



Developing A “Best In Class” Compensation Plan

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Panel Speakers

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Objective

To provide the foundation and tools to develop a “Best In Class” compensation strategy that will enable you to attract and retain the highest caliber workforce




The Approach (Three Parts)

- Establishing the foundation and culture to allow for employee growth and development
 - L. Ward
- Providing the legal framework to insure maximum flexibility and compliance
 - K. Kicklighter
- Applying the compensation tools to insure a competitive compensation strategy is in place
 - S. Enna



How to Attract, Motivate and Retain the Highest Caliber Workforce for Your Community Bank

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- An effective compensation strategy will only work if leadership is in place to motivate maximum performance
 - The culture of the community bank is critical to the bank's ability to both attract and retain key talent
 - There is a very high cost to turnover; according to the Sarasota Institute, the average cost is equal to 1X salary



Why Do People Leave Organizations?

- The job or workplace was not expected
- There is a mismatch between the job and the employee
- Too little coaching and feedback
- Too little growth and advancement opportunities
- Feeling devalued and unrecognized
- Stress from overwork and work life balance
- Loss of trust and confidence in senior leaders



Why Do People Leave Organizations?

- 40% of executives cite the company's management team as the most important factor when considering leaving, accepting a new job somewhere else, or staying put
- