

August 25, 2009

**“I’m Spending \$1 Million on My Top 5  
People...What Am I Getting For It?”**



THE VISIONLINK  
ADVISORY GROUP

# Key Concepts



- Every compensation plan should produce a return on investment
- No one measures it; but they should
- The right compensation allocation creates a more efficient return
- If you first define shareholder growth goals you'll build more effective compensation plans
- Paying people more does not necessarily produce better results



THE VISIONLINK  
ADVISORY GROUP

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

**\$1,000,000**

*(All numbers are samples only)*

# Jack Welch

- \$9 million annual retirement benefit, plus perks—very controversial
- Less than 3/100ths of 1% of value created during his tenure (0.03 of \$396B)
- Total comp during his entire period of service was less than 2/10ths of 1%
- Would you pay that?



\$369 billion of growth

That's called results!

# Purpose of Pay?



**Execution of the business plan**






You have a plan

You have good people

**Why aren't you getting the  
sustainable results you know  
you're capable of?**



**There are things going on  
below the surface that are  
hindering your execution**

# Alignment

## Action

Clarity • Focus • Rewards

## Attitude


Ownership • Accountable • Commitment

## People


Talent • Vision • Right fit

## Plan

Achievable • Understandable • Compelling



**“Growth” implies different results,  
therefore the pay cannot be the  
same**



# Plan



- Where are we going?
  - Are we headed in the right direction?
- How are we going to get there?
  - Do we have the best strategy to get us there?

# People



- Can we recruit top tier talent?
  - Anyone we want or need?
- Can we retain them?
  - Is there a long-term commitment?

# Attitude



- Do they have an ownership mentality?
  - Do they own the results?
- Are they aligned with the shareholders?
  - Are their rewards at risk?

# Action

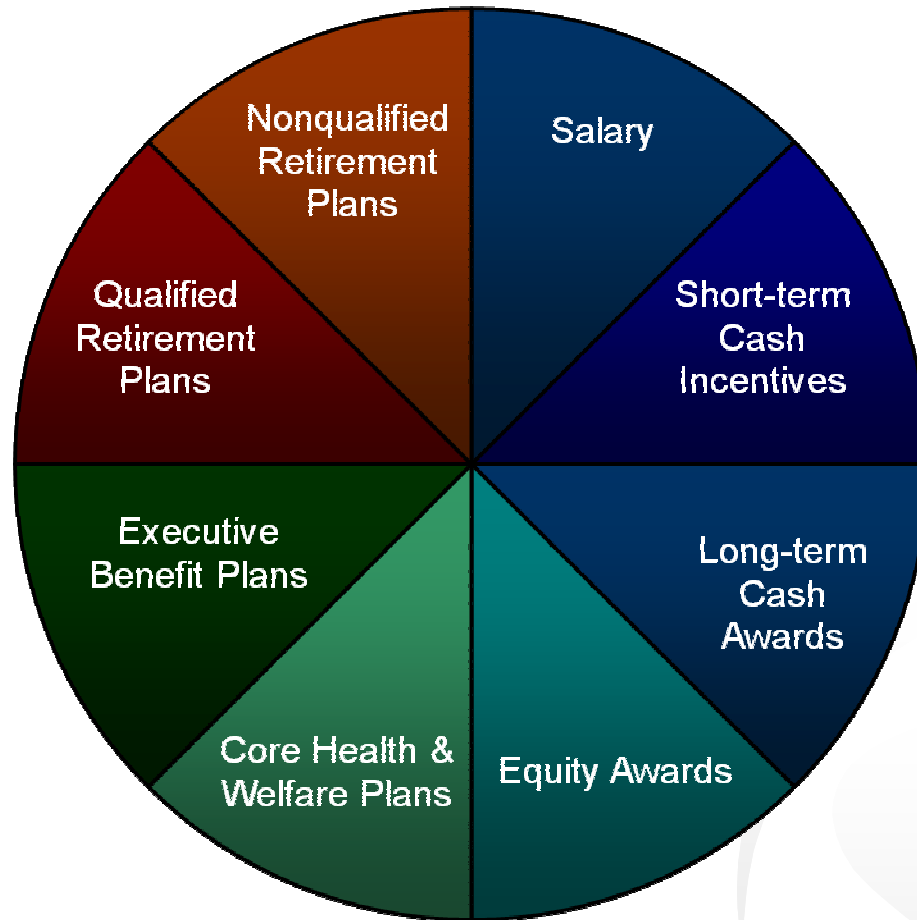


- Are they focused on daily execution?
- Do we reward for performance?



