

VisionLink

“How Can My Client’s Compensation Plan Become a Greater Competitive Advantage?”

Building Unified
Financial Visions



THE VISIONLINK
ADVISORY GROUP

May 19, 2009

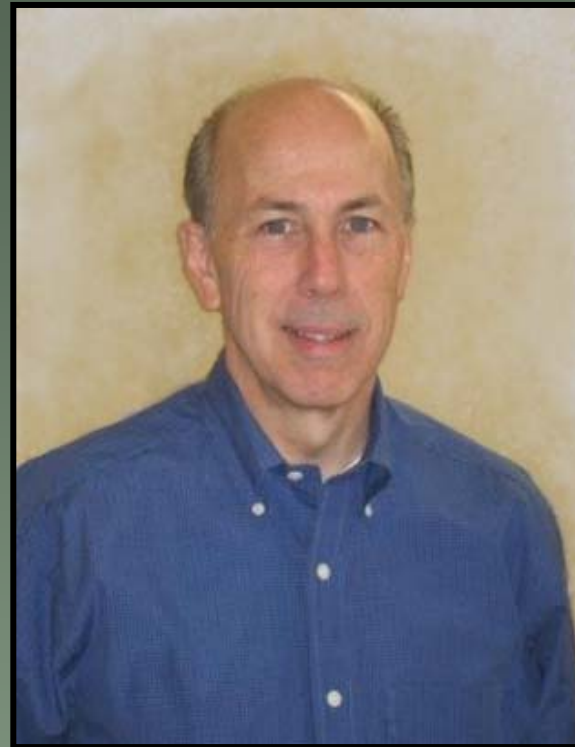
Today's presenter:

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Next CPE Course:




**“Bonus Plans that Create Additional
Shareholder Value”**

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To be held on:
Tuesday, June 16th, 2009

We're happy to provide a copy of today's slides, summary/syllabus and a CD of the presentation. Information will be provided at the close of the presentation about requesting these.



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"How Can My Client's Compensation Plan Become
a Greater Competitive Advantage?"



Course Syllabus and Summary
May 19, 2009

Course Objectives

- Examine what factors influence performance
- Learn the two basic approaches to building metrics for an incentive plan
- Understand the concept of "Return on Total Rewards Investment"
- Analyze how a company determines whether incentives are working

Key Concepts

- The right foundation for your client's pay programs ensures that the right people are doing the right things in the right way
- The passion of a workforce cannot be duplicated by competitors - compensation can unleash that passion
- Execution, drive, ambition and confidence are byproducts of an effective rewards strategy
- A competitive advantage is sustained only when the culture demands employee ownership of the company's future

The Role of Indicators

Competitive advantage is achieved when a business produces surplus profits - greater than its competitors - due to unique product pricing or resource advantages. As a result its profitability is greater than the average profitability of all other businesses competing for the same set of customers.

The real gold medal, however, goes to those organizations that can achieve a sustainable competitive advantage. This implies that a business's strategies enable it to maintain above-average profitability for a number of years. This is typically achieved through the creation and execution of processes, positions and/or propositions (as in value proposition) that are difficult to duplicate.

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For questions during today's presentation:

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

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Key Concepts

- The right foundation for your client's pay programs ensures that the right people are doing the right things in the right way
- The passion of a workforce cannot be duplicated by competitors—compensation can unleash that passion
- Execution, drive, ambition and confidence are by-products of an effective rewards strategy
- A competitive advantage is sustained only when the culture demands employee ownership of the company's future

Course Objectives

- Understand what it means to have a competitive advantage
- Demonstrate the role of culture in building a competitive advantage
- Examine what it takes to attract and retain great people and build a culture of confidence
- Show how to assess where the company stands now
- Identify the path that leads from rewards to results

Competitive Advantage



A company is in a position to produce surplus profits (greater than competitors') due to unique product, pricing or resource advantages. Thus, its profitability is greater than the average profitability of all other companies competing for the same set of customers.

Sustainable Competitive Advantage

The company's strategies enable it to maintain above-average profitability for a number of years. This is typically due to the creation of processes and positions that are difficult to duplicate.

(However, the advantage may still attract competitors and are rarely impossible to duplicate.)

