

# VisionLink

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

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Financial Visions



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ADVISORY GROUP

July 28, 2009

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*

# Key Concepts

- The right foundation for your 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

# Competitive Advantage

## *Case Study*

### *Cisco Systems*

*WSJ—The Weekend Interview with  
John Chambers*

# Some Cisco Facts

- \$130 billion in market value
- \$40 billion in annual sales
- 10 years ago—mostly know for building switching systems (routers) that find most efficient path for info on internet
- Today—presence in virtually every corner of Web's infrastructure from network hardware to network management software to routers that run wireless networks in your home
- No material layoffs during economic downturn
- Has announced intention to pursue 30 disparate new market areas
- CEO has publicly predicted 12% to 17% annual growth over the course of the next five years—whatever happens to the economy in the short term

# Key Competitive Advantage Facts



“As much as three-quarters of the world’s digital data now passes through Cisco’s equipment...”

“Despite taking the same hit as the rest of the computer industry earlier this year, Cisco’s stock is climbing (up 17%...in the last month)...”

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# Key Competitive Advantage Facts

“Cisco is feeling so confident that it is even planning a new integrated hardware/software platform (Cisco Unified Computing System) that puts it in direct competition with its former strategic partners, IBM & Hewlett Packard, for control of data centers run by large corporations.”



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# No Always So.....

- Fall, 2001—world's most valuable corporation with a market cap of \$500 billion
- Chambers leaves on Christmas vacation with 26-week backlog of orders and 70% annual growth
- Came back to collapsed industry
- By mid-January 2002, 70% growth went to minus 45%

# Competitive Advantage Key

“Under Chamber’s leadership, Cisco kept its cool. There were losses and there were layoffs, but after the cuts Cisco gained market share against its even more damaged competitors—and hasn’t stopped.”

# How a CEO Thinks

## John Chambers



“We’ve learned our lessons with each downturn in this company’s history, and we’ve fine-tuned them as we’ve gone along. Now we have our playbook, with its four key elements, and we’re going to run that game no matter what the short-term situation looks like.”

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# How a CEO Thinks

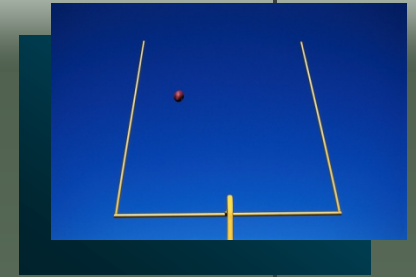
## John Chambers



“Even in this downturn, we intend to be the most aggressive we’ve ever been.”

“We basically wrote the press release for five years from now.”

# Playbook



1. **Be Realistic**— *gauge how many challenges are created by economy and how many are self-inflicted*
2. **Assess Your Situation**— *ask how long a downturn will last and how deep it will be; it will usually be longer than you think*
3. **Get Ready for the Upturn**— *Cisco has announced a major sponsorship of 2012 Olympic games in London*
4. **Get Closer to your Customers**

# 3 Unwritten Rules

1. **Watch the Stock Market**— “when the crash came in 2001, the stock market had been going down for a year, but we hadn’t really noticed.”
2. **Always have More Cash, Not Less**— “We didn’t have enough cash going into 2001. This time we went into it with \$34 billion. That wasn’t accidental.”
3. **Be Aggressive**— following 2001 crash, Cisco embarked on one of the most spectacular acquisition programs in high tech history—more than 130 companies to date—expanding product offerings across a broad range of technology lines

# 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.)



# 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 ...”



What gets great people to come to your organization and then stay?