# Eight components of pay

- Core benefits
- Executive benefits
- Qualified retirement plans
- Supplemental retirement plans
- Salary
- Short-term incentives
- Long-term incentives (cash)
- Long-term incentives (equity)



# FoxHill Bank Executive Rewards Summary

|                     | Annual Salary | Target STIP | Target LTIP Cash | Target LTIP Equity | Core Benefits | Executive Benefits | QRP    | Target SRP | Total     |
|---------------------|---------------|-------------|------------------|--------------------|---------------|--------------------|--------|------------|-----------|
| <b>Donna Smith</b>  | 180,000       | 72,000      | 36,000           | 36,000             | 8,500         | 9,000              | 5,400  | 41,479     | 388,379   |
| <b>Greg Hill</b>    | 160,000       | 48,000      | 24,000           | 24,000             | 8,500         | 7,500              | 4,800  | 37,529     | 314,329   |
| <b>Alex Redding</b> | 160,000       | 48,000      | 24,000           | 24,000             | 8,500         | 7,500              | 4,800  | 56,703     | 333,503   |
|                     | 500,000       | 168,000     | 84,000           | 84,000             | 25,500        | 24,000             | 15,000 | 135,711    | 1,036,211 |

# FoxHill Bank Executive Rewards Summary

## Fixed Commitments

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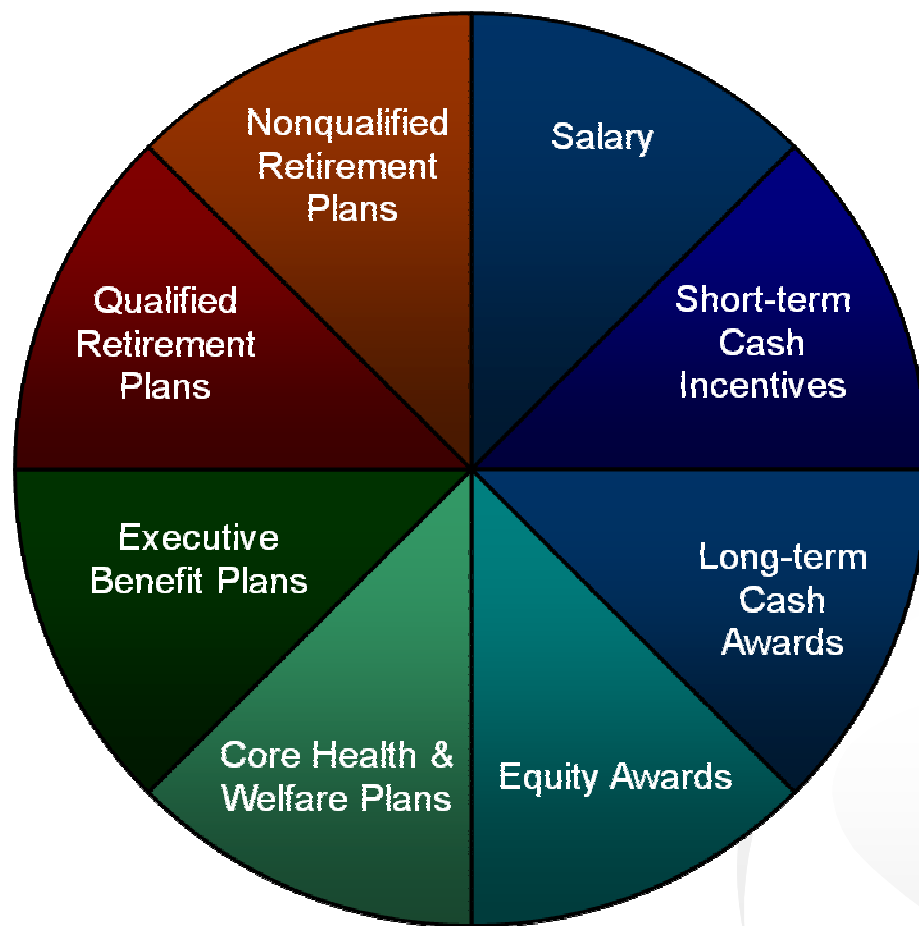
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## Fixed Commitments