Poll #1



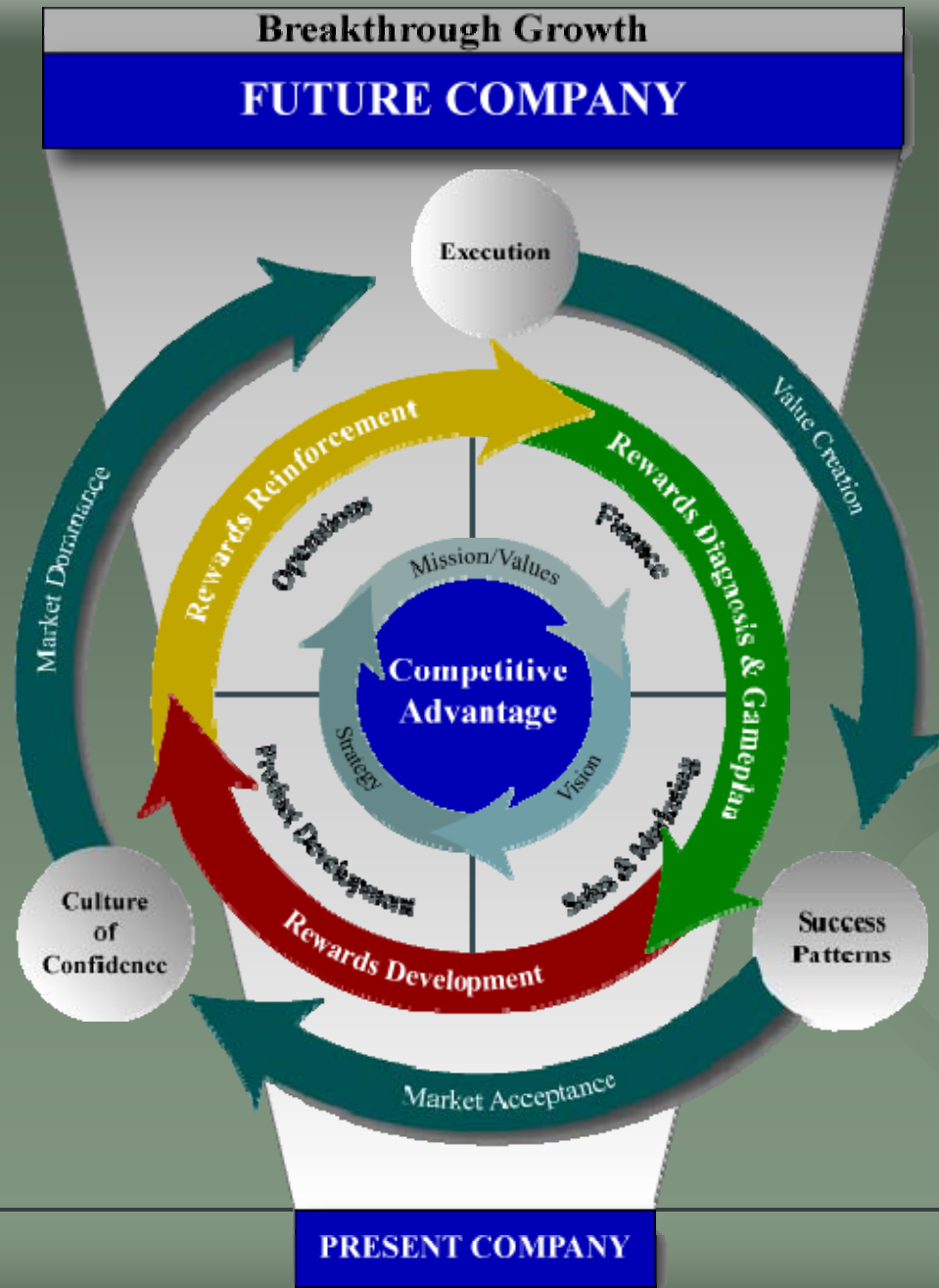
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What does it take to produce a competitive advantage?

- People
- Culture



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Organizational Culture

“...the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization...”

Organizational Culture

“Organizational values are beliefs and ideas about what kinds of goals members of an organization should pursue and ideas about the appropriate kinds or standards of behavior organizational members should use to achieve these goals...”

Organizational Culture

“From organizational values develop organizational norms, guidelines or expectations that prescribe appropriate kinds of behavior by employees in particular situations ...”

