation of individuals occupying these work positions.

2.3. LABOR MARKET ANALYSIS

The Bank of Albania compensation program lacks this element as well. In some cases, there have been collected data on salaries offered by the public sector and by commercial banks; however, these have been used simply to create an idea about the Bank of Albania’s salary position to the labour market. The comparison of salaries for the same work position has been deficient also as a consequence of inadequate and outdated job descriptions, which restrain us from finding as many comparable work positions as possible. Consequently, the reflection of labour market data in the level of salaries at the Bank of Albania and the definition of its position in this market
have not been accurate and this fact injures remarkably the Bank of Albania’s competitive skills to recruit the most capable and the most trained staff.

Again we stress that the labour market analysis must be given appropriate importance. It is necessary that this analysis be periodically performed and its results serve to review the wage structure. Also, the Bank of Albania, after making this analysis, must clearly define its strategic position in the labour market, always with the intention to maintain its competitive capacity in the market.

2.4. PAY STRUCTURE

The Bank of Albania current pay and its components are shown as in the table below:
<table>
<thead>
<tr>
<th>Base salary</th>
<th>Extra compensation per department classification</th>
<th>Extra compensation per overall work experience</th>
<th>Extra compensation per years of work experience in the banking system</th>
<th>Extra compensation per difficulty of work position</th>
<th>Extra compensation for scientific degree</th>
<th>Extra compensation per performance evaluation</th>
<th>Gross salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determined by the Supervisory Council</td>
<td>Each work position takes 20%, 10% or 0% of the base salary on the basis of the relative importance of the department it falls under</td>
<td>0.4% of the base salary for each added year in the overall years of work of the employee. The maximum limit = 10% of the base salary, corresponding to 25 years of work.</td>
<td>1% of the base salary for each added year of work in the banking system. The maximum limit = 20% of the base salary, corresponding to 20 years of work.</td>
<td>10% or 5% of the base salary according to difficulty of work.</td>
<td>1500 lek or 3300 lek for scientific works to the benefit of the institutional performance of the Bank of Albania.</td>
<td>Addition in percentage of the base salary for the annual work evaluation. The maximum limit = 20% of the base salary</td>
<td>Total amount of all components</td>
</tr>
</tbody>
</table>
As observed, this structure is composed of the base salary and six extra payments on the base salary, while an ideal payment structure has only three components: base salary, extra payment per performance evaluation and accorded bonuses for excellent performance. Thus, the current structure of the Bank of Albania is much more complicated than the ideal one. Also, this structure does not base staff compensation on performance evaluation. Other extra payments are based on different criteria and performance evaluation, making compensations as per bank employee be mainly based on other factors and not simply on the contribution they give to achieving institutional targets. As a result, employees are not encouraged for a more qualitative job and high performance.

It is necessary that the criteria for extra payments over the base salary, except that of performance evaluation, be used as the criteria of performance evaluation and their effect should be included in the base salary for these jobs. That simplifies the wage structure but at the same time helps in the right compensation of staff.

Also, the current wage structure at the Bank of Albania also lacks the classification of work positions for different wage intervals. The deficiency of wage intervals has brought about lack of grades in career, so necessary for maintaining the inner motivation of staff, the inducement of further professional trainings and the enhancement of competition amongst the staff for better performance to the advantage of the Bank of Albania interests.

The existence of extra payments for annual work evaluation is a positive feature of the current wage structure, further motivating the staff for the qualitative work. However, its main shortcoming stands in the way of evaluating the work performance and in its association with the wage system.

First, the performance evaluation program must be revised so that the evaluation is as objective as possible and not merely serve the extra payments on the wage.
Second, extra payments must be less centralized and based on preliminary budget plans compiled for every unit.

Finally, it is clear that the Bank of Albania entire compensation program needs a radical change, which is conditioned by the costs and psychological impacts on the staff. Therefore, it is necessary to find intermediate ways, which will gradually lead to the perfection of this program and its component elements.

Reaching the perfection, the Bank of Albania will have a compensation program that will assist it in meeting the following targets:

• Fairness and impartiality in the compensations of every staff member;
• Attraction, maintenance and motivation of trained staff at any grade of hierarchy;
• Maintenance of the competitive skills in the labour market;
• Elucidation of staff on the existing correlation between the personal performance and the Bank of Albania targets;
• Staff compensation based on their personal performance and the contribution they give to the Bank of Albania.

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