

VisionLink

Why Isn't My Bank Culture What I Envisioned...and How Do I Change It?

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Financial Visions



THE VISIONLINK
ADVISORY GROUP

June 25, 2008

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The VisionLink Advisory Group ♦ www.vladvisors.com

Today we'll cover...

- What is culture and why are we talking about it?
- How does culture relate to compensation decisions?
- How does culture relate to productivity and profitability?
- How do we build a compensation philosophy that promotes a culture of innovation?

Today's presenter

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Today's Hosts



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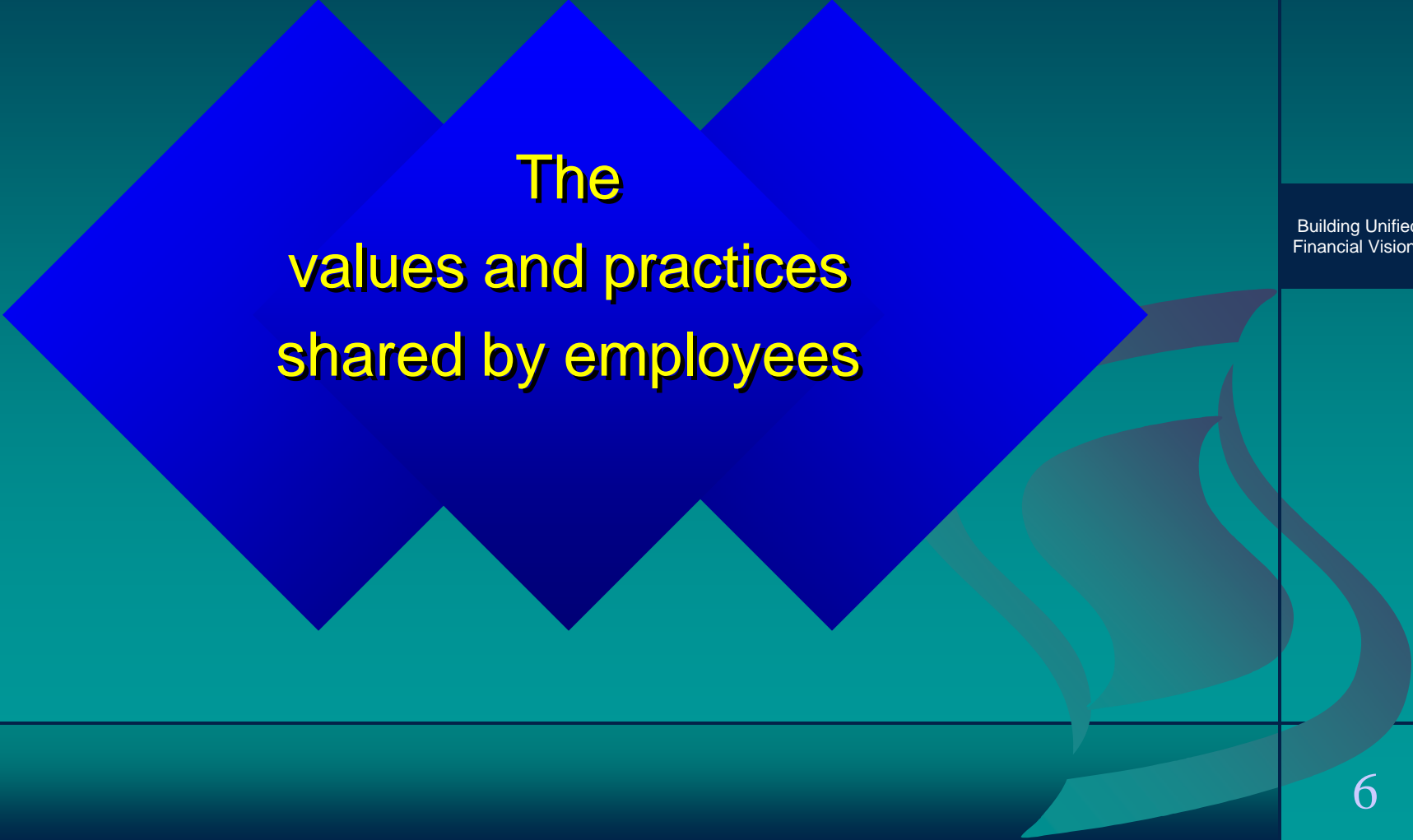
We're happy to provide a copy of today's slides. Information will be provided at the close of the presentation.

