

Making Pay Decisions

This section provides information about determining pay at Amoco. It covers pay philosophies and practices and offers some examples of how pay decisions are made.

Philosophy

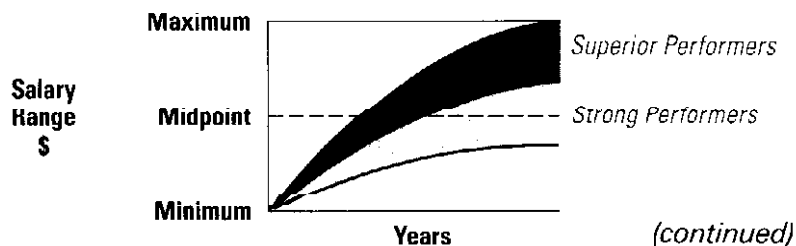
Amoco is committed to paying employees for their performance. We start by providing highly competitive base salaries. To do this, we regularly survey job pay and pay programs at major oil, chemical, and other blue-chip companies and keep pace with them. Depending on the employee group, we remain competitive at either the local or national level.

Over time, employees who sustain high levels of performance should be paid in the upper portion of their salary ranges. This likely will be substantially more than the market rate for their jobs.

We apply this philosophy to all levels of salaried employee performance. Employees who demonstrate strong, competent performance receive pay increases that should move them, over time, to the middle portion of their salary ranges. These salaries normally are equal to or more than the average paid for like jobs by other premier employers. Employees whose performances are not as strong should receive smaller increases and be lower in their respective salary ranges.

Early in an employee's career, however, a superior performer may remain low in his or her respective salary range due to rapid promotional growth. Over time, a career level job will be reached, and continued superior performance should move that employee toward the top of the range.

This is shown in this figure:



(continued)

With the introduction of Amoco Performance Management, our pay philosophy has *not* changed. Amoco Performance Management can help us do a better job of helping employees improve performance, reach their potential, and be paid accordingly.

Pay practices

Additionally, we have *not* made basic changes to our pay delivery practices with the introduction of Amoco Performance Management. For the present, we will follow the same pay practices as before, including allowing flexibility to meet local business needs. At the same time, however, to ensure that our pay program will remain strong in the coming years, we are undertaking a review of our compensation objectives and administration.

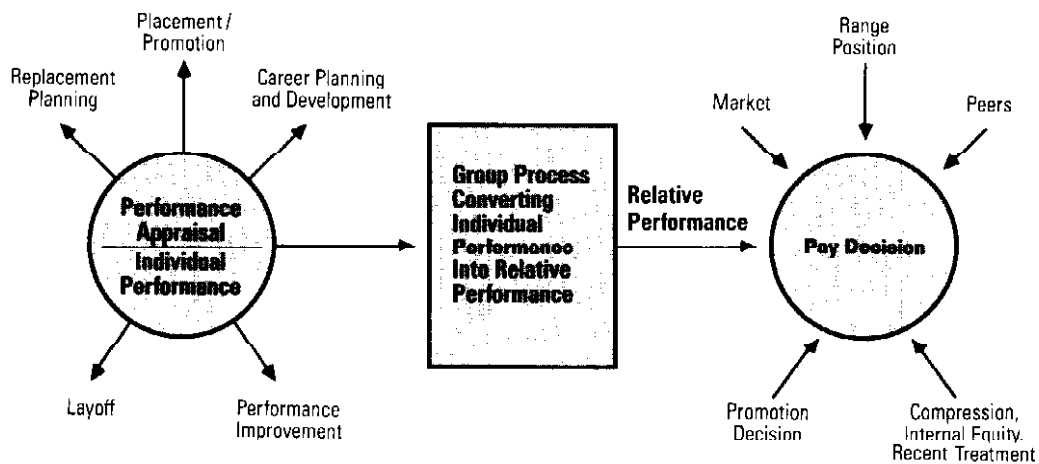
We do want to make our pay delivery practices *clearer* as we implement performance management. We want to ensure that every employee understands how and why his or her performance is being rewarded. We know that when employees have more information, their satisfaction with pay and their motivation to perform should increase.