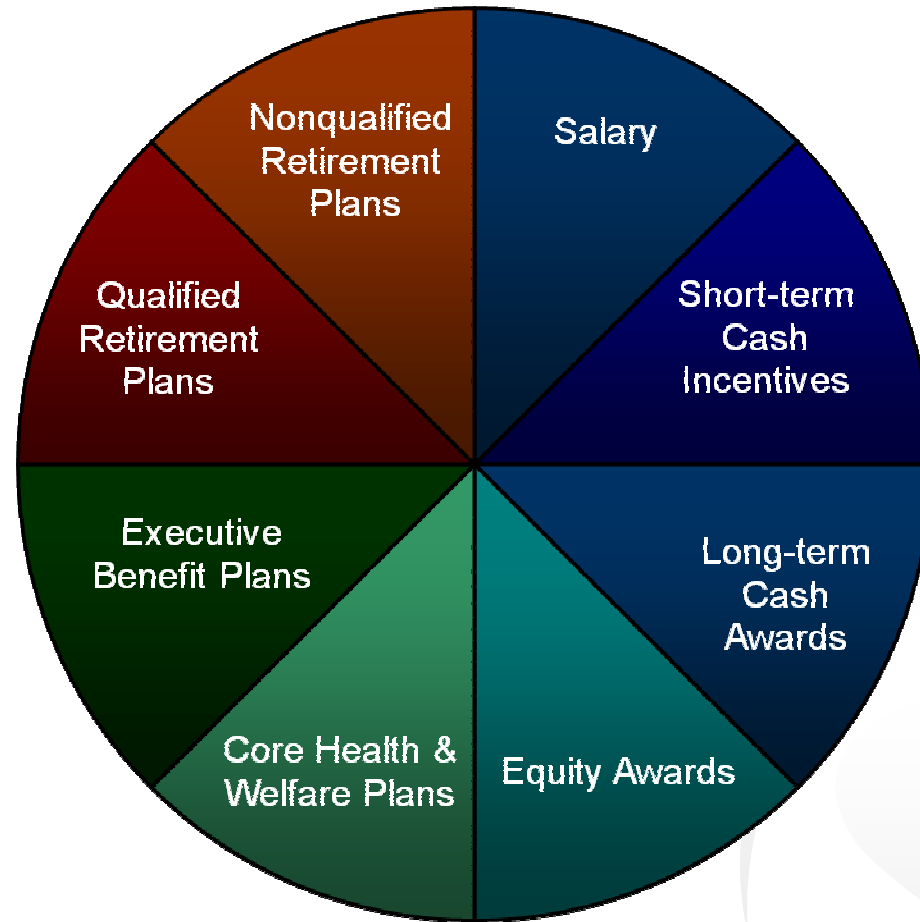
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|                     |               |             |                  |                    |                             |                    |         |            |           |
|                     | Committed     | 564,500     |                  |                    | Can be or is self-financing |                    | 471,711 |            |           |

