

VisionLink

Selecting the Right Performance Measures for Your Incentive Plan

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Financial Visions



THE VISIONLINK
ADVISORY GROUP

June 24, 2009

Today's presenter

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Today's Hosts



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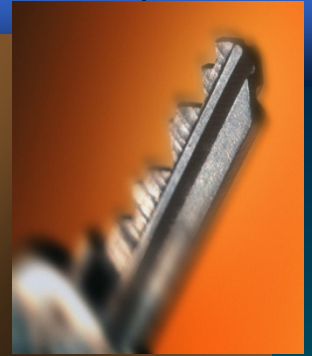
We're happy to provide a copy of today's slides. Information will be provided at the close of the presentation.

You will receive an email summary of today's presentation - courtesy of M Benefit Solutions

For questions during today's presentation:

*Use the question panel
to the right of your screen*

Key Concepts



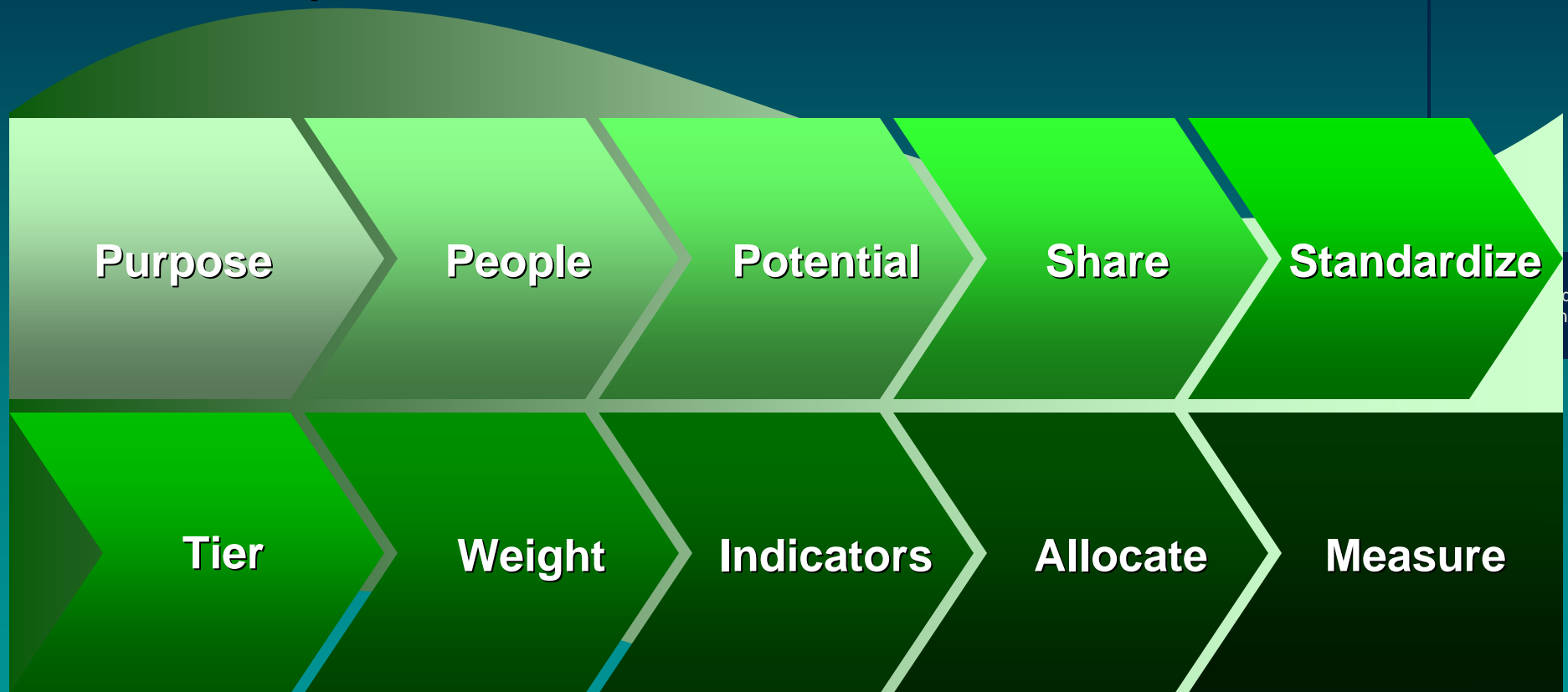
- The primary purpose of an incentive plan is to focus employees on a bank's most important goals
- Selecting the right metrics can significantly influence behavior among key employees
- There are two core approaches to selecting metrics—each with pros and cons
- The effectiveness of your performance management system should be considered before selecting from the two approaches
- What is VisionLink's "Best Practice" approach?

