

# VisionLink

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

Building Unified  
Financial Visions

May 20, 2008



THE VISIONLINK  
ADVISORY GROUP

The VisionLink Advisory Group ♦ [www.vladvisors.com](http://www.vladvisors.com)

# Key Concepts

- What do we mean by effective rewards strategies?
- How can we use them to create alignment?
- What obstacles do we have to overcome?
- What are the characteristics of rewards programs that drive success?
- What input should we receive from employees and how?
- Where do we begin?



Today's presenter

*Thomas E. Miller*

*President*

*949-265-5700*

*tmiller@vladvisors.com*



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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:

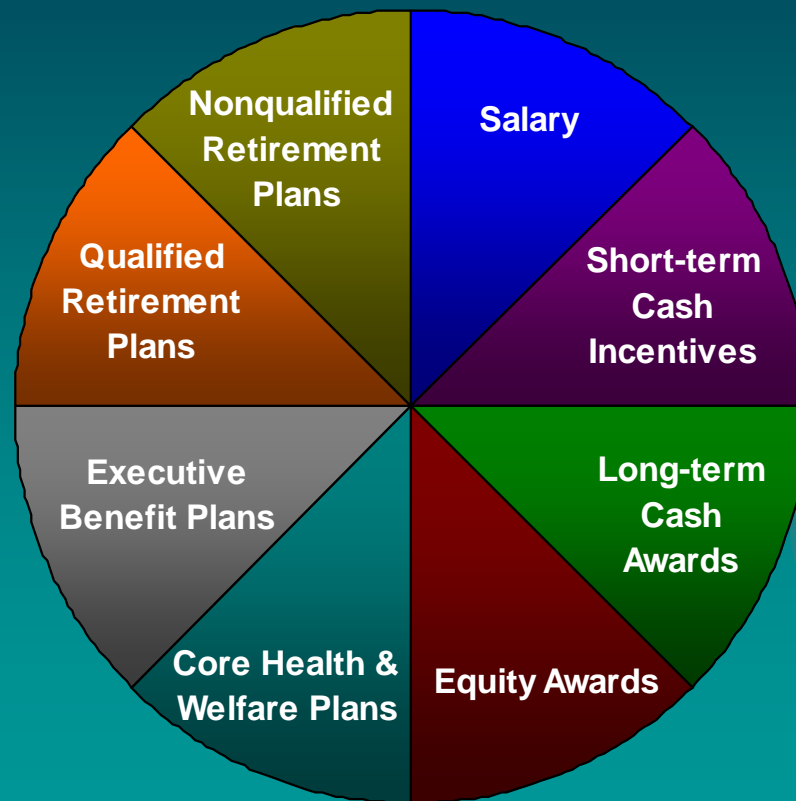
*Use the question panel  
to the right of your screen*



# What do we mean by effective rewards strategies?

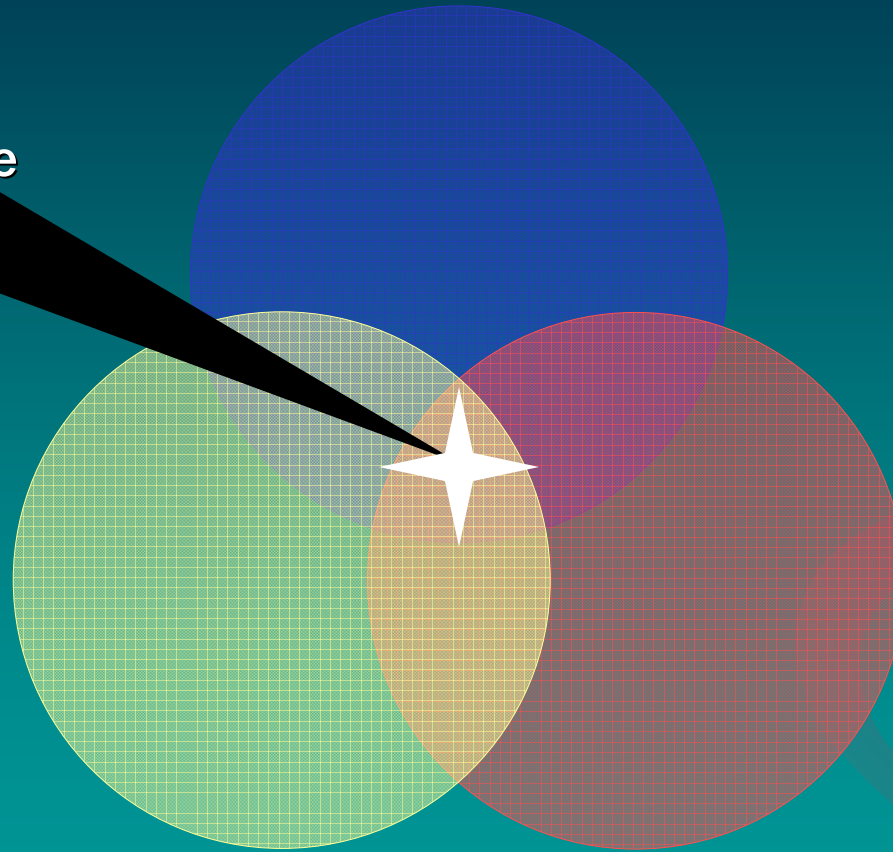
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# *The proper allocation of compensation and benefits plans that will drive results*