# Great Talent

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



# Characteristics

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



# Four Keys

Compelling Future

Positive Work Environment

Opportunities for  
Personal and  
Professional Growth

Financial Rewards

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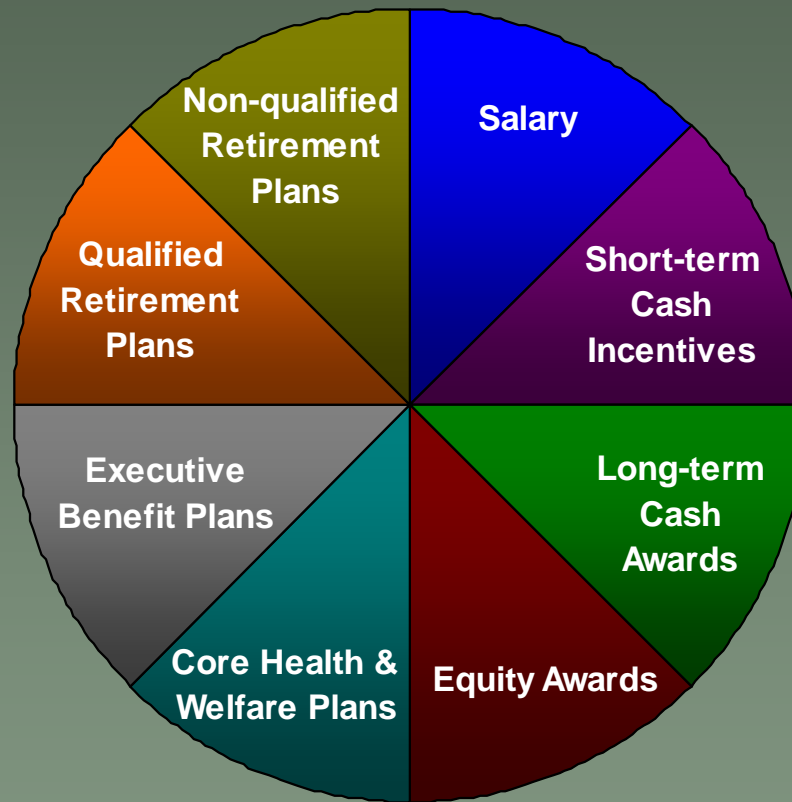


