

A Matter of Philosophy

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Not surprisingly, employee compensation is typically an employer's most significant cost. Frequently, credit unions experience high employee turnover which leads to increased training costs and a loss of continuity in implementing the strategic objectives. In fact, some experts estimate that the ultimate cost of training an employee and helping them develop the necessary skills is close to one year's salary.

Given the considerable investment required to hire and retain top quality employees, it is vital that your compensation program support the company's overall goals and objectives. Does your current compensation program do this? If not, it may be time to define or redefine your *compensation philosophy*.

The primary reason for developing a compensation philosophy is to establish and communicate the purpose of your credit union's pay system. This article purposely does not include a sample compensation philosophy so as to eliminate the temptation to "cut and paste" your philosophy. However, through years of consulting experience, we can share that the most common issues addressed in the compensation philosophy statement are:

- Goals of your compensation system;
- targeted market position; and
- how individual pay decisions are made.

Generally, the goal of any compensation system is to attract and retain quality staff. However, do you also want your system to reward staff? Motivate staff? Encourage career growth? If so, your system must be designed to support these goals.

Secondly, defining your market position is not as easy as saying that you want to be competitive. In most organizations, the market for labor depends on the job. For example, tellers, clerks and other entry level jobs are usually recruited locally, within a 30-mile radius of the credit union. Supervisors, technical staff and mid-management jobs are frequently recruited regionally. And the labor market for executive level jobs, especially in larger credit unions, is often national in scope. So, before a decision can be made to be competitive, or perhaps be a pay leader in the labor market, you must first define the relevant market.

Finally, individual pay issues can also be influenced by many factors. For example, is employee pay rate based on performance? If so, what role do performance appraisals play? Is overall credit union performance considered? What about team or department performance?

For many credit unions, these are tough issues to address. But ultimately, the answers to these questions help define your compensation philosophy and overall corporate culture.



A word of caution. Defining your compensation philosophy is not a “once and done” undertaking. For example, many credit unions are currently struggling to move from an order-taker culture to a sales and service culture.

In order to make such a philosophical change, other changes must occur in order to support and facilitate the new direction. Performance expectations, reward and recognition programs, definition of member service, and of course, compensation issues are all areas that must be addressed in tandem. Ideally, an organization’s compensation philosophy should be reviewed regularly to make sure it still supports the goals, objectives and direction of the company.

When you have defined your philosophy, and ensured that it supports the company objectives, communicate it to your staff. Pay satisfaction begins with pay education.

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