

FINANCIAL INSTITUTIONS

Pay to Perform: Reinventing Incentive Compensation in Financial Institutions

A Modern Guide to Strategic Incentive Management

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Introduction

Incentive compensation is one of the most powerful — and often underused or mismanaged — levers banks, credit unions, and other financial institutions can use to drive growth. Due to siloed ownership, lack of transparency, outdated tools, manual processes and misaligned metrics, incentive programs tend to fall short, struggling to advance the institution's strategic goals. In fact, mistakes and inconsistencies from manually administered incentive plans can cause between 3–8% in overpayments, according to [Gartner](#).

The right program doesn't just pay people. It channels employee energy toward organizational goals, sparks higher performance, and rewards behavior that moves the profitability needle. Successful programs can transform error-prone, inaccurate incentive plans into employee motivation and protection against compliance issues and financial risks.

This guide outlines how finance leaders can use incentive compensation management plans to advance their institutions, strengthening transparency and trust while improving accuracy and reducing hidden costs. It includes resources leaders can use to enact immediate change, including:

- **An executive summary** to share with institutional leaders and start the conversation
- **An explanation of what's broken** in today's compensation plans
- **Real tactics for designing a smarter plan** with better recognition structures
- **The right metrics** to use to motivate the right behaviors and report on results

With the right mindset and platform, institutions can design incentive compensation management programs that motivate, protect, and scale with their goals and growth.



Executive Brief: Boosting Performance with Automated Incentive Compensation Management for Banks and Credit Unions

Incentive compensation management (ICM) is the process of designing, administering, and tracking variable pay programs that reward employees for achieving defined goals. An effective ICM program:

- Creates a compensation structure that ties performance or results to an employee's earnings
- Can also be applied to teams and institutions, not just employees
- Transforms compensation into a strategic tool for ongoing growth, compliance, and ultimately, profitability

The benefits of ICM across all levels of an institution include:

- **Employees:** Clear line of sight into how actions affect earnings
- **Managers:** Early intervention tools to coach and redirect performance
- **Executives:** Confidence that incentive spend aligns with profitability and strategy
- **Compliance & audit:** Audit-ready controls that reduce financial and reputational risk

The reasons successful ICM matters at financial institutions:

- **Customer-facing impact:** Affects how staff engage customers, grow deposits, and originate loans
- **Profitability alignment:** Rewards contribution to net income, moving beyond volume-based payouts
- **Risk management:** Reduces compliance issues and prevents "[perverse incentives](#)," or incentives that could unintentionally encourage unhealthy behaviors misaligned with an institution's true goals

Why plans don't work for most financial institutions:

- **Manual & error-prone:** Reliance on spreadsheets leads to inefficiencies, overpayments, and disputes, with 84% of Excel spreadsheets [containing errors](#); this means that to be accurate, an institution's compensation calculation would need to be in the other 16%
- **Siloed & opaque:** Data scattered across systems prevents transparency and undermines employee trust
- **Misaligned incentives:** Oversimplified plans reward volume over profitability, creating risk and waste
- **Weak reporting & compliance:** Poor visibility hampers forecasting, accruals, and regulatory readiness

What leading financial institutions are doing about it

Today's leading financial institutions are designing incentive programs using the right tools to reduce manual work, errors, and misaligned incentivization. They rely on solutions like [Axiom[®] Incentive Compensation Management \(ICM\)](#) to build and maintain stronger, more strategic incentive compensation plans, using:

- Streamlined compensation planning with automations to drive transparency
- Helpful "what-if" modeling to test and evaluate plan design
- Flexibility to manage plans across diverse roles and teams
- Collaboration across finance, human resources (HR), and retail teams

The bottom line

With ICM solutions, banks, credit unions, and other financial institutions can:

- Motivate profitable behavior
- Protect against compliance issues and financial risks
- Improve accuracy and reduce hidden costs
- Strengthen transparency and trust



The Evolution of Incentive Compensation Programs

Institutions typically evolve through three stages of incentive maturity:

- 1. Foundational:** Pooled bonuses, high-level measurements, little individual recognition
- 2. Developmental:** More granular metrics, goal ranges, and dispute processes
- 3. Mature:** Integrated profitability, compliance checks, and qualitative factors like teamwork

As organizations move through these stages, they often linger for years in the Developmental stage. This plateau or pitstop in evolution can be due to multiple factors, such as siloed line-of-business calculations, use of manual data and calculation tools, and a lack of centralized knowledge of how ICM supports an institution's overall strategic plan.

