“Hello, Folly: The Risks of Rewards”

THIRD YEAR PROJECT
For 2015 School Year

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I. Introduction

Do rewards motivate people? Absolutely. However, motivation generated by rewards is short-lived and exclusively linked to the reward itself. As described by Daniel Pink, many people work only to the point that triggers the reward – and no further. So if students get a prize for reading three books, many won’t pick up a fourth, let alone embark on a lifetime of reading – just as executives who hit their quarterly numbers often won’t boost earnings a penny more (Pink, 2009). Behavior followed by positive consequences is the basic premise of employee incentives. Done incorrectly, however, incentives can have unforeseen consequences and unsatisfactory results. One of the greatest areas of risk for an organization can be employee rewards. All of the risks associated with employee reward programs cannot be erased, however, the risks can be better understood and managed by knowing where they are most likely to occur and determining mitigating actions.

In today’s marketplace, it is common to find companies, across various industries, investing large dollar amounts in an attempt to figure out what makes their staff “tick.” The reasoning behind this approach is the notion that happy or satisfied employees can better deliver the product or service they represent. The better they deliver, the more customers (“members,” in the credit union world) will come back. The more they return, the more successful and relevant an enterprise becomes.

There is vast literature available showcasing success stories of businesses like Amazon, Zappos, Apple, Google, among others, which have been able to find their place in the sun as the shining examples in their respective industries. These are companies well known not only because of the product they commercialize, but also for the amazing culture they have shaped, a culture that empowers staff to carry on their companies’ mission and vision like their own. They perform their job duties with a sense of pride which becomes imprinted in everything related to or produced by their firms. They don’t act like mere employees; they are stakeholders.

Credit unions are not Apple, or Google, or Amazon. The challenge for the credit union professional resides in the fact that the products and services offered are very similar to what every other financial institution offers. Credit unions sell “milk,” if you will. Most of what credit unions offer is also offered by every other financial institution, competitors in the same geographic markets. The daunting amount of regulations allied to the conservative nature of the business puts some limitations on the extent of innovation that can be applied to financial services. With so many similarities, the credit union’s only differential becomes their service. Service that looks like a member service specialist who applies their personal touch to each interaction, a teller that recalls the member’s name, a loan officer that asks them how they enjoy their new car – so that the member keeps coming back to receive that service, not just bank with that institution. It’s all about relationship building.

But how does the credit union ensure that each staff member becomes the person with whom members want to deal with as opposed to Mr. Banker down the road? It seems reasonable to infer that a rewarded or incentivized workforce will deliver top notch service. So, if a credit
union wants to become the institution of choice in the market, they should just throw some bonus money at their employees or give them some prizes to accomplish the objectives, right?

Wrong.

The aim of this study is to investigate, and further understand, why the adoption of reward or incentive programs is not a guarantee of success, employee engagement or positive results. Contrary to popular belief, their use may sometimes yield pernicious consequences.

As with other industries, credit unions of all sizes are utilizing reward and incentive programs to boost performance. While a definitive statistic specific to credit unions’ deployment of such programs was not available, peer research has confirmed 71% of respondents from credit unions surveyed in this study do engage some type of reward or incentive program.

For the purpose of this research, the terms “rewards,” “incentive,” “recognition” and “compensation & benefits” have been clarified below:

- **Rewards**: non-monetary carrot with “strings attached” (given only for performances which meet a certain standard or accomplish a particular task). e.g. tickets to cultural or sporting events, tangible prizes with monetary value, vacation or trip with monetary value, etc.

- **Incentive**: monetary carrot with “strings attached.” e.g. annual bonus, quarterly bonus, sales goal bonus, etc.

- **Recognition**: non-tangible, non-monetary carrot (affirmation of a good performer). e.g. employee of the month award, a thank you note, a recognition luncheon, etc.

- **Compensation & Benefits**: do not meet the definition of rewards or incentives for the purpose of this study.

Alfie Kohn once wrote that “for best results, forget the bonus.” Kohn spent quite some time researching the fact that tying a “prize” to a wanted outcome does not equate to the performance of a desired behavior. For instance, an organization may set a goal that if production increases by “x%,” the team would get “y.” According to Kohn’s study, the players would figure out a way of getting “y” by doing the bare minimum to hit the goal. The fact that the goal was reached would portray as if the gratification payout had worked, however it becomes clear in the long term that this kind of system does not succeed because people are not changing their behavior or their ways. Rewards “motivate people to get rewards” (Kohn, 1993).
Michael Crawford illustrated the problem in a simple table, which summarizes the dynamics of rewarding one behavior while hoping for another. According to Crawford (1993):

<table>
<thead>
<tr>
<th>Hoping for…</th>
<th>While rewarding…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teamwork and collaboration</td>
<td>The best team members</td>
</tr>
<tr>
<td>Innovative thinking and risk taking</td>
<td>Proven methods and not making mistakes</td>
</tr>
<tr>
<td>Development of people skills</td>
<td>Technical achievements and accomplishments</td>
</tr>
<tr>
<td>Employee involvement and empowerment</td>
<td>Tight control over operations and resources</td>
</tr>
<tr>
<td>High achievement</td>
<td>Another year’s effort</td>
</tr>
</tbody>
</table>


Kohn went further to affirm that rewards “not only do not succeed, but cannot succeed” (Kohn, 1993) because they just produce temporary compliance, but fail to effectively result in lasting modifications to attitude or behavior. Those who expect to be rewarded do not perform as well as team members who expect nothing. Rewards corrode intrinsic motivation and the “one size fits all” approach for rewards or incentive plans undermines creativity, risk taking, and the emotional connection one needs to have in order to excel at their job performance.

Even though there is enough research and case studies demonstrating that the carrot and stick approach does not work, still “at least three of four American corporations rely on some sort of incentive program” (Kohn, 1993). Clarke (2005) tries to make sense of incentives by breaking them down in three types: economic, social and moral. The economic incentive is obviously related to money. The social incentive is tied to “recognition” for the purposes of this research. Finally, the moral incentive is linked to perceived right or wrong behaviors. Most businesses use only the economic incentive, which may lead to unintended consequences. Clarke (2005) cites an experiment involving “charging fees to parents who come late to pick up their children at a day care.” In the beginning, no fees were associated with picking up the kids late. The incentive was moral and social as the late parents were perceived as demonstrating a lack of consideration for the staff members who had to wait for them to arrive. Then, a small fee was introduced with the objective to make parents conscientious about picking their children up on time. Nonetheless, what ended up happening was that once the fee was instituted, more parents started picking up their children later and later. By putting a value to the undesired behavior, the moral and social incentive was eliminated from the equation and it only made the behavior worse. The author’s argument is that to make an incentive plan work, the three types of incentive need to be included because if just the economic is used, it will weaken or eliminate the moral and social components.

The other issue with rewards or incentives is that most assessments of these programs are quantitative in nature. For the most part, quality is not taken into consideration or analyzed. If a company pays out rewards because the number of loans booked on a given month increased, for example, but the underwriting wasn’t scrutinized to define whether those loans were good quality investments, the determination that “rewards paid off” will be irrelevant due to lack of data to make that decision. Likely, there is a direct correlation between the number of approved loans and the reward the approving officer will get if he or she meets the quota. The motivation was purely personal (economic and social, perhaps), with no regard for the big picture (the loan portfolio or company longevity).
Decades ago, Frederick Herzberg studied the root of an employee’s motivation which would result in excellent performance. He came up with a theory best known as motivation-hygiene or Herzberg’s two factor theory. In essence, his theory states that some job characteristics lead to satisfaction, while others lead to dissatisfaction. But, in his philosophy, satisfaction is not the antonym of dissatisfaction. Therefore, if some of the causes of dissatisfaction are eliminated, they will not, in turn, create satisfaction and vice versa. The factors linked to job satisfaction are indeed what truly motivate employees and drive desired performance.