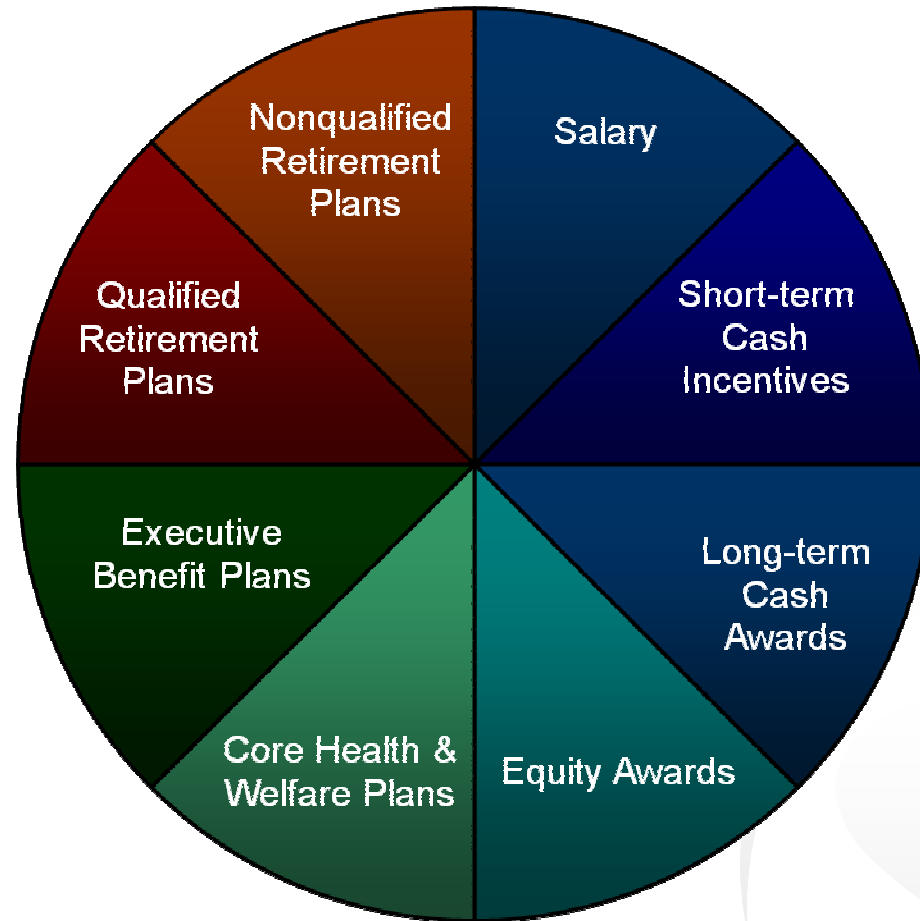


# How do these slices differ?



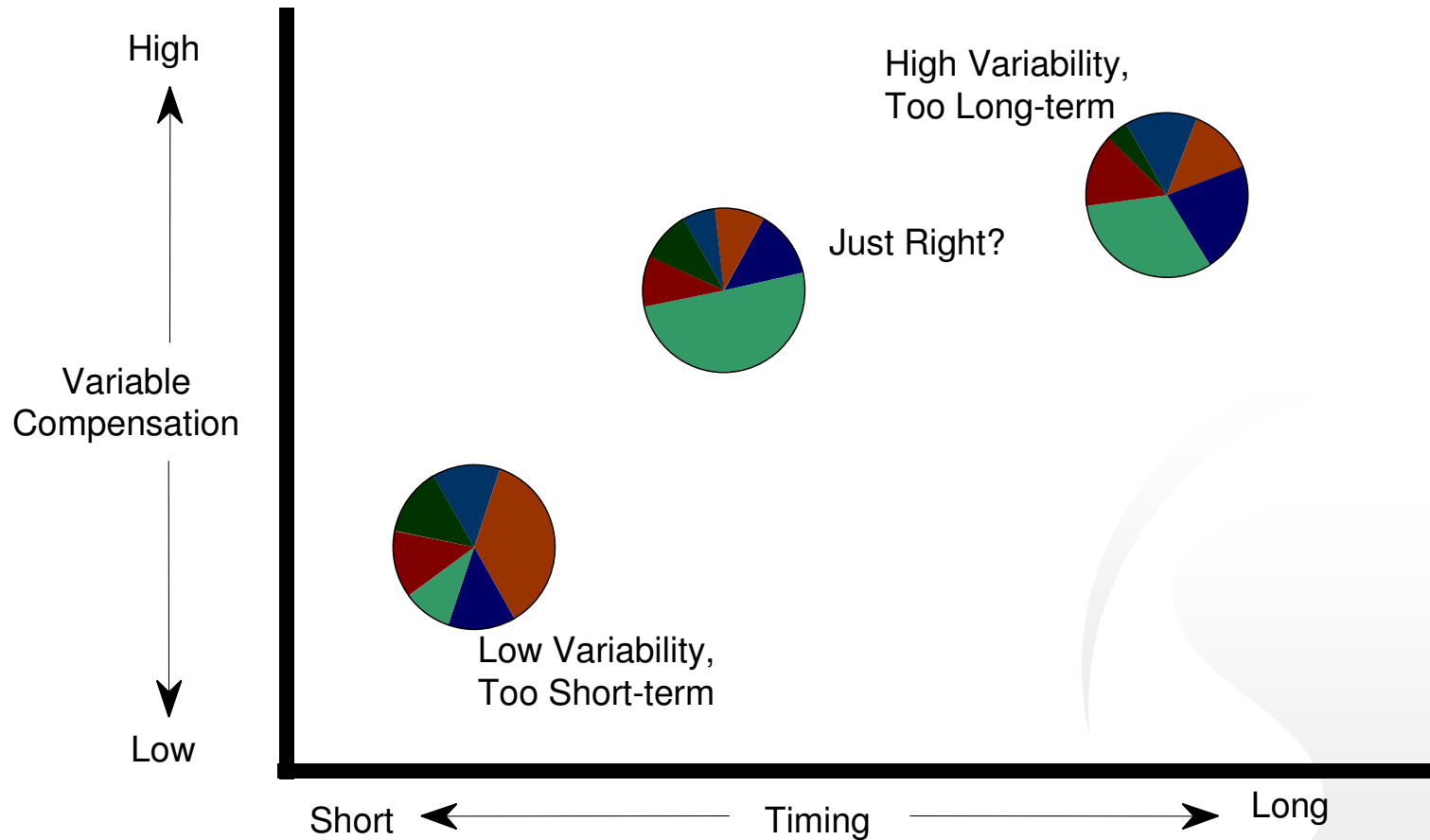