# Visionary Business Plan

**Sustainable  
Results**



**Great Talent**

**Powerful Rewards  
Programs**

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# Poll

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# What's needed to create alignment (line-of-sight)

- Clear statement of short- and long-term corporate strategies
- Well-defined job responsibilities and accountabilities
- Incentive plans that link both



How important is this?

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# Company A

- “I’m not sure where our company is headed”
- “I’ve heard them tell me where the company’s trying to go, but I don’t see it getting there”
- “It doesn’t matter to me whether the company grows or not”

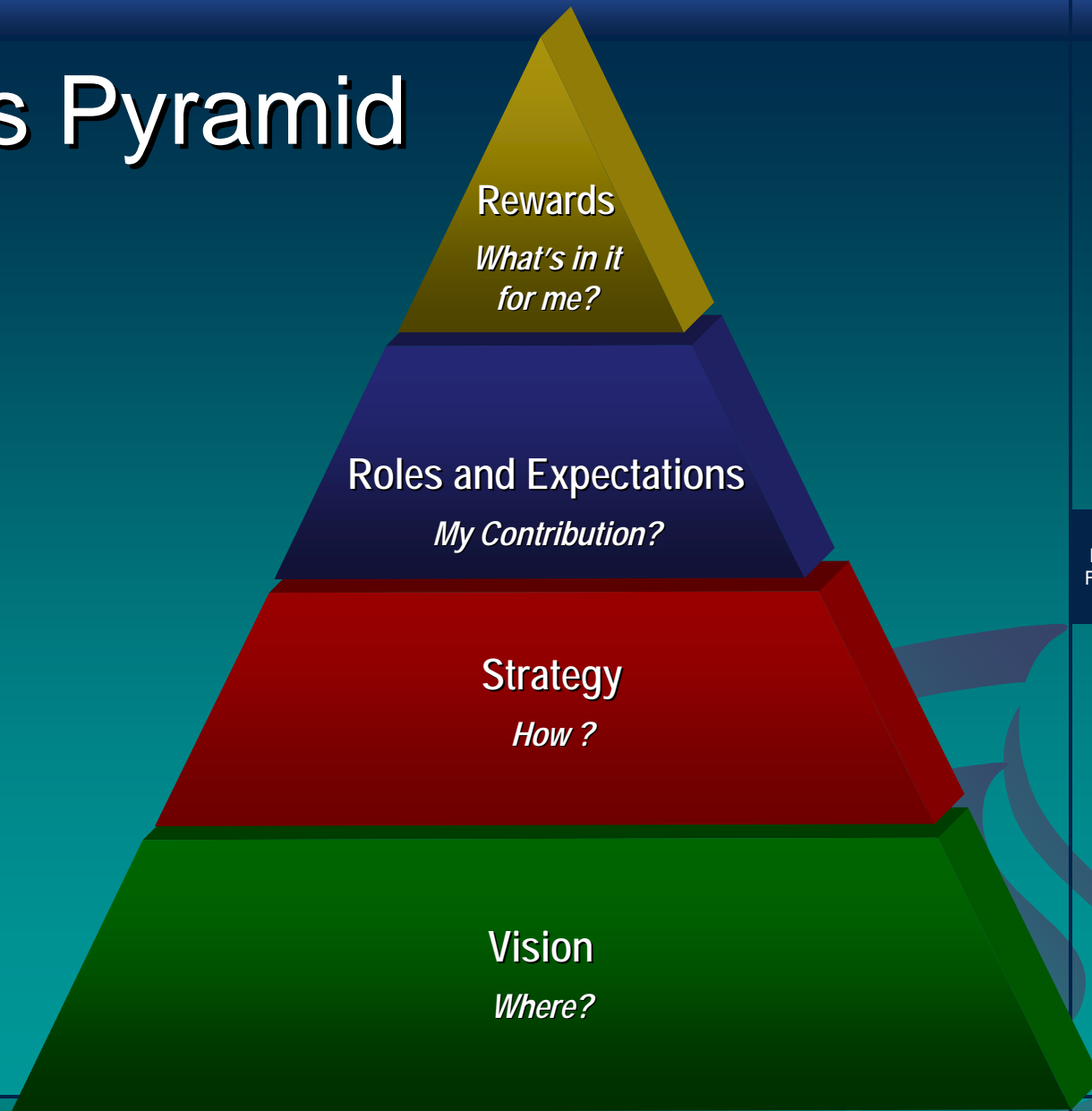
# Company B

- “I see where we’re headed and I’m excited about it”
- “I think we’re probably going to get there”
- “It’s very important to me that we get there”

# Difference at Company B

- My company has a compelling and meaningful future