In his article, Louiseau (2011) cites satisfaction and dissatisfaction factors, according to Herzberg:

<table>
<thead>
<tr>
<th>Factors for Satisfaction</th>
<th>Factors for Dissatisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement</td>
<td>Company Policies</td>
</tr>
<tr>
<td>Recognition</td>
<td>Supervision</td>
</tr>
<tr>
<td>The work itself</td>
<td>Relationship with supervisors and peers</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Work condition</td>
</tr>
<tr>
<td>Advancement</td>
<td>Salary</td>
</tr>
<tr>
<td>Growth</td>
<td>Status and security</td>
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</tbody>
</table>

Source: “Herzberg’s Motivators and Hygiene Factors” (Louiseau, 2011)

The satisfaction factors are also known as intrinsic motivators as they are related to satisfaction coming from the work itself not the context around work. Rewards and incentives are not intrinsic motivators; rather, their use may prevent dissatisfaction. However, hygiene factors “operate primarily as de-motivators if they are not sufficient” (Valencia, n.d.). The design of rewards or incentive programs is not conducive to long term sustainability because it does not reach or transform the emotional connection one needs to have with their job.

Through research of available literature, a survey of credit union peers, a targeted audience survey, and one-on-one interview, the data presented will corroborate that the whole rewards/incentives dynamic is not what companies need to drive their employees toward success. This research explores the pitfalls that may present when a reward and/or incentive model approach is utilized without consideration of potential risks. Further, this study will offer strategies for operating a reward and/or incentive program in a safe and sound manner.

II. Research & Illustrations

“Do this and you’ll get that” (Kohn, 1999). Rewards are something given in return or to compensate for service or merit. Just like punishments, rewards can be a form of manipulating and controlling behavior. “They control through seduction, rather than force. Rewards are typically used to induce or pressure people to do things they would not freely do.” (Deci, Ryan 2001)

Psychologists call this behaviorism. John B. Watson popularized this concept that behavior can be measured, trained, and changed. The core of pop behaviorism is that if you do or perform in a specified manner you will receive something in return. The theory is that the best way to get
something done is to provide a reward to people when they act the way we want them to. What happens when the reward is removed? Does the reward change the behavior for the moment or does it have a lasting effect?

**A. Intrinsic vs. Extrinsic**

A study conducted in 1973 by M.R. Lepper, D. Greene and R.E. Nisbett discovered that preschoolers who enjoyed drawing would spend less time drawing and would draw lower quality pictures when a reward for drawing was offered. Lepper called this “over justification.” The kids already like to draw. The reward gave them more than enough justification for their participation; however, their initial intrinsic motivation was lost. Another example is children who at a young age have the desire to help their parents with the grown-up chores; later an allowance is introduced. All of a sudden when the parent asks their child to set the table the child will ask “how much are you going to pay me?”

As shared by Daniel Pink, in his 2009 book Drive, the examples are legion: Sears imposes a sales quota on its auto repair staff—and workers respond by overcharging customers and completing unnecessary repairs. Enron sets lofty revenue goals—and the race to meet them by any means possible catalyzes the company’s collapse. Ford is so intent on producing a certain car at a certain weight at a certain price by a certain date that it omits safety checks and unleashes the dangerous Ford Pinto…the problem with making extrinsic reward the only destination that matters is that some people will choose the quickest route there, even if it means taking the low road.

People who are intrinsically motivated find their own reward in performing the actual task or requirement. Those who are extrinsically motivated perform the task or requirement because they have to. Essentially this tells us that when we are controlled by external forces to do something, even if it’s something we otherwise enjoy doing, our interest in it fades.

**B. You Get What You Pay For**

“You get what you pay for” stated Mike Neill, President of Michael Neill & Associates, a credit union consulting firm that assists credit unions with sales and service culture development, performance management, and marketing. Mike sat down to answer questions on the topic of recognition, rewards, incentives, motivators, and accountability. “If you’re going to incent selling then you should incent service as well. If not, you’re sending a very clear message.” He said the number one motivator for people is genuine recognition from their immediate supervisor and number two is money. He believes incentives work, but they don’t work best because many managers do not hold their employees accountable for failure to meet expectations and accountability is actually a more significant motivator than money.

Mike spoke of a credit union that incents their employees to show up to work on time. What is the outcome? “They showed up on time!” But instead of incenting for that type of behavior, Mike recommends the credit union should set the expectation that they show up on time and then hold them accountable for failure to do so. “They’ll show up to work on time and it wouldn't cost you any more money!” Incentives don't change behavior, they just adjust the behavior. Given the scenario of setting a goal of 100% call transfer rate of every member who financed a car with the
credit union to a vendor that the credit union uses for warranty sales, Mike was asked if this was a realistic goal. He expresses if the goal is set at 100%, the representative would likely start transferring calls without letting the member know so they wouldn’t have a chance to protest or decline. So the representative reached the goal set forth, but was the member very happy about being blindly transferred? No.

The mission of a credit union is to improve the financial well-being of their members. If the employee is truly engaged then they will try to save their members money or make them money during each and every opportunity. (Neill, Michael. Personal interview. 19 February 2015.)

In banks, credit unions and other financial institutions loan officers/underwriters analyze and assess the creditworthiness of potential borrowers to determine the degree of risk involved in extending credit or lending money. Some financial institutions have paid loan officers incentives based on the number of loans they approve. Are they getting what they paid for? Sure, there is an increase in approvals—credit worthy or not—to increase their incentives. On the flip side, offering incentives that are based on approved loans and reward positive performance of those loans will motivate the loan officers to screen the applications carefully and reduce exposure to loans with higher perceived credit risk. (Cole, Shawn, & Kanz, 2012) However, this also comes with its own problem in “you get what you pay for” perhaps resulting in risk aversion altogether when some risk must be taken. When a loan officer has the final authority to approve or deny a loan an incentive certainly could affect that person’s analysis and recommendation. This presents a potential conflict of interest that should draw an auditor’s attention. The incentive design needs to be examined carefully so that it drives the appropriate behavior.

An extreme example of this underwriting incentive came to light in 2008. Washington Mutual (WaMu) was seized by federal regulators and sold to JPMorgan Chase for $1.9 billion. It was the biggest bank failure in the nation’s history. Complaints against WaMu’s mortgage lending operation painted it as a boiler room where volume was paramount and questionable loans were pushed through because they were more profitable to the company. When underwriters refused to approve shaky loans, they were punished. However, in order to make more loans and get their numbers up, WaMu executives started giving away free trips if underwriters closed a certain amount of loans. Some reps were flown to Hawaii or Jamaica for a month. In contrast, if the underwriter rejected loans they were written up or put on probation. One loan in particular that was pushed through came back to haunt WaMu. An $800,000 loan was approved even after the loan officer expressed concern of fraud. Six months later the loan defaulted and when they went to foreclose on the house, they found it was an empty lot. “At WaMu it wasn’t about the quality of the loans; it was about the numbers” states former senior mortgage underwriter, Keysha Cooper, who was laid off in 2007 and has come forward with 89 other employees to file a complaint against officers of the company. (Morgenson, 2008)

After the late, great mortgage boom of 2008 the Emergency Economic Stabilization Act was created; the bailout of the U.S. financial system. The companies which acted negligently without consideration for long-term consequences were inundated with government funds because they were “too big to fail.” The firms that were cautious in their lending, grew at a reasonable pace, and managed their balance sheet and risk well were not granted government loans under TARP (Troubled Asset Relief Program) or other programs. The very action that caused the problem,
growing risky loan and asset portfolios making them too big to fail, resulted in them receiving
government funds, considered, by some, a reward. (Meacham, 2013)

Another example is the scandal uncovered in 2014 within the Veteran’s Health Administration
system. Bonuses were offered to the Veterans Affairs’ administrators for keeping wait times short.
The aim of those bonuses was to incentivize good behavior by having patients seen quickly and
reducing wait times. Instead, the bonuses served to incentivize bad behavior. They gave
administrators an incentive to do something easier than improving health care: they falsified
records to show shorter wait times. Veterans would be put on secret lists instead of on the official
waiting lists and some of them died waiting for an appointment. (Kliff, 2014) You get what you
pay for—at what cost?!

