

VisionLink

How Do I Structure Compensation in Recessionary Times to Ensure Ongoing Performance?

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ADVISORY GROUP

January 27, 2009

Key Concepts



- How to create an “earn now, pay later” bonus plan
- How high performance companies retain their key talent when the economy goes bad
- What great companies do now to surge ahead after the recession—and how they pay people to get it done
- How to construct a rewards strategy to capture top talent during a recession

Today's presenter

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We're happy to provide a copy of today's slides. Information will be provided at the close of the presentation.

For questions during today's presentation:

Use the question panel to the right of your screen



No doubt about it...

...the economy is in
a deep recession

The “Bright Side”

- Weak competition dies off
- Availability of top talent
- Opportunity to re-focus capital expenditures in anticipation of recovery
- Acquisition opportunities
- Time to “re-vamp” compensation structures

Emergence Strategy

- Capital investments (defensive or offensive)
- People investments (talent pool)
- Strategic acquisitions
- Tactical hedging
- Compensation re-alignment

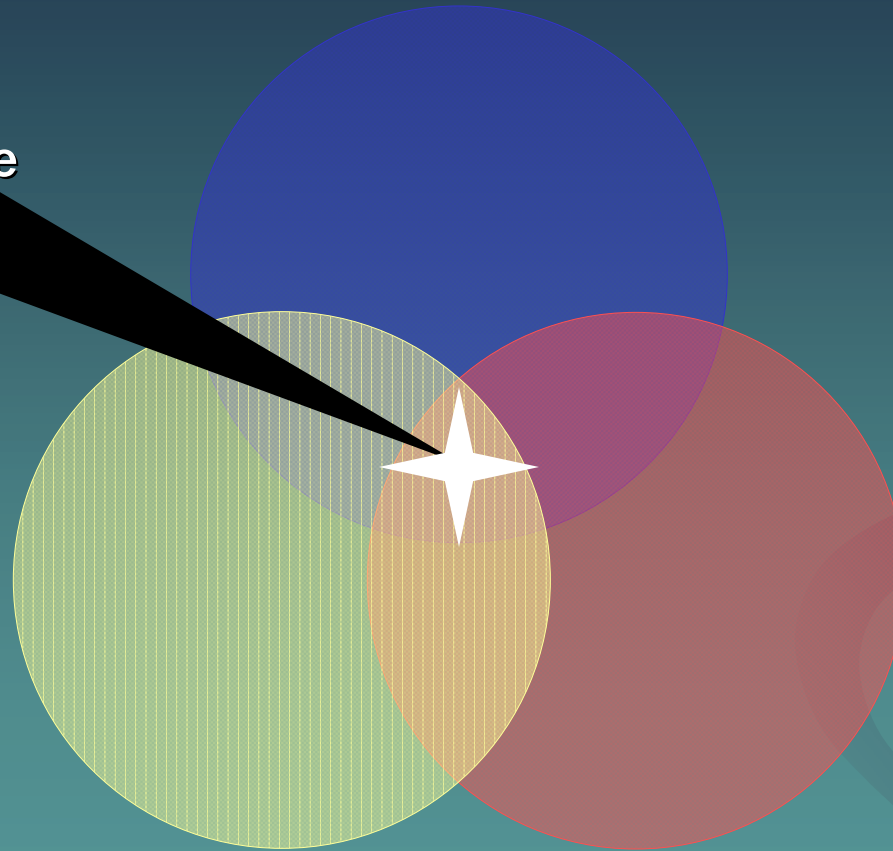
Visionary Business Plan

Sustainable
Results

Great Talent

Powerful Rewards
Programs

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3 Goals of Good Compensation Policy

- Win the talent wars
- Focus employees on most important results
- Produce a positive return on compensation investment

We'll look at executive compensation but the same principles apply

Win the talent wars

- Progressive Insurance
- Isis Pharmaceuticals
- Lehman Brothers

Source: The Well-Timed Strategy, Peter Navarro

Great talent

- Not good talent, great talent
- People believe in and commit to the vision and strategy
- People with ownership, not entitlement, mentality



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It's precisely at the trough of a recession that the labor pool will be at its deepest and wage pressures will have subsided.

