



ENDSIGHT

Volume 47
First Quarter
2012

ENDSIGHT is a quarterly publication of Executive Compensation Solutions, which is entirely responsible for its content. Please contact us at www.ecs-m.com, creditunion@ecs-m.com or (626) 914-2333.

Planning a Successful 2012

by Guy Collins, Principal

There is a process you go through whenever you decide to move from one place to another, whether that is a vacation a relocation or a change in organizational strategy. You identify a destination, chart a course, gauge how long it will take to get there, build in planned stops along the way, and check your map as you go. You make a list of things you need to pack or you might need to get along the way. The planning process is vital unless you don't care where you end up. And, so it is with corporate compensation planning as well.

Metaphorically, you can equate a road trip to a credit union's strategy for the coming year. If the board and executive leadership do not take the time to plan where the credit union is going they may head into the new year traveling down the same road they were on last year. While this may keep the credit union on task, the credit union may not recognize new opportunities in what looks to be an environment full of them.

The beginning of the calendar year presents an opportunity to chart a clear course for the credit union in the coming year. It is also the right time to consider how incentive targets in the executive reward system can advance the credit union toward its goals, and allow the executive team and the membership to be aligned in direction and objectives. Compensation programs are most effective in rewarding and retaining the executive team if designed with specific goals, or a "destination." The destination must be understood in advance, a map to get there should be clearly laid out, and there should be periodic stops for fuel along the way. Similarly, by following a four-step planning process, credit unions can ensure their executive compensation plans will deliver the credit union at its desired destination with all members of the leadership team helping to get there.

The planning process begins with an inventory of the credit union goals and an analysis of what is required of the executive team to obtain these goals. This process involves an objective evaluation of the structure of any existing compensation plans and a measure of the impact they have had on the credit union's goals. How has the plan served to further the goals of the credit union and where has it failed? What goals for the credit union were not built into the process? Which are out of balance? Objective answers to these types of questions can provide a good indication of where the plan may have gone "off course" and point the board in the right direction for refining the plan for the coming year.

The second phase of the process compares the preceding results against carefully selected peer group data. Top-flight financial talent is highly prized in today's increasingly competitive market. More and more executives are being recruited by

credit unions from credit unions, banks and other financial institutions. A credit union board must look beyond nearby credit union competition when determining who might be a threat to tap your executive talent, or where the next generation of your own leadership may come from. Once the competition and the appropriate peer group have been identified, the credit union can then compare the features of their current executive compensation plan with that of the peer group. Base salary, bonus, long-term incentives, and perquisites should all be taken into account in structuring a balanced attraction, retention, and reward program. The peer group analysis is the "map" used by the credit union in determining its course.

A peer group comparison is not the end point in the journey. The third phase involves crafting a compensation plan that corrects any identified gaps or shortcomings. Moreover, it should be in concert with the credit union's mission. This is where the specific course is charted. Now is the time to determine appropriate levels of executive rewards and structure those rewards to drive desired results. By structuring the compensation plan this way the credit union members reap financial gain before the executives do.

For example, if ROA is the most important growth factor for a credit union, an executive incentive program can provide rewards for targeted levels of ROA. When a certain ROA target is achieved, the credit union will have benefitted from any additional ROA while the reward to the executive for achieving that may only be a small percentage of that ROA increase. The credit union benefits from the executive achieving the given objectives and those benefits inure to the members.

While targets can vary year to year and from executive to executive, the linkage between performance and pay should remain intact. Both organizational and individual goals can be included in the compensation plan. Additionally, payments should be proximate to performance. These rewards can be the "fuel stops" along the way that keep the executive and the board aligned as they move toward the end result.

Finally, smooth implementation is crucial for success. A good communication plan conveys the connection between the executive plan components and the incentive targets, and results in the board, the executives, and the membership being in sync. Clear understanding of goals and objectives, along with periodic reviews, are key to keeping the board and executives committed to the plan.

Executive compensation should always evolve based upon credit union objectives, market conditions, and the competitive landscape. With a little pre-planning, you can ensure that both the credit union and the executives achieve their goals. That will help to ensure the success of your "journey," even before you start.