The Philadelphia VA regional office created an incentive program to speed up the process of
completing claims as the backlog was so great. The program offered $15,000 bonuses to teams
that met processing targets and offered other incentives to teams that processed the most claims.
Almost immediately, complaints were heard from employees that they feared the incentives would
force them to make bad decisions—usually denials of claims. This program pushed employees to
speed through easy cases and as denials are easier to process than approvals, veterans conceivably
would miss out on benefits they rightly deserved. Employees should be awarded for the quality,
not the quantity of the work. (Conover, 2015) Again, rewards—at what cost?

C. Make Your Voice Heard

When shopping for a vehicle, it’s not uncommon to hear a salesperson ask—and even beg—a
customer who has just bought a car to give them top marks in their CSI (Customer Service Index)
or “survey.” The salesperson’s pay, bonus and possibly even their job, often times depends on
receiving high, if not perfect, scores on this survey. Because their incentives are tied to the survey
the salesperson may be more driven to ask for a “10” and tell the customer their job relies on it
instead of working hard to actually provide the exceptional service. They want to influence the
customer who believes that nothing or no one is perfect and at best will rate them a “9.” The whole
point of a survey should be to gauge a customer’s satisfaction with a process and to pinpoint areas
of improvement; however, because the survey is tied to commissions or the possible loss of
someone’s job, the salespeople are all but forced to lie, cheat and steal a perfect survey. With
much of the public becoming aware of how important the CSI is to the salesperson and the
dealership, customers are even using the promise to provide a “perfect survey” to get an extra
discount on their car. Again, the service isn’t the concern to the salesperson—it’s the perfect
survey they are after. The incentive drives bad business practices. If dealers or manufacturers
really cared about customer feedback the surveys would be anonymous with the goal to continually
improve.

D. Whistleblower

Even the most seemingly straightforward incentives can have unintended consequences. For
example, the Dodd-Frank Act of 2010 offers a “whistle-blower bounty” for employees who report
wrongdoing to the SEC (U.S. Securities and Exchange Commission). If information leads to a
successful enforcement action, the whistleblower gets a reward ranging from 10 percent to 30
percent of the monetary penalty assessed by the SEC. This program creates incentives for employees to report problems to the SEC, rather than to their own company’s internal compliance personnel. This can also remove the motivation to put an early end to such wrongdoing because the whistleblower’s “bounty” will be lessened and/or their employment could be in jeopardy.

III. Credit Union Peer Research & Statistics

Aiming to better understand the rewards systems currently in place at credit unions and their perceived effectiveness, several components were incorporated in the research strategy, including: general survey (credit union peer audience, with multiple choice/limited text response); target audience survey (limited to those respondents with internal audit responsibilities within their credit union, with free form text/essay response); in-person interview; and more classic research sources, such as articles, essays, white papers, and books on the topic to gain a comprehensive understanding of the advantages vs. disadvantages of reward programs, feedback on tangible vs. intangible motivators, risks associated with such programs, demographics of credit unions utilizing such programs, Audit and Quality Assurance perspectives on programs and possible impacts to respective findings, and the Sales and Service perspective on programs.

The more classic research notations are included throughout the paper as argument supportive statements and informational references, while the more strategic and intensive research methods and data are highlighted here.

A. General Survey

The general survey to credit union peer respondents was distributed to 2014 roster confirmed attendees of the 2015 and 2016 classes of the Southeastern Regional Credit Union Schools. Recipients were encouraged to complete the survey themselves, as well as forward the link to others within their credit union for more robust response gathering. Respondents themselves remain anonymous and were not required, but were encouraged, to include their credit union’s name. Survey questions included demographic fact-gathering; reward or incentive program status, program types, and program feedback; as well as individual (respondent) motivation inquiries. The survey included question-logic functionality that would eliminate future questions based on prior responses within the survey, with respondents answering as few as 10, but not more than 18 questions in all (see Appendix 1.)

For clarity and consistence in respondents’ interpretations of the questions, the survey invitation included basic definitions of the terms: reward, incentive, recognition, and compensation and benefits, as previously referenced. There was an allowance of 10 days for response.

With regard to demographics, the survey received 86 responses from at least 36 different credit unions. Asset sizes of respondent credit unions ranged from just over $1 million to $2 billion in assets. Respondents came from varying business units within their credit unions, with the majority of respondents (78%) representing a role in Management level or above. 62% of respondents have been with their current credit union for five years or longer.
Of the 86 respondents, 71% said their credit union does currently offer a reward program or otherwise incent credit union staff to reach sales and/or service goals. Of the respondents that stated their credit union does not currently offer a reward program or otherwise incent staff for sales and/or service goals, 19% stated their credit union previously offered such programs – with one commenting that “staff were gaming the system to earn the incentives,” and “staff did not keep the members’ best interest [sic] at heart.” They also noted, “The plan did not include support staff, which caused an ‘us (vs.) them’ environment in our CU.”

An interesting item of note, as respondents were encouraged to pass the survey link along within their own credit union to glean robust perspective of a reward/incentive program from varying positions within the same credit union, a particular respondent credit union had a total of 11 respondents, where 9 claimed the organization currently had no reward/incentive program, but the remaining 2 respondents answered “yes” they currently have reward programs. A discrepancy of responses within the same organization, such as the case here, begs the question: how effective could the credit union’s reward/incentive program be when more than 80% of staff are unaware of the program altogether?

The types of reward and/or incentive programs offered at the credit unions surveyed included all ten of the categories detailed as options within the survey (including First Mortgage Loans, 2nd Mortgage/Home Equity Loans, Auto Loans, Credit Cards, Ancillary Loan Products, New Accounts, Overdraft Services, Bill Pay Services, Debit Cards, and Retirement/Investment Accounts) as well as several additions described in the “Other” (free form text response) category. Respondents were encouraged to choose all categories that apply for their credit union. The top five categories identified as the basis for reward/incentive programs at the respondent credit unions include: Ancillary Loan Products (this includes insurance, warranties, etc.) at 74%, Auto Loans (including both new and used autos) at 54%, 2nd Mortgage/Home Equity Loans at 47%, First Mortgage Loans at 46%, and Credit Cards at 39%.

Respondents were asked about their credit union’s strategy for awarding the rewards/incentives they offered. That is, are their programs awarded on an individual performer level, team performance level, department performance level, organization-wide performance level, or other (with availability of a free form text response). Respondents were asked to select all award strategies that applied within their organization. The defined award strategies ranked as follows: individual performer with 63%, organization-wide performance with 35%, team performance with 21%, and department performance with 7%. The strategies defined by respondents with the selection of “other” were hybrid models of the four defined strategies.

Respondents were asked several reward and/or incentive program feedback questions, to understand their own (individual) perspective of their organization’s program(s) as well as to shed light on whether their credit union utilizes staff feedback in the upkeep of their reward and/or incentive models. The feedback-centric questions are detailed below with their respective categorical response figures.

➢ In your opinion, are the Credit Union’s staff happy with the reward/incentive program(s) offered? 89% of respondents said “yes.”
In your opinion, is the reward/incentive program effective for meeting the Credit Union’s sales and/or service goals? 79% of respondents said “yes.”

