Performance & Pay Part 3: Trends in back-office management

Third
in a five-part HR series from Crowe Horwath

By Jason V. Bomers, Patrick J. Cole, SPHR, and Timothy J. Reimink. For more about the research project that articles in this series came from, and about the authors, please see the
end of this article.

The most recent Crowe Horwath LLP Financial Institutions Compensation and Benefits Survey revealed several developing trends in the compensation packages that are most commonly offered to mid- to high-level functional managers and executives. These back-office managers are responsible for a broad array of specific functions, from risk management and compliance to finance, information technology, and human resources.

The Crowe survey collected data on a
wide range of such positions. This article focuses on the top six back-office

positions, as measured by both base pay and total cash compensation (TCC):

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Chief information officer

•
Chief internal auditor

•
Top operations manager (specific title varies among institutions)

•
Controller

•
Chief human resource officer

•
Chief compliance officer

By comparing these functional managers' responses to the 2012 survey with those recorded in 2008, it is possible to see the effects of the 2008-2009 credit crisis and the subsequent recession. The comparison reveals that the financial incentives being offered to these managers and executives tend to shift with their institutions' changing priorities.

Trends in management compensation

Although they receive less public exposure than the top executives at a financial institution, the back-office or functional management group has, in many ways, borne much of the burden of the credit crisis and subsequent recession.

Their challenges include more expansive and still-evolving regulatory requirements, significant advances in information management processes and systems, and the ongoing expectation of increased productivity from back-office staff in support of customer-facing retail personnel.

These growing responsibilities are reflected in a 5.1% average annual increase in total cash compensation, which includes base pay, incentives, and other benefits. This increase is significantly higher than the 2.5% to 3% increases that were reported by financial institutions' work force as a whole over the same time period.

In addition to higher total compensation overall, several other trends merit particular attention:

1. Increases in base pay

Base pay for functional managers and executives has increased by an average of 5.2% per year over the past four years. The largest gains were found in the chief information officer, chief internal auditor, and chief human resource officer positions.

Those three positions have had to face demanding changes during the recession, including right-sizing, dealing with regulatory issues, and shoring up IT systems to handle changes in reporting requirements.

For a larger version of this table, click on the image or click here.

2.
Wide variances in incentive pay

In contrast to generalized increases
in base pay, incentive pay presents a more complex picture.

Although incentives have increased by
an annual average of 6.6% for the selected back-office managers, the chief internal auditor and chief compliance officer positions actually saw incentive earnings fall.

Meanwhile, the chief human resource
officer and chief information officer positions enjoyed sizable increases.

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a larger version of this table, click on the image or click here.

These variances would seem to
indicate a shift in the way incentive compensation is awarded. To a significant degree, back-office managers' incentives appear to be tied directly to their specific areas of responsibility, rather than being based solely on overall institutional performance.

3.
More widespread use of incentives

While several back-office management
positions reported a decrease in the average amount of incentive pay, a larger proportion of respondents reported earning some incentive pay in 2012.

Put another way, more back-office
managers earned incentives in 2012 than did in 2008, but the size of the incentives in certain positions often was smaller.

For
a larger version of this table, click on the image or click here.

Again, this trend supports the observation that financial institutions are becoming more tailored in their approach to incentives--an opinion that is reinforced further by comparing average annual changes in all types of compensation over the past four years.

While base pay and total cash compensation increases were relatively uniform across the various positions, incentive pay variances diverged widely.

For a larger version of this table, click on the image or click here.

4.
Management stability in the back office

The survey also revealed another
potentially significant trend: turnover among back-office managers has remained quite low.

Institutions reported only 5.5%
turnover in these positions in 2008, with turnover dipping even lower in 2009 and 2010. The most obvious explanation is that fewer managers were willing to risk leaving a secure position--and fewer institutions were offering adequate incentives to attract them.

The trend reversed in 2012, however,

Turnover inched back up to 5.1%, just
below its 2008 level. In a sense, this return to prerecession turnover is a somewhat encouraging sign of growing confidence among mid- to high-level managers in the industry.

Challenge
of devising effective back-office incentives

The broader survey data reflected
similar trends in back-office positions other than the six studied in this article. The wide variation in incentives among these various functional managers reinforces the point that devising effective incentives for this group presents significant challenges.

One such challenge is the fact that functional management incentives often are based in large part on qualitative assessments of job performance, with less reliance on easily measured quantitative factors.

In addition, the standards for earning incentives often change significantly, reflecting changes in institutional strategic priorities.

For example, although the chief lending officer's primary concern is nearly always focused on growth in the loan portfolio, the concerns of back-office managers will vary over time as the institution's priorities evolve in response to changing economic, regulatory, and competitive issues.

Developing appropriate, effective, and consistent priorities in such a dynamic environment is an obvious challenge. The survey responses indicated that financial institutions are becoming more sophisticated in how they address this challenge and are tying incentives more closely to each specific position.

Series highlights comp trends and strategies

Crowe Horwath LLP is proud to offer the results of its 2012 Financial Institutions Compensation Survey.

With responses from 405 financial institutions on 201 job positions, the 2012 survey offers details on the compensation and HR approaches for the entire banking enterprise. The analysis in this article and others in the series draws on results from past surveys as well to identify key industry trends in the following areas:

• Compensation, incentive pay, and benefit packages

• Salary increases and comparative analysis

• Employee turnover rates and hiring forecasts

• Cost-cutting strategies

• Board and director compensation packages

• Equity-based compensation

You can purchase a copy of the 2012 Crowe® Financial Institutions Compensation Survey. For more information read our executive summary.

About the authors

Patrick Cole is with Crowe in the Grand Rapids office. He can be reached at 616.242.6155 or patrick.cole@crowehorwath.com.

Jason Bomers is a principal with Crowe Horwath LLP in the Grand Rapids, Mich., office. He leads Crowe's Banking Performance Group. He can be reached at 616.752.4279 or jason.bomers@crowehorwath.com.

Tim Reimink is with Crowe in the Grand Rapids office. He can be reached at 616.774.6711 or timothy.reimink@crowehorwath.com.

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