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*

Culture



The
values and practices
shared by employees

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Culture

- Character
 - “integrity”
 - “innovation”
 - “customer responsiveness”
- Personality
 - “open”
 - “friendly”
 - “competitive”



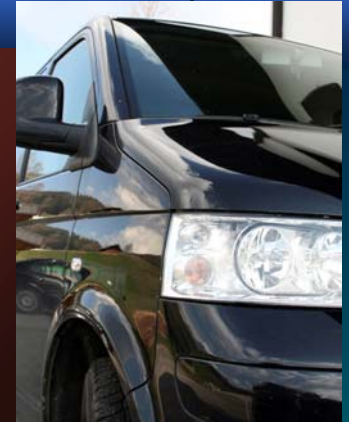
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Questions answered

- “How should I behave?”
- “How hard should I work?”
- “How creative should I be?”
- “How should I treat customers?”
- “What should I prioritize?”
- “How (and how quickly) should I respond to problems?”

My IFS experience

- 4 consecutive purchases
- Flawless payment record
- Error!
- 3 phone calls
- IFS reply



“Thank you for contacting Nissan-Infiniti...Customer service excellence is our goal, and we are happy to provide you with the requested information.

“The account information (i.e., 1 X 30 days late) was forwarded to the three major credit reporting agencies. Please allow up to 90 days processing time.”

Happy?

“I’m trying to discover whether Nissan-Infiniti has a culture that permits its employees to say, ‘I can see how we might have been at least partially at fault so let’s give this loyal customer the benefit of the doubt.’

“Please take the time to extend the courtesy of a personal response to my request for a discussion of the facts and decision.”

“IFS appreciates your effort to communicate your question...”

“We do not do ‘courtesy’ adjustments.

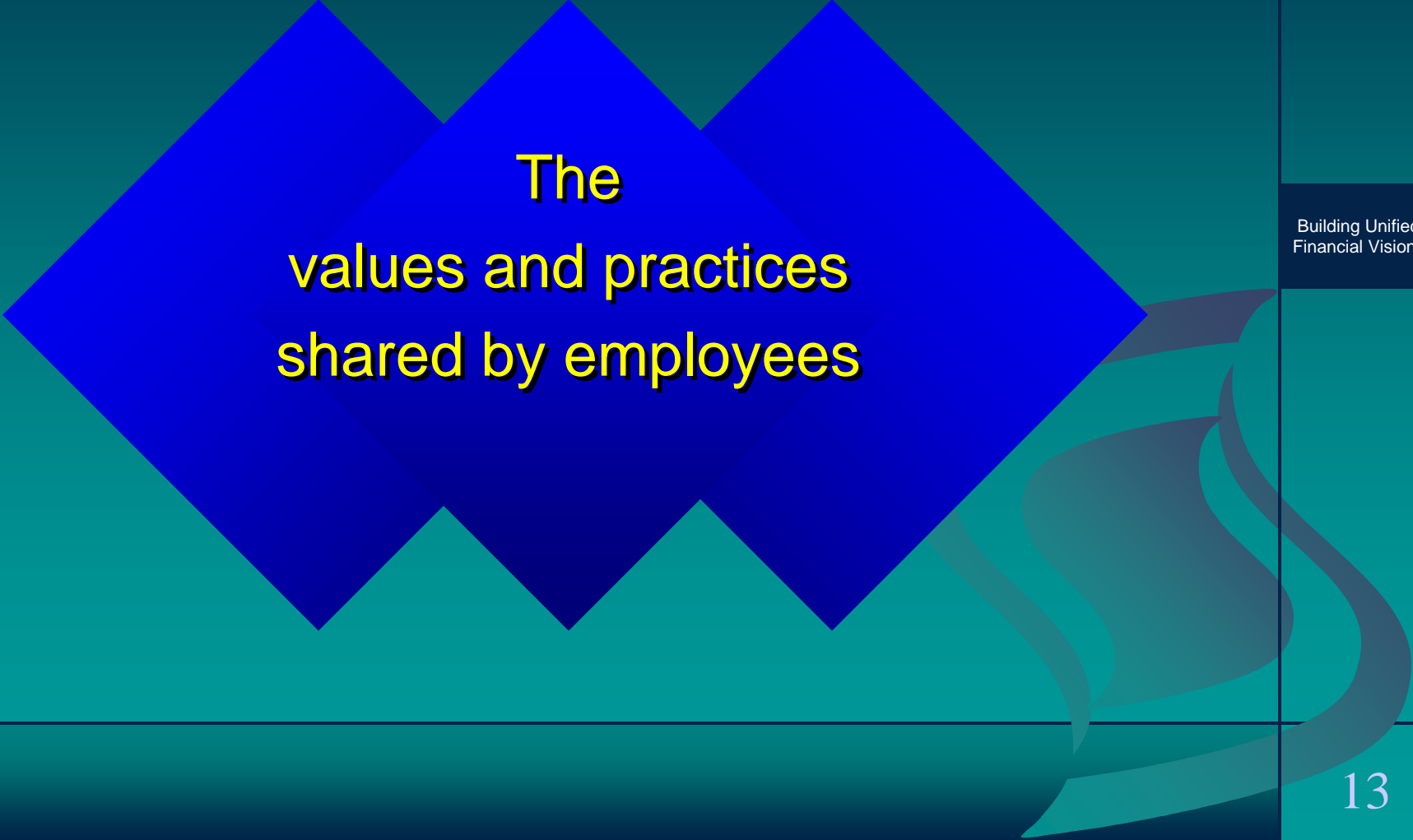
“We regret your frustration...”