Was staff asked for input prior to implementing a reward/incentive program for sales and/or service goals? 68% of respondents said “not that I am aware.”

Does your organization collect any feedback related to the reward/incentive program? 58% of respondents said “not that I am aware.”

While the opinion-based responses in the first two feedback-centric questions above are favorable, it seems the more alarming percentages are reflected in the latter two questions, in that there appears to be a lack of staff input and/or feedback collected in advance of or as an ongoing measure of reward/incentive program success. Additionally, respondents were given the option to provide supplementary comment or explanation of their response(s), some of the more enlightening remarks have been included below:

“MLOs (mortgage loan officers) and processors are happy, remainder of staff is not because they no longer receive incentives. They feel it is unfair for certain departments to receive incentives only.”

“Branch staff is (happy) but not back office.”

“Those employees that have an incentive plan may be happy with it, however, across the organization our employees would like to see a more defined incentive plan that applies to all product and service goals.”

“Being on the servicing side, I have issues when staff is rewarded for a loan that has several errors. This requires staff that does not received [sic] incentive to do extra work.”

From their statements above, it would appear the reward or incentive program meant to drive the company toward success, is the very element dividing the organization against itself.

The general survey also explored the respondents’ feedback on motivators to them as an individual. Respondents were asked “How important are the following to you (as an individual)?” The response options have been listed below in the order ranked by survey respondents (by average and overall rating).

1. Feeling that your work is valued and appreciated;
2. Feeling a spirit of teamwork and cooperation among co-workers;
3. Being recognized by management for your efforts;
4. Bonuses and other financial incentives;
5. Being recognized by peers and co-workers for your efforts; and
6. Receiving formal recognition for your efforts.

Lastly, but still on the topic of individual motivators, respondents were asked to rate a list of 12 various rewards/incentives on a scale of 1-5 (where 1 = no motivational effect, and 5 = high...
motivational effect). The list included tangible and non-tangible motivators, with and without monetary value. The top five ranked motivators are listed below in the order ranked by survey respondents (by average and overall rating).

1. Annual bonus based on the company’s achievement of financial targets;
2. Additional educational opportunities supported by the company;
3. Flexible office hours;
4. Challenging new assignments; and
5. A personal “thank you” or note of appreciation from a supervisor, manager, or co-worker.

It’s interesting to note, across the survey there seem to be conflicting replies from respondents, meaning respondents have contradicted their own answers with regard to staff’s perceived satisfaction with the reward/incentive programs offered, as opposed to their own personal perspective of the same programs. Could it be that respondents assume staff are happy with the reward/incentive program offered, even though they themselves ranked bonuses and other financial incentives fourth behind feeling valued, a spirit of teamwork, and being recognized? Do organizations as a whole assume the want for reward and incentive programs, when recognition might serve the need more effectively (not to mention, cost-efficiently)?

B. Target Audience Survey

Within the general survey described above, a question was posed to target respondents with specific, internal audit, responsibilities. Of the 86 general survey respondents, 30 identified as having internal audit responsibilities in their current role at their credit union.

This specific group was asked, “Is your internal audit program considerate of internal reward programs?” 71% responded “no.”

A final query made of this target group was, “In your experience, do reward/incentive programs for sales and/or service goals within your credit union impact the volume of internal audit findings for the related business unit (department)? (e.g. If your credit union awards top performers for car loan closings, do you see disproportionate internal control/procedure violations in this same area?)” 81% responded “no.”

Included with both of the questions to the targeted, internal audit specific, audience was the availability for free-form text explanations and additional comments. One of the additional comments shared was, “with certain loan staff who were top performers usually had the highest violations. Those staff are no longer with the credit union and sales for products have decreased significantly.”

Following review of the above responses and in light of the previous examples across all industries (including financial institutions), there may be a vital follow-up question these credit union internal auditors should consider; “Is the lack of findings simply due to a lack of consideration of this rather large area of potential risk?”
C. In-Person Interview

As shared and referenced earlier, Mike Neill, President of Michael Neill & Associates, sat down to provide his insight and experience working with credit unions in areas related to recognition, rewards, incentives, motivators, and accountability.

Mr. Neill’s resounding point is that companies should not be rewarding or incenting people to perform according to their job descriptions. If the organization is willing to pay money for an employee to perform a task, the organization must also be willing to hold the employee accountable for non-performance, or failure to perform the task. Rewarding and incenting staff for the expectations of their role, sends a confused message that the employee is not actually accountable for the expectations of their role. As shared in the earlier example, a credit union that rewards staff for consistent, on-time arrival to the office, sends the message that “consistent, on-time arrival” is exceptional behavior, rather than expected behavior.

He states that, in his experience working with credit unions, the number one motivator is inexpensive, genuine, specific recognition from a staff person’s immediate supervisor, and the number two motivator is money. He points out, the great thing about recognition is it’s the number one motivator, it’s inexpensive, and it will even work for people who are underperforming to move them toward expected performance levels (without incenting under-performance).

It is Mr. Neill’s opinion that, done improperly, rewards and incentives can be counterproductive to the organization’s goals and even the credit union movement’s values.

IV. Strategies for Effective Reward Programs

It may be impractical to consider abolishing reward and incentive programs altogether. Awareness of the potential for and implication of risks associated with reward and incentive programs provides an excellent foundation of knowledge if the organization chooses to continue current programs or establish new programs in the future. Following are strategies meant to provide credit unions with considerations for adjusting current programs or implementing new programs in the most safe, sound and effective manner.

However, sometimes with awareness comes the realization that the only effective program adjustment is abandonment of the program. But how can this be done without adverse reaction of staff? A practical exit strategy or transition program may be the answer. Recommendations for smooth transition and/or exit strategies conclude this Strategies section.

A. Rules

The definition of incentive is something that incites or tends to incite to action or greater effort, as a reward offered for increased productivity. Incentives, however, done incorrectly can have inadvertent consequences and unsatisfactory results. As pointed out in an earlier example, rewarding loan officers for volume and not loan quality can be detrimental to the loan portfolio and demotivating to employees. If rewards and/or incentives are a must, here are some rules to consider that may help to navigate the tricky waters of such programs:
Incentive plans should make a net positive contribution. The plan should be designed where every employee has the opportunity to earn an incentive. One example may be if an employee goes above and beyond the call of duty to help a member determine which products or services will benefit them the most, all the while exceeding standard performance expectations set forth by the credit union.

Don’t incent for what would have been achieved anyway. If the task or act is already specifically described in the employee’s job description, no incentive is necessary. The objective is to achieve better results than the past or better than peers.

Determine the plan’s value. Each result should have a specific value. Sometimes this must be valued in the long term as an investment. Management must consider the mix of base pay plus incentive when putting the plan into effect.

Establish verifiable goals. Consistently subjective and optimistic determinations can result in the feeling that the employee is entitled to the incentive. Consistent pessimistic determinations, however, can result in mistrust and an attitude that the incentive cannot be earned so what is the use in trying.

Keep it simple. Too many goals are difficult to communicate and measure. It is hard for employees to focus on too many objectives at once. Numerous goals with different degrees of complexity will cause participants to be more passive and not aggressive.

Track results and provide feedback. This should be completed at least quarterly. Post results where other employees can see them such as the break room, staff meetings, or employee newsletter.

Make goals achievable. If goals cannot be attained, people will not try. Conversely, goals should not be too easy or employees will not put forth extra effort.

As an example, consider this S.M.A.R.T. (specific, measurable, attainable, realistic and timely) goal:

S: Increase number of loans protected with debt cancellation product by 10% to qualify for a department bonus of $2,000 to be equally divided among 10 employees;
M: Quantify protected vs. non-protected loans through monthly reports;
A: Offer protection at every loan closing to increase odds of acceptance;
R: Protection improves the overall quality of the loan for members and credit union; and
T: 10% increase should happen by end of quarter.