In particular, we want to make clear the distinction between performance appraisal and the relative nature of pay decisions. Performance appraisal occurs during reviewing within Amoco Performance Management and determines how well employees have performed against their job responsibilities and accountabilities, individual and team objectives, and performance dimensions.

Pay decisions, however, are made relative to other employees, not just performance on the job. When making pay decisions, we look at how well employees perform and the value of their contributions, versus how well other employees perform and what they contribute. This is because, even in the best years, there is only a fixed amount of money that can be spent for pay increases, and we want to provide higher increases and overall pay to our strongest contributors. Pay is always a relative decision.

Finally, all employees should know that though relative performance is a key element in determining their pay, other elements also have impact. These may include their positions in their salary ranges, the external competitive pay position of their jobs, promotion histories and decisions, what peers are being paid, and other salary administration considerations, such as internal equity and compression. All of these contribute to moving employees to their appropriate salary levels, which is a primary goal of our compensation program.

The following diagram shows how job performance is translated into a pay increase and the factors bearing on the pay decision:



- Individual Performance**
- Basic job
 - Objectives
 - Performance dimensions

- Relative Performance**
- Contribution/value to Company

- Pay Decision**
- Relative performance
 - Modified by above considerations

Pay delivery process

Under performance management, pay delivery at Amoco will follow these general steps, which are essentially the same as under our present system. (There may be some differences among subsidiaries in carrying out these steps, but these do not have a major impact on employees' pay.)

- 1.** Each year, Amoco surveys competition and determines a salary budget based on our compensation objectives. Corporate and subsidiary performance, ability to pay, and need to respond to market competition. Within this budget, the organization makes money available to each subsidiary and Corporate staff to provide pay increases. We also change our salary ranges as needed to reflect the competitive movement of average salaries in our marketplace.
- 2.** Employee performance is appraised by using Amoco Performance Management. This means that the performance review follows logically from a cycle of: a) defining performance requirements at the beginning of the year; b) performing, developing, and interim reviews throughout the year; and c) appraising at the end of the year. The performance review generates a great deal of information about employee performance and also provides supervisors with a basis for comparing employee performance to make relative pay decisions.
- 3.** An important part of Amoco Performance Management is that no summary ratings are applied to employees. This is a departure from the past. Eliminating summary ratings removes the problems that arise from labeling employees. It also enables us to take a more careful and complete look at performance appraisal and relative performance every year. Relative performance is not fixed, and an employee's relative position must be "re-earned" each year.

4. Soon after the review of performance, supervisors who manage similar groups of employees use the information from performance reviews to meet and compare employees' relative performance for the purposes of pay determination. The comparison should be based on a consensus about how well similar employees have performed their jobs relative to one another. (Such comparisons were made under our former appraisal system but frequently not in as formal a fashion.) In these sessions, certain principles should be followed:

- Supervisors should have knowledge of the work of employees being compared during the session. In general, these sessions should be conducted for a given discipline or function by supervisors of that discipline or function.
- Local management should determine which employees should be included in the group being compared. Whenever possible, employees should be grouped in natural combinations; that is by discipline, by major function or subfunction, by grades, or by a combination of these groupings. Widely different groups of employees should not be melded together and compared. The size of the group can be left to local management.
- The comparison group and standards for pay determination should be clarified by supervisors at the start of any comparison session. The standards are: basic job performance; achievement of objectives (individual and team); performance dimensions; and the value of the employee's contribution to the team and organization as assessed by the impact and degree of difficulty of the job and objectives.

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5. The outcome of the comparison session is to separate employees into three groups according to relative performance.

The first group consists of those employees who were markedly superior for the performance year. We expect that possibly up to 15 percent of employees will fall into this top group. These should be employees whose performances were so extraordinary that their contributions caused them to stand out significantly.