Rewards to Results

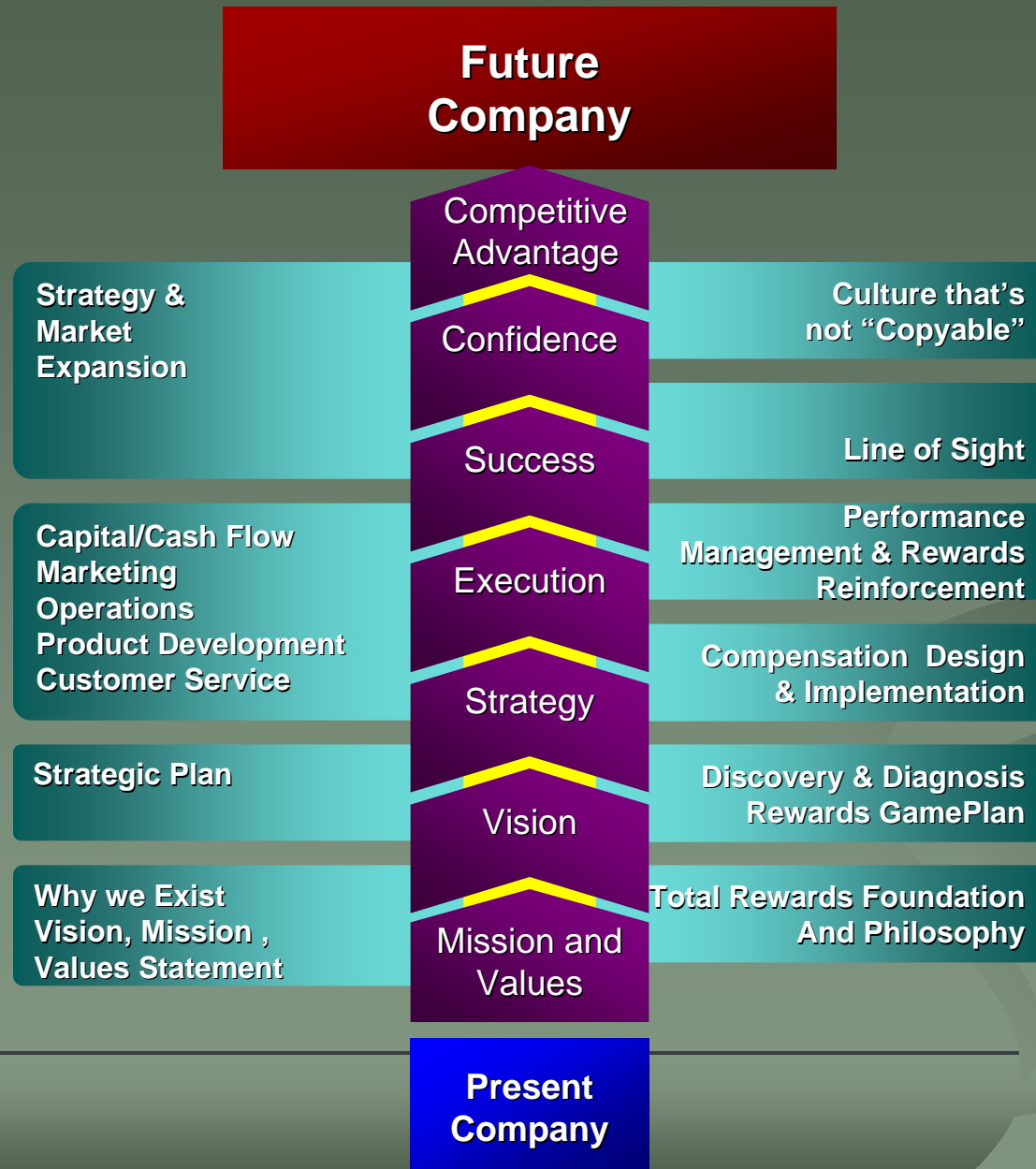


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What if your client's culture demanded...

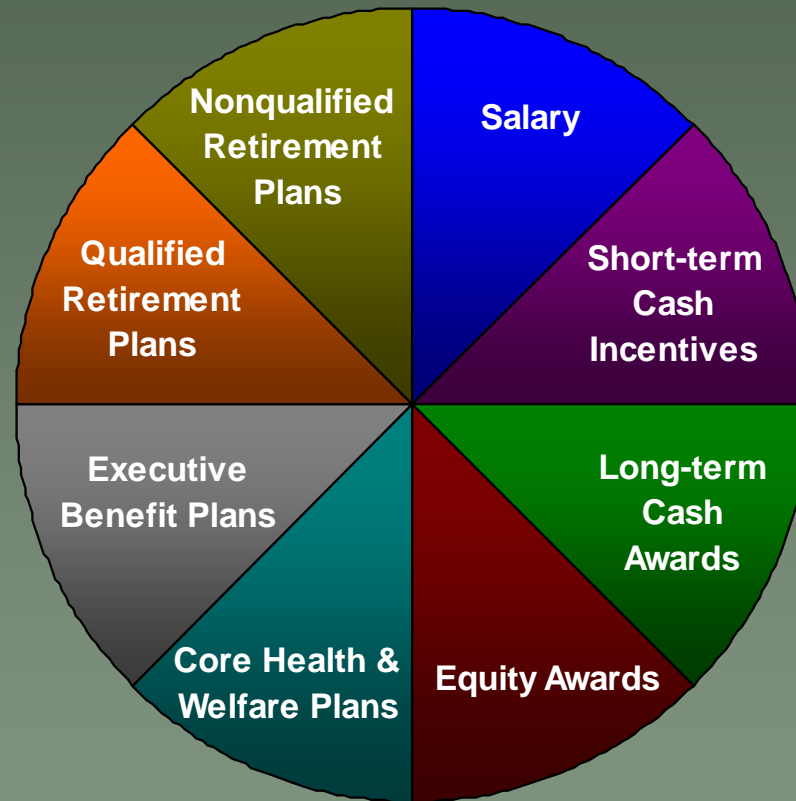
- Only talented, committed and focused people need apply
- No sense of entitlement (we're rewarded for achieving well-defined goals)
- All employees think and behave like owners

Compensation as a Competitive Advantage



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Compensation Pantry



Poll #2



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On the practical side...

...what are smart employees
expecting from their rewards
plan?