# When they're paid



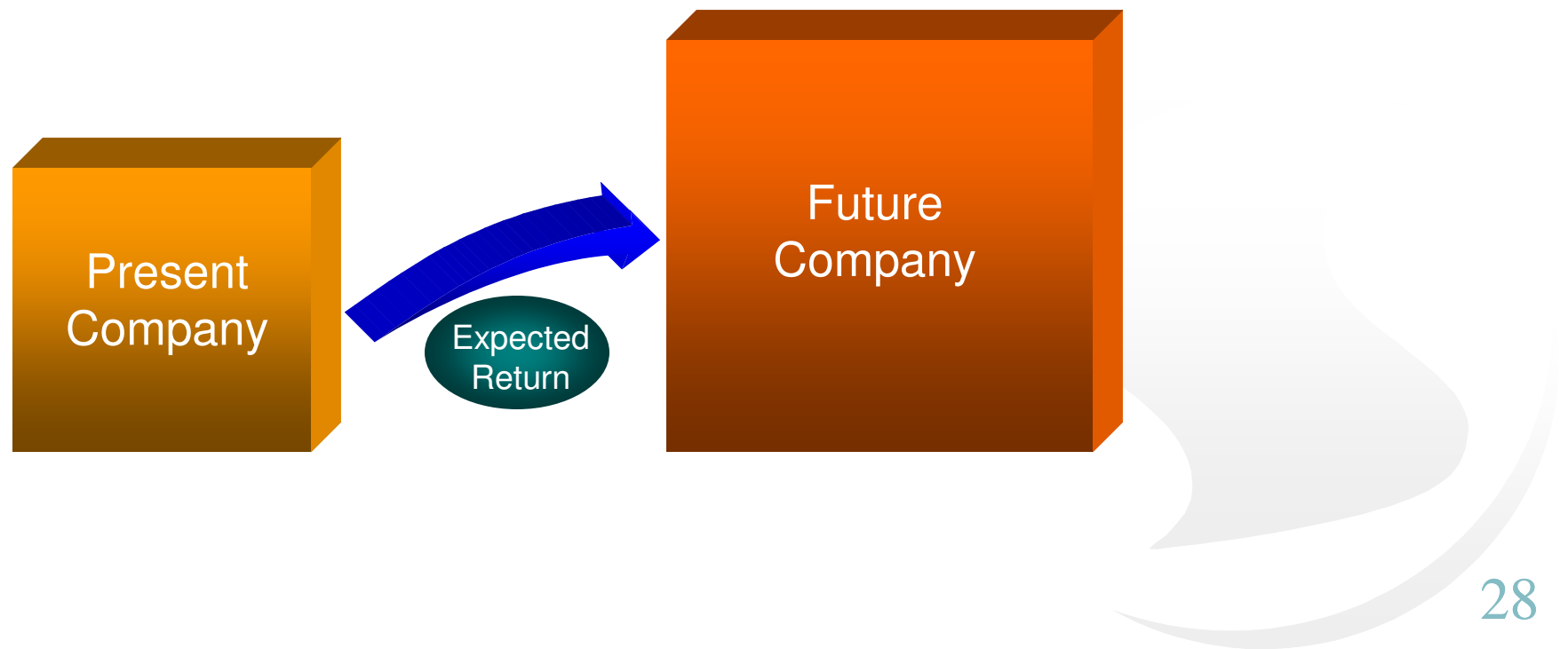
**And whether they're received (how much they'll be worth when received)**

# Identifying Ideal Compensation Allocations

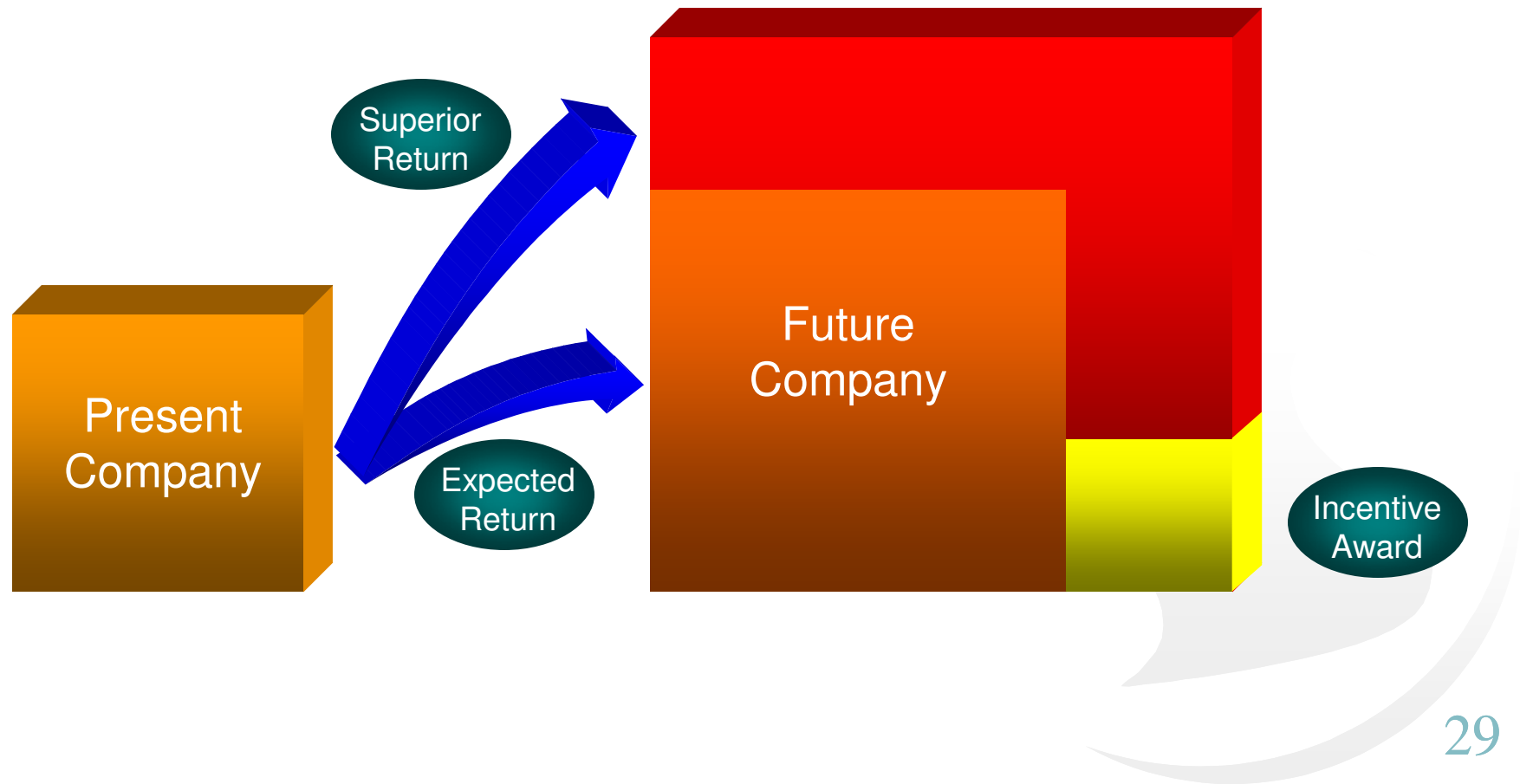


| Form of Pay                   | Purpose                                                                                                                 | Standard                                          | Investment         | ROI                                                                     |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|--------------------|-------------------------------------------------------------------------|
| Salaries                      | Provide for the current cash needs of our executives                                                                    | 40-50th percentile for peer group                 | \$500,000          | Achieve ROA standard of 0.75%                                           |
| Short-term Incentives         | Enhance current cash payments to executives for achieving top and bottom line annual goals                              | 30-40% of base salary                             | \$168,000 (Target) | 15% revenue growth and 12% margin                                       |
| Long-term Incentives (Cash)   | Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs | 15-20% of base salary                             | \$84,000 (Target)  | Long-term growth in earnings (double earnings = share 13% of new value) |
| Long-term Incentives (Equity) | Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs | 15-20% of base salary                             | \$84,000 (Target)  | Long-term growth in earnings (double earnings = share 13% of new value) |
| Core Benefits                 | Meet basic security needs of the executives                                                                             | 50th percentile for peer group                    | \$25,500           | ROA of 0.75%                                                            |
| Executive Benefits            | Enhance basic security needs and meet market standards for perquisites                                                  | 50th percentile for peer group                    | \$24,000           | ROA of 0.75%                                                            |
| Qualified Retirement          | Provide wealth accumulation opportunity for executives                                                                  | 40th percentile (3% of salary)                    | \$15,000           | ROA of 0.75%                                                            |
| Supplemental Retirement       | Strengthen rewards value proposition to help recruit and retain executives; meet wealth accumulation needs              | 30th percentile compared to banks that have plans | \$135,000          | ROA of 0.9%                                                             |

# How should we think about compensation as an investment?



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# ROTRI™ - Return on Total Rewards Investment

# 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 |
| <b>ROTRI™</b>            | <b>16.9%</b> |

(ROTRI = Productivity Profit/Total Rewards Investment)

| Current Equity Value | EOY                                | 10% GR (Threshold) | 11% GR      | 12% GR      | 13% GR      | 14% GR      | 15% GR      |
|----------------------|------------------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|
| 25,000,000           | 1                                  | 27,500,000         | 27,750,000  | 28,000,000  | 28,250,000  | 28,500,000  | 28,750,000  |
|                      | 15                                 | 104,431,204        | 119,614,737 | 136,839,144 | 156,356,759 | 178,448,449 | 203,426,541 |
|                      | Incremental increase in value      |                    | 15,183,533  | 17,224,407  | 19,517,615  | 22,091,690  | 24,978,091  |
|                      | Cum Value Increase Above Threshold |                    | 15,183,533  | 32,407,940  | 51,925,555  | 74,017,245  | 98,995,336  |
|                      | % Shared                           |                    | 10%         | 15%         | 20%         | 25%         | 30%         |
|                      | \$ Shared                          |                    | 1,518,353   | 4,861,191   | 10,385,111  | 18,504,311  | 29,698,601  |
|                      | Net Increase for SH                |                    | 13,665,180  | 27,546,749  | 41,540,444  | 55,512,934  | 69,296,736  |
|                      | New SH Value                       |                    | 118,096,384 | 131,977,953 | 145,971,648 | 159,944,138 | 173,727,940 |
|                      | IRR                                |                    | 10.9%       | 11.7%       | 12.5%       | 13.2%       | 13.8%       |