In the bottom group is a very small number of employees, probably less than five percent, whose performances clearly were substandard. These employees failed to meet most of the performance requirements that were established for them at the beginning of the performance period and provided limited contribution during the year.

The remaining employees are those whose performances were strong, who made a positive contribution to their work group or team and organization, and who deserve to be paid well. Employees should be aware that we hire very capable people at Amoco. It is quite possible that an employee might perform well in a given year and still have a lower relative position because other employees have performed very well too. That is one reason we look at a broad range of factors when determining pay.

Although it may be difficult to distinguish among these strong performing employees, local management may continue to make distinctions among this large group. When appropriate, this can be done by a simple ordering process. This ordering is done for pay purposes only and does not become part of any permanent record.

6. These groups—and employees' relative positions within these groups—become a very significant determinant of the size of the salary increase. Supervisors start here as they decide pay increases. They also look at the other factors affecting pay, such as position in range, market movement, promotion, and peer pay, and adjust the size of the pay increase accordingly.

Supervisors may use any of a number of salary planning tools, such as a salary increase matrix, maturity curve, salary planning chart, or performance increase guidelines, to help determine the size of the increase, just as they do at present. Whatever salary planning tool is used, it should be used consistently throughout comparable groups. Corporate Human Resources will continue to assist local management in developing such tools.

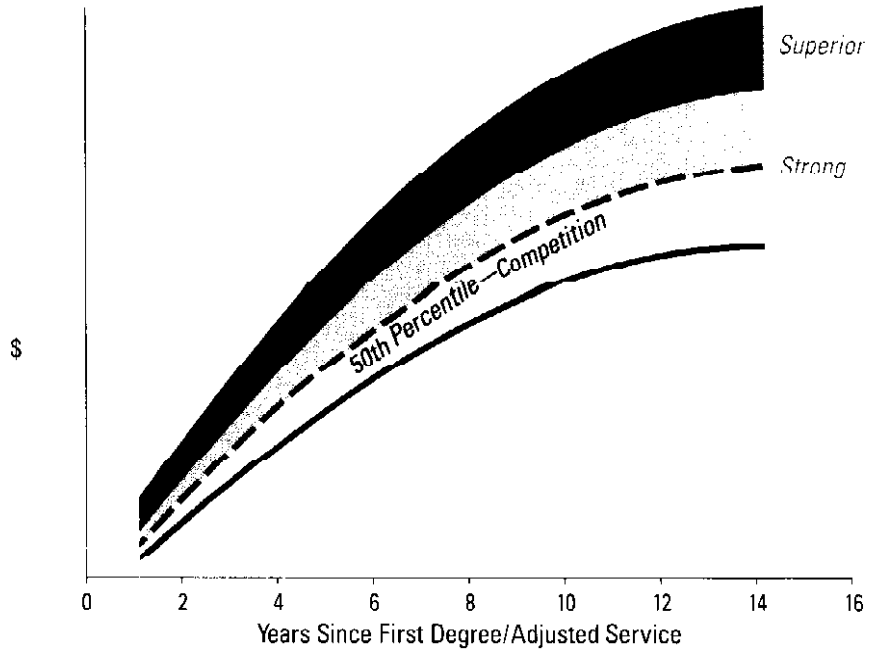
Examples of such salary planning tools follow:

Sample Salary Increase Matrix

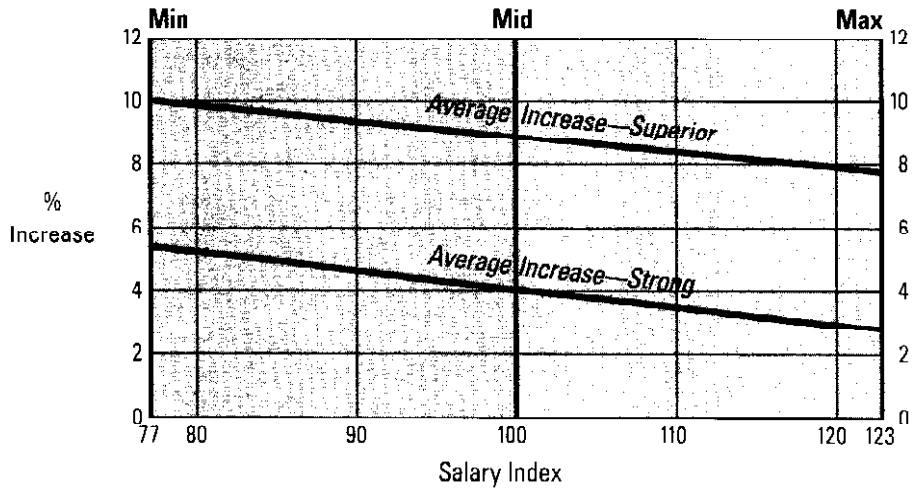
	Range Position		
	Lower 1/3	Middle 1/3	Upper 1/3
Superior Group	9%-11%	8%-10%	7%-9%
Strong Group	8%	7%	6%
	↑	↑	↑
Bottom Group	4%	2%	0%
	0%	0%	0%

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Sample Maturity Curve



Sample Salary Planning Chart

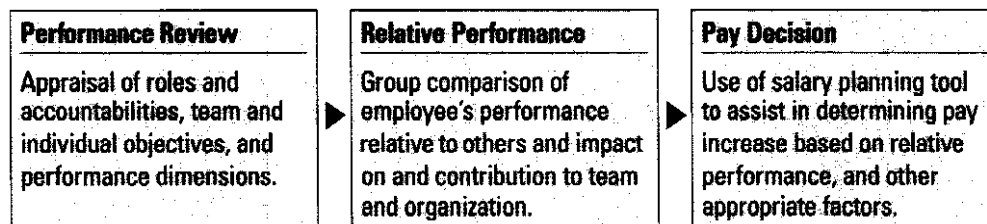


Sample Performance Guidelines

Group	Percent Increase
Superior	7%–11%
Strong	0%–8%
Bottom	0%

Regardless of the amounts in the matrix or guidelines, we normally cannot increase a base salary above the maximum of the salary range for the grade. Employees near or at their salary range maximums may be eligible to receive lump-sum payments in a given year instead of base pay increases. Our salary surveys indicate that employees in the upper part of their ranges at Amoco are among the highest paid in industry for their jobs. Their strong performances help them achieve and maintain their high salary levels.

The entire pay determination process can be summarized this way:



7. Once the size of the recommended increase is established, appropriate approvals are secured. This ensures that reasonable consistency exists across the entire comparison group, that people are paid fairly, and that we stay within budget.

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8. After the recommended increase has been approved, the supervisor holds a pay increase discussion with the employee. To help supervisors with this discussion, a worksheet has been developed. For 1990, this will need to be written by the supervisor. The supervisor should use the Amoco Pay Discussion Guide to discuss the following with the employee:

- The new salary, new salary range, amount and percent of the salary increase, and size of the change in salary range.
- The emphasis on current salary as the best reflection of overall performance over time.
- Other factors that had impact on the size of the increase.
- An explanation of the pay determination process, including in broad terms:
 - Employee groupings;
 - Who did the comparisons; and
 - Standards used to determine relative performance (i.e., basic job performance, achievement of objectives, performance dimensions, and contribution to results of department work group).
- The employee's relative position within the peer group.

This pay discussion becomes a major source of feedback for employees, in addition to the performance review. The new salary, how it was determined, and how it relates to the salary range should provide employees with a clear message about how their contributions have been valued.

Summary

Pay for performance remains the dominant reward philosophy at Amoco. Greater communication about pay delivery should be an integral part of the new performance management process. We realize that any pay decision is a relative one, based on how well employees do on their jobs as compared to other employees. When employees understand more completely how their performance increases were determined, they should have better knowledge of what type of performance Amoco values.

My interest is in the future because I am going to spend the rest of my life there.

—Charles F. Kettering