



## Out with the Old, In with the New: Realigning Incentives

human resources employees management

**Summary:** Incentives are effective tools for motivating employees. As the economic environment changes and liquidity tightens, make sure the incentive programs you have in place support your organization's current goals and make sense for your staff.

Consultant Srikanth Srinivas planned to travel to a client's factory by bus. After arriving at the bus stop, he watched several buses slow down before accelerating away. Frustrated, he took a cab. As he apologized for being late, his client laughed and explained that bus drivers' bonuses [were determined by their on-time record](#). As a result, when drivers fell behind, they stopped picking up passengers. The misaligned incentive program caused the bus system to fail.

The bus company did have one component of their strategy right, though — research by McKinsey found that generous and specific compensation-based incentives are one of the [most effective motivators for employees](#). However, the goal and the reward need to be realistic and appropriate for the work your organization is asking employees to perform.

Many current employee incentive programs were established to support lending in a low-rate environment. [Several Federal Reserve rate hikes](#) and at least a 400bp increase in the federal funds rate have changed the economic outlook and the lending environment. As a result, the incentives community financial institutions (CFIs) have in place for employees — from tellers to branch managers, from collection specialists to back-office administration, and from loan officers to loan processors — may no longer be appropriate.

As CFIs identify and adjust their strategies for managing assets and liabilities in a rapidly changing economic environment, they should make sure the incentives offered throughout the organization align with their new goals.

- **Goals first, incentives second.** Incentives should support organizational goals. Goals for 2023 may include launching innovative products/digital solutions, strengthening customer experiences, attracting younger consumers, deepening relationships, or other objectives. Update and establish your goals before you create or modify incentives to match them.
- **Review current incentives.** From individual compensation contracts to team rewards, identify the incentives your CFI has in place and evaluate whether they will produce the results you seek after those goals and desired outcomes have been determined. If current incentives are unrealistic or off base, make the necessary changes.
- **Introduce new incentives, if needed.** One way to identify effective incentives is to establish an employee panel, communicate organizational goals, and ask for their input to determine the types of incentives and rewards they would find most valuable. If many of your employees have not operated in a high-rate environment before, knowledge transfer and training may be more helpful than incentives.
- **Communicate your goals and incentives clearly.** Make sure the reasons for changing compensation and rewards programs are clearly communicated. Ideally, your employees will be excited about working to

achieve, or even exceed, organizational goals. It's important to remember that [incentives work best](#) when they are related to outcomes that are specific to employee and team actions.

Incentives are a valuable tool that can support institutional goals and make rapid change possible. To be effective, they must align with company goals, offer meaningful rewards, and be well-understood by everyone in the organization. It may be necessary to structure new incentive programs to meet the challenges of a changing rate environment, but that restructuring will go a long way in motivating your employees and supporting your CFI's goals.

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## ECONOMY & RATES

Rates As Of: 03/10/2023 10:49AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.05	0.17	0.63
6M	5.32	0.15	0.56
1Y	4.91	-0.10	0.21
2Y	4.59	-0.23	0.16
5Y	3.94	-0.24	-0.06
10Y	3.69	-0.24	-0.19
30Y	3.69	-0.23	-0.27
<b>FF Market</b>		<b>FF Disc</b>	<b>IORR</b>
4.57		4.75	4.65
<b>SOFR</b>		<b>Prime</b>	<b>OBFR</b>
4.55		7.75	4.57

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