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Total Rewards

**Sustainable
Cash Flow**

Salary / STIP

Security

Benefits

**Wealth
Accumulation**

Retirement / LTIP

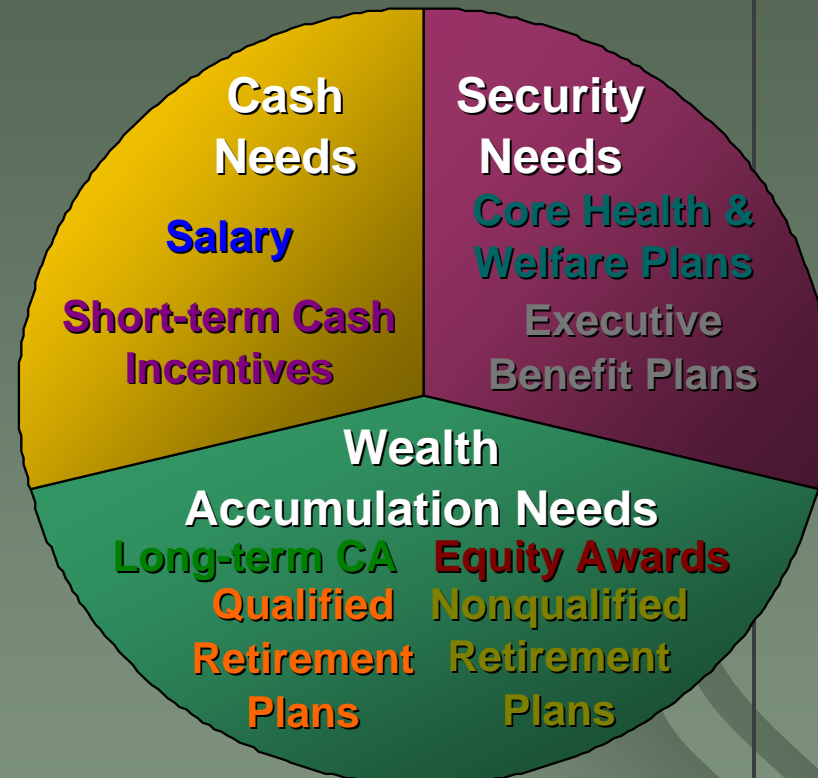
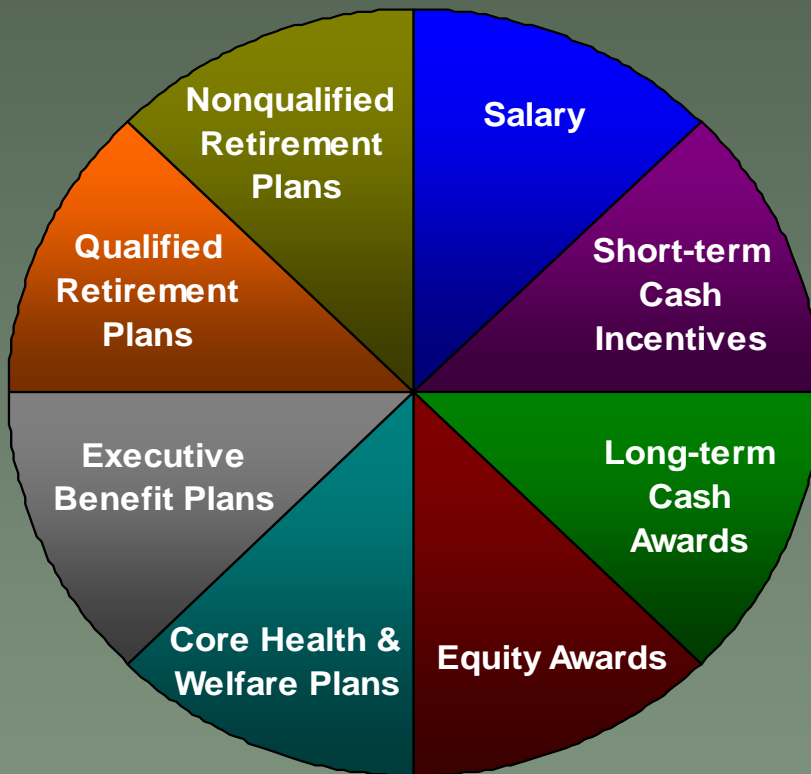
**Confidence in
Lifestyle**

**Participation in
Value Creation**

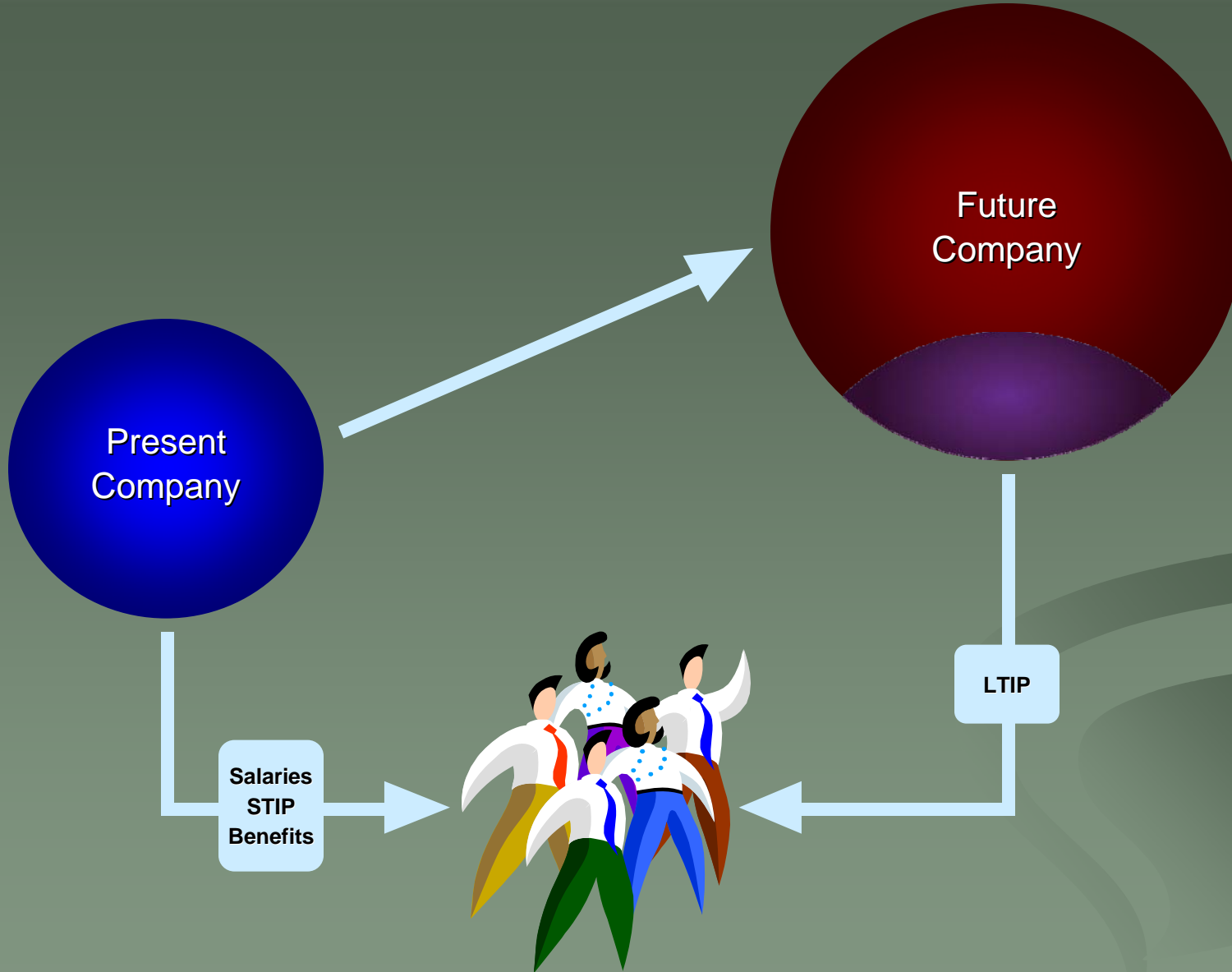
**Ownership Mentality
Line of Sight
Deferred Gratification
Win Talent Wars
Self-financing
Abundance Mentality**