POLL

QUICKPOLL

Average pay raise for 2009 is expected to be:

Please select one:

- ☐ 0%
- ☐ 1%
- ☐ 2%
- ☐ 3%

QUICKPOLL

Average pay raise for 2009 is expected to be:

Poll Results (single answer required):

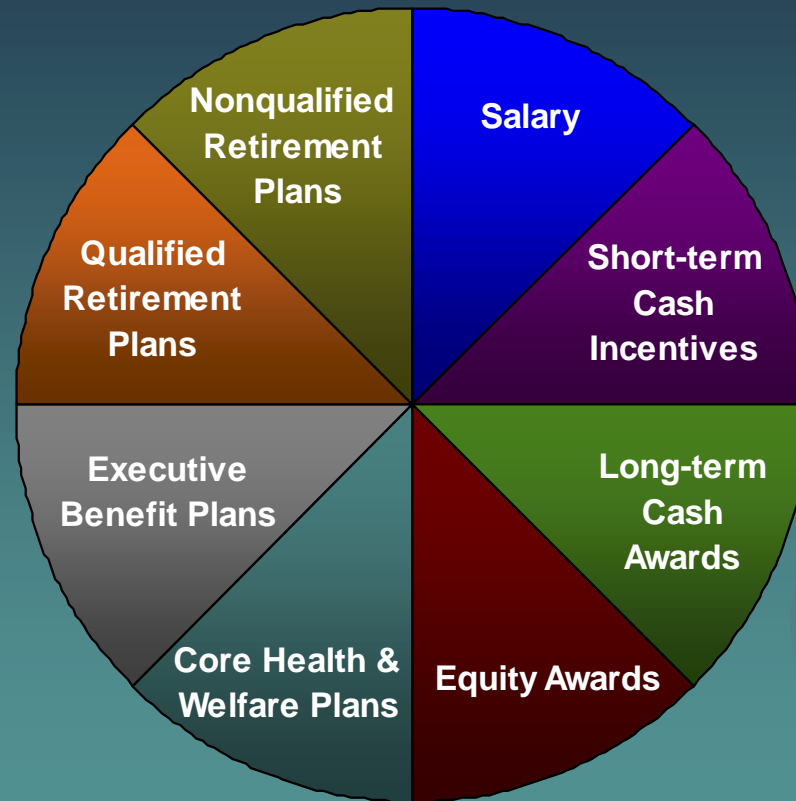




What type of compensation package do they respond to?

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Compensation Pantry



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Total Rewards

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graph TD; TR[Total Rewards] --> SCF[Sustainable Cash Flow]; TR --> S[Security]; TR --> WA[Wealth Accumulation]; SCF --- STIP[Salary / STIP]; S --- B[Benefits]; WA --- RLTP[Retirement / LTIP]; SCF --> CL[Confidence in Lifestyle]; S --> CL; WA --> P[Participation in Value Creation]; P --> OM[Ownership Mentality<br/>Line of Sight<br/>Deferred Gratification<br/>Win Talent Wars<br/>Self-financing<br/>Abundance Mentality]; OM --> SG[Sustainable Growth]; SG --> CA[Culture is Competitive Advantage];
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**Sustainable
Cash Flow**