Provide leadership. Someone must be the motivator to establish commitment in achieving goals. To be successful, the plan must have leaders who are there to coach and provide encouragement.

Don’t pay if the goal isn’t achieved. Doing so turns the plan into an entitlement. It is acceptable, however, to adjust the plan for unforeseen circumstances that affect profitability.
**Ditch a plan that doesn’t work.** When an incentive plan becomes an expense, it hasn’t achieved its purpose. Policies should state that it is ok to modify the plan to meet strategic objectives. (Credit Union Magazine 6/29/2010).

**B. Risk Management Process**

While reward and incentive programs pose significant potential risk for credit unions, effective risk management practices can drastically improve successful completion of program objectives and mitigate identified risks. In simplest terms, risk management is the process of recognizing the potential for and identifying risks associated with any activity and developing mitigation strategies to lessen the probability and/or impact of those same identified risks.

In both the general and target audience surveys conducted as components of research on reward and incentive programs, peers in the credit union industry shared comments alluding to the conflict of rewarding staff while not safe-guarding (implementing controls around) those same processes to ensure integrity is maintained. While others shared that they had experienced “staff were gaming the system to earn the incentives.” Yet the overwhelming response to whether a credit union’s internal audit program was considerate of reward and incentive programs was still “no.” At the very least, taking the time to conduct a risk assessment of a reward and/or incentive program will provide a documented record of the consideration of potential risks associated with the program.

In their 2008 publication, *Less Risk, Greater Rewards; Taking a Risk Intelligent Approach to Your Employee Rewards Program*, Deloitte offers a simple, reward program specific process for assessing and addressing the potential risks of employee rewards.

**Step 1: Understand the context and strategy behind the company’s rewards programs.** The organization must understand the business purposes behind the rewards programs it sponsors in order to effectively manage employee reward risk. With a thorough understanding of the company’s underlying strategy and how rewards programs support that strategy, the organization can evaluate which rewards-related risks may be worth taking, which risks might be less justified, and how risks can most effectively be mitigated or avoided.

**Step 2: Identify major risks.** Risks can only be controlled effectively if one knows where and what they are. Deloitte suggests the organization compile a complete list of major risks associated with all of the company’s rewards programs and activities and identify the people and departments responsible for controlling each risk.

**Step 3: Evaluate and prioritize risks.** A key principle is to distinguish between rewarded and unrewarded risks: rewarded risks may be worth taking, but unrewarded risks never are. Furthermore, both rewarded and unrewarded risks differ in their magnitude: depending on a company’s risk tolerance, some risks may be comfortably minor, others moderate, and still others unacceptably high. The organization should understand its own overall risk tolerance, apply the same standards to its list of rewards-related risks, and prioritize the need to mitigate each risk from most to least urgent.
Step 4: Mitigate risks and control. Here’s where the owners of the risks identified in step 2 need to live up to their risk management responsibilities. Their first task should be to mitigate the most urgent risks. Then, once the immediate need is addressed, the organization should decide how to institutionalize those processes to mitigate risks on an ongoing basis. This could involve anything from updating policies and procedures to improving enabling technology to implementing additional controls and oversight over areas where risks are more likely to arise. The important thing is to treat risk mitigation and control as a process that needs to be continued into the foreseeable future – not as a simple one-time fix.

Step 5: Monitor, report, and evaluate risks. This step starts the “rinse and repeat” cycle of an ongoing risk management effort, in which the organization implements processes to regularly monitor risk levels and to update and re-prioritize the list of risks. Changes to internal processes, rewards programs, and general business strategy can all have implications for the risks the organization manages and the way in which the company prioritizes and chooses to mitigate them.

Step 6: Communicate and continuously improve. Communication and continuous improvement are the final two components of an effective employee rewards management infrastructure. By “communication,” Deloitte means not just the general need to build a culture that takes risk seriously, but also the need to educate employees responsible for the employee rewards processes and controls about their specific roles in the risk management process. Each employee who touches a risky process should know how to execute the correct controls, and they need to be kept up to date on any changes to those processes and controls.

C. Exit Strategy
Still many corporations rely on some sort of reward and/or incentive program. However, not all incentive programs produce the results as anticipated. While rewards are effective at producing temporary compliance, they are ineffective at producing lasting changes in attitudes or behavior (Kohn 1993). Sustaining an ineffective program can be costly to the organization if objectives are not being met to the benefit of the bottom line. However, abrupt removal of the incentive program will not come without possible negative repercussions from employees and potential decreases in productivity and sales.

1. Recognition, Appreciation and Engagement
Determining how to eliminate the incentive program can be difficult depending on the level of program awareness across business units and/or the organization as a whole. A transition approach, away from reward and incentive toward recognition can be an effective strategy. As a reminder, for the purposes of this research, recognition is the use of non-tangible, non-monetary carrots (i.e. affirmation of good performance). Employee recognition is a major factor in job satisfaction. It is about engagement. Employee engagement starts with employer engagement. Employees want to feel like they are needed and wanted in their particular field. In reality, who doesn’t want a little praise for their good performance? Recognition might look like implementation of any single or hybrid of the examples below:

Spot recognition – encourage manager and supervisor levels across the organization to actively monitor direct report progress and tasks to provide on-the-spot recognition of a well-
handled transaction, member service call, meeting participation, etc. Spot recognition is “on-the-spot” and in the moment, without delay from the time of the positive act to the time of recognition.

**“You’ve been caught!” program** – encourage managers and other employees to notify human resources or an employee’s respective manager when they “catch” a colleague in the act of going above and beyond the call of duty. Follow-up recognition can be in any of the various forms described below.

**Staff meeting recognition** – highlight achievements of the business unit or individual contributors by mentioning accomplishments, achieved goals, and breakthroughs in a department meeting.

**Company Newsletter** – build out a section in your company’s newsletter to spotlight department or individual contributor successes.

**Employee of the Month/Quarter** – from the individual contributors’ whose efforts have been recognized over the period (month, quarter, etc.) choose the top performer to recognize and showcase their above and beyond contributions.

Another transition approach is toward employee appreciation and engagement initiatives. Employee appreciation and engagement may not focus on a specific task or accomplishment, but is meant more for displaying support and gratitude through celebration, motivation, and team-building all the while raising morale, encouraging performance, and reinforcing the company’s mission and values.

**Employee Appreciation Day/Week** – institute a day or week-long celebration that recognizes every single employee. Provide breakfast, lunch, snacks, surprise drawings, small gifts, games & activities, massage, etc. as a way to express appreciation for all staff contributions.

**“Embarrassment Committee”** – include everyone in the workplace, when an annual or milestone anniversary comes around for an employee, it is the Committee’s responsibility to make a ruckus with decorations, noisemakers, embarrassing anecdotes, photo collages, while other employees deliver prizes, cards, flowers, and lunch.

**Children’s art exhibition/contest** – solicit original works of art from the children of employees for display throughout offices and branches. Involve the families of staff members, and the result may be that their individual commitment to the organization improves exponentially.

Whatever the approach, recognition, appreciation and engagement strategies do not require extensive resources of the organization, but the return on such initiatives can be performance, productivity and engagement levels beyond the incentive and/or reward models. For specific ideas and examples of some of the above, see Appendix 2. In most cases, a simple “Thank You” note from a supervisor or coworker directly to the employee or colleague is all it takes!
2. Program Abandonment

Other organizations may choose to abandon their program in a more abrupt manner, with absolutely no warning, but take heart... At a Midwestern manufacturing company, for example, an incentive system that had been in place for years was removed at the request of the welders’ union. Now, if a financial incentive motivates people, its absence should drive down production. And that is exactly what happened – at first. But after the initial slump, the welders’ production rose and eventually reached a level as high as or higher than before (Kohn, 1993).