Sustainable Growth

**Culture is Competitive
Advantage**



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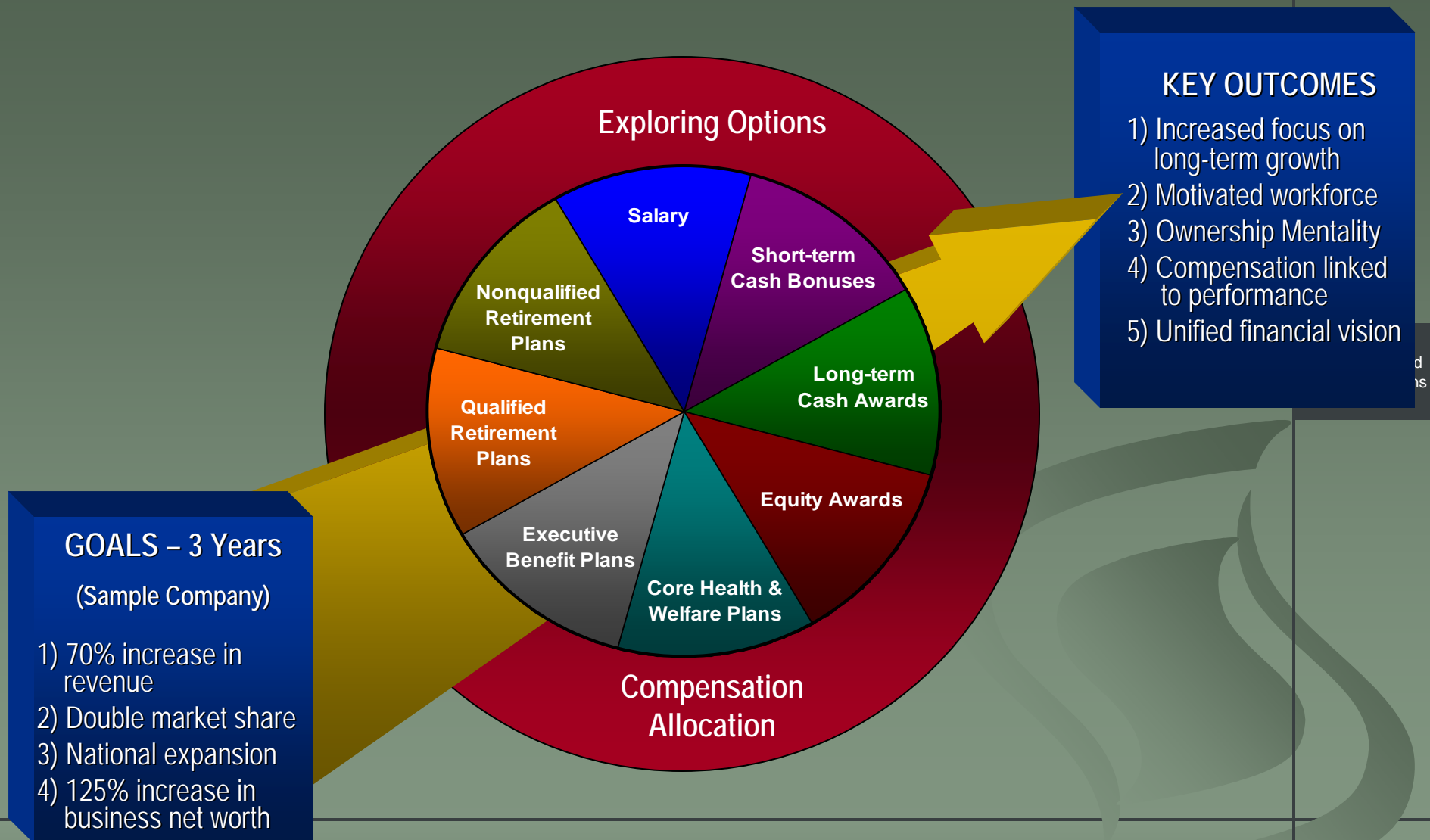
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Compensation decisions

- Which pieces should we use?
- How much of each?
- Under what terms and conditions should they be realized?



Allocate the Compensation Investment



Salaries



- What standards should we compare to?
- How much should we pay?
- How should we evaluate and determine increases/changes?
- How should we address internal equity?

Short-term incentives

- Who should be eligible?
- How large should they be?
- What should they be based on?
- When should they be paid?

Long-term incentives

- Who should be eligible?
- How large should they be?
- When should they be awarded?
- When should they be redeemed?
- Should we use stock?
- How should their growth be measured?



Core Benefits

- What standards should we compare to?
- How will we evaluate cost vs. benefits?
- How much selection should we give to the employees?
- How will we monitor utilization and appreciation?

Executive Benefits



- For competitive purposes will we need to supplement our benefits for the executive team?
- How will we determine appropriateness?
- How will we evaluate cost vs. benefits?
- How much selection should we give to the employees?
- How will we align these choices with our strategic goals?

