

Staff Incentive Schemes

Overview

Well-designed staff incentive schemes can have positive and powerful effects on the productivity, efficiency and quality of financial institutions' (FI) operations. Conversely, poorly developed schemes can have serious detrimental effects. Incentive schemes must be transparent so that staff members affected can easily understand the mechanics of the calculation. Thus the system should not be overly complex but should contain as many objective factors and as few subjective variables as possible. Furthermore, the "rules of the game" should be made known to everyone and should not be changed arbitrarily. In addition, it is essential that the incentive scheme be perceived as being fair, and thus the goals set out by the scheme must be attainable, and better performing staff members must indeed be rewarded with higher salaries. Finally, everyone must be able to achieve a higher compensation by working better and harder.

This framework, developed with CGAP and MFN, provides a detailed examination of:

- The theoretical background of staff incentive schemes.
- Basic building blocks for staff incentive schemes.
- Principle design questions for staff incentive schemes.
- Incentive schemes for different functional areas in financial institutions.
- A step-by-step approach to the design of incentive schemes.
- A cost-benefit analysis of incentive schemes.
- Incentive schemes in other areas of microfinance.



It covers staff incentive schemes for credit, savings and management cadres.

Benefits

The 2005 MFN/CGAP survey¹ of 147 financial institutions using staff incentive schemes revealed that almost all had experienced overwhelmingly positive effects by introducing staff incentive schemes. The results are summarised in the table below:

Effect of Your Staff Incentive Scheme on:	Very High Effect	High Effect	Medium Effect	Low Effect	Very Low Effect
Positive Perceived Effects					
Overall Improvement in Financial Performance (Benefits minus Costs)	14%	51%	30%	2%	2%
Increased Productivity of Credit Officers (More Clients/Higher Portfolio)	27%	52%	19%	0%	2%
Increased Productivity of Credit Officers (Lower Portfolio at Risk)	30%	38%	20%	6%	3%
Reduced Staff Turnover	9%	32%	29%	18%	3%
Improved Client Satisfaction	3%	34%	40%	8%	6%
Increased Staff Motivation	18%	55%	18%	5%	0%
Negative Perceived Effects					
Reduced Focus on Target Population	2%	9%	25%	33%	17%
Reduced Intrinsic Motivation	0%	14%	34%	27%	12%

¹ McKim, Andrew and Matthew Hughart, "Staff Incentive Schemes in Practice: Findings from a Global Survey of Microfinance Institutions", MFN/CGAP, Washington, 2005.

These beneficial effects have also been noted by *MicroSave* clients implementing staff incentive schemes:

- *Kenya Post Office Savings Bank (KPOSB)* has experienced a significant boost in both staff productivity and morale after introducing a relatively simple, inter-branch tournament incentive scheme designed to increase savings at the bank. KPOSB then started to reward branch teams according to number and amount of savings transactions, number of accounts opened and closed as well as the volume deposited. Further differentiations within each of these performance measurement indicators and the use of weights assure that such a performance assessment reflects KPOSB's needs and is fair to the employees of all branches. Under the scheme, 70% of the branch bonus pool is distributed according to the basic salaries and 30% on the basis of individual achievements. To help focus branch teams on efficiency, this basic scheme may, in future, be supplemented by the branch-based costing system currently being implemented.
- *Equity Bank* has also seen significant benefits from its variety of inter-branch tournament incentive schemes and has now implemented branch-based and individual credit officer-focused schemes to improve productivity and reduce portfolio at risk.
- *Uganda Microfinance Limited's (UML)* staff incentive scheme has increased deposit mobilisation by promoting teamwork amongst staff – something that has been enhanced by the monthly bonus payments. Furthermore, the increase in number of clients has resulted in an enhanced image of UML.
- TSKI, in the Philippines introduced a new loan product which involved the restructuring of big branches into smaller unit offices. *MicroSave* helped design a new SIS for all the branch level staff, which included both financial and non-financial incentives.
- *MicroSave* team supported Grameen Financial Services Pvt. Ltd in India to redesign their staff incentive scheme for their field teams namely Centre Manager, Branch Manager and Area Manager. The team proposed the incentive scheme after deliberation with the respective staff and senior management as well as data analysis. Various parameters are integrated in the scheme and it focuses more on quality than on quantity of operations.
- *MicroSave* designed, tested and implemented staff incentive schemes for TSPI, ASKI and OK Bank in the Philippines, as well as for a wide variety of FIs in India. These have resulted in significant gains in productivity, as well as reductions in portfolio at risk.
- *MicroSave* has also worked extensively on designing agent incentives for mobile money systems in both India and Papua New Guinea.



An effective staff incentive scheme can significantly improve client satisfaction and staff motivation, as well as increase the productivity and profitability of your institution!