Wherever an institution falls on this spectrum, the goal is continuous improvement. Incentive programs should evolve alongside the institution, rather than remaining static relics of the past.

What's Broken in Most Incentive Plans

Most incentive programs share the same fatal flaw: Manual administration.

When plans are run out of spreadsheets or homegrown tools, overpayments are common. Why? Because there's no automation, no audit trail, and no control. Errors creep in when data is pulled from disconnected systems like lending platforms, customer records, and even email attachments.

The cost of these inefficiencies isn't just financial. Manual systems force finance teams to simplify complex plans, which means accuracy is sacrificed for speed. Employees don't trust the numbers, managers can't explain them, and finance can't forecast them. In short, the organization loses confidence in its own incentive plans.



Why Incentive Compensation Belongs in FP&A

At first glance, incentive compensation planning might seem like it should belong to HR, given that it concerns pay. Based on our experience working with some of the [leading financial institutions](#) in the country, however, the most successful incentive programs are typically driven by financial planning and analysis (FP&A).

Here's why: incentive programs are about more than paychecks. They're about aligning performance with profitability, forecasting future payouts, and ensuring governance over one of the biggest expense categories on the books.

As a result, FP&A brings the right capabilities to the table:

- **Budgeting & Forecasting:** Set expectations for what "good performance" means
- **Reporting & Analytics:** Centralize data for accuracy and transparency, leveraging a natural aptitude for report creation and ownership
- **Profitability & Funds Transfer Pricing:** Ensure payouts align with actual value creation, not just activity
- **Compensation Management:** Calculate and communicate payouts with rigor and auditability

In many institutions, ICM lags behind budgeting and profitability efforts. This is not because it is less important, but because it is hidden in silos. Bringing ICM into FP&A elevates it to a strategic discipline.

Real Tactics for Designing a Smarter Plan

Developing smarter plans requires the elevation of ICM from manual processes that are prone to costly mistakes and impactful errors to strategic, thoughtfully automated design.

The strategic advantage of well-designed incentives

There's a difference between simply paying people and using compensation strategically. The latter turns incentives into a lever for both performance and accountability.

Core design principles include:

- Alignment with institutional strategy and role-specific goals
- Transparency into metrics and calculations
- Flexibility to adapt to shifting market conditions
- Risk management to avoid unintended behaviors
- Compliance with regulations
- Credibility through accurate reporting and communication

When done right, incentive plans deliver real value:

- **Motivation:** Employees know what success looks like and see how to achieve it.
- **Clarity:** Clear metrics reduce confusion and drive performance.
- **Intervention:** Managers can spot and address problems early.
- **Evaluation:** Performance data inform promotions, coaching, and bonus decisions.
- **Insights:** Historical data help refine budgets and future strategies.

This is where incentive compensation shifts from being a “cost of doing business” to being a competitive differentiator, as well as a valuable recruitment tactic. Productive, high-achieving employees gravitate toward institutions with compensation plans that will reward them for their achievements. Without this variable component of pay, those employees may seek opportunities elsewhere. Developing an incentive compensation program can help institutions attract and retain higher level talent.

Building Smarter Incentive Plans

Not all incentive structures are created equal. Each ICM plan design has trade-offs, and the right choice depends on role complexity, employee maturity, and desired outcomes.

Common recognition structures include:

- **Assigned goal:** Targets based on forecasted contribution (e.g., five loans per month) can be great for clarity and budget alignment but can demotivate employees who nearly — but not quite — hit targets.
- **Per occurrence:** Pay per action (e.g., a flat payout for each account opened) can reward activity but may fail to align with overall institutional strategy and profitability.
- **Accelerated:** Compensating on a range of productivity, with the strategic goal at the center of that range, allows for partial payment for near misses of the goal and increased payment for overachievement.
- **Tiered:** Paying for all productivity once a separate target metric is met.
- **Holdback provision:** Recognizing a portion of productivity immediately while holding back for final measurement at the end of the period (usually annually).

Smarter plans often use a blend of these models, ensuring that both consistency and effort are rewarded without losing sight of strategic alignment.