- I'm clear on what's expected of me and how to accomplish it
- I have a meaningful financial stake in the success of the company

# Rewards Pyramid



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# Rewards to Results



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What obstacles stand in the way of achieving this mindset?



# Obstacle group 1 (**Future**)

- Future company has not been defined
- Future company has not been effectively communicated to employees
- Employees don't see a role for themselves in the future company

# Obstacle group 2 (Foundation)

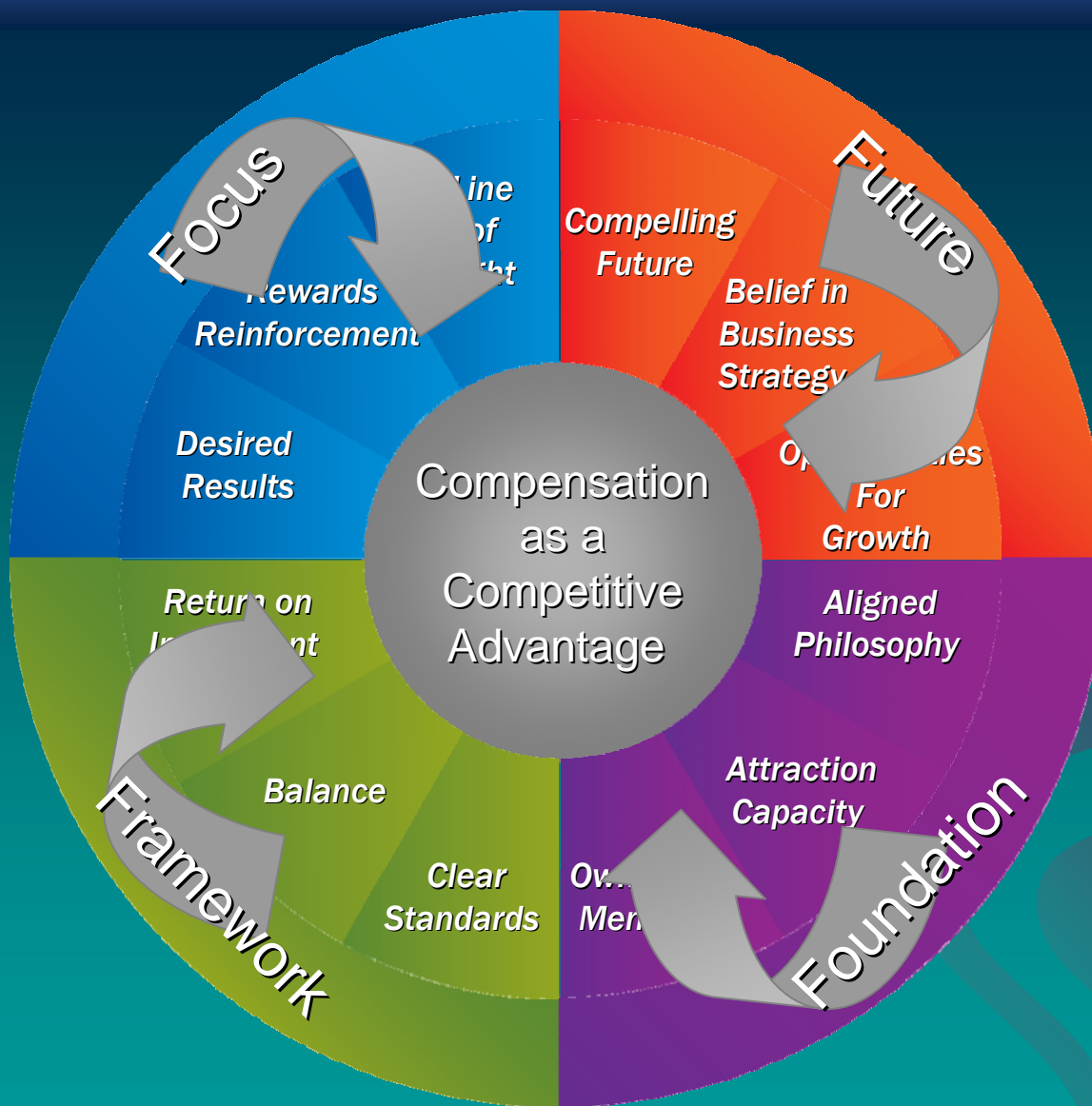
- The company has not established a consensus about how to use rewards programs to accelerate company growth (lack of a rewards philosophy)
- A philosophy has been developed but it has not been properly communicated to the employees
- A philosophy has been adopted but it's incomplete or simply inadequate