Qualified Retirement Plans

- How will we determine the proper plan(s) (401k, PS, pension)?
- How will we set the company investment (against what standards)?
- How will we monitor our return on investment?

Non-qualified Retirement Plans

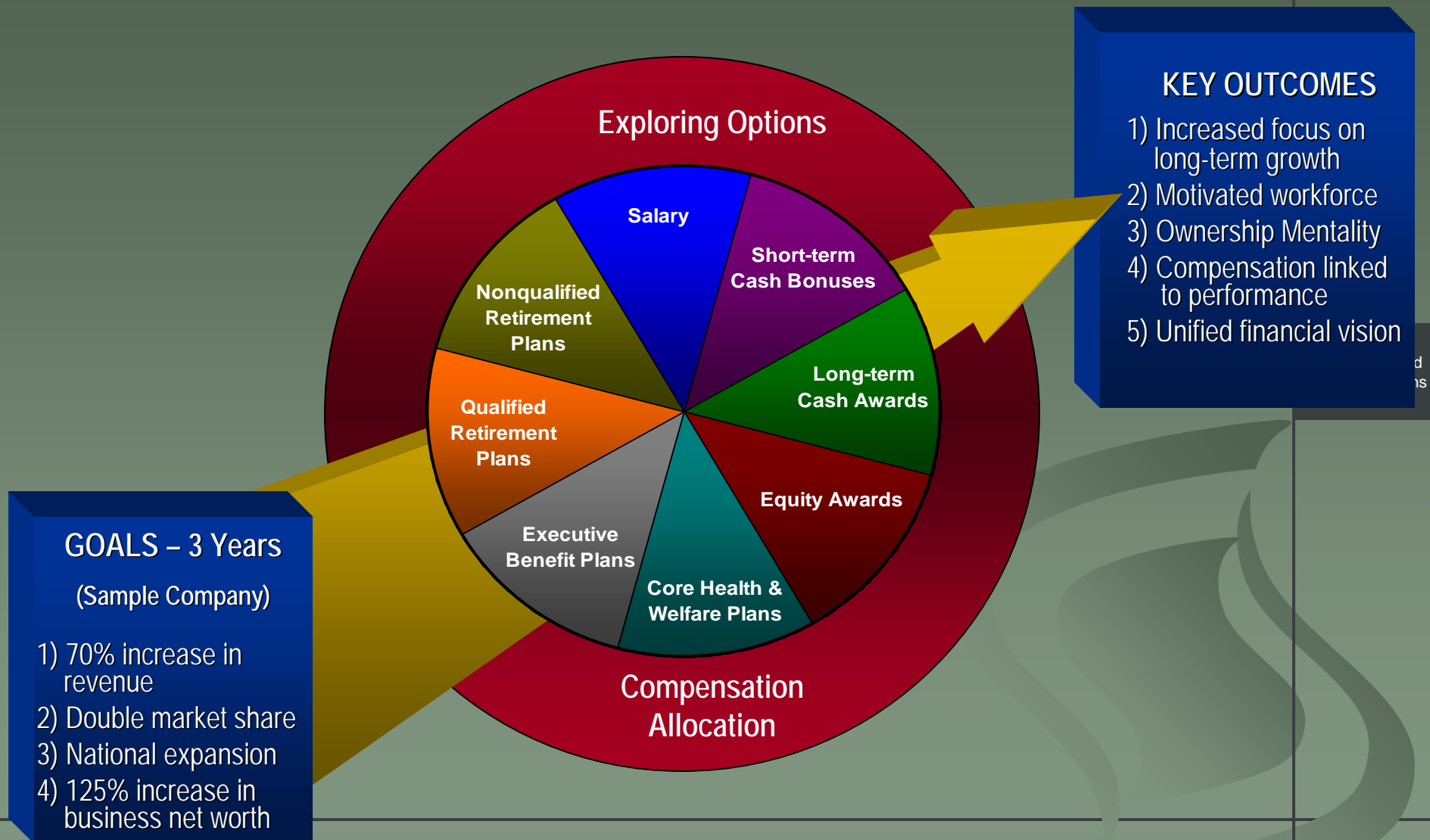
- How will we determine the need for such a plan?
- How will we select the optimal plan for our organization?
- What will be our investment and how will we measure its return?
- How will we use this plan to enhance attraction and retention of executive talent?

Sustaining your rewards investment



- How will we manage the administrative responsibilities of our rewards programs?
- How will we monitor the financial impact of our plans?
- How will we manage the legal and compliance duties?
- How will we communicate and reinforce the value to our employees?
How will we assure consistent alignment of our plans with our company's business strategy?

Allocate the Compensation Investment



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	\$ 64,000	\$ 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	\$ 224,000	\$ 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	\$ 241,120	\$ 567,083	\$ 942,407	\$ 1,342,636	\$ 1,767,343

Caveat:

Poll #3



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What's needed?

A clear assessment of where you stand with your employees

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First two things to measure

- 4F condition
- Motivation value of your incentive plans

Leadership

The VisionLink Diagnostic

Indicate the degree to which you agree or disagree with the statements below. Once you are finished, total your score.