Measurement and Motivation: How to Align the Two

Metrics are the lifeblood of incentive plans, but not all metrics motivate the right behaviors. For example, lending institutions might measure by:

- **Balances:** Captures net growth, but may hide churn
- **Production:** Shows effort, but needs careful separation of new versus shifted funds
- **Profitability:** The gold standard, though not applicable to all roles at the same level of detail

To tie incentives to profitability, for example, institutional leaders can incentivize loan officers on each loan's net margin contribution. This takes into account the cost-of-funds and capital requirements. This approach requires each loan to be transfer priced and given an economic capital allocation. The result is better alignment of behavior with the desired outcomes for the institution.

As a best practice, institutions should use a weighted combination across a variety of measurements. For instance:

- 60% on production and balances — such as number of new deposits, dollars of new loans, fee income activity
- 40% on profitability and compliance — such as individual officer portfolio funds transfer pricing (FTP), company-level return on equity (ROE), delinquency qualifiers

How incentives are calculated also matters. See the chart below for examples of different calculation methods.

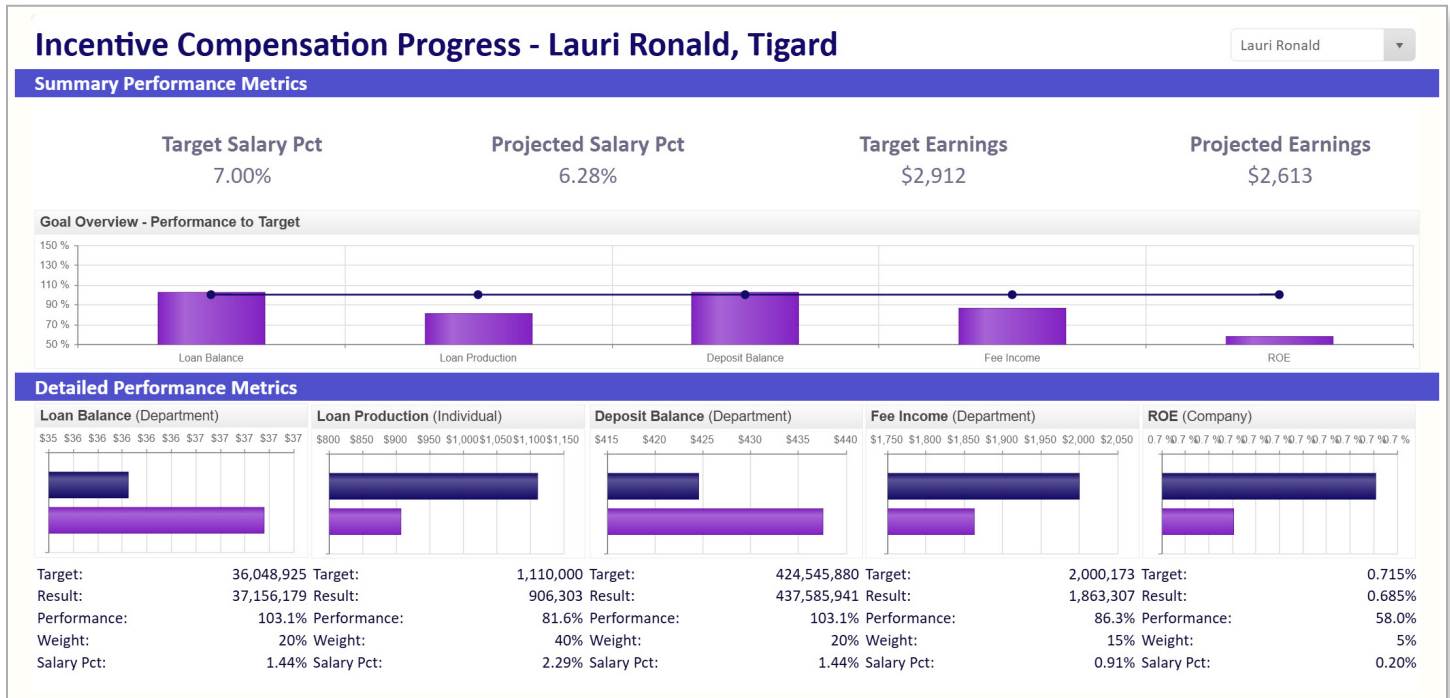
Incentive Calculation Methods

Method	Best For	Watch Out For
Percent of Salary	Support staff	Weak link to productivity
Percent of Balance	Loan originators	Can incentivize over-lending
Flat Amount	High-volume roles	Oversimplifies strategic goals
Portion of Pool	Profit-sensitive teams	Vague payment amounts reduce motivation

Incentive formulas that are overly simple are tempting but risky. A slightly more complex plan that aligns with reality is always better than an easy plan that rewards the wrong things.