# What Type of Compensation Package Do They Respond to?

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# Compensation Pantry



**Total Rewards**

**Sustainable  
Cash Flow**

**Security**

**Wealth Accumulation**

**Salary/STIP**

**Benefits**

**Retirement/LTIP**

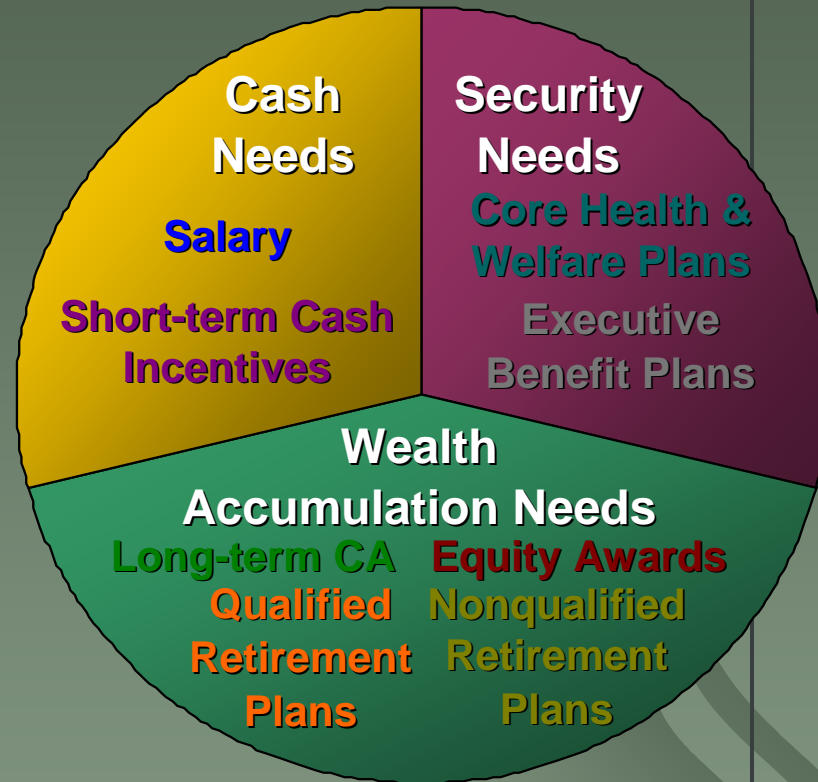
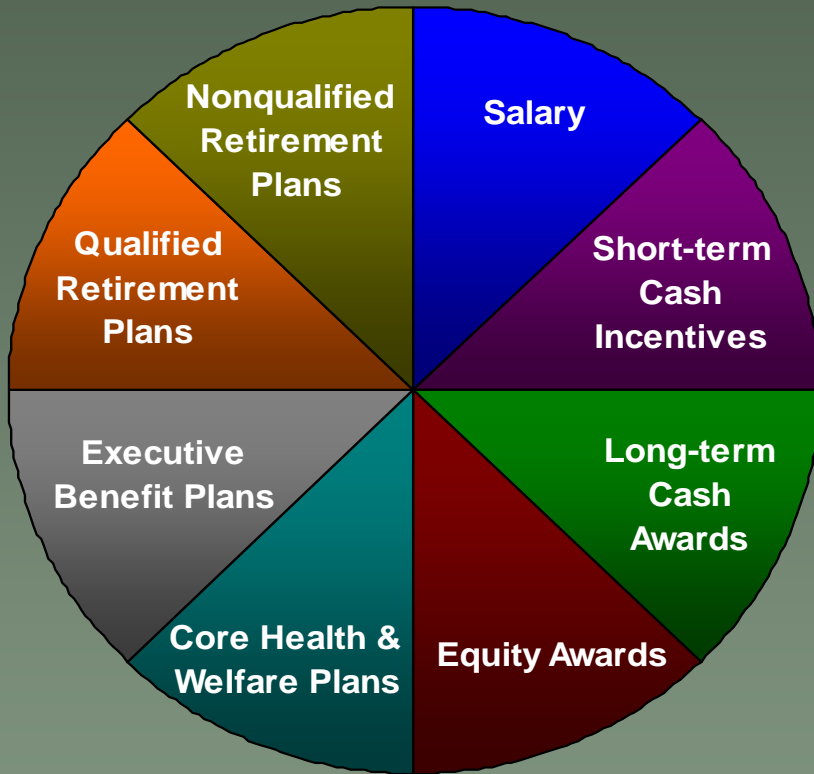
**Confidence in Lifestyle**