	Disagree	Agree
1. Our people understand and believe in the organization's future. They find it compelling.	1 2 3 4 5 6 7 8 9 10	
2. We have a fundamental compensation philosophy that is consistent with our business strategy and is intended to build shareholder value.	1 2 3 4 5 6 7 8 9 10	
3. We have established clear compensation standards relative to market pay and best practices; and we follow them.	1 2 3 4 5 6 7 8 9 10	
4. Our rewards programs clearly focus our people on desired results.	1 2 3 4 5 6 7 8 9 10	
5. Our people understand and believe in the core components of our business strategy and plan.	1 2 3 4 5 6 7 8 9 10	
6. Our compensation plans are designed to insure our ability to (a) recruit the people we need and (b) keep them here.	1 2 3 4 5 6 7 8 9 10	
7. Our company effectively balances short and long-term compensation and guaranteed versus "at risk" pay.	1 2 3 4 5 6 7 8 9 10	
8. We consistently communicate and reinforce the value, meaning and potential of our rewards programs.	1 2 3 4 5 6 7 8 9 10	
9. We clearly define roles and opportunities within the organization. Our people are motivated by opportunities for personal and professional growth.	1 2 3 4 5 6 7 8 9 10	
10. The value and clarity of our wealth accumulation opportunities engender a passionate ownership mentality.	1 2 3 4 5 6 7 8 9 10	
11. Our compensation system is driven by a "pay-for-performance" process that is founded on solid economic models and forecasts.	1 2 3 4 5 6 7 8 9 10	
12. Our employees see a relationship between how they're paid and the results they produce.	1 2 3 4 5 6 7 8 9 10	

TOTAL SCORE

As I consider the effectiveness of our compensation and rewards program, the area I am least comfortable with is:

Name: _____

Title: _____

Company: _____

E-mail Address: _____

Phone Number: _____



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Associates

The VisionLink Diagnostic Associates

Indicate the degree to which you agree or disagree with the statements below. Once you are finished, total your score.

	Disagree	Agree
1. I understand and believe in the organization's future. I find it compelling.	1 2 3 4 5 6 7 8 9 10	
2. The company has a fundamental compensation philosophy that is consistent with its business strategy.	1 2 3 4 5 6 7 8 9 10	
3. The company has established clear compensation standards relative to market pay and best practices; and it follows them.	1 2 3 4 5 6 7 8 9 10	
4. The company's rewards programs keep me focused on specific desired results for which I am responsible.	1 2 3 4 5 6 7 8 9 10	
5. I understand and believe in the core components of our business strategy and plan.	1 2 3 4 5 6 7 8 9 10	
6. Our compensation plans are effective at recruiting great people and keeping them here.	1 2 3 4 5 6 7 8 9 10	
7. Our company's blend of short and long-term compensation and guaranteed verses "at risk" pay is well balanced and makes my priorities more clear.	1 2 3 4 5 6 7 8 9 10	
8. The company consistently and effectively communicates and reinforces the value, meaning and potential of my rewards programs.	1 2 3 4 5 6 7 8 9 10	
9. The company clearly defines roles and opportunities within the organization. I am personally motivated by opportunities for personal and professional growth.	1 2 3 4 5 6 7 8 9 10	
10. The value and clarity of the company's wealth accumulation opportunities for employees have engendered within me a passionate ownership perspective.	1 2 3 4 5 6 7 8 9 10	
11. Our compensation system is driven by a "pay-for-performance" process that is tied to the real economics of our business.	1 2 3 4 5 6 7 8 9 10	
12. I see a relationship between how I'm paid and the results I produce.	1 2 3 4 5 6 7 8 9 10	

TOTAL SCORE

As I consider the effectiveness of our compensation and rewards program, the area I am least comfortable with is:

Name: _____

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VisionLink Compensation Snapshot for: FoxHill State Bank

February 22, 2008

4F: 10-11-9-10



Successful banks employ great systems to envision, create and sustain their total rewards programs. Their plans are aligned with the shareholders' vision, built on clear philosophical principles, engineered according to sound financial practices, and sustained through integrated ongoing management systems. Programs based on these fundamentals engender confidence, bolster leadership efforts, and create a true pay-for-performance culture.

A true pay-for-performance culture gives the bank a real competitive advantage.

Your Analysis: 10-11-9-10 (Each area of evaluation has a potential (perfect) score of 30)

Future: A compelling future that links shareholders and employees

Your score of 10 suggests that the bank's future has either not been clearly defined or it has not been articulated and accepted by your employees. When employees buy in to a compelling future they are more likely to take ownership of it—particularly if they clearly see how they can fit in and grow. You should examine ways to clarify the bank's opportunities and express them as part of a concise business plan. Employees should be engaged in identifying the key strategic initiatives that need to be launched or maintained. Then, employees can visualize potential future roles and opportunities.

Foundation: A philosophy that drives an ownership mentality

Your score of 11 indicates that the bank has probably not drafted and adopted a written compensation philosophy statement. This should be a top priority. You sense that your plans do a reasonable job of helping with recruiting and retention but they are not tied directly to short-term and long-term goals. In addition, employees are not yet motivated by long-term wealth accumulation opportunities. The bank probably needs (a) a meaningful long-term incentive plan and (b) a value statement that illustrates to employees the financial attractiveness of the bank's overall rewards program.

Framework: Financial standards that produce an economic return

Your score of 9 supports the need for stronger systems for the design of your incentive plans. Salary programs may be adequate but incentive structures are lacking. The bank would benefit from creating a financial forecast (3-5 years) that highlights potential shareholder returns. Then an important discussion should be held about how much new value should be shared with employees. This would lead to the development of a new incentive arrangement that would consistently support a pay-for-performance culture. To fulfill its full potential, the new arrangement must include both short- and long-term rewards.

Focus: Consistent reinforcement that sustains line-of-sight

Your score of 10 suggests relatively soft alignment between personal job responsibilities, organizational goals and individual rewards (line-of-sight). Good compensation systems tell employees what to focus on to produce the desired results. Employees show up at work with a clear picture of what tasks will mean the most to the bank and to them (there should be no difference). Focus can only occur when the incentive plans have been carefully linked to measurable performance indicators. You should try to (a) tie incentive plans to critical success factors and (b) establish creative methods of communicating the present and future value of the bank's rewards proposition.