Once formulas are established, financial institution leaders should use them as the basis for regular reports for employees and managers who provide detailed views of performance against those core metrics and incentive payouts. There is a wide range of analytical reports that can be generated using ICM information, including ranking reports, distribution analysis, and comparison to targets with aggregations by role type, line of business, geography, and goal category. Rich dashboards that analyze planned performance can help stakeholders visualize performance against those established metrics.

Example dashboard



Incentive Compensation Calculation

John Smith

Quarterly Goals

Goal	Weight	Target	Result	Performance	Weighted Performance	Target Achieved	Target Performance	Payout
Deposit Growth	40.0%	25,000	20,000	80.00%	32.00%	Y	32.00%	\$ 160.00
Business Loan Orig	35.0%	3	1	33.33%	11.67%	N	0.00%	\$ -
NPS	25.0%	72.000%	80.000%	111.11%	27.78%	Y	27.78%	\$ 138.89
Totals	100.0%				71.44%		59.78%	\$ 298.89

Target Payout: \$ 500.00

Monthly Production

Production	60-Day Avg Bal	Rate	Calc	Adjustment	Payout
DDA Retail	50,000	0.0600%	30.00	100%	\$ 30.00
COD	50,000	0.0500%	25.00	100%	\$ 25.00
SAV Retail	100,000	0.0500%	50.00	100%	\$ 50.00
DDA Bus	25,000	0.0800%	20.00	100%	\$ 20.00
Totals					\$ 125.00

Quarterly Payout \$ 298.89
 Monthly Payout \$ 125.00
Total Payout \$ 423.89

Source: Strata Decision Technology Axiom ICM

Reporting: The Unsung Hero of Compensation Plans

Even the best incentive plan fails if employees can't see how they're performing against it. When employees lack visibility, they tend to distrust ICM systems and thus opt to manually track their incentive compensation. This manual "shadow accounting" is time consuming and unproductive.

It's important to provide employees with reporting that allows individuals to see the detailed transactions and calculation results that drive their compensation. Generating and distributing reports mid cycle shows employees their individual progress to date. Reporting transforms incentive programs from static HR sign-off documents into dynamic, motivating tools.

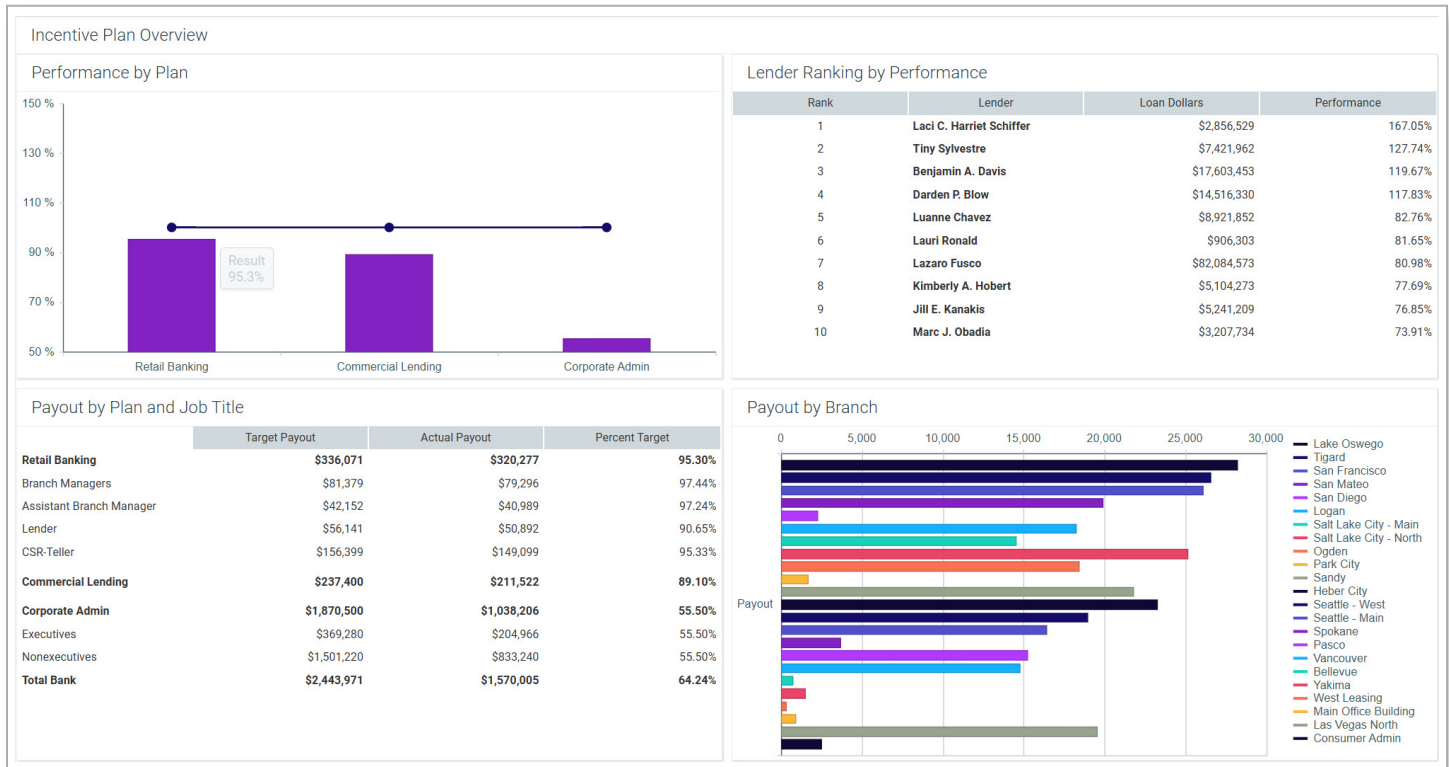
Why reporting matters:

- Employees stay motivated when they can anticipate their earnings
- Managers gain visibility to course-correct in real time
- Finance can adjust accruals earlier, avoiding year-end surprises
- Leadership gets insight into the effectiveness of incentive plans

Modern reporting tools like **Axiom ICM** take this to the next level. Instead of static spreadsheets, employees get dashboards, leaderboards, and payout forecasts that fuel engagement and competition.

For leadership, reporting isn't just about visibility — it's about protection. Automated reporting reduces compliance risks, ensures auditability, and builds trust in the system.

Leadership overview



Source: Strata Decision Technology Axiom ICM

How Technology Is Transforming Incentive Compensation Planning

Manual systems limit sophistication. Well-designed incentive plans leverage enterprise performance management (EPM) data and processes and align individuals with institutional strategies. They motivate customer-facing employees to generate profitable growth that is within the institution's risk guidelines. [Axiom ICM](#) enables financial institutions to advance these capabilities for enhanced control, fairness, and strategic alignment.

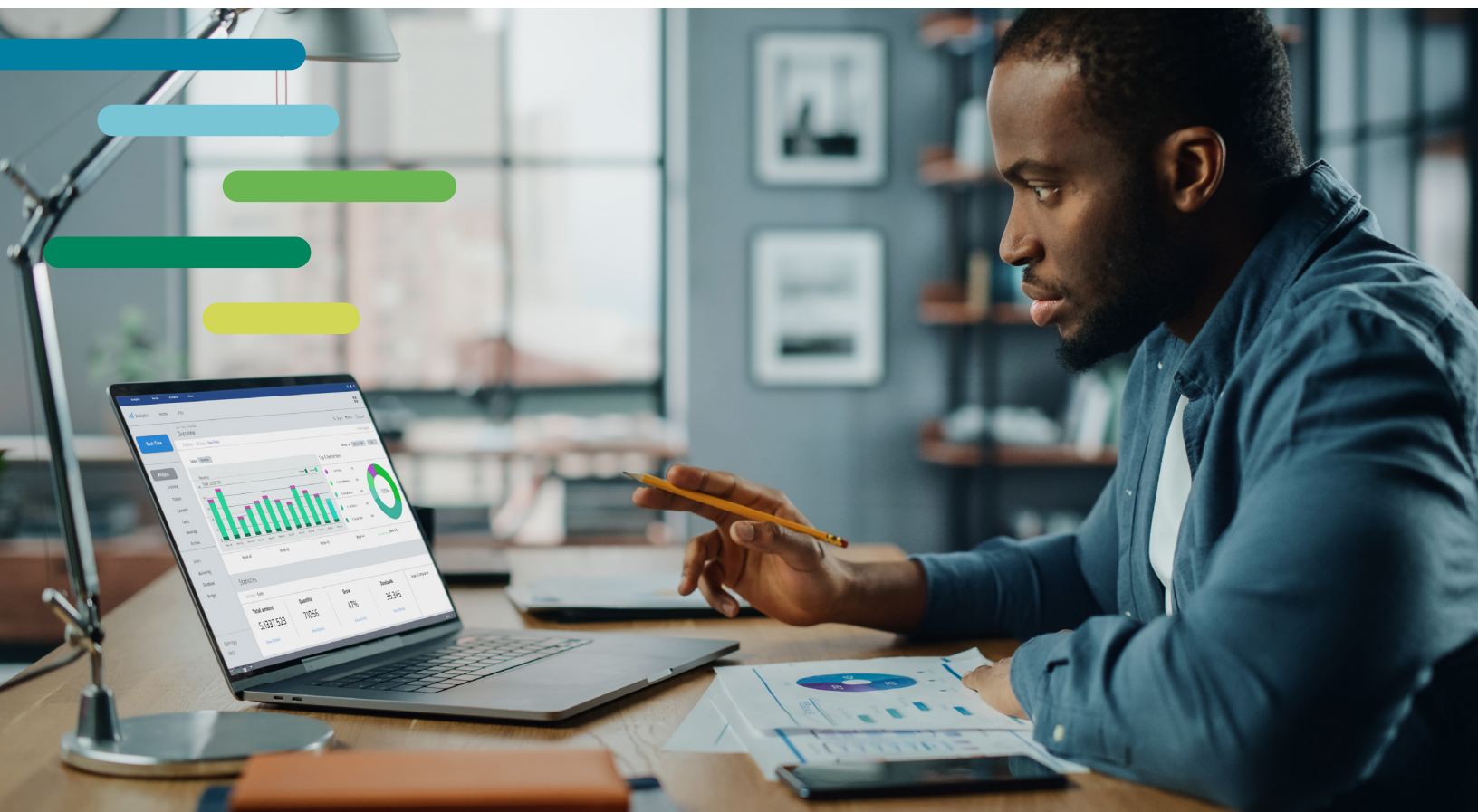
The solution allows finance leaders to manage highly complex incentive plans for tens, hundreds, or even thousands of employees in various roles across an institution. It imports all relevant information into the Axiom ICM data repository, including general ledger, HR/payroll information, core loan and deposit details, and information from other disparate sources (such as referral systems and loan application systems).

Within the ICM system, plan administrators can manage an unlimited number of incentive plans using a familiar Excel user interface. These plans can include complex criteria for payouts, such as tiered performance thresholds in support of team and individual goals. The solution is designed to be managed by non-technical personnel and provides comprehensive reporting and workflows to support the process.