Salary / STIP

Security

Benefits

**Wealth
Accumulation**

Retirement / LTIP

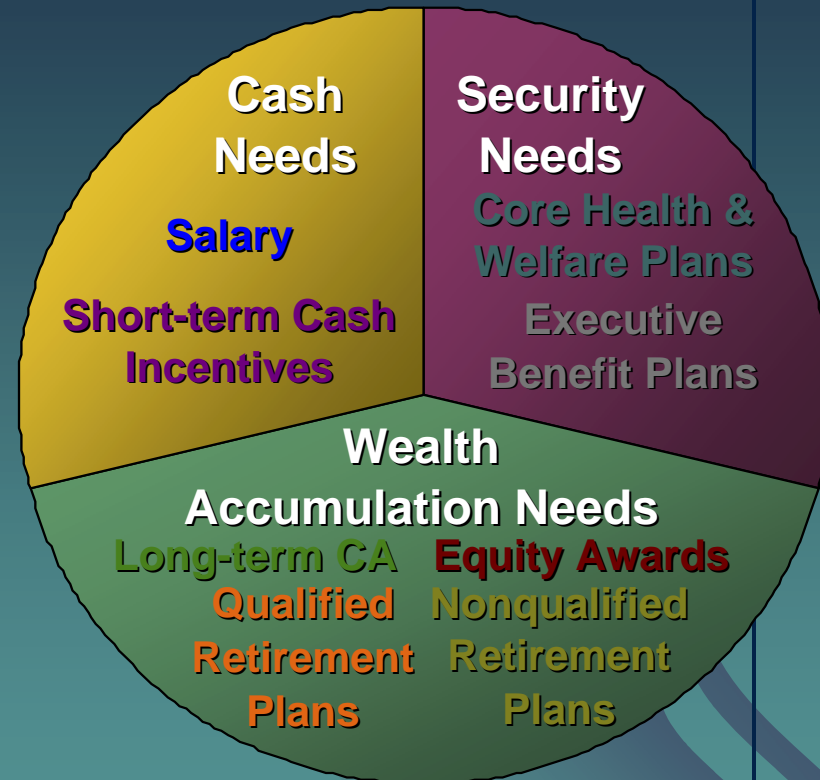
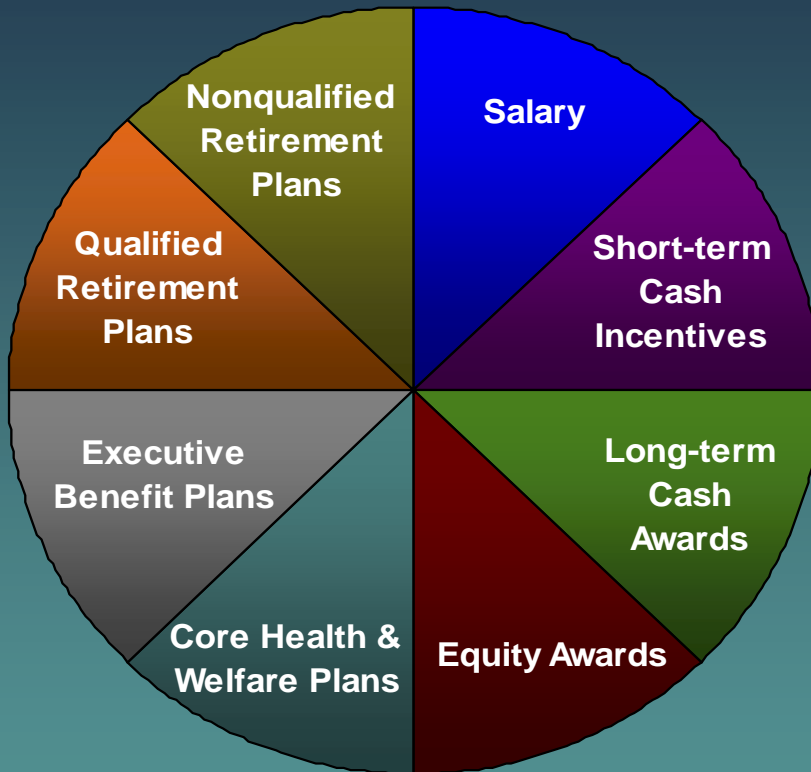
**Confidence in
Lifestyle**

**Participation in
Value Creation**

Ownership Mentality
Line of Sight
Deferred Gratification
Win Talent Wars
Self-financing
Abundance Mentality

Sustainable Growth

**Culture is Competitive
Advantage**



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Compensation Philosophy Statement

- Drafted under direction of the shareholders or board
- Spells out the company's beliefs about compensation
- "How do we address employees' cash needs?"
- "How do we address employees' security needs?"

Compensation Philosophy Statement

- “How do we address employees’ wealth accumulation needs?”
- “How do we adjust pay during a recession?”
- “How do we pay during great times?”
- “How do we communicate rewards related issues and decisions to our employees?”