“To learn more about Infiniti and our products, please visit our website.”

Sincerely,

Quality Assurance

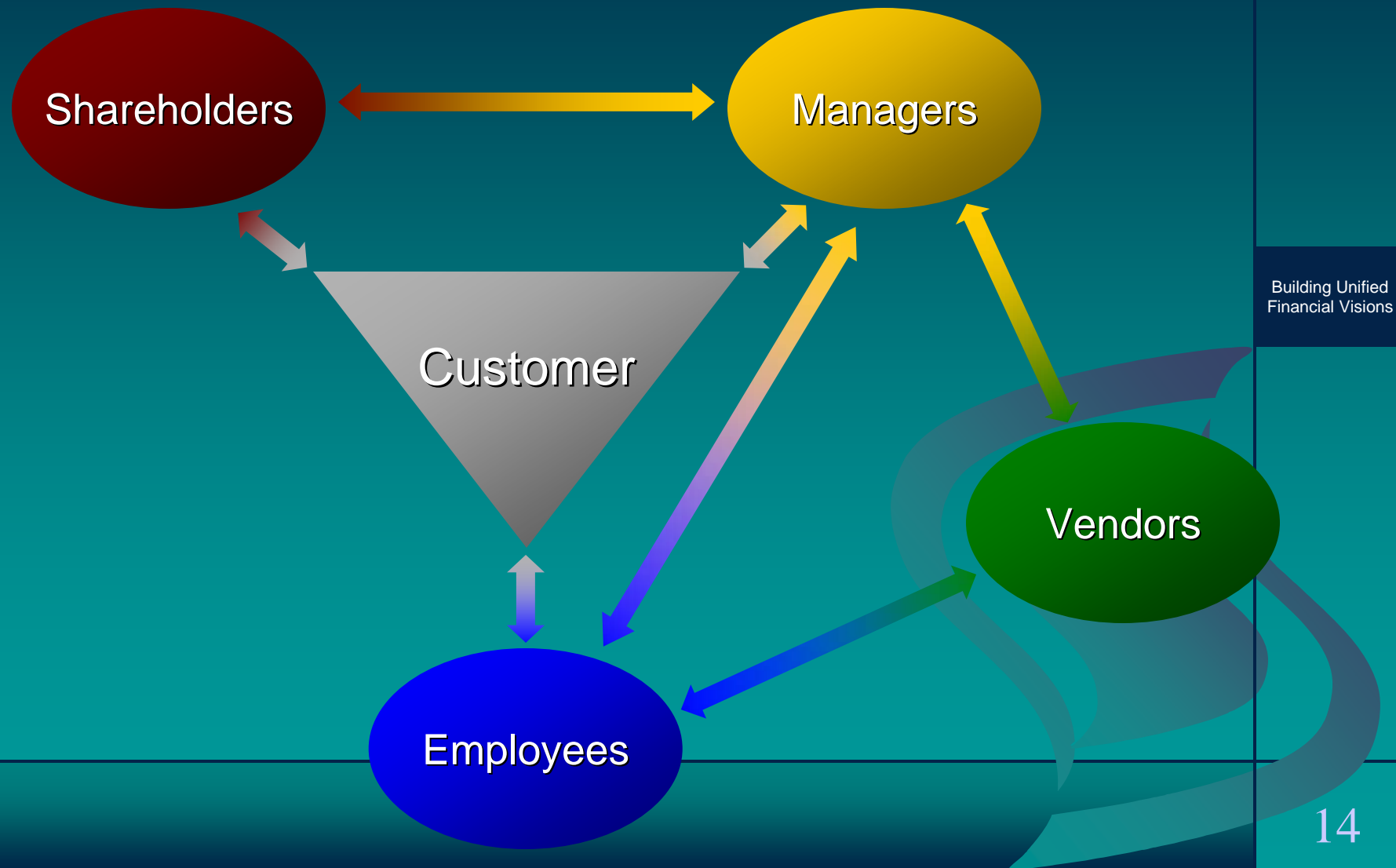
Culture



The
values and practices
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Promised Based Culture



Sustainable Culture

Stifles bureaucracy
(values and judgment prevail)

Promotes teamwork
("we're in this together")

Absorbs stress and work-life pain

Reflects reassurance and
commitment to customers

High Performance Culture

“We don’t settle for anything but the best”
(people and results)

Transparency

Honesty

Consistency

Leadership by example

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What is the importance (financially)
of a high performance culture?

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High performance culture

- Easier and less expensive to recruit new employees
- Lower turnover
- Higher productivity per employee
- Stronger customer satisfaction
- Greater brand value
- Greater market value

Thus, the lack of a high-performance culture costs shareholders millions of dollars of profits and value over time.

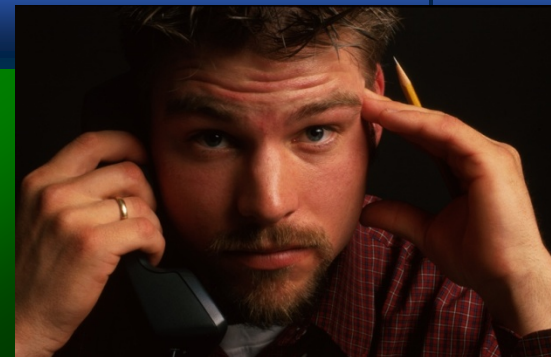
It's worth devoting time, energy and resources to address this objective!

Cost of Turnover

- Average cost of replacing a non-manager is 29% of the person's annual salary.
- Average cost of replacing a manager is 46% of the person's annual salary.
- Replacement costs do not generally vary based on bank size, revenue, or public/private status.
- Turnover costs an organization with 13,000 employees more than \$27 million per year.

Common Story

“I’m moving on...”



Why?

- “I’m not sure there’s a future here for me”
- “I just don’t feel like this is the right place for me”
- “I’m not sure I want to be doing this for the rest of my life”
- “I think I can make more somewhere else”

4 Areas of Concern

I'm not sure there's
a future here for me

I just don't
feel like this is the
right place for me

I'm not sure I want
to be doing this
for the rest of my life

I can
make more
somewhere else

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4 Keys

Compelling Future

Positive Work
Environment

Opportunities for
Personal and
Professional Growth

Financial Rewards

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4 Keys

Compelling Future

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10 10

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4 Keys

**A clear written statement
regarding our future
bank, its purpose and
value**

**Physical plant, culture,
comfort, values, attitudes**

**Unique ability
recognition, career paths,
no ceilings,
entrepreneurial**

**Attractive balance of
cash, security and
accumulation plans**

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How does an organization create a high performance culture?

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A diagram with a teal background. At the center is a blue pentagon labeled 'HPC'. To its upper left is a maroon triangle labeled 'Process', and to its upper right is a lime green triangle labeled 'Rewards Approach'. A decorative wavy line in shades of teal and grey flows from the right side of the 'HPC' pentagon towards the bottom right corner of the slide.

Process

Rewards
Approach

HPC

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Steps to a HPC:

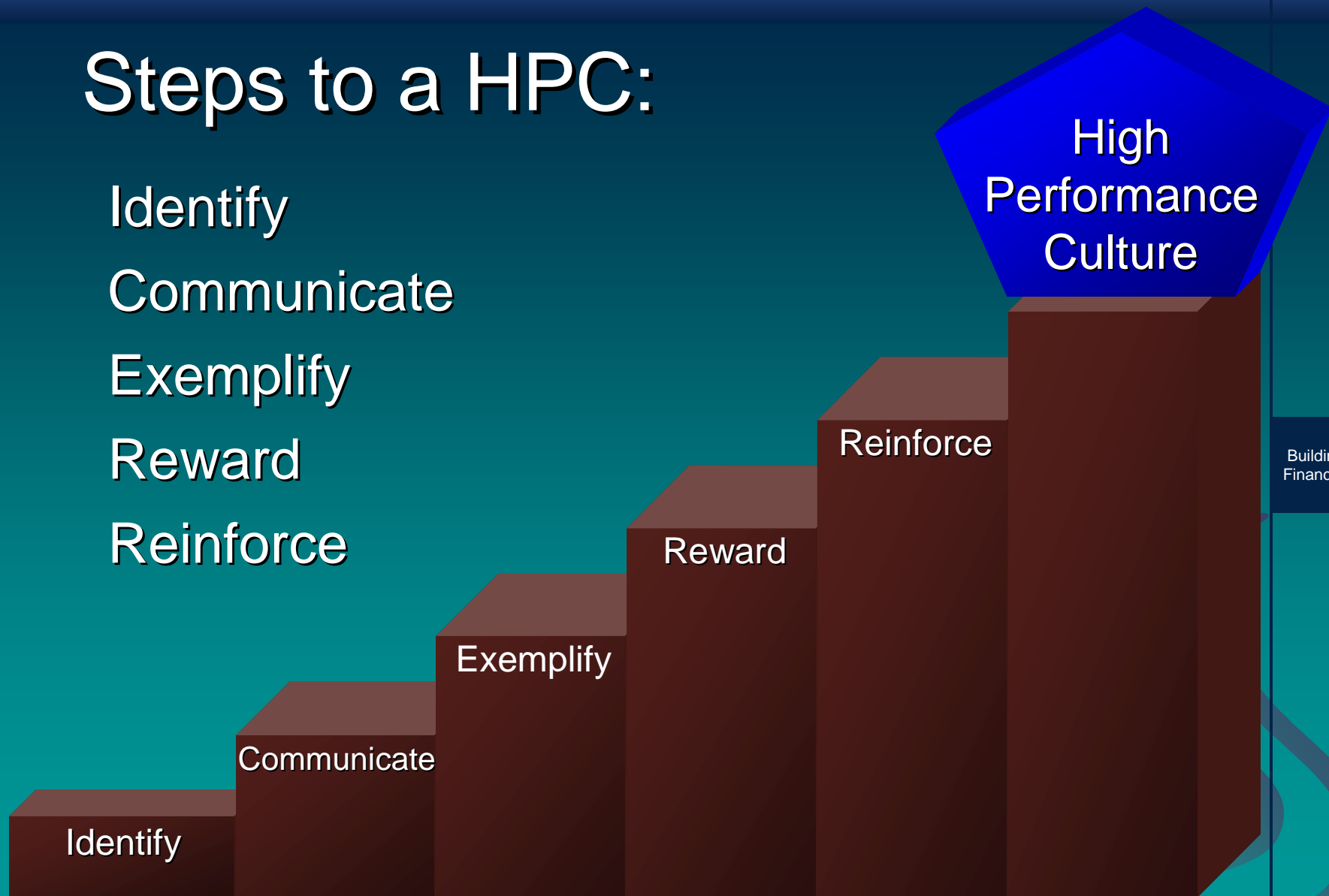
Identify

Communicate

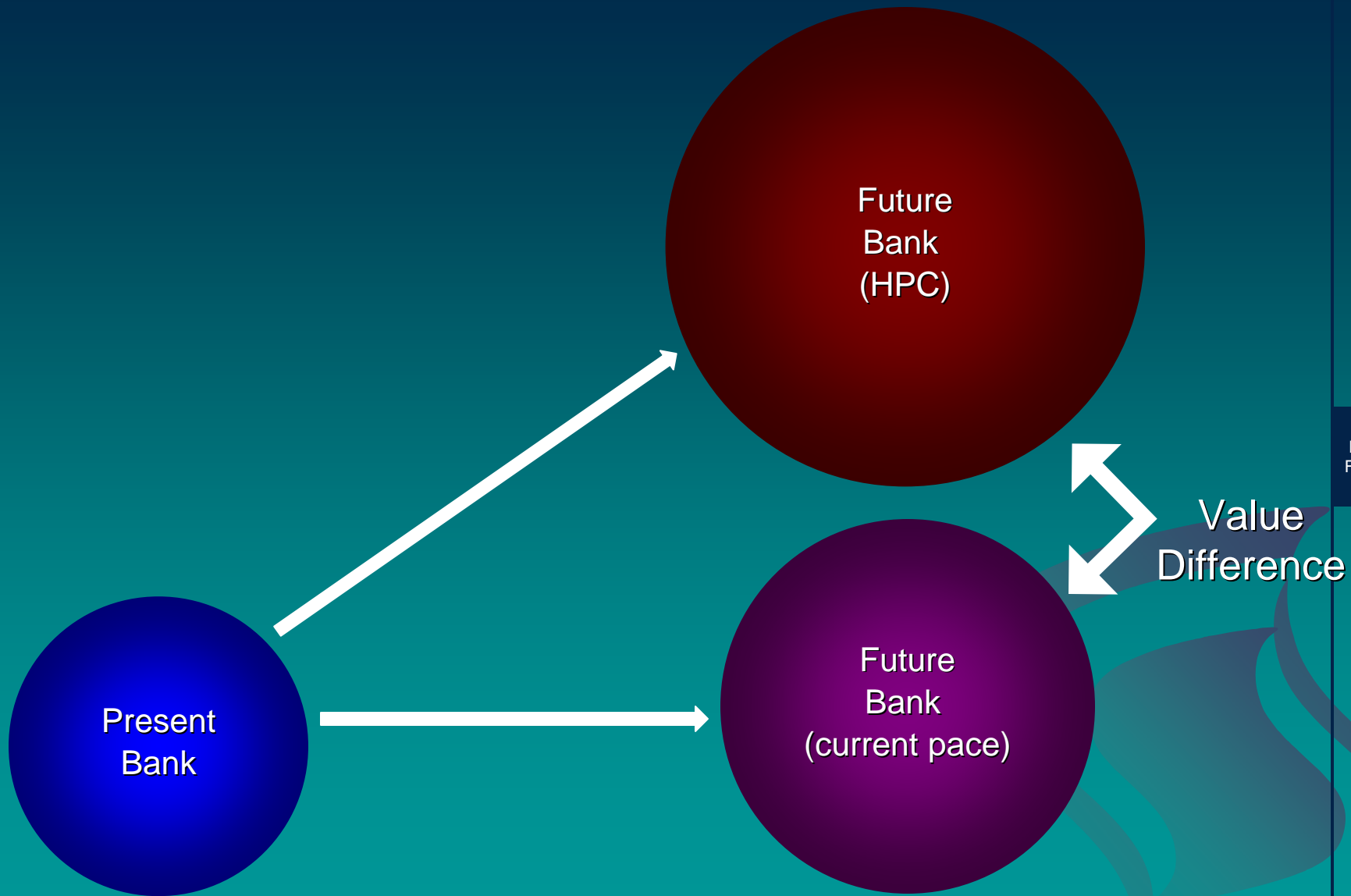
Exemplify

Reward

Reinforce

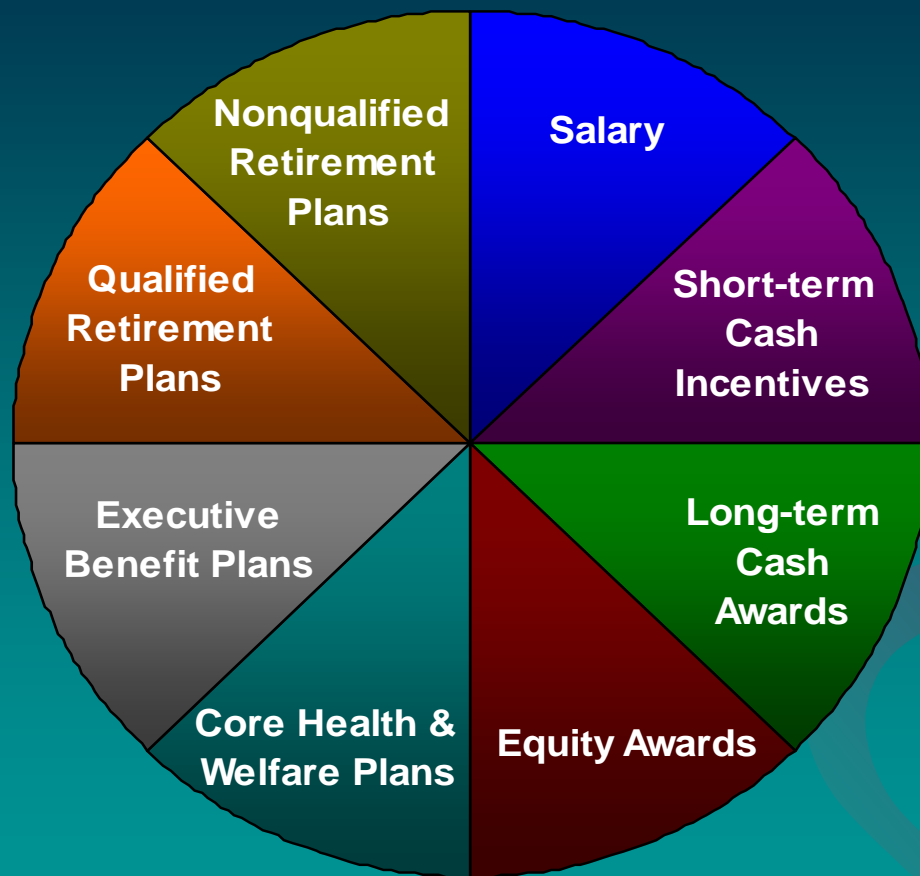


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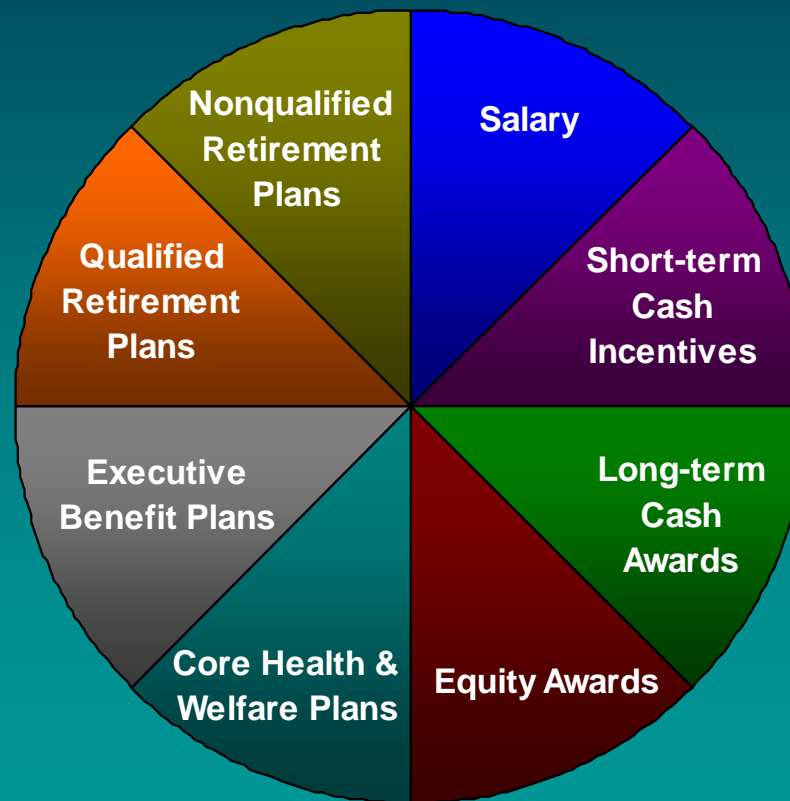


Let's support this with a Total Rewards Philosophy

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Which ones?
How much of each?



How much is your 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?

_____ %

Remember...

- Your total reward budget (TRB) is probably your largest single expense
- Most decisions about the use of this budget are made independently from one another
- Thus, your return on total rewards investment (ROTRI™) is not what it could be!

Example #1: ABC Bank



- \$200 million bank
- IPO track—had used lots of stock options (20%+)
- Cash tight
- Growth mode
- Critical recruiting needs
- Employee expectations—
 - Market based pay + stock options

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ABC, Inc.:

Company Request



- Market pay assessment (“must pay at market to recruit”)
- Creative re-design of stock option plan (“hold down cash bonuses”)
- Cash control more important than earnings impact

ABC, Inc.:

VisionLink Assessment



- High performance culture not strong
- Recruiting to cash needs only
- Large obligations to former directors (founders)
- “Hang around long enough and the company will take care of you” (pay-for-pulse)
- No incentive plan linked to satisfaction of core customer-centric objectives
- Net Motivation Score—negative

Net Motivation Score



- Clarity
- Belief
- Meaning

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ABC, Inc.:

VisionLink Recommendations



- Hold the line on cash (salary) commitments
- Install a cash-based long-term incentive plan (self-financing; not tied to stock value)
- Document and curtail commitments to former directors
- Phase-in new short-term incentive plan over 3 years
- Tie STIP to fresh (customer responsive) key performance indicators
- Implement long-term retirement supplement for top management