Pay For Performance Objectives

- Recruit and retain highest quality employees
- Communicate and reinforce the values, goals, and objectives of the bank
- Engage employees in the organization's success
- Reward contributors for successful achievements

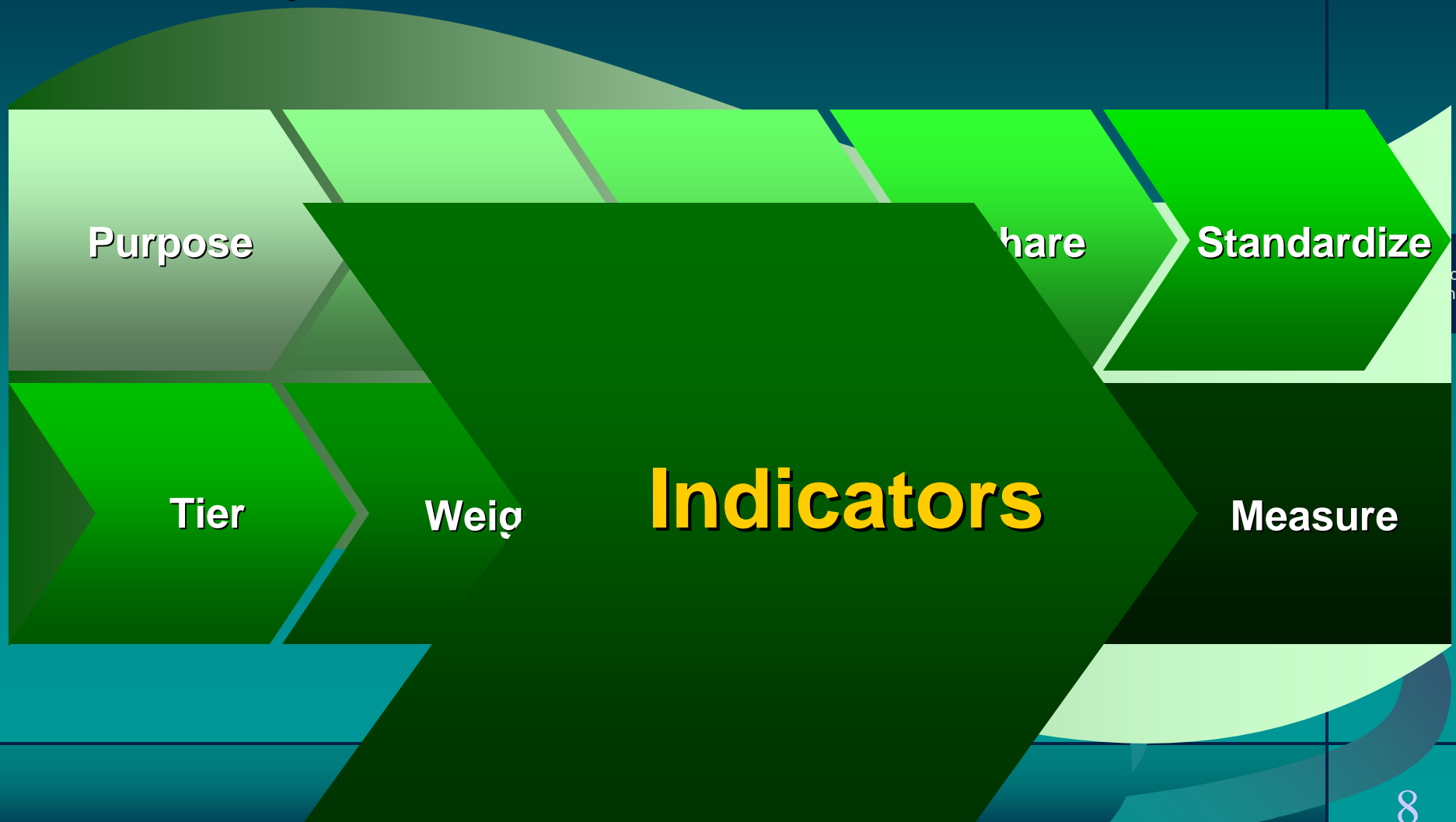
Building an Incentive Plan

A Unique Process



Building an Incentive Plan

A Unique Process



Indicators:



- Measurable
- May or may not be in financial statements
- Track progress towards strategic objectives
- Reflect improvement in productivity

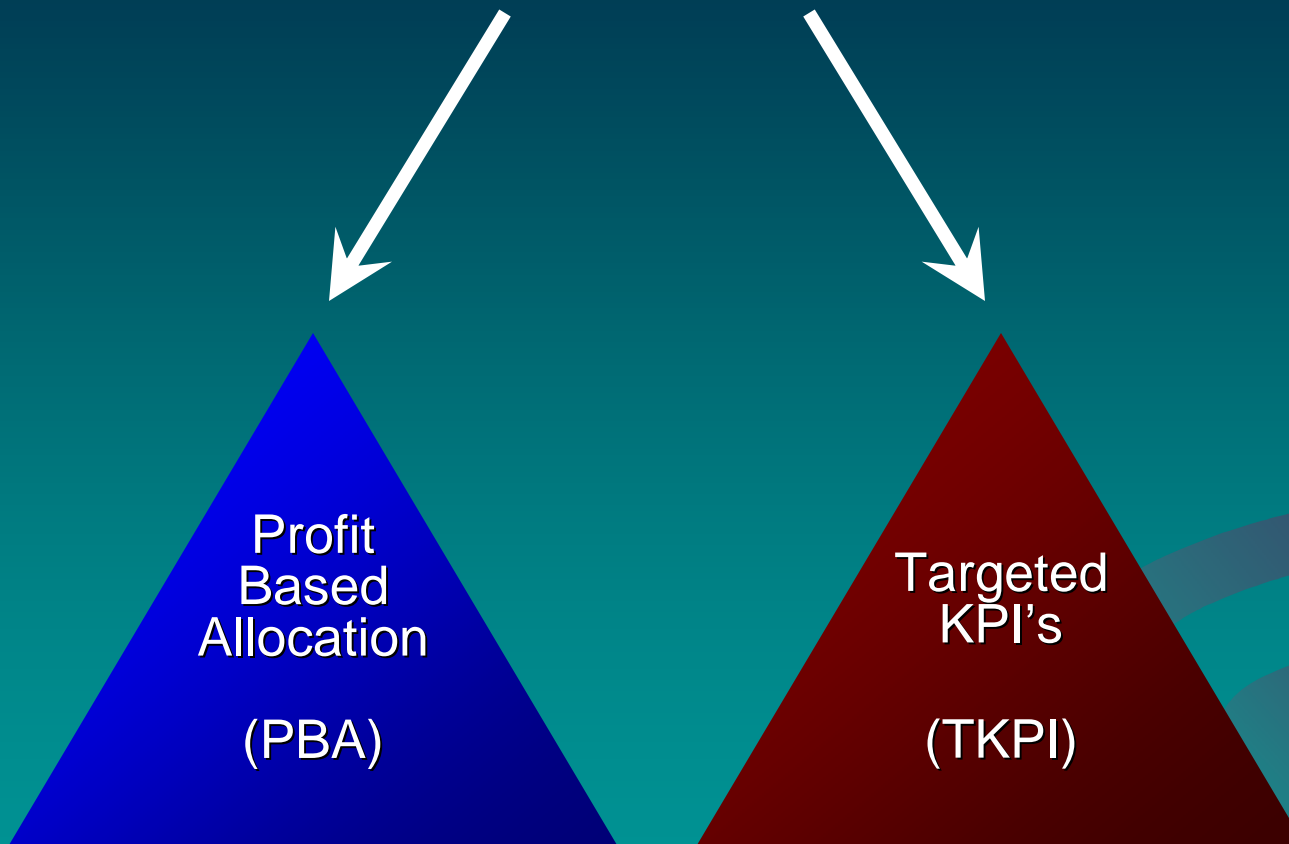
Indicators:

- Could be a number or a percentage
- Could be tied to budget (i.e., % of budgeted target achievement)
- Could be an improvement over prior period
- Could have a minimum threshold
- Could be tiered

In all cases:

- Seeking to improve performance
- Seeking to influence behavior
- Not trying to “motivate”
- Trying to “focus” through communication and reinforcement
- Trying to reinforce an ownership culture

Two Core Approaches



Profit
Based
Allocation
(PBA)

A percentage of
annual profits awarded
to employees

The award amount
is divided among
employees based on a
pre-determined formula

Paid at year-end

Targeted
KPI's
(TKPI)

Employees assigned
a "targeted" incentive
value – often based
on a percentage of salary

Achievement of award is tied to
multiple specific measurements
or "metrics." Metrics
can vary person to person.