Sample “bullet point” Philosophy

- We pay salaries at market (not necessary to be above market)
- We provide significant upside for exceeding annual expectations (goals must be meaningful)
- We provide significant long-term wealth accumulation opportunities for helping to sustain growth (we share value)
- We provide benefits at market with upside value in strong years (flexible benefit structure)

Characteristics

- Entrepreneurial
- Ownership oriented
- Reasonable
- Expects long-term rewards for patience during down years



Complementary approach

Business is up



Business is down



Salaries at or slightly
above market

Salaries at or slightly
below market (modest if
any pay increases)

Short-term incentives
equal to aggressive
percent of salary

Short-term incentives
are minimal

Long-term awards
based on market-based
grant guidelines

Long-term awards
at higher than market levels

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Let's examine some models

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At Target

- Do not expect bonuses this year
- We will grant some phantom options
- STIP will resume at designated growth levels in 2010. STIP to be 30% above market.
- SERP accrual suspended for 2009
- Wealth accumulation value to remain constant (5-year target)

At Superior

- Bonuses will be paid at 200% of Target
- Expect to increase option grants by 50%
- SERP accrual continued for 2009
- Wealth accumulation value to be 250% of Target opportunity

Keys



- Clear philosophy with sound logic
- Willingness of shareholders to invest for the long-run
- Commitment to strong communication program
- Flexibly designed incentive plans (both short-term and long-term)
- Strong financial models for forecasting and managing

POLL

QUICKPOLL

Long-term incentive plans are potentially useful during a recession because (check all that apply):

Please select all that apply:

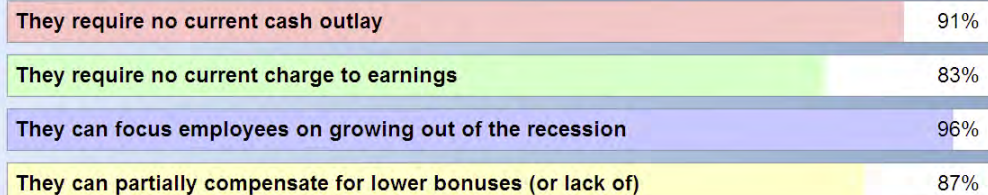
- ☐ They require no current cash outlay
- ☐ They require no current charge to earnings
- ☐ They can focus employees on growing out of the recession
- ☐ They can partially compensate for lower bonuses (or lack of)

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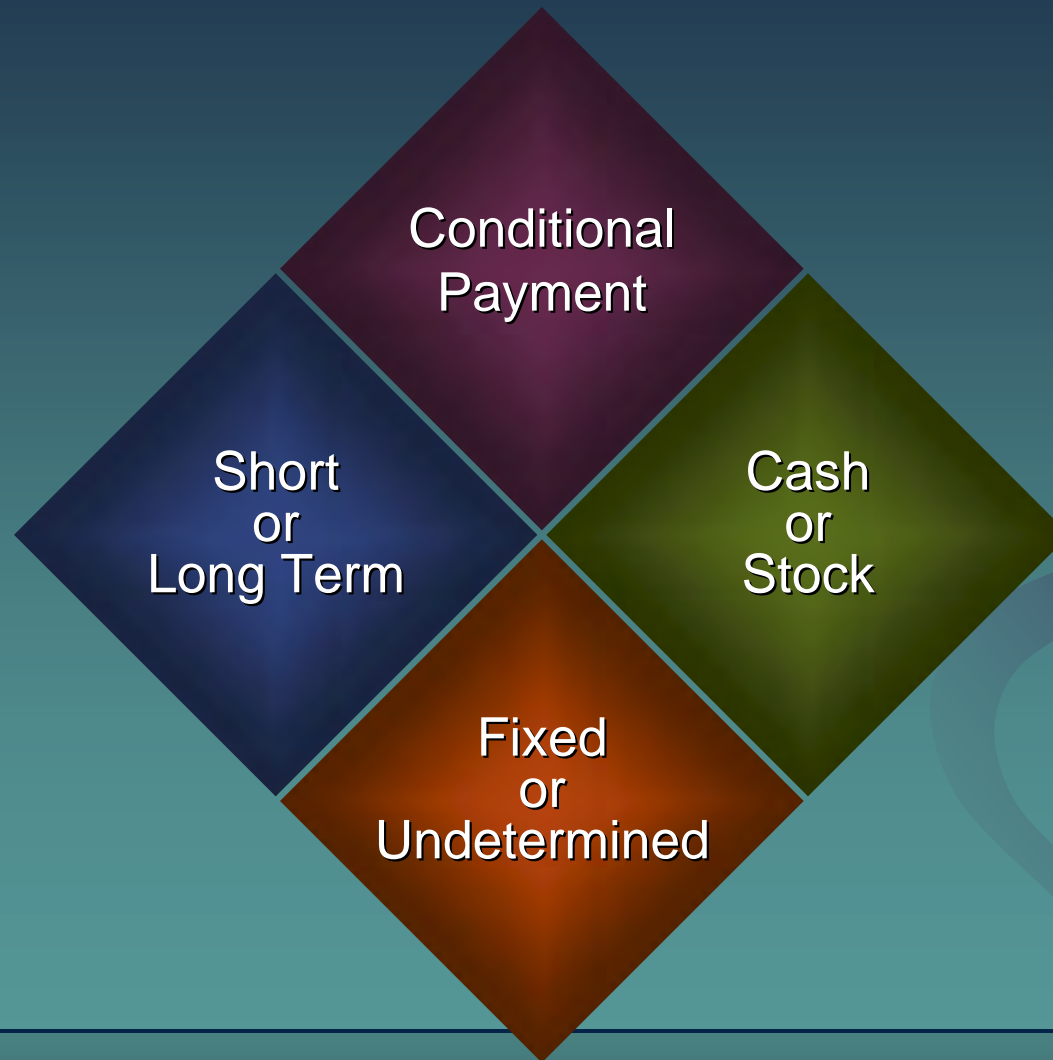
QUICKPOLL