In communicating the elimination of a program to staff, consider implementing an annual statement of non-salary benefits provided by the credit union. This simple summary benefits statement to employees may include paid time off and sick pay values; paid holidays; medical, dental and eye care insurance benefits; pension and retirement contributions; among other various benefits. Highlighting (and reminding staff of) the benefits the organization continuously provides to all staff can soften the potential for negative impact of a reward program cancellation.

While an abrupt cancellation of an established program may have short term negative effects, in the long run future goals will be met and productivity can, in many instances, even exceed prior levels. As long as the company offers quality pay with performance raises, an incentive program may not even be missed. “The best use of money as a motivator is to pay people enough to take the issue of money off the table” (Pink, 2009).

V. Conclusions

Conclusion of the Research

Do rewards motivate people? The research suggests that rewards motivate all sorts of behavior in people and not all of it is good or for the betterment and success of an organization. Rewards produce temporary results and do not change behavior. They corrode intrinsic motivation, creativity and the emotional engagement necessary to find value in one’s personal performance.

Studies old and new illustrate that incentivized behavior often times undermines the very goal trying to be achieved, and most assessments to determine if a reward or incentive has been earned are quantitative and not qualitative. Such process leaves the determination of success on the number of widgets transacted and not an evaluation of the quality of the transaction.

The examples of rewards and incentives gone awry are plentiful and indiscriminate of industry. While unethical behavior in credit unions and the financial sector can cost individuals, institutions and taxpayers countless dollars, the risk of incentivized behaviors in other industries can impact public safety, personal health and lives.

A survey of credit union peers clarifies that while many utilize a reward or incentive model for staff motivation and performance, very few have elicited staff input in development of the program or staff feedback in the upkeep of the reward or incentive platform. Further, when focused on the peer respondents’ own sources of motivation, intangible (recognition-based) motivators consistently scored higher than those of their tangible (reward or incentive based) counterparts.
While it may be a stretch to eradicate the reward or incentive model completely from the credit union’s bag of tricks, effective strategies for developing, managing, and monitoring programs can help mitigate risk. If elimination of a current program is the decided route, transitioning from a reward model to a recognition model may result in better performance and deeper engagement from staff.

Ultimately, the credit union exists to help its members. It’s the philosophy on which credit unions were founded. Credit unions are not for profit, and therefore it only makes sense to remove “profitable” rewards and incentive programs from the mix so that all that is left is sincere care for quality of performance and care for the people being served. At the end of the day, that’s the true meaning of “people helping people.”

Conclusion of the Researcher: Danielle Cegelis

While my personal philosophy has always been to work hard for the gratification of a job well done and not a carrot on a stick, I’ve never considered the far-reaching implications of the carrot and stick approach, nor the potential for risk associated with the same. As dated as the reference is, Steven Kerr’s 1975 article On the folly of rewarding A, while hoping for B cast a spotlight on the potential for risk in the areas of reward and incentive models, and it was this same article that was the inspiration for our group’s research.

As a risk management professional within my organization, it has been especially helpful to explore the risky nature of a reward and incentive model. Often times the most challenging component of understanding the potential risks of an activity, is identifying mitigation strategies that will uphold safety and soundness standards while still moving forward toward the end goal. This research project helped me to hone my skills in considering and presenting different options as possible solutions.

Recently in my career, within the last four years, I have transitioned from a role that did not receive an incentive bonus to a role that does receive the bonus for annually meeting organizational target objectives. While I admit the bonus is not something I would refuse, I have, at times, had questions surrounding the methodology for determining the target goals used as the threshold for bonus achievement. (Are we setting the bar where we know we’ll attain success? Should we be setting the bar higher? Is there a conflict of interest in the fact that those setting the target goals are also recipients of the bonus payout for achieved success?) It may be wise to heed my own advice and conduct a risk assessment of the incentive model at my own organization.

The most valuable takeaway in my role as a Manager and leader in my organization, has been exploring and understanding the differences of recognition vs. rewards and incentives. Recognition is effective, and resource efficient (both time and money). Additionally, recognition doesn’t diminish the intrinsic motivation of the recipient. It’s also valuable to note, my use of recognition can go beyond my direct reports or those in my own department, and the results may even have a positive ripple effect across the enterprise.

I’m thankful for the opportunity to further develop my research skills, risk management practices, and effectiveness as a leader. I appreciate learning alongside women that I both admire
and respect. Even though I started this research journey on the same side of our argument, I’ve ended with the ability to articulate why I believe what I do for the benefit of myself and other professionals (in and outside of credit unions).

**Conclusion of the Researcher: April Davidson**

When I started this journey three years ago, I didn’t think I would finish. I had just moved over from the banking world into the credit union world and I had a lot to learn. There were different lending practices, different “banker”/member relationships, and a totally different environment that I was not used to. It seemed as though I got a refresher course in why I was doing what I was doing. I’m glad that my employer gave me this opportunity.

This white paper has taught me that rewards can’t and shouldn’t be the primary motivator in the workplace. As long as you are getting a competitive salary, then you should want to go the extra mile and overachieve your goals. My credit union doesn’t offer incentives. We have a recognition program. I have recently been offered a branch management position. This position is going to require me to be innovative and resourceful to grow a failing branch. I know I will not be able to do that alone, so I must determine some way to get my employees to follow the path that I am leading.

I have been given the opportunity to work with an amazing group of smart, innovative, and fun ladies on this project. It has been tough with a new baby and just going back to work. I don’t know how I would have fared with anyone else.

**Conclusion of the Researcher: Courtney Rose**

I began my SRCUS journey in 2013 and at the same time I was also plunging headfirst into my new role as a Call Center Manager. The combination of these two major events in my career created the perfect storm for a sizable meltdown. Instead it opened my eyes to a path within my organization that I had no idea I was meant to follow and strengths that were buried deep inside began to emerge. Leaving my safety zone of the lending world for the unknown territory of the call center was a decision that did not come easily and I had my doubts that I could be a successful manager. Until I came to the realization that I wasn’t just a Manager, I am a Leader. SRCUS has encouraged me to be confident, to ask questions, to never stop learning, and has inspired me to be an integral piece of my credit union’s future.

For our white paper, our team chose a topic that has plagued me since I first stepped into a revenue generating department. The current culture in my credit union is to incent our front line employees for selling products and services that ultimately benefit our members and our credit union. I have been asking myself and others why we think we have to pay people EXTRA for doing their jobs that they’re already paid to do. But on the flip side as their manager I understand the importance of recognizing my employee’s efforts and celebrating their successes. After reading numerous sources on the topic of reward and incentive programs and the risks involved with dangling the “carrot on a stick” I still feel strongly that paying incentives does not ensure success and high morale among employees. “The more rewards are used, the more they seem to be needed.” (Kohn, 1999) Recognition is paramount and can go much further than money. We need to hire talent who believe in the credit union culture and shares their values to build a strong foundation for the member’s financial success. Those are the people who will be fully engaged
and committed to helping our members today, tomorrow and well into the future. In addition, the managers must also be committed to leading by example, generating enthusiasm, and to creating a “WE” environment.

Working through this project as a team has solidified this last idea for me. We, as a team, have been committed to each other and have held each other up as deadlines have come and gone. I wouldn’t have wanted to go through this experience with anyone else. I am truly grateful for the opportunity to collaborate with these amazing ladies and to learn from them.

