

# Solving the Compensation Quagmire

## *A Total Rewards Approach in Today's Banking Environment*

**B**y any measure, the banking industry is facing challenging times. From a financial perspective, there has been a dramatic decline in the performance of the banking marketplace. From a human capital perspective, it's more important than ever to have an engaged and high performing workforce. Banks are competing for talent at all levels of the organization and must be diligent in developing compensation programs that attract, motivate and retain a high performing workforce. How can banks develop and manage compensation programs that reward employees for the bank's financial performance in this challenging banking market and, at the same time, be effective in recruiting, motivating and retaining the key talent necessary for the bank's success?

A successful total rewards program should be designed to balance the needs of the organization with the needs of the workforce. While designing a program can be challenging, it does not have to be daunting. Leaders must first identify the needs of its workforce and then work to develop a total rewards approach that best meets these needs and fits with the culture of the organization. To start, employers should take a holistic view of compensation, while considering the following steps:

**Step 1:** Develop Compensation Philosophy – a clearly defined compensation philosophy is the foundation from which a compensation program should be built. In defining a philosophy specific to your organization, ask:

- Where does the bank want to stack up relative to its peers?
- What is the right “mix” of the total compensation package?
- Does it support the business strategy?
- Is it aligned with shareholder and stakeholder interests?

**Step 2:** Determine which total rewards components best fit the organization and the workforce – consider salary, bonus, benefits, awards and recognition programs. What do employees really want? Employees want to feel valued, fairly compensated and distinctly rewarded and recognized for their contributions to the organization.

**Step 3:** Review the effectiveness of current pay-for-performance programs. Are they achieving the desired results and behaviors? In developing or reviewing your existing incentive plan(s) consider the following:

- Objective of the plan(s) – (e.g. reward for short-term vs. long term-performance)
- Is it aligned with the bank's strategic and business plans?
- What are the internal and external influences?
- What performance should it reward?
- Does it reward high achievers significantly more than others?
- Goal setting – do the goals still make sense?

- Are individual and department goals aligned with the overall strategic plan?
- How will performance be assessed? What are the “right” measures?

It is also important to review the organization's performance evaluation process to ensure that it is consistent across the organization, accurate and objective. Employees want equitable evaluations. Again, it's about employees feeling that they are valued and treated fairly.

**Step 4:** Communicate, communicate, communicate. Make certain that all compensation programs are easily understood and well communicated. Demystify plans so that employees understand how compensation is determined. Employees care just as much, if not more, about “how” their pay is determined as “what” their pay is. When compensation plans are openly and frequently communicated, employees tend to feel that they are being fairly compensated.

Specific to pay-for-performance plans, make certain that managers and employees have a solid understanding of how the plans work:

- Are the goals clear? Is there a clear “line of sight”?
- Do employees feel empowered to meet goals?
- Are there rewards for achieving individual and department goals?
- Do employees understand the connection of their contribution to the bank's success?
- Is there a system to track results and provide feedback on a regular basis?

Meeting the needs of employees is not only about compensation. Other highly valued components include career development opportunities, employee recognition and non monetary rewards, such as flexible work arrangements. In fact, it can be argued that without these important components, even the most rewarding compensation package is not enough to recruit, motivate and retain your valuable human capital.

Most important, assess the compensation programs to determine if the sum of the parts (base salary, bonus, benefits, awards and recognition programs) are doing what's intended. There is no better time than now to implement or refresh your total rewards programs to ensure that they are designed to pay for performance in today's banking environment. ◆



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