

Common Sense Incentives

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Incentive compensation is nothing new. For years, employers in many industries, credit unions included, have been utilizing incentive programs in one form or another. What remains constant is the basic purpose of incentives - to *reward* and *motivate*.

Can you reward without motivating? Sure, it's called a holiday turkey. Not that distributing frozen poultry to your employees is a bad thing – it just doesn't maximize use of the credit union's resources. In most cases - neither does an end-of-year bonus. Whether it is \$5 or \$5000, a bonus not tied to clearly defined goals or expectations will not produce motivation.

Generally, a credit union incentive program is based on overall strategic goals, departmental goals or individual goals, or a combination of two or all three of the above. Below are some of the more frequent criteria used in credit union incentive programs:

- Return on Assets
- Return on Investment
- Net Income
- Loan Growth
- Loan/Share Ratio
- Delinquency
- Membership Growth
- Member Satisfaction
- Services per Member
- Accounts per Household
- Product/Service Sales
- Share Growth
- Operating Expenses

Additionally, goals can be tied to a project or major initiative such as opening a branch, completing a conversion or implementing a new product or service.

From our experience, incentive programs must be consistent with the culture and philosophy of the organization. If the organization's culture is one that embraces teamwork, so should the incentive program. If the philosophy of the organization is averse to risk, then an incentive program that encourages risk-taking would be counter-productive.

From a competitive standpoint, incentives can be the lure that attracts and retains talent at your organization. For this reason, incentive programs, especially at the management and executive levels of credit unions, are becoming more and more popular. According to the *2004 Complete Credit Union Staff Salary Survey* by CUNA & Affiliates, 65% of credit union's with \$1 million or more in assets offered



variable pay to some of their full-time management personnel in 2003. Also during 2003, 60% of these credit unions offered variable pay to some of their full-time non-management employees. The *2004 Executive Compensation Survey* by CUES reports that 71.5% of executives received some form of bonus/incentive pay.

Should your credit union decide to reinstitute an incentive program for management staff, we recommend the following:

- Start by evaluating your strategic plan and identify three to five corporate or strategic goals for the Credit Union. These must be unique to your credit union and your strategic plan, so that when the goals are achieved, it facilitates accomplishment of the credit union's overall strategy.
- From the corporate goals, select departmental and/or individual goals, that when met, facilitate achievement of the corporate goals.
- Involve the participants in selecting the goals. Research indicates that involvement in the goal-setting process results in a better understanding and support of the program.
- Consider market data *and* the credit union's ability to pay. The program must be affordable.
- Develop clear administrative procedures that guide the program. Issues to be addressed in the document include, but are not limited to: eligibility to participate, employees hired during the plan year, employees that terminate during the plan year, poor performance, and right to revise/rescind.

Finally, communicate the plan as well as progress toward the goals to the participants on a regular basis. Especially with a new program, communication is essential.

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