Conclusion of the Researcher: Jackie Thebo

This white paper project has given me the opportunity to do an in depth study not only of best practices for credit unions with respect to reward/incentive programs, but also of what really motivates people to make impactful contributions to their organizations which will result in success. In addition, I have developed a bond with my team mates that would not have happened had it not been for the group project. We have been working together since July of 2014, meeting via conference calls many times and exploring the best course of action to develop an interesting and relevant text which, we hope, will aid readers with building their reward/incentive programs and provide insight regarding program drawbacks which should be avoided.

Although many of our references may be considered “dated”, the fact that recent researches still rely on discoveries which have happened many years ago, just exemplifies that this theme has survived through decades and it is still discussed today because the common belief is that we should incentivize everything we can if we want to achieve a certain goal. Our study challenges this belief and proposes alternatives which aim to reach the root of motivator factors, more so than just money. The pertinent literature allied to the information gathered by the survey our group provided to our fellow credit union workers served to fundament our original premise that rewards do carry risk. We also cemented the idea that rewards only work on a temporary basis and will not change long term behavior, therefore we should really concentrate in recognition strategies as a solid motivator to connect people with their jobs so they can excel at it. “Simply put, when employees know that their strengths and potential will be praised and recognized, they are significantly more likely to produce value.” (Gostik & Elton, 2007)

In conclusion, I’m really thankful for this project as it helped me to become a better prepared leader, who will take in consideration the individual needs of my direct reports when coaching them towards embracing our organizational objectives. The relevance of the topic is such that it can be applied to any organization regardless of its economic segment. For credit union leaders, in particular, some of the ideas discussed in the text regarding ways to engage team members so they can provide their personal best, solidly align with the credit union philosophy. There is no need to pay for an expected behavior in order to generate a desired outcome. Much on the contrary, recognizing that consistently performing the expected behavior invariably aggregates value to any interaction is priceless.
VI. References:


VII. Appendix 1: General and Target Audience Survey

For the reader’s reference, the general and target audience surveys mentioned throughout the text have been included on the following pages. In the interest of safeguarding the anonymity of respondents, free-form text responses have been omitted and only summary data has been provided.

The general survey (questions 1-19) to credit union peer respondents was distributed to 2014 roster confirmed attendees of the 2015 and 2016 classes of the Southeastern Regional Credit Union Schools. Recipients were encouraged to complete the survey themselves, as well as forward the link to others within their credit union for more robust response gathering. Respondents themselves remain anonymous and were not required, but were encouraged, to include their credit union’s name. Survey questions included demographic fact-gathering; reward or incentive program status, program types, and program feedback; as well as individual (respondent) motivation inquiries. The survey included question-logic functionality that would eliminate future questions based on prior responses within the survey, with respondents answering as few as 10, but not more than 18 questions in all.

For clarity and consistence in respondents’ interpretations of the questions, the survey invitation included basic definitions of the terms: reward, incentive, recognition, and compensation and benefits, as previously referenced. There was an allowance of 10 days for response.

Within the general survey described above, a question (question 20) was posed to target respondents with specific, internal audit, responsibilities. Of the 86 general survey respondents, 30 identified as having internal audit responsibilities in their current role at their credit union.
Q1 Credit Union Name (OPTIONAL, this is NOT a required response)

Answered: 58  Skipped: 28
Q2 Approximate Asset Size of your CU:
Answered: 86  Skipped: 0
Q3 Department/Area of the organization you work in:

Answered: 86  Skipped: 0
### Q4 What is your level within your organization?

Answered: 85  Skipped: 1

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>President / Senior Executive</td>
<td>8.24%</td>
</tr>
<tr>
<td>Vice President</td>
<td>28.24%</td>
</tr>
<tr>
<td>Supervisor / Manager</td>
<td>42.35%</td>
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<tr>
<td>Administrative</td>
<td>3.53%</td>
</tr>
<tr>
<td>Frontline / Support Staff</td>
<td>17.65%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85</strong></td>
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</tbody>
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Q5 Number of years with current CU:
Answered: 86  Skipped: 0

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<th>Answer Choices</th>
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<td>less than 5 years</td>
<td>37.21%</td>
</tr>
<tr>
<td>5-10 years</td>
<td>27.91%</td>
</tr>
<tr>
<td>11-20 years</td>
<td>22.09%</td>
</tr>
<tr>
<td>more than 20 years</td>
<td>12.79%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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</table>
Q6 Does your CU offer a reward program or otherwise incent Credit Union staff to reach sales and/or service goals?

Answered: 86  Skipped: 0

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<tr>
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<th>Responses</th>
</tr>
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<tbody>
<tr>
<td>Yes</td>
<td>70.93%</td>
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<td></td>
<td>61</td>
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<td>No</td>
<td>29.07%</td>
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<td></td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td></td>
<td>86</td>
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</table>
Q7 Has your CU offered a reward program or otherwise incented Credit Union staff for sales and/or service goals previously?

Answered: 26  Skipped: 60

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<tr>
<td>Yes</td>
<td>19.23%</td>
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<tr>
<td>No</td>
<td>80.77%</td>
</tr>
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<td>Total</td>
<td></td>
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</tbody>
</table>
Q8 Approximately how long ago did the reward/incentive program for sales and/or service goals end?

Answered: 4    Skipped: 82
Q9 If you are aware, please describe the reasoning behind ending the reward/incentive program for sales and/or service goals:

Answered: 2  Skipped: 84
Q10 Did your organization collect any feedback related to the reward/incentive program prior to ending the program?

Answered: 4  Skipped: 82

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
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<tbody>
<tr>
<td>75.00%</td>
<td>25.00%</td>
</tr>
</tbody>
</table>

Total Respondents: 4
Q11 If your CU utilized a reward/incentive program in the past and has stopped, please describe the impact (if any). (i.e. impact on staff morale, performance, organizational objectives, financials, etc.)

Answered: 3  Skipped: 83
Q12 Please select all offerings for which your CU offers incentives and/or rewards. (Please select all that apply)

Answered: 57  Skipped: 29

Answer Choices

<table>
<thead>
<tr>
<th>Offering</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Mortgage Loans</td>
<td>45.61%</td>
</tr>
<tr>
<td>2nd Mortgage Loans / Home Equity Loans</td>
<td>47.37%</td>
</tr>
<tr>
<td>Auto Loans</td>
<td>54.39%</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>38.60%</td>
</tr>
<tr>
<td>Ancillary Loan Products</td>
<td>73.68%</td>
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<tr>
<td>New Accounts</td>
<td>31.58%</td>
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<tr>
<td>Overdraft Services</td>
<td>19.30%</td>
</tr>
<tr>
<td>Bill Pay Services</td>
<td>12.28%</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>8.77%</td>
</tr>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>Retirement / Investment Accounts</td>
<td>17.54%</td>
</tr>
<tr>
<td>Other (please describe)</td>
<td>24.56%</td>
</tr>
</tbody>
</table>

Total Respondents: 57
Q13 Are rewards/incentives awarded on a: (please select all that apply)

Answered: 57   Skipped: 29

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
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<tbody>
<tr>
<td>Individual performer level [i.e. the top individual performer(s) receives the award]</td>
<td>63.16%</td>
</tr>
<tr>
<td>Team performance level [i.e. the top team performer(s) receives the award]</td>
<td>21.05%</td>
</tr>
<tr>
<td>Department performance level [i.e. the top department(s) receives the award]</td>
<td>7.02%</td>
</tr>
<tr>
<td>Organization-wide performance [i.e. the entire organization is awarded if sales and/or service goals are met]</td>
<td>35.09%</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>22.81%</td>
</tr>
</tbody>
</table>

Total Respondents: 57
Q14 In your opinion, are the Credit Union's staff happy with the reward/incentive program(s) offered?