Long-term incentive plans are potentially useful during a recession because (check all that apply):

Poll Results (multiple answers allowed):



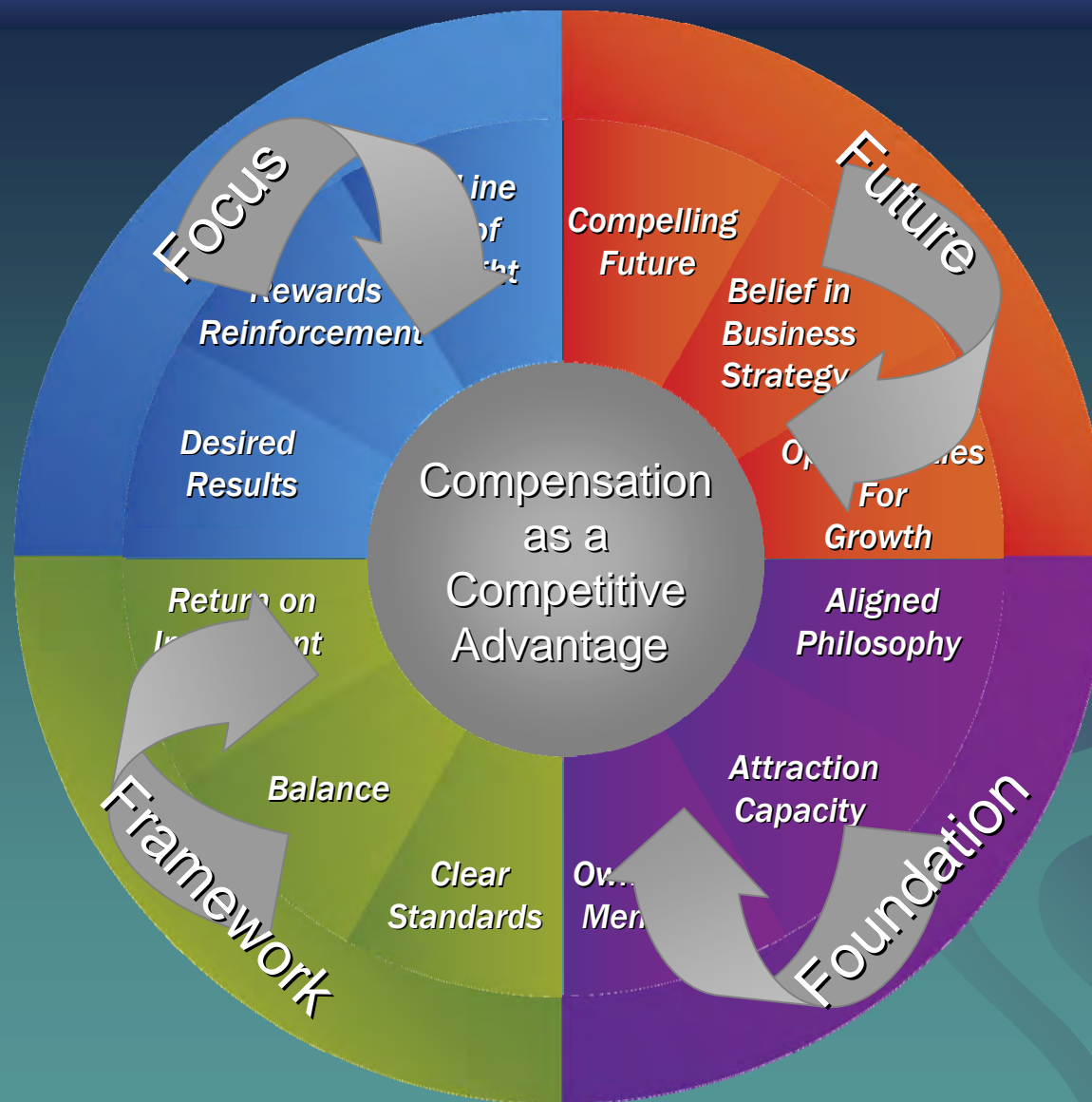
Incentive Plans



Employee Value Statement

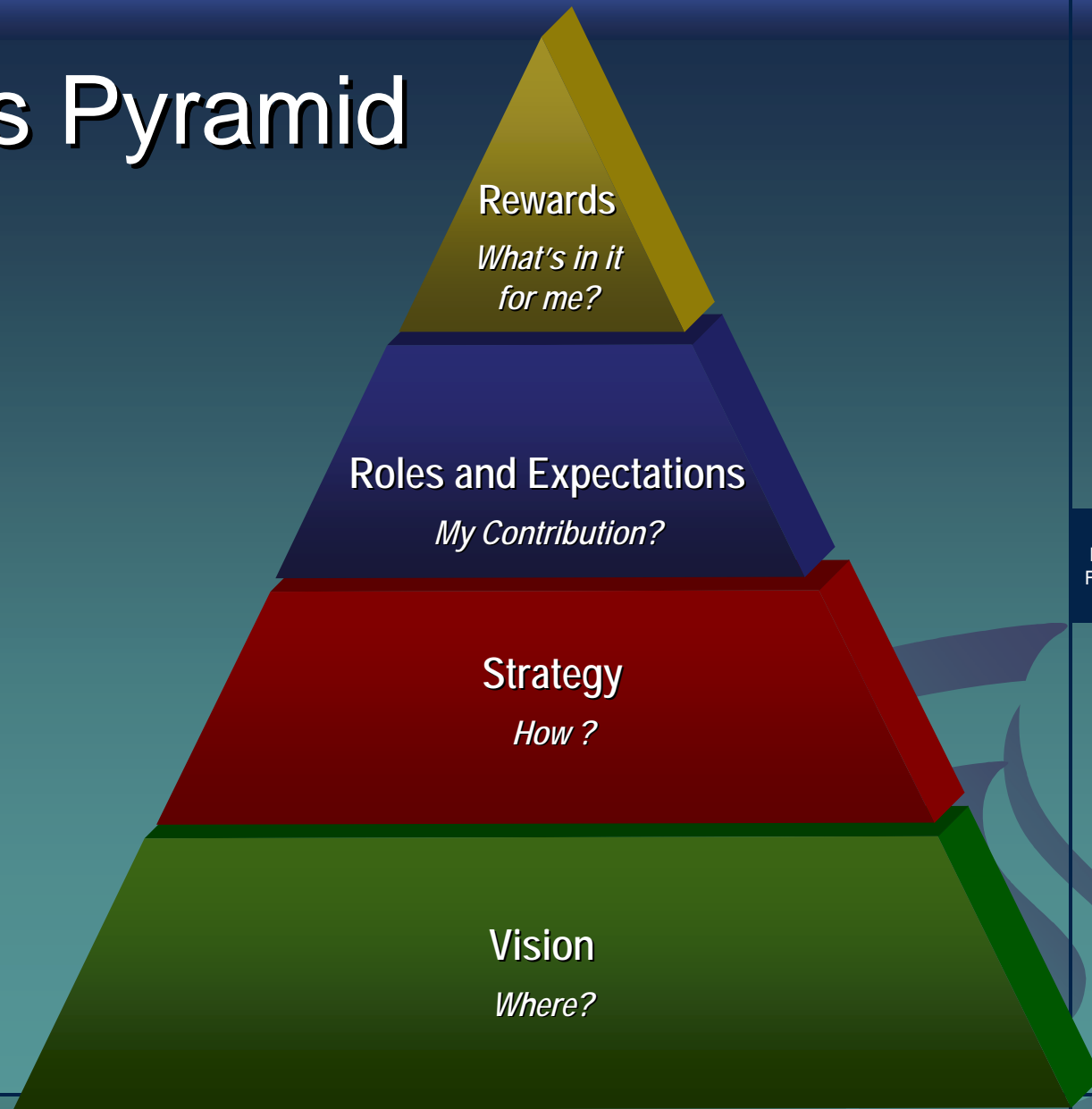
Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 0	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000	\$ 448,000
Retirement Plan Value (at 7%)	\$ 17,120	\$ 36,123	\$ 57,169	\$ 80,428	\$ 106,086
Total Cash Received	\$ 160,000	\$ 232,960	\$ 242,278	\$ 251,970	\$ 262,048
Total Wealth Accumulation	\$ 17,120	\$ 110,123	\$ 243,169	\$ 391,428	\$ 554,086
Total Paid or Accumulated	\$ 177,120	\$ 503,083	\$ 880,407	\$ 1,280,636	\$ 1,703,343