This snapshot is based strictly on a single Diagnostic completed by a bank employee. A more exhaustive analysis would be needed before deeming the conclusions and recommendations to be complete. Contact a VisionLink consultant for more information.

The VisionLink Advisory Group
7700 Irvine Center Drive, Suite 930, Irvine, California 92618
949-852-2288

Leadership
Diagnostic

Associate
Diagnostic

Compensation
Snapshot

4F Assessment

Future

13

Foundation

19

Framework

12

Focus

14

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Future

- Are employees and leaders in synch on where the company is headed and how it is to get there?
- Do employees and leaders agree that future opportunities for employees are clearly defined?

Foundation

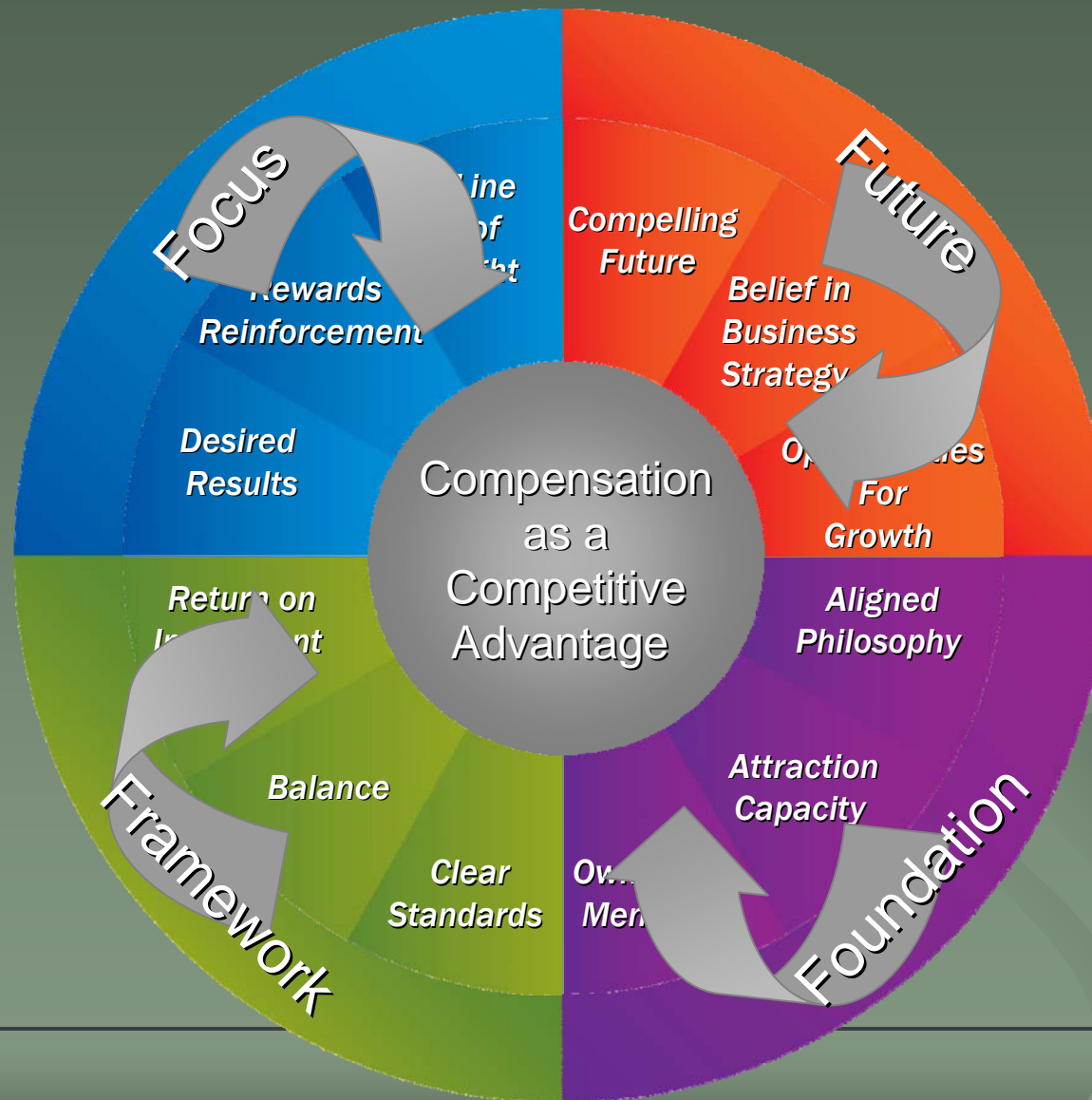
- Do employees and leaders see the connection between the business strategy and the compensation programs
- Is the company committed to following clear and acceptable standards for pay decisions?

Framework

- Does everyone recognize and respect the process for determining the form and value of rewards offerings?
- Does everyone appreciate the balance between short- and long-term incentive opportunities?

Focus

- Does everyone understand how and when they will be paid under all the rewards programs?
- Does everyone agree that the rewards programs support both shareholder and employee goals?



Diagnostic

The VisionLink Diagnostic

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Rewards to Results



Next CPE Course:



“Bonus Plans that Create Additional Shareholder Value”

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To be held on:
Tuesday, June 16th, 2009

Questions?

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Thank you for attending

Please complete our survey form immediately following our presentation.

This will be counted as a monitoring event.

You may request a copy of the slides and also a CD of today's presentation

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Thank You!



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