Answered: 57  Skipped: 29

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>89.47%</td>
</tr>
<tr>
<td>No</td>
<td>14.04%</td>
</tr>
</tbody>
</table>

Total Respondents: 57
Q15 In your opinion, is the reward/incentive program effective for meeting the Credit Union's sales and/or service goals?

Answered: 57  Skipped: 29

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>78.95%</td>
</tr>
<tr>
<td>No</td>
<td>22.81%</td>
</tr>
</tbody>
</table>

Total Respondents: 57
Q16 Was staff asked for input prior to implementing a reward/incentive program for sales and/or service goals?

Answered: 57  Skipped: 29

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>31.58%</td>
</tr>
<tr>
<td>Not that I am aware</td>
<td>68.42%</td>
</tr>
</tbody>
</table>

Total Respondents: 57
Q17 Does your organization collect any feedback related to the reward/incentive program?

Answered: 57  Skipped: 29

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>42.11%</td>
</tr>
<tr>
<td>Not that I am aware</td>
<td>57.89%</td>
</tr>
</tbody>
</table>

Total Respondents: 57
Q18 How important are the following to YOU (as an individual)

Answered: 79  Skipped: 7

<table>
<thead>
<tr>
<th>Category</th>
<th>Not at all important</th>
<th>Some importance</th>
<th>Extremely important</th>
<th>Total</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receiving formal recognition for your efforts</td>
<td>16.46%</td>
<td>56.96%</td>
<td>26.58%</td>
<td>79</td>
<td>2.10</td>
</tr>
<tr>
<td>Being recognized by management for your efforts</td>
<td>8.86%</td>
<td>36.71%</td>
<td>54.43%</td>
<td>79</td>
<td>2.46</td>
</tr>
<tr>
<td>Being recognized by peers and co-workers for your efforts</td>
<td>14.10%</td>
<td>55.13%</td>
<td>30.77%</td>
<td>78</td>
<td>2.17</td>
</tr>
<tr>
<td>Feeling a spirit of teamwork and cooperation among co-workers</td>
<td>1.27%</td>
<td>21.52%</td>
<td>77.22%</td>
<td>61</td>
<td>2.76</td>
</tr>
<tr>
<td>Feeling that your work is valued and appreciated</td>
<td>1.27%</td>
<td>16.46%</td>
<td>82.28%</td>
<td>66</td>
<td>2.81</td>
</tr>
<tr>
<td>Bonuses and other financial incentives</td>
<td>2.53%</td>
<td>48.10%</td>
<td>49.37%</td>
<td>39</td>
<td>2.47</td>
</tr>
</tbody>
</table>
Q19 Please rate the following rewards/incentives on a scale of 1-5 considering how motivating these are for YOU (where 1=no motivational effect, and 5=high motivational effect).

Answered: 79  Skipped: 7

<table>
<thead>
<tr>
<th>Reward Description</th>
<th>No Motivational Effect</th>
<th>Low Motivational Effect</th>
<th>Average Motivational Effect</th>
<th>Good Motivational Effect</th>
<th>High Motivational Effect</th>
<th>Total</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual bonus based on the company's achievement in financial targets</td>
<td>1.27%</td>
<td>5.06%</td>
<td>15.19%</td>
<td>30.38%</td>
<td>48.10%</td>
<td>79</td>
<td>4.19</td>
</tr>
<tr>
<td>An extra day off as a reward</td>
<td>7.59%</td>
<td>6.33%</td>
<td>17.72%</td>
<td>43.04%</td>
<td>25.32%</td>
<td>79</td>
<td>3.72</td>
</tr>
<tr>
<td>Award for attendance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Award ceremonies for outstanding work performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company paid for lunch with colleagues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A personal &quot;thank you&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verbal praise in front of colleagues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Challenging new assignments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private office</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible office hours</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional educational opportunities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free tickets to movies, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rewards &amp; Incentives</td>
<td>16.46%</td>
<td>17.72%</td>
<td>31.65%</td>
<td>15.19%</td>
<td>18.99%</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>----</td>
<td>----</td>
</tr>
<tr>
<td>Award for attendance</td>
<td>8.86%</td>
<td>18.99%</td>
<td>34.18%</td>
<td>25.32%</td>
<td>12.66%</td>
<td>7</td>
<td>15</td>
</tr>
<tr>
<td>Award ceremonies for milestone anniversaries / years of service</td>
<td>7.59%</td>
<td>27.85%</td>
<td>34.18%</td>
<td>21.52%</td>
<td>8.86%</td>
<td>6</td>
<td>22</td>
</tr>
<tr>
<td>A personal “thank you” or note of appreciation from supervisor, manager, co-worker</td>
<td>2.53%</td>
<td>12.66%</td>
<td>30.38%</td>
<td>27.85%</td>
<td>26.58%</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Verbal praise in front of boss and/or colleagues</td>
<td>2.53%</td>
<td>15.19%</td>
<td>26.58%</td>
<td>31.65%</td>
<td>24.05%</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Challenging new assignments</td>
<td>0.00%</td>
<td>2.53%</td>
<td>22.78%</td>
<td>48.10%</td>
<td>26.58%</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Private office</td>
<td>6.41%</td>
<td>14.10%</td>
<td>19.23%</td>
<td>32.05%</td>
<td>28.21%</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Flexible office hours</td>
<td>1.27%</td>
<td>7.59%</td>
<td>18.99%</td>
<td>31.65%</td>
<td>40.51%</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Additional educational opportunities supported by the company</td>
<td>1.27%</td>
<td>5.06%</td>
<td>16.46%</td>
<td>34.18%</td>
<td>43.04%</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Free tickets to movies, theaters, sporting and/or cultural events</td>
<td>15.19%</td>
<td>17.72%</td>
<td>30.38%</td>
<td>21.52%</td>
<td>15.19%</td>
<td>12</td>
<td>14</td>
</tr>
</tbody>
</table>
Q20 Does your role at the Credit Union include Internal Audit responsibilities?

Answered: 79  Skipped: 7

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>37.97%</td>
</tr>
<tr>
<td>No</td>
<td>62.03%</td>
</tr>
</tbody>
</table>

Total Respondents: 79
Q21 Is your internal audit program considerate of internal reward programs?

Answered: 28  Skipped: 58

<table>
<thead>
<tr>
<th>Answer Choices</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>26.57%</td>
</tr>
<tr>
<td>No</td>
<td>71.43%</td>
</tr>
</tbody>
</table>

Total Respondents: 28
Q22 In your experience, do reward/incentive programs for sales and/or service goals within your Credit Union impact the volume of internal audit findings for the related business unit (department)? (e.g. If your Credit Union awards top performers for car loan closings, do you see disproportionate internal control/procedure violations in this same area?)

Answered: 27  Skipped: 59

- Yes: 18.52% (5 responses)
- No: 81.48% (22 responses)

Total Respondents: 27
Q23 Is there anything else you would like to share related to reward/incentive programs as they relate to internal audit review findings?

Answered: 5  Skipped: 81
VIII. Appendix 2: Recognition, Appreciation and Engagement – Ideas & Examples

Customized recognition “post-its” from Georgia’s Own Credit Union

GOCYou Day for Georgia’s Own Credit Union staff – an all staff day for team building; and sharing successes, vision and values

Enjoy a pizza party in your office on Friday, April 19 in preparation for our employee appreciation dinner on Saturday, April 20.

Thanks for all you do!

Michigan One Community Credit Union celebrates staff with a pizza pre-party

April Fool’s Employee Appreciation Day at Michigan One Community Credit Union
Employees are treated to Popcorn Day at MUNA Federal Credit Union

Celebrating staff diversity and culture with International Day at Belvoir Federal Credit

Taking a spin in the cash machine at MUNA Federal Credit Union

International Day potluck luncheon at Belvoir Federal Credit Union
various examples of small token treats of appreciation...