Caveat:



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Rewards Pyramid



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Rewards to Results



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FoxHill Bank Results Map

Desired
Results

Five Year Goals:
Double Interest Revenue
Triple Non-interest Revenue
Triple Net Income
Open 6 new branches

Barriers

Current real estate environment stifling growth in mortgage business

Technology platform is out-of-date and will need complete overhaul

Tough recruiting market is challenging ability to attract new management talent

Actions

Adopt written compensation philosophy that aligns growth strategy with highly focused incentives

Re-structure short-term incentive plan to create greater accountability for top- and bottom line results (including departmental focus)

Add long-term incentive plan that creates rewards for growing shareholder value and serves as retention tool

Implement modest supplemental retirement plan that will enhance recruiting value proposition

Adopt a process for ongoing communication of the bank's total rewards value to employees

Expected
Outcomes

Moderate payroll expenses in down years coupled with above market pay in superior performance periods

More motivated and focused entrepreneurial management team

Improved profitability in all departments

Ability to recruit and retain any desired manager or executive

Measuring Employee Commitment

- Net Motivation Score (NMS)
- Examines three responses:
 - Clarity of the plan
 - Believability of the plan
 - Value of the plan



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Net Motivation Score

- I clearly understand what personal and organizational results need to be achieved in order to receive my targeted incentive award
- I believe the company can, and likely will, achieve the results that will enable me to earn my targeted incentive award
- It is important that we achieve our results because my targeted incentive award value is very meaningful to me

Net Motivation Score

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Typical Score

Component	Motivated	Unsure	Not Motivated	Score
Clarity	4	3	3	1
Belief	3	5	2	1
Value	4	2	4	0
Composite				0.7

Positive Score

Component	Motivated	Unsure	Not Motivated	Score
Clarity	9	1	0	8
Belief	7	2	1	6
Value	8	2	0	8
Composite				7.3

Complimentary Offer

- Net Motivation Score evaluation
- Confidential (and no obligation)
- Web survey
- Includes commentary (recommendations)

Goal

- NMS of 8 or higher within 2 years
- Increased confidence, commitment, understanding and appreciation
- Eliminate recession fears

Conclusions



- Build talent attraction plan
- Outline your full value proposition
- Include a common sense compensation philosophy
- Use flexible incentive structures
- Build a strong model
- Communicate, communicate, communicate

Next Online Seminar:



**“What Can I Do to Retain My Best People
without Creating Entitlements ”**

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To be held on:
Tuesday, February 24th, 2009

Thank you for attending

Please complete our survey form immediately following our presentation.

We value your input.

You may request a copy of our slides.

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Thank You!



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