Key benefits of Axiom ICM include:

- **Reduce overpayments:** Replace cumbersome spreadsheets and home-grown databases with rules-based automation to enable more data governance and eliminate hidden leakage.
- **Integrate data sources:** Consolidate customer, loan, and profitability data into one system to create and execute an incentive plan that aligns with institutional strategy.
- **Enable real-time reporting:** Give employees and leaders more timely calculations and insights that motivate and inform, and that allow leaders to respond quickly to changing market conditions.
- **Reward profitability, not just volume:** Leverage profitability and funds transfer pricing (FTP) measures to tie payouts to margin contribution, not just raw activity.
- **Improve plan quality:** Align compensation with budgeting and forecasting in one unified platform.
- **Create Transparency:** Provide employees with visibility into how their compensation is calculated against targets, fostering trust.

In short, Axiom doesn't just calculate payouts – it transforms incentive compensation into a lever for performance, profitability, and strategic alignment.



Conclusion

An incentive compensation program can either work for an institution or against it.

A well-designed, technology-enabled program motivates profitable behavior, rewards top performers, and protects the institution. A poorly designed one creates blind spots, inequities, and financial risk.

The path forward doesn't require an overnight renovation. It requires intentional steps toward better design, smarter measurement, stronger reporting, and — most critically — the right technology.

With Axiom, financial institutions can move incentive compensation out of spreadsheets and silos, and into the strategic heart of FP&A. The result? A future-ready program that drives growth, confidence, and control.

To learn more about Axiom ICM, visit Strata's [website](#) or [schedule a demo](#).





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