Typically paid at year end,
but may be quarterly.

Poll



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Profit
Based
Allocation
(PBA)

Focus

Solely annual profits

Value

May be open-ended

Design

Relatively simple

Essential

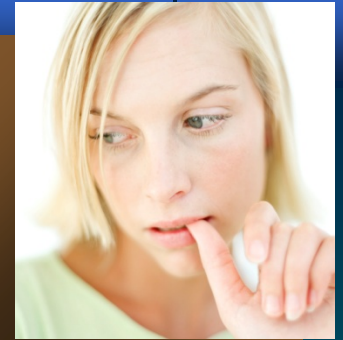
Strong Performance
Management System

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PBA—Best Practices

- Define profits
- Select “benchmark” or “growth” approach
- Identify threshold
- Select percentage to share (fixed or tiered)
- Select allocation formula
- Determine whether employee awards will be influenced by personal performance

PBA—Dangers



- Failure to create line-of-sight
- Apathy
- Morale
- Lack of strong performance management system

Targeted
KPI's
(TKPI)

Focus

May include bank, dept,
team & individual metrics

Value

Typically capped

Design

Can run from
basic to complex

Essential

Selecting the
right metrics

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TKPI—Best Practices

- Select range of targets
- Select components
- Select drivers (metrics)
- Select performance tiers (eliminate all-or-nothing)
- Set up measurement systems

TKPI—Dangers

- Miscalculation
- Gaming
- Sandbagging
- Misalignment



Profit
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Strong Performance
Management System

Selecting the
Right metrics

Indicators:

Selecting Indicators for a TKPI Plan

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Indicators:

Identify the indicators that will be used to measure performance in each area.

For example:

Bank - Revenue growth and Net Income;

Department - Improvement in Customer Retention goal; Collections rate; Employee Productivity factor;

Individual - performance goal achievement

2009 Performance Matrix

Loans					
36,000	100%	115%	130%	140%	150%
33,000	80%	100%	115%	130%	140%
30,000	60%	80%	100%	115%	130%
27,000	45%	60%	80%	100%	115%
24,000	30%	45%	60%	80%	100%
	\$ 81,000	\$ 85,500	\$ 90,000	\$ 94,500	\$ 99,000
	Deposits				

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Bank Indicators

Return on Equity

Return on Assets

Efficiency Ratio

EPS

Average Core Deposits

Fee, Investment Services and
Other Income

Department Indicators

New Loans

Deposits

Net Interest Spread

Mortgage Banking Division Fees

Average Outstanding Loan Balance

Credit Admin Review Rating

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Critical step:

Sensitivity Testing



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Sensitivity Testing

- Tie incentive plan to annual budget projection
- Test highs and lows
- Test each matrix
- Show ROTRI™
 - Open up the incentives to be as high as possible



Is it possible for the shareholders
to get their highest return by paying
unlimited incentives?

ROTRI™ - Return on Total Rewards Investment

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How much is the Total Rewards Investment?

- Salaries
- Commissions
- Bonuses
- Deferred award accruals (LTIP)
- Core benefits
- Executive benefits
- Retirement contributions
- Payroll taxes



What return do you get on that investment?

_____ %

ROTRI™ Example:

Capital Account	\$ 2,000,000
Cost of Capital	12%
Capital Charge	\$ 240,000
NOPAT	\$ 1,000,000
Productivity Profit	\$ 760,000
Total Rewards Investment	\$ 4,500,000
ROTRI™	16.9%

(ROTRI = Productivity Profit/Total Rewards Investment)

PBA Allocation Schedule

Productivity Profit	Award %
First \$500,000	10%
Next \$500,000	15%
Amounts over \$1,000,000	20%

ROTRI™ Table

NOPAT	Productivity Profit	Award Amount	Owner's ROTRI (\$\$)	Owner's ROTRI (%)
\$1,000,000	\$ 760,000	\$ 89,000	\$ 671,000	14.9%
\$1,500,000	\$1,260,000	\$177,000	\$1,083,000	24.1%
\$2,000,000	\$1,760,000	\$277,000	\$1,483,000	33.0%
\$3,000,000	\$2,760,000	\$525,000	\$2,235,000	49.7%

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Last thought:

Motivation

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Measuring Employee Passion

- 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 bank 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

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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	0	1	8
Belief	7	2	1	6
Value	8	2	0	8
Composite				7.3

How do we use the NMS?