# Rewards Pyramid



# Rewards to Results





**Total Rewards**

**Sustainable  
Cash Flow**

**Salary / STIP**

**Security**

**Benefits**

**Wealth  
Accumulation**

**Retirement / LTIP**

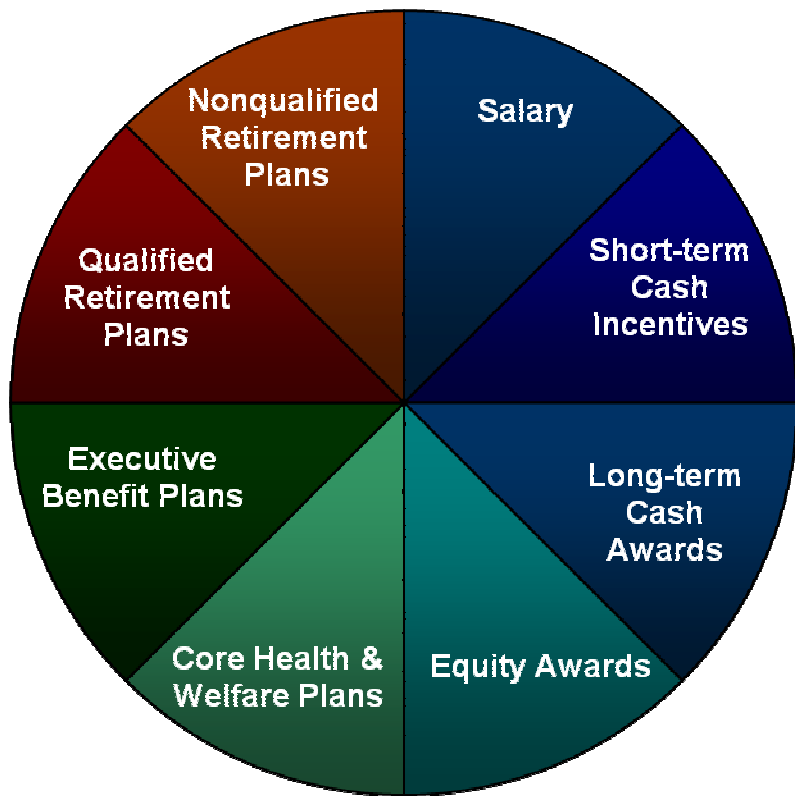
**Confidence in  
Lifestyle**

**Participation in  
Value Creation**

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

**Sustainable Growth**

**Culture is Competitive  
Advantage**



# Fundamental Philosophy

Fair salaries, strong benefits, great upside for short- and long-term growth and profitability. We share the economic value our employees help create.

# Fundamental Philosophy— Written Guidelines

- Salaries targeted between 40<sup>th</sup> and 50<sup>th</sup> percentile (varying by experience and contribution)
- Total cash opportunity targeted at 75<sup>th</sup> percentile for excellent performance
- Security program at 50<sup>th</sup> percentile
- Wealth accumulation opportunity at the 90<sup>th</sup> percentile for excellent long-term growth



# 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

# For compensation to do its part in changing results, the following must occur:

- Both the forecast and the compensation plan must be understood
- Both the forecasted results and the compensation plan must be valued
- The results must be believable (achievable)
- Employees must be committed (ownership)
- Results must be measurable (concrete)
- Results must be communicated (regularly)

# Steps



1. Set your goals
2. Build a model
3. Identify key measurements
4. Select each compensation tool with a purpose
5. Test
6. Build

# Measuring Employee Commitment

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

# 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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- It is important that we achieve our results because my targeted incentive award value is very meaningful to me

# 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

# Next Online Seminar:

## **“What Your Employees Are Not Telling You About Your Current Rewards Programs”**

To be held on:  
Tuesday, September 22<sup>nd</sup>, 2009

Check out our NEW website:

[www.VLadvisors.com](http://www.VLadvisors.com)

The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, which consists of a stylized 'V' icon and the text 'THE VISIONLINK ADVISORY GROUP'. To the right of the logo is a 'CLIENT login' section with input fields for 'user name' and 'password', and a 'Login' button. Below the login section is a phone icon and the number '(888) 703 - 0080', along with an RSS feed icon. A navigation menu below the header includes links for 'Home', 'About Us', 'Client Profile', 'Information and Resources', 'Client Locations', 'Events', 'Blog', and 'Contact Us'. The main content area features a large banner with a background image of people in a meeting. The banner text reads: 'How Do I Structure Compensation in Recessary Times ...and Still Maintain a Competitive Advantage?'. On the left side of the banner are three vertical buttons: 'Structure Compensation', 'Top People Management', and 'Entitlement Mentality'. Below the banner is a section for a webinar invitation. It includes a text input field for an email address and a 'Join' button. To the right of the input field is the heading 'Strategic Compensation Development and Management Firm'. Below this heading is a short paragraph of text: 'VisionLink enables mid-market companies to achieve greater execution and productivity from key talent through pay-for-performance compensation strategies.' To the right of this paragraph is a quote from a client, introduced by a blue pushpin icon: 'VisionLink has helped us successfully navigate a number of complex issues regarding our rewards programs. It has'.

You can also subscribe to our new blog

# Questions



# 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.*

# Thank you!



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