# Obstacle group 3 (Framework)

- The company does not view compensation as an investment (but as an expense); thus it has no way to track and measure the return on the investment
- Company tradition is to build rewards plans separately and not on an integrated basis
- The company does not have clear standards (i.e., best practices) and methods to set and re-set values that are consistent with employee expectations

# Obstacle group 4 (Focus)

- The full potential value of the total rewards plan is not regularly and powerfully communicated
- Only some of the plans (but not all) are built to generate line-of-sight
- Company personnel are not equipped to handle the annual management of effective rewards strategies (reactive rather than proactive)



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Owner/Shareholder Vision



COMMON THEMES

Owners want to:

Grow share value

Maximize abilities of key employees

Provide a quality product/service

Minimize liability and exposure to risk

Recruit and retain key employees

Focus employees on strategic goals/plans

Build a legacy

Exit the business and unlock equity

Employee's Vision



COMMON THEMES

Employees want to:

Develop and apply unique abilities

Be rewarded for superior performance

Enhance their income and growth opportunities

Protect their families financially

Provide for their retirement

Participate in the growth of the company

Earn opportunities for professional growth

Build wealth and save taxes

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On the practical side...

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

# Total Rewards

**Sustainable  
Cash Flow**

**Salary / STIP**

**Security**

**Benefits**

**Wealth  
Accumulation**

**Retirement / LTIP**

**Confidence in  
Lifestyle**

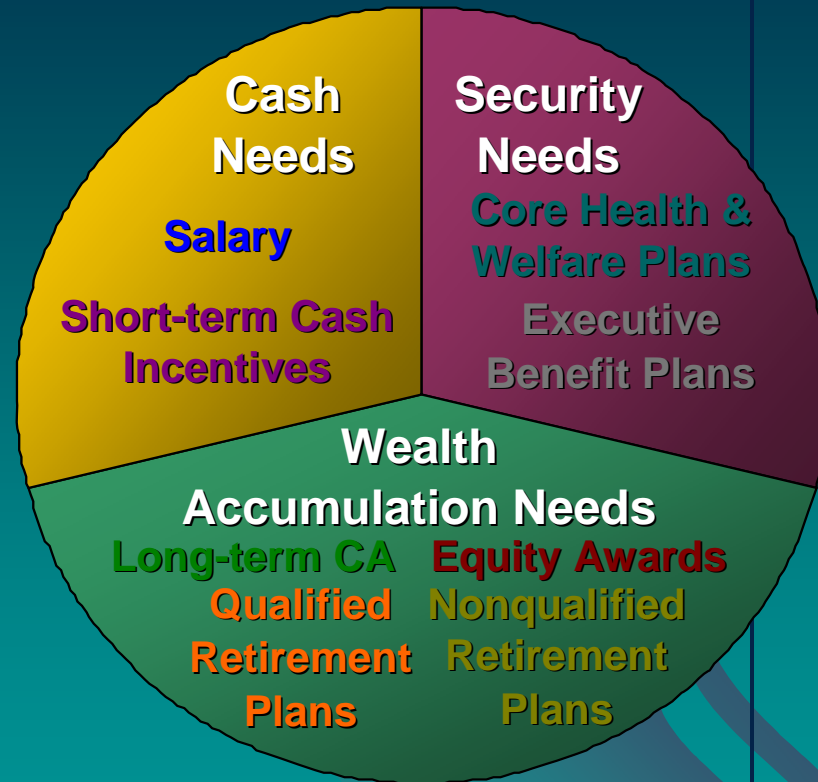
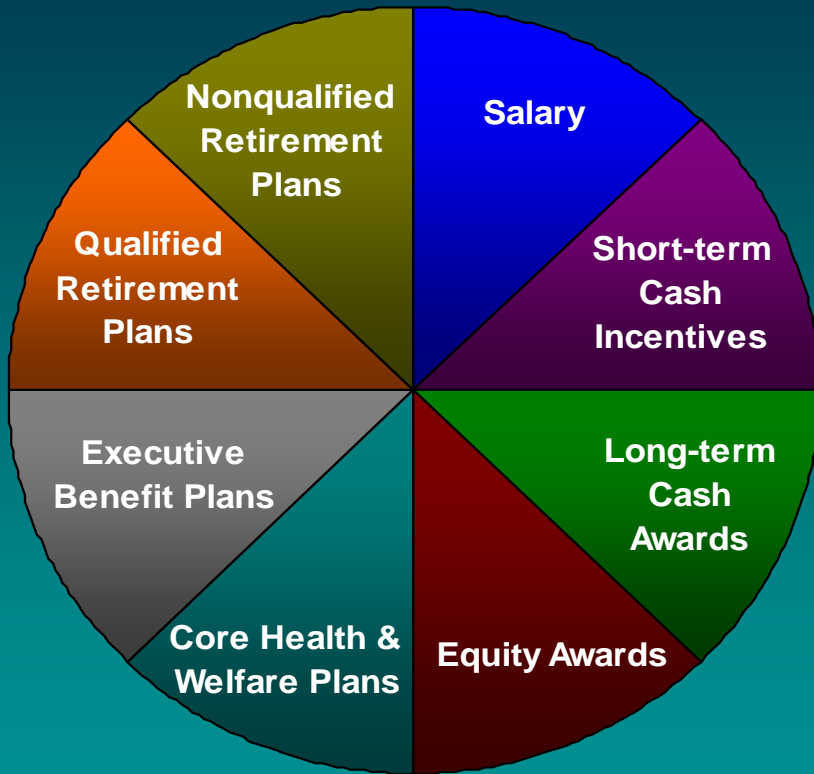
**Participation in  
Value Creation**

