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# CREDIT UNION PERFORMANCE METRICS AND INCENTIVES

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# PERFORMANCE METRICS

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## CREDIT UNION PERFORMANCE PERSPECTIVES

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Financial  
Operations  
Member  
Employee

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## FINANCIAL PERSPECTIVE

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### EARNINGS/CAPITAL:

Capital Ratio  
Return on Assets  
Return on Equity  
Efficiency ratio  
Expense to assets ratio

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# FINANCIAL PERSPECTIVE

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PRODUCT SALES:

Loan Growth

By product category

Share Growth

By product category

Loan to Share Ratio



# FINANCIAL PERSPECTIVE

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FINANCIAL DRIVERS:

Net Interest Margin

Non Interest Income

Net income to non interest income ratio

Budget Variance

Provision for charge offs

Delinquency ratio



## INTERNAL PERSPECTIVE

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Internal Service Quality

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## INTERNAL PERSPECTIVE

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PROCESS:

Processing time

Wait times

% of calls answered

Abandon rate

Product turn-around time

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## INTERNAL PERSPECTIVE

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### EFFICIENCY:

Assets per employee

Revenue per employee

Per cent of revenue producing employees

Transactions per employee

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## INTERNAL PERSPECTIVE

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### ACCURACY:

Teller Balancing Levels

Accuracy Rates

Quality Returns

Compliance

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## **MEMBER PERSPECTIVE**

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### GROWTH:

New Members Acquired

Net Member Growth

SEG Growth

SEG penetration

Market Share

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## **MEMBER PERSPECTIVE**

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### MEMBER SHARE OF WALLET:

Combined Member Balances

Products Per Household

Percentage of Profitable Households

Checking Account Penetration

Referrals/Closed Referrals

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## MEMBER PERSPECTIVE

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### MEMBER SATISFACTION:

Member Satisfaction

Net Promoter

Mystery Shop Scores

Quality Loop

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## MEMBER PERSPECTIVE

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### SHARING/RISK:

Return to members

Percentage "A" Paper

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## EMPLOYEE PERSPECTIVE

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### SATISFACTION

Employee Satisfaction

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## EMPLOYEE PERSPECTIVE

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### RETENTION:

Turnover Rate

Turnover of High Performers

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## EMPLOYEE PERSPECTIVE

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### DEVELOPMENT:

Employee Training and Development  
Knowledge Certification

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## EMPLOYEE PERSPECTIVE

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### EMPLOYMENT:

Open positions as percent of total  
Number of open positions  
Percent of positions filled by internal candidates  
Cost to fill a position  
Length of time to fill a position

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## EMPLOYEE PERSPECTIVE

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### EMPLOYMENT:

Open positions as percent of total

Number of open positions

Percent of positions filled by internal candidates

Cost to fill a position

Length of time to fill a position

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## MANAGING WITH METRICS

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- Metric Selection
- Goal Setting
- Accountability

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## MANAGING WITH METRICS

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### METRIC SELECTION:

- What measurements do we have in place?
- What don't we have, but could develop with some effort?
- What don't we have, and would be more trouble than they would be worth?

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## MANAGING WITH METRICS

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### GOAL SETTING:

- What goals are pre-established?
- What goals do we meet to establish?
- What baseline data do we have?
- How much risk are we willing to take?

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## MANAGING WITH METRICS

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Establishing the KPI does not establish accountability:

Who will be responsible for achieving each KPI?

- Team
- Individual Manager

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## MANAGING WITH METRICS

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### REPORTING

- Who has the reporting responsibility?
  - Who collects the data?
  - Who verifies the data?
- What frequency, and when?
- Distribution
- Comment

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## MANAGING WITH METRICS

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### REPORTING:

- How will reports be reviewed?
- How will mid-course corrections be determined
- Who owns this process?

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## INCENTIVES

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## THE 2009 INCENTIVE DILEMMA

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- Credit unions are experiencing losses – many of which are not of their own doing
- They still have businesses to run
- Though turnover is down we still want to reward good performance and retain top performers

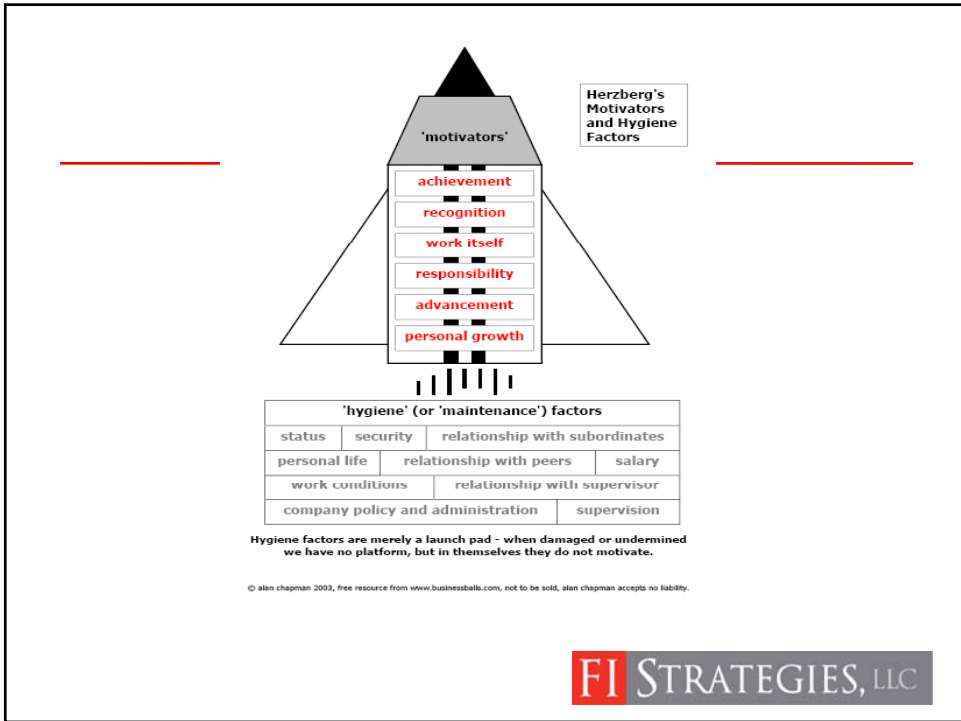
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## IS PAY A MOTIVATOR?

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- Why do YOU work?
- Why do you work harder/smarter/faster/better?
- Are your co workers motivated by the same things?

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# COMPENSATION PHILOSOPHY

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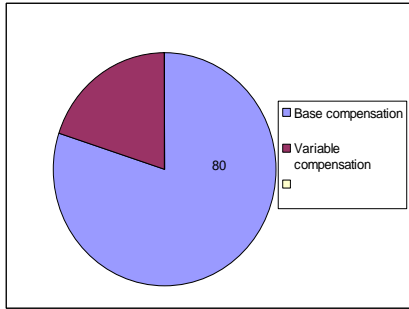
- Is our current base compensation plan fair or demotivating?
- Do we have a compensation philosophy
- Where will we set total compensation?
  - How much will be cash
    - How much will be variable
  - How much will be non-cash



# TOTAL CASH COMPENSATION

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- Total compensation includes cash + variable compensation
- Percent variable varies by level
- Variable comp includes:
  - Annual bonus
  - Incentives



## INCENTIVES AS COMPENSATION:

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- Must tie into your compensation philosophy
- Are just another method of delivering cash compensation
- Can drive total compensation out of whack without getting the corporate benefit

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## FIRST QUESTION:

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“Do we really need incentives, or can we accomplish our goals with good process and good supervision?”

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## SECOND QUESTION

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What impact will incentives have on our overall compensation?

- How will we compare to *market* with the proposed incentive payment

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## THIRD QUESTION:

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“What is the business case for incentives?”

- Will we be adding *value*?
- Will our production *improve*?
- Will we generate more *revenue* than we spend?

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The **GOOD NEWS** about  
incentives:

***THEY DRIVE BEHAVIOR***

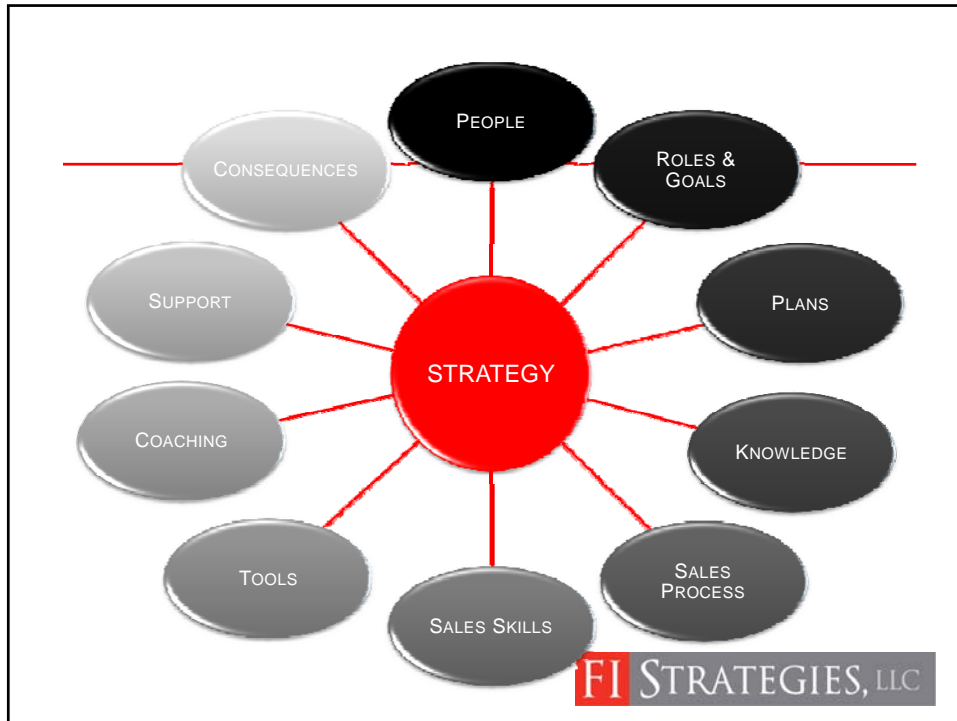
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The **BAD NEWS** about  
incentives:

***THEY DRIVE BEHAVIOR***

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## MOTIVATIONAL THEORY

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- Law of Effect
- Expectancy Theory

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## MOTIVATIONAL THEORY

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- Law of Effect
  - Behavior that is followed by positive consequence will tend to be repeated.
  - Behavior that is followed by a negative consequence will decrease in frequency.
  - How do you reward good work or deal with a lack of good work?

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## MOTIVATIONAL THEORY

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- Expectancy Theory
  - Based on the Law of Effect
  - Motivation is the product of:
    - Expectancy – Employees' assessment of their ability to perform required job tasks.
    - Instrumentality – Belief that performance will be rewarded by the organization.
    - Valence – The value the employee attaches to the reward.

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## EXPECTANCY THEORY

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- Expectancy – Employees' assessment of their ability to perform required job tasks.
  - Are the objectives realistic?
    - Where do you set your thresholds?
    - What are the norms?
  - Does the employee believe he/she has the ability to affect the results?
    - Line-of-sight
  - Does the employee have the job/vocational skills to achieve the objectives?

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## EXPECTANCY THEORY

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- Instrumentality - Belief that performance will be rewarded by the organization.
  - Why would employees not believe that their performance will be rewarded?

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## EXPECTANCY THEORY

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- Valence – The value the employee attaches to the reward.
  - Without good base compensation the value of the incentive will be minimized
  - The motivational value of an incentive is directly related to the amount of the incentive potential.

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## HOW INCENTIVES HELP

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- Drive incremental performance
- Demonstrate company commitment to sales initiatives
- Direct compensation to the employees that contribute the most
- Fair way for company to share profits with employee stakeholders

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## HOW INCENTIVES DON'T HELP

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- Most organizations pay incentives to get the same performance. As a result, they become entitlement programs.
- Most organizations pay incentives to get results they could have achieved simply by managing people better.
- They aren't "fair"

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## BASIC INCENTIVE PRINCIPLES

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- Compensate different jobs differently
  - Back office, front office
  - Manager/employee
- Pay for incremental performance
- Reward Individual AND Team Performance
- Report or pay frequently
- Know they won't be totally fair
- KISS, KISS, KISS

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## COMMON DESIGN OPTIONS

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- Product promotions
- On-going product sales or referrals
- Individual incentives
- Team based incentives
- Balanced scorecard
- Gainshare

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## PRODUCT PROMOTIONS

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- Short-term contests or incentives for individual products – often new – or heavily promoted
- Every sales earns \$\$ or points
- Incentives based on individual or team sales
- Gets quick results and calls attention to product
- Can promotes “product pushing” and sale of unwanted or unneeded products
- Sales tracking is frequently a problem

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## PRODUCT INCENTIVES

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- Long-term incentive plan based on the sale or referral of individual products
- Pay based on flat \$ amount for each sale, or use a “point system” based on product value
- Also promotes product pushing, and sale of “high reward” products
- Tracking and “credit for sale” are frequent problems.

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## INDIVIDUAL INCENTIVES

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- Payout based on individual production or goal achievement
- Requires the ability to track individual production
- Good for competitive sales positions
- Good at building accountability
- Often hurts esprit de corps – fosters competition
- Often paid regardless CU overall results

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## TEAM INCENTIVES

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- Payout based on achievement of branch or department goals
- All employees awarded equally based on job role
- Easy to track and pay
- Builds esprit de corps
- No individual accountability for contributing to the team

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## BALANCED SCORECARDS

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- Rewards “balanced performance” based on overall job requirements
- Can rewards both team and individual performance
- Links goals to key corporate measures
- Can pose tracking and reporting challenges
- Generally sustainable in the long term – can be easily modified

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## GAINSHARE

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- Rewards all employees if the credit union hits it's overall goals
- Can vary the amount of the reward by level or seniority
- Easy to track
- Promotes the “we’re all in this together” philosophy
- Can cause problems for top performers if overall CU objectives aren’t met