**Participation in  
Value Creation**

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

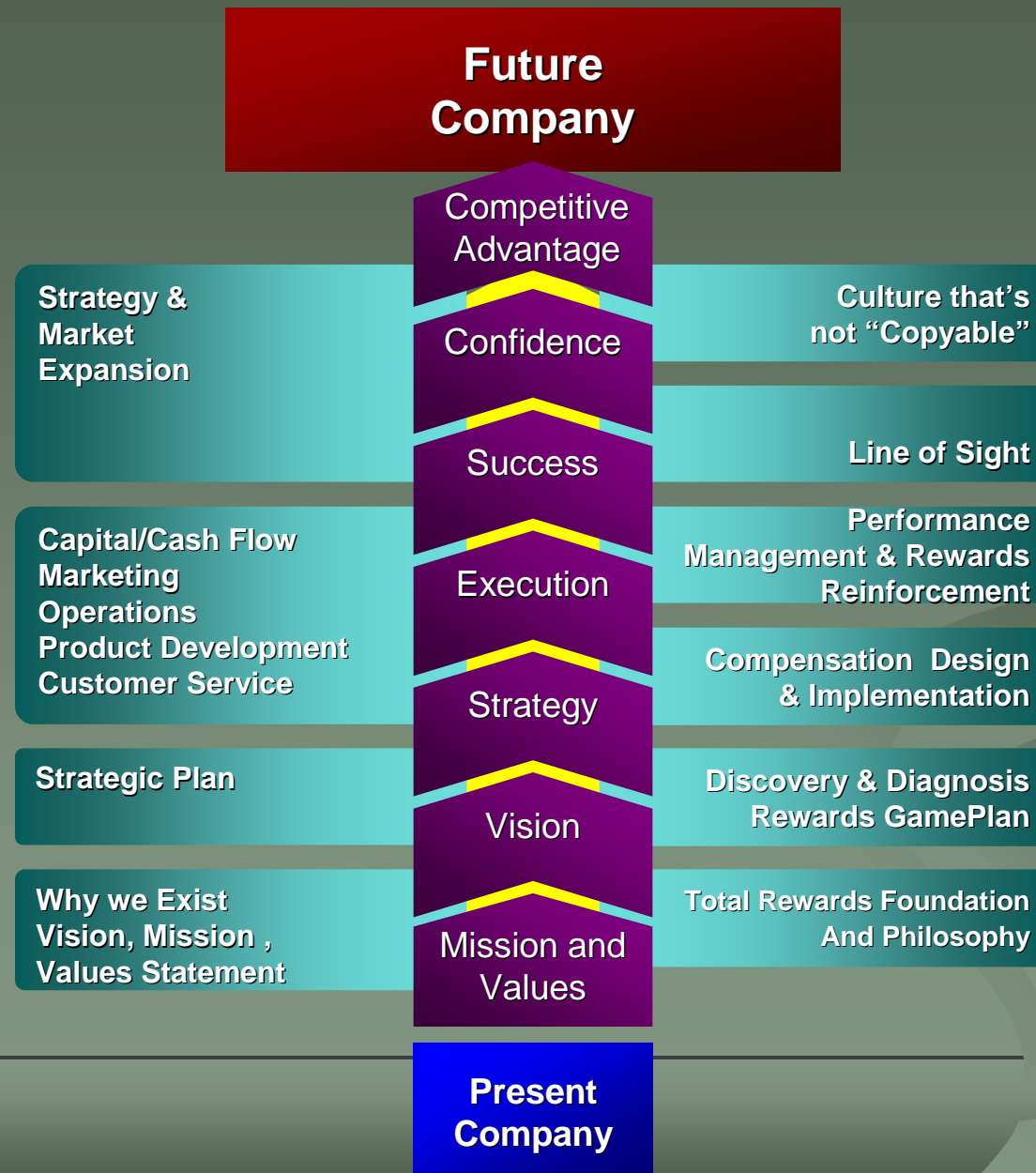
**Sustainable Growth**

**Culture is Competitive  
Advantage**



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# Compensation as a Competitive Advantage

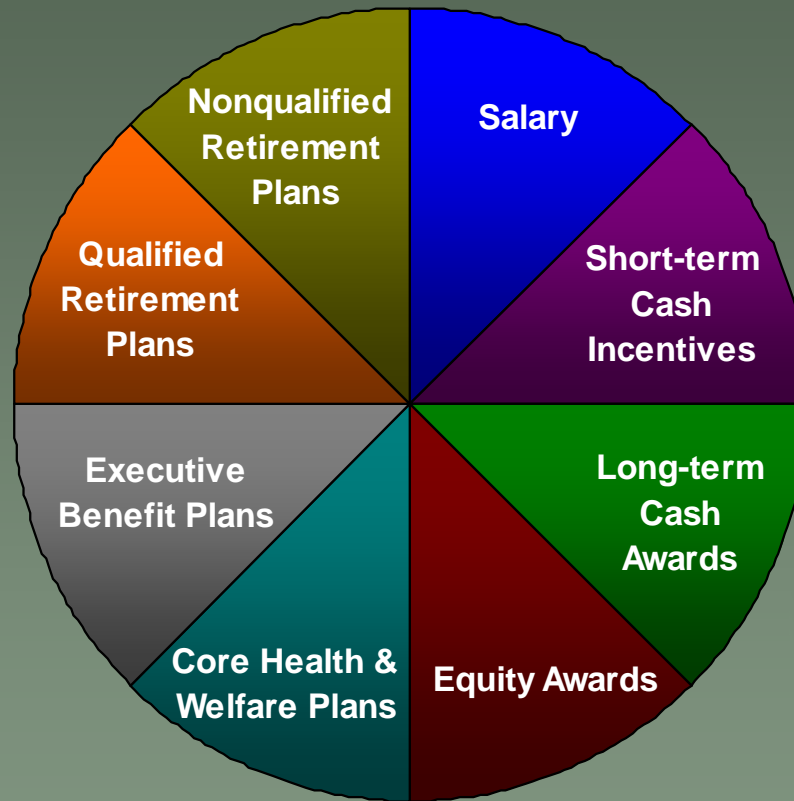


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# What if your culture demanded...