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ABC, Inc.:

Culture Impact

- Transparency
- Honesty
- Ownership
- Clarity
- Fairness
- Performance



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ABC, Inc.:

Financial Impact (3 years)



- Option overhang down (less dilution)
- Earnings growth has exceeded budget each year
- Salaries trending just below market
- Total cash compensation above market (more risk-based)
- Retention trend positive

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*Myth No. 1:
Best plans for employee retention
are above-market salaries and
stock options*

Truth:

A transparent culture (where we're
headed/where we are) combined with a
balanced total rewards approach is better for
everyone

*Myth No. 2:
Execution of a business strategy
occurs when brilliant managers
implement a brilliant strategy*

Truth:

Broad employee accountability is enhanced by
a pay-for-performance culture wherein
employees believe in a clear plan and have a
stake in the results

*Myth No. 3:
High value incentive plans require
a significant cash commitment*

Truth:

The best plans are self-financing and lead to
both earnings and cash flow improvements

Example #2: XYZ Bank

- \$600 million bank
- Just completed merger
- Over-populated board
- Culture—
 - Protective; skeptical; inward looking
- “Mission”
 - Customer-centric
- Critical alignment needs

XYZ Bank:

Board Request

- Market pay assessment (“internal equity issues”)
- Creative re-design of stock option plan (expand)
- Broaden SERP participation to include new employees
- ROA emphasis

XYZ Bank:

VisionLink Assessment

- Strong management alignment
- Board not in sync
- Legacy pay for board members
- Culture demands preservation, not just growth, of stock value
- 4F Assessment (9-14-12-8)

4F Assessment (Culture and Compensation)

- Future
- Foundation
- Framework
- Focus

XYZ Bank:

VisionLink Recommendations

- Align cash (salary) commitments
- Install a Restricted Stock plan with 3-year grant guidelines
- Eliminate legacy plans for directors (tighter shareholder alignment)
- Phase in incentive-based Balanced Rewards Plan to replace former “costly” SERP
- Replace ROA in STIP with bank-wide metric (Economic Profit) and add departmental KPIs

XYZ Bank:

Culture Impact

- Performance emphasis
- Clarity and believability
- Tighter focus on core responsibilities (accountability)
- Fairness
- Openness

XYZ Bank:

Financial Impact (3 years)

- Direct shareholder alignment (RS)
- Earnings growth has been below budget but compensation expense (including accruals) have been significantly less than they would have been
 - SERP cost reduced
 - RS cost less than SO would have
- Retention strong (no new hiring expenses)

*Myth No. 4:
Stock options are the best LTIP
approach for creating shareholder
alignment*

Truth:

**Options promote a “grow at all cost” culture
more than a “preserve and grow” culture.**

*Myth No. 5:
SERPs result in an inflexible, fixed
(and probably expensive) accrual
schedule*

Truth:

Performance-based SERPs (BRP) result in
lower fixed accruals with incentive
opportunities to enhance the plan value
beyond traditional SERPs

*Myth No. 6:
Earnings based metrics (ROA,
ROE, EPS) are ideal for evaluating
long-term management
performance*

Truth:
Discover ways to measure management
performance through economic profit
indicators
(such as ROTRI™)

Key questions:



- Is our total rewards package designed to appeal to the type of people we need?
- Will it focus those people on our desired results?
- Is the value of our package sufficient to drive behavior that is challenging?

Key questions:



- Does the package properly reward people for long-term results (thereby keeping them focused on those results and not just short term goals)?
- Do the LTIPs, QRP and NQRP result in “think about it” forfeitures that assist with retention?

What we're striving for

- Cost savings
- Performance based incentives
- Higher employee productivity
- Sharper long-term commitment
- Unified vision
- Higher growth and profitability

Can I Meaningfully Impact the Culture of My Organization Through the Rewards Strategies I Implement?

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Can we pay people for sustaining
a high performance culture?

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Next Online Seminar:



“How Do I Get My Employees Focused on What’s Most Important to My Bank’s Growth?”

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To be held on:
Wednesday, July 23rd, 2008

Questions

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Thank you for attending

Please complete our brief survey immediately following our presentation. It will appear after you close the webinar.

We value your input.

You may request a copy of our slides and the 4F Assessment.

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Thank You!



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SERVICE PROVIDER



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