



All Employees are Not Created Equal

The credit union industry was founded on the fundamental principle that all members are created equal—no matter how much money a person invested or did not invest. After much soul searching, we now realize that, even though we hold the one-member/one-vote doctrine sacred, it's okay to differentiate among our members, especially the ones that lie, steal and cheat.

Our egalitarian business philosophy also became a cornerstone of our employee compensation models, which treat all employees the same, regardless of individual contribution or performance level. Unfortunately, the “all-for-one, one-for-all” strategy actually demotivates top performers. In order for an organization to receive a fair return on its investment, some incentive for performance must exist. An employee must be motivated to put forth his or her best effort toward achieving the organization's objectives. “Why work harder when we are all going to get the same reward?” is how top performers respond to some pay systems.

Through the years some volunteers assume the role of teller champion. Their argument is that 90% of business goes through a teller; they are the face of the credit union and we have to take care of them. While there is no question that front-line staff is important, their ultimate individual impact is somewhat overstated. The argument goes: If a teller messes up, you lose \$200; if a CEO messes up, you might not have a credit union.

Employees demand and expect to earn a fair wage. They routinely assess their compensation with other job opportunities. In order to attract and retain quality employees, which is the key to a stable operation, compensation strategies must be dynamic. Before any salary administration plan decisions can be made, a board must establish the role compensation will play in the achievement of organizational objectives.

For insurance, an organization must then routinely put its compensation system under the microscope to assess its system against the credit union industry and the local and regional general business community.

How does an employee judge his or her organization's reward system? Individual satisfaction is determined by an employee's personal perception of equity and fairness. These judgments are made by comparing one's inputs and outcomes with those of rel-

evant others. Typically, an employee evaluates a salary administration program on the following points:

Perceived Equity

What an individual believes counts. This is why perceived equity is crucial to the success of a salary administration program. An individual makes a decision to increase or decrease contributions to the organization, and whether to stay or leave, based on an organization's fairness, as the employee perceives it. Even though a reward system may be completely fair, the employee who perceives it as inequitable will act as if the pay system is unfair. Perceptions are largely based on an employee's understanding of the system. This is why communication is critical in explaining how the reward system works.

External Equity

For most employees, external equity is weighted higher than internal equity. Employees read classified advertisements, they get calls from recruiters, they review compensation surveys, and they talk to their associates at seminars and conferences. If the scales don't balance, the organization has an unhappy employee and the goals of the compensation program are unlikely to be achieved. On the other hand, if an employee feels his or her total compensation (i.e., base pay, benefits, incentives, perks, and the work environment) is approximately equal to what would be received for the same level of performance for another employer in the same market, the employee should be happy.

Developing an Employee Reward Philosophy

Determining the appropriate compensation level for an employee is an extremely important, difficult and value-laden issue. Determining the particular mix of benefits and cash compensation is also challenging. Regardless of the philosophy embraced, an employee must believe that a relationship realistically exists between pay and performance. The connection must be visible, and a climate of trust and credibility must exist. For the credit union, the system must offer a realistic blend of security and risk for the employee. It must strike a balance between creating too comfortable an environment and encouraging too

much risk-taking. Finally, both parties must be convinced that the salary administration program is competitive both internally and externally. To determine how likely a salary administration program is to be successful, focus on the following criteria:

?	Is it externally competitive?
?	Is it affordable?
?	Does it safeguard resources?
?	Can both parties understand its objectives?
?	Is it efficient to administer?
?	Is it capable of being reshaped in the future?

The New Twist—Different Pay Philosophies for Different Employee Levels

A credit union doesn't have to use the same pay philosophy for all levels of the organization. The most common variance is establishing one pay strategy for staff and a separate pay strategy for the CEO and senior management. In other words, it's perfectly acceptable to be a pay leader for senior management and an at-market payer for staff.

Executives routinely assess their compensation against other job opportunities. This behavior is not atypical, so the challenge for organizations is to determine what executives want and what the organization is willing to provide. When the two sides reach common ground, executives operate at productivity levels which warrant the compensation provided by the organization. In essence, both parties—the credit union and the employee—derive a reasonable return on their investment. Today, DHA finds that the credit union receiving the most return on its compensation investment has a number of compensation programs under its umbrella, having abandoned a one-size-fits-all approach. The following provides a sample of this new salary administration strategy.

Sample Salary Administration Plan Document

SAMPLE FCU's pay plan is fundamentally a pay-for-performance vehicle, which is designed to provide rewards for individual performance, to be competitive with the marketplace and to provide career progression opportunities. The plan is designed to complement stated strategic and tactical goals and, therefore, is critical in ensuring the continued success and viability of the organization. The program is composed of:

- Market value of individual jobs
- Merit pay to recognize individual performance
- Internal equity (value of job to SAMPLE FCU)
- Salary grades that provide logical career ladders
- At-risk pay measured against predetermined goals
- Benefits and perquisites

In determining the appropriate positioning of employee compensation, the credit union evaluates both the total compensation package and its individual components, considers market data from employers in the financial services industry and the local areas, and realizes that these organizations are the primary competitors for employee talent.

SAMPLE FCU believes that its base salary levels are targeted at levels sufficient to attract and retain the highest quality employees. Job descriptions and salary data are used to identify the relative value of positions and the external competitiveness of the salary ranges and actual salaries. The system is designed to maintain these relative values and ensure that salaries remain market competitive. It is the responsibility of the senior management team and front-line managers to administer salary actions fairly, use good judgment, and maintain internal equity.

Staff Pay Philosophy

SAMPLE FCU's staff pay plan is designed to provide rewards that are commensurate with those provided in the local community for similar skill sets. The program is composed of a base salary, quarterly variable pay program and employee benefits. In determining the appropriate positioning of staff pay, the credit union evaluates market data from the local/regional credit union/banking industry as well as market data from local/regional retail, service and general business organizations competing for staff with similar skill sets. SAMPLE FCU believes that its base salary levels are targeted at levels sufficient to attract and retain the highest quality employees, which is defined as the 50th percentile of the market.

Senior Management Pay Philosophy

SAMPLE FCU's senior management pay plan is fundamentally a pay-for-performance vehicle which is designed to provide rewards that are commensurate with the growth and financial stability of the organization. The program is composed of a base salary, a performance-based incentive, and opportunities for special awards that recognize unique achievements, benefits and perks. In determining appropriate positioning of executive compensation, the board evaluates both the total compensation package and its individual components, and considers market data from the credit union and other industries competing for executives with similar skill sets. SAMPLE FCU believes that its total pay package is considered a premium in the market. Its base salary levels are targeted at levels sufficient to attract and retain the highest quality employees, but only when viewed in conjunction with the other elements of the total compensation program. Thus, the variable pay component is targeted at the 75th percentile of the market.

For more information about DHA's compensation consulting services, contact Dyan Connolly at 800.367.0433 ext. 135.