- 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 Pantry*



# Compensation decisions



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



# 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



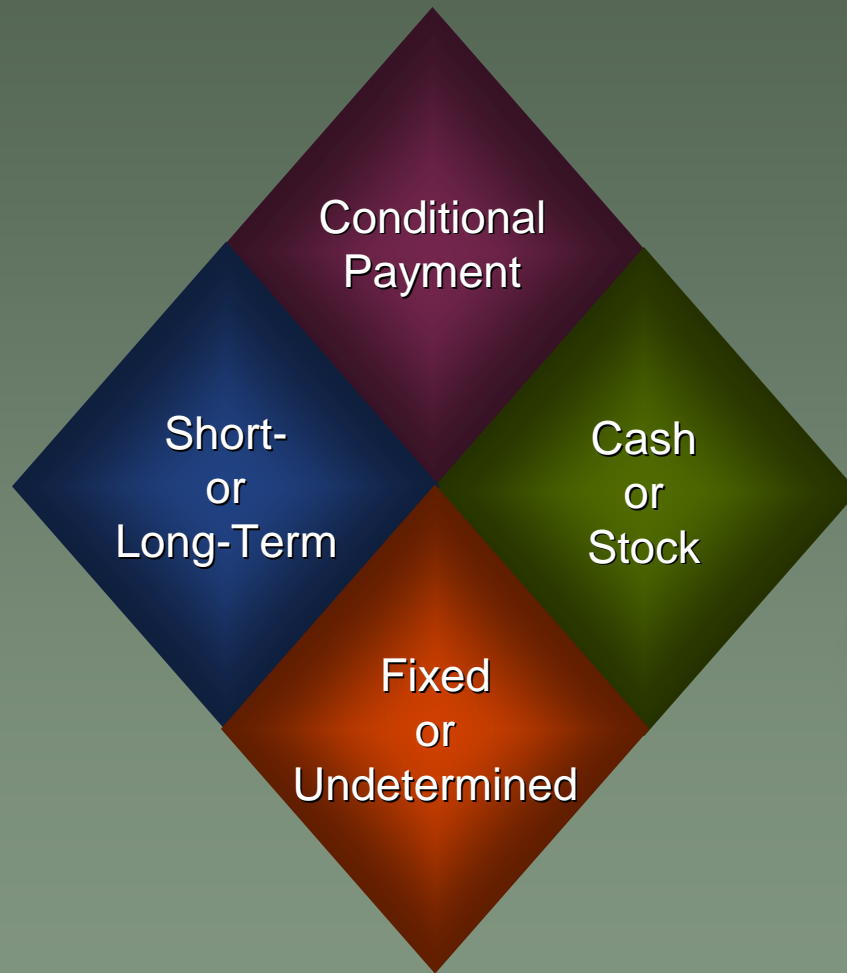
- Who should be eligible?
- How large should they be?
- What should they be based on?
- When should they be paid?

# 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?

# Incentive Plans



# Indicators



What specific and measurable indicators will best reflect the improvements desired?

# Indicators

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

For example:

- Company—Revenue growth and net Income
- Department—New assets, performance (alpha), MBOs met
- Individual—Performance goal achievement



# 2009 Performance Matrix

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

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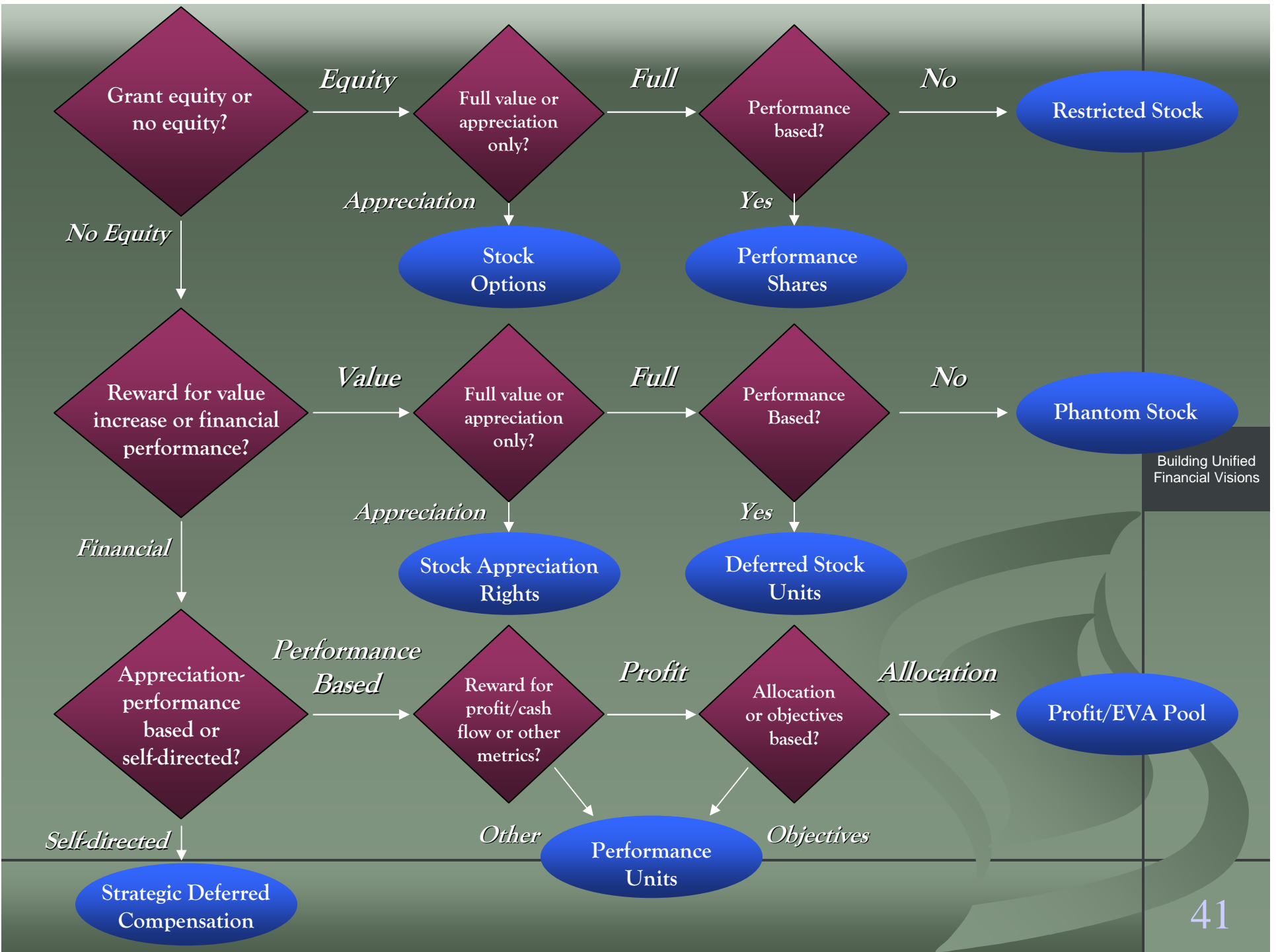
## Company Indicators

Return on Equity  
Return on Assets  
EPS  
Gross Sales  
Net Income  
Earnings Before Incentives  
EBT, EBIT, EBITDA  
Economic Profit (Productivity Profit)  
Revenue per employee  
Profit per employee  
Customer satisfaction indicators

## Department Indicators

New Loans  
Deposits  
Net Interest Spread  
Gross Sales  
Gross Margin  
Overhead Percentage  
Average Daily Room Rate  
Average Daily Occupancy Rate  
Contribution Margin  
Expenses to Budget  
Production Quotas  
Employee Retention Percentage  
Registrations  
Client Referrals  
Alpha  
Number of MBOs met