- Learn
 - about the bank's plans
 - the way they're communicated
 - where the employees are
- Strategize
 - how to improve the plans
 - how to better communicate them

Complimentary Offer

VisionLink invites you to participate in:

“Net Motivation Score” Assessment
(Confidential, and no obligation)

Indicate interest on survey form

Conclusions

- Select the right type of plan based on your bank's culture, business model and goals
- Select an approach (PBA or TKPI) and stay with it (polish and perfect over time)
- Measure the return on the plan's effectiveness through ROTRI™
- Measure and track your employees' engagement (NMS)



Next Online Seminar:



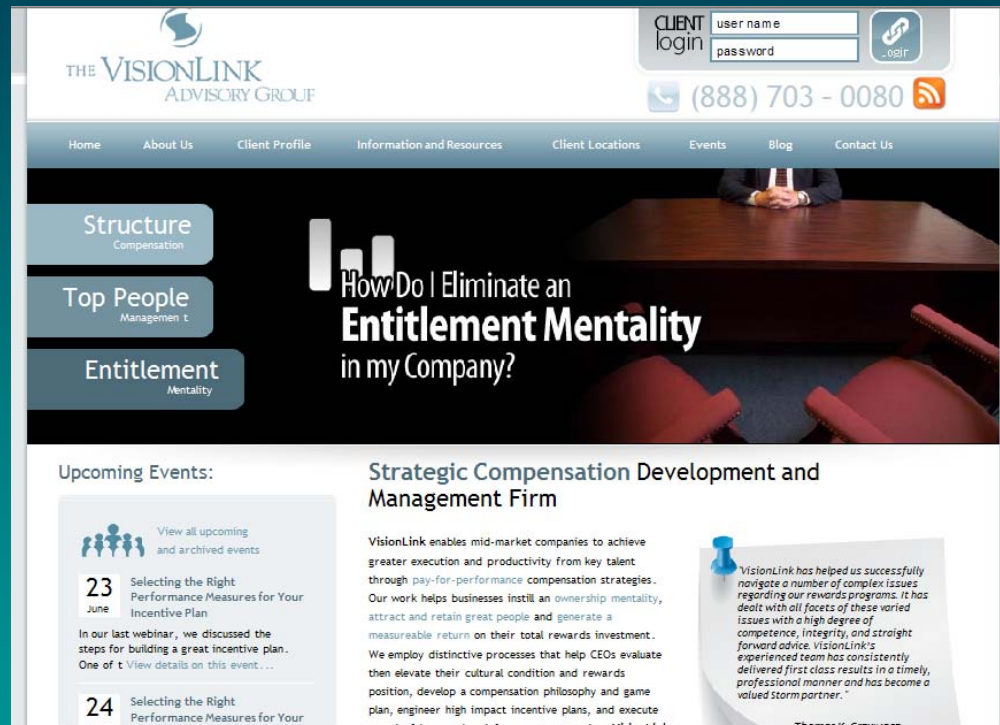
**“How Do I Create a Competitive Advantage
with My Compensation Programs?”**

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To be held on:
Wednesday, July 29th, 2009

Check out our NEW website:

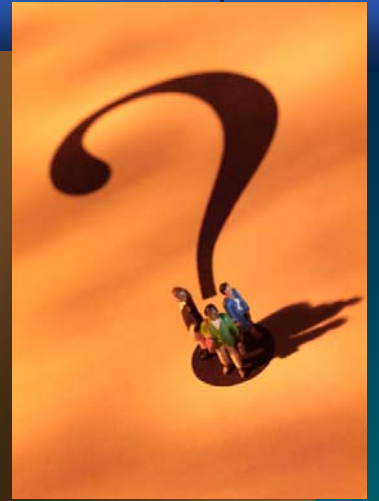
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Questions?



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Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

*You may request a copy of our slides, our “Incentive Plan Guidelines” document, and the “**Net Motivation Score**” Assessment.*

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Thank You!



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Bank Strategies
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