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

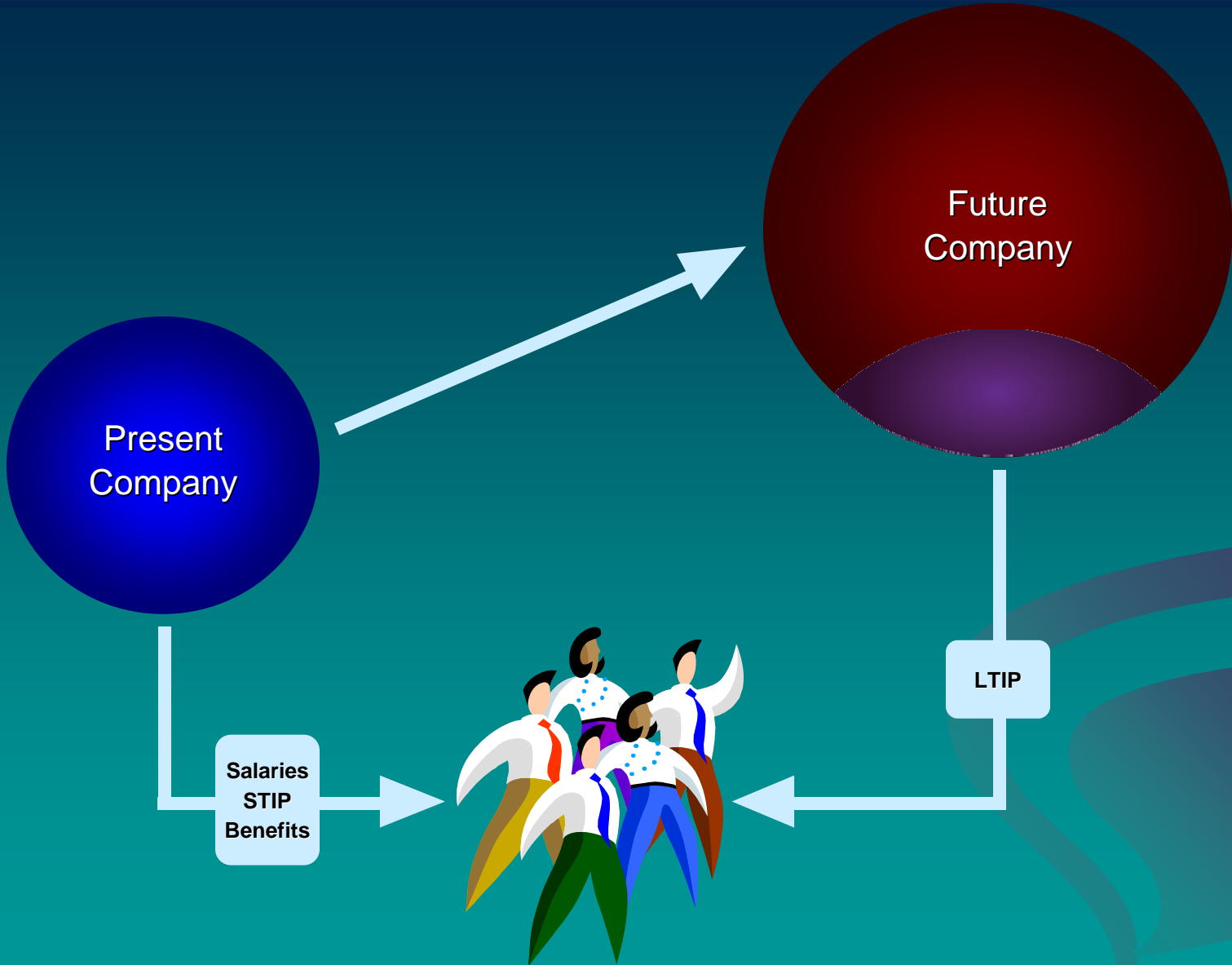
**Sustainable Growth**

**Culture is Competitive  
Advantage**





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# 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:*

# Bottom line...if these things aren't happening:

- You don't have the capacity to recruit and retain the kind of employees who generate meaningful change and growth
- You have not fully captured the potential contribution of the employees you do (and will) have



# What's needed?

A clear assessment of where you stand with your employees

# 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 versus "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.*

*The VisionLink Advisory Group  
7700 Irvine Center Drive, Suite 930, Irvine, California 92618  
949-352-2288*

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?

# Poll #2

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# 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

- 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

# 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   |

4F Assessment

Net Motivation Score



Functionality

Vitality

4F Assessment

Net Motivation Score

Passion  
&  
Execution

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# Utilization

- Annual 4F Assessment
- Annual or semi-annual determination of Net Motivation Score

# Goals

- Increased confidence, commitment, understanding and appreciation
- Improved execution



# Complimentary Offer

- 4F Diagnostic (Leadership)
- Confidential (and no obligation)
- Includes commentary (recommendations)

# Conclusions

- Must be able to assess employee *perception*
- Employee perception is linked to employee *productivity*
- Find quantifiable ways to conduct assessment
- Set targets for improvement
- Run rewards around the 4F principles



# Next Online Seminar:



## **“Why Isn’t My Company Culture What I Envisioned...and How Do I Change It?”**

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To be held on:  
**Tuesday, June 24<sup>th</sup>, 2008**

# 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 Leadership Diagnostic.*

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Thank You!



Tom Miller

President

949-265-5700

[tmiller@vladvisors.com](mailto:tmiller@vladvisors.com)

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