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## INCENTIVE PLAN PIECES

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- Individual goals
- Team goals
- Goal category weightings
- Hurdles
- Thresholds
- Modifiers
- Incentive award scale
- Sales tracking and reporting

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## GOAL SETTING

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- Is an art, not a science
- SWAG
- Multiple goals reduces pressure to be excessively accurate
- How much risk do you want in your goals
  - All or none?
  - Speedometer

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## INDIVIDUAL GOALS

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- Metrics easily tracked by individual employee (# of accounts, \$ volume new loans) where there is good history
- Not all employees should have the same goal:
  - Experience
  - Capability
  - Location

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## TEAM GOALS

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- Metrics requiring group effort and cooperation (i.e., member service quality)
- Metrics that are difficult to track at the individual employee level (i.e., net share growth)

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## GOAL WEIGHTS

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- Limit number of goals (3-5 is ideal, 7 is manageable)
- Assign relative importance to each goal using a percentage weight (5% - 50%)
- Tells employees how to allocate their time and efforts
  - I'll work harder on the 50% goal than the 5%'er

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## HURDLES

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- Key factors that are so critical to the overall success of the credit union that incentives will not be paid to anyone if the credit union doesn't achieve them
  - ROA
  - Member Satisfaction
  - Minimum Capital requirements
  - CAMEL rating

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## THRESHOLDS

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- Individual minimum performance levels required for incentive payout
  - 90% of goal
  - \$1,000,000 loan production
  - 40% GAP penetration

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# MODIFIERS

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- Used to increase or decrease an incentive payout based on one or two key measures.
  - If we exceed 95% “Very” and “Extremely” satisfied members we increase the payout by 10%



# AWARD SCALE

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% of goal achieved	percentage target payout
79% or less	0
80%	50%
90%	75%
100%	100%
110%	110%
120%	120%
121% or over	120%



## CLIFF OR SPEEDOMETER

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- “Cliff” – if your award scale changes at 90%, 89.999% of goal is the same as 80% achievement
- Cliff might encourage cheating
- Speedometer – we award part of the difference
  - In the example above 85% of goal might equal 62.5% payout instead of 50% under cliff

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## CALCULATING AN INCENTIVE:

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- Base Salary = \$30,000
- Hurdle met, so continue
- Incentive Target = 15%, or \$4,500
- Achieved 107%
- $107\% \times \$4,500 = \$4,815$
- 10% increase for member satisfaction =  
 $\$4815 \times 110\% = \$5296.50$

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**Koker Goodwin & Associates**  
1/1/2008 - 12/31/2008 Employee Incentive Plan

Trison, Jim A Location: Winfield  
Title: Branch Manager III

Minimum Incentive Potential: 10.000% of base salary.

Performance Scale:

Objective	Basis	Weight	Threshold	1	2	3	4	5	6	7	8	9	10
Growth	Winfield	40 %	\$17,221,305.05	\$16,015,813.70	\$17,221,305.05	\$18,426,796.40	\$19,632,287.76	\$20,837,779.11	\$22,043,270.46	\$23,248,761.82			
Growth	Winfield	20 %	\$2,941,270.00	\$2,735,361.10	\$2,941,270.00	\$3,147,159.90	\$3,353,049.80	\$3,558,939.70	\$3,764,829.60	\$3,970,719.50			
Operating Expenses	Koker Goodwin & Associates	15 %	\$80,271,000.00	\$81,476,420.00	\$80,271,000.00	\$89,065,580.00	\$87,860,160.00	\$86,654,740.00	\$85,449,320.00	\$84,243,900.00			
Investment on Assets	Koker Goodwin & Associates	10 %	0.53 %	0.49 %	0.53 %	0.57 %	0.60 %	0.64 %	0.68 %	0.72 %			
Sales	Koker Goodwin & Associates	10 %	45,000.00	40,500.00	45,000.00	49,500.00	54,000.00	58,500.00	63,000.00	67,500.00			
Performance Plan		5 %	2.00	1.00	2.00	3.00	4.00	5.00	6.00	7.00			

**Incentive Earned Calculation**

Objective	Performance Level Achieved	Percent Level Achieved	Weight	Weighted Percent Achieved
Growth	0	-20 %	40 %	-8 %
Growth	4	40 %	20 %	8 %
Operating Expenses	3	20 %	15 %	3 %
Investment on Assets	0	-20 %	10 %	-2 %
Sales	4	40 %	10 %	4 %
Performance Plan Results	3	20 %	5 %	1 %
<b>Overall Performance</b>			<b>100 %</b>	<b>6 %</b>

Minimum Incentive Potential: \$4,305.60  
 Incentive Percent Earned: 6.00 %

## QUESTIONS?

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