# 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

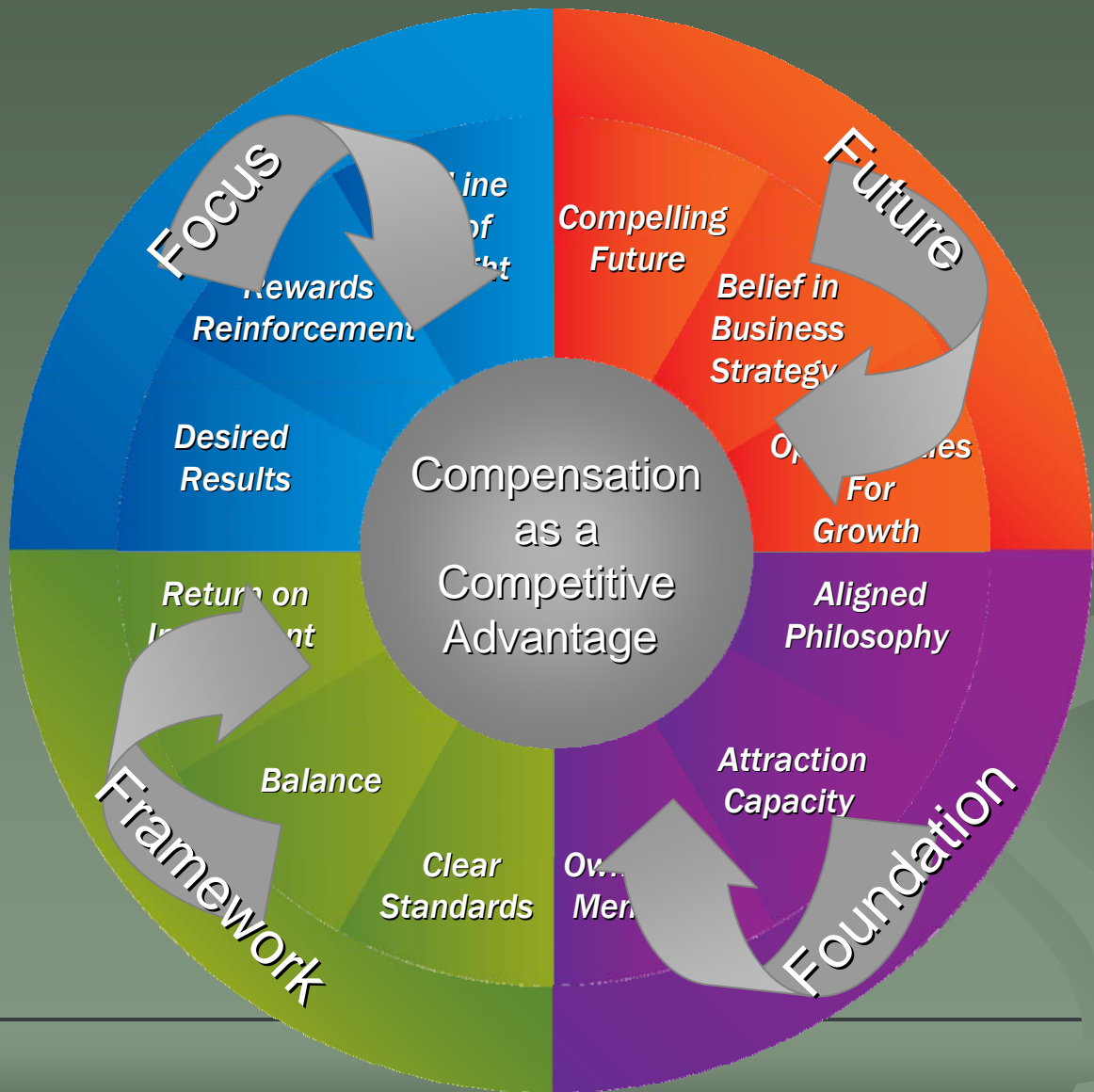
- How will we determine the need for such a plan?
- How will we select the optimal plan for our organization?
- What will be our investment and how will we measure its return?
- How will we use this plan to enhance attraction and retention of executive talent?

# 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?



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# Rewards to Results



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## Where do I begin?

Make a clear assessment of where you stand with your employees and the impact of your current rewards strategies.

# 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: \_\_\_\_\_

Title: \_\_\_\_\_

Company: \_\_\_\_\_

E-mail Address: \_\_\_\_\_

Phone Number: \_\_\_\_\_

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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.*

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Leadership  
Diagnostic

Associate  
Diagnostic

Compensation  
Snapshot

4F Assessment

Future

13

Foundation

19

Framework

12

Focus

14

# 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?

# Complimentary Offer

VisionLink invites you to participate in a 4F Assessment:

- Shareholder/Owner Survey
- Employee survey (up to 10 people)
- VisionLink will provide you a summary report and hold a phone conference.

**Indicate interest on final survey**

# The VisionLink Advisory Group

- Leadership
- Relationship
- Creativity
- Experience
- Wisdom

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# Best in the World

Compensation Programs that:

- Impact execution
- Improve productivity
- Enhance recruiting and retention
- Create greater focus
- Measure & improve your ROTRI™



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Next Online Seminar:



**“I’m Paying \$1 Million to My Top 5 People,  
What am I Getting for It?”**

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To be held on:  
Tuesday, August 25<sup>th</sup>, 2009

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Strategic Compensation Development and Management Firm

VisionLink enables mid-market companies to achieve greater execution and productivity from key talent through pay-for-performance compensation strategies. Our work helps businesses realize an impressive ROI.

"VisionLink has helped us successfully navigate a number of complex issues regarding our rewards programs. It has

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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 and the **4F Diagnostic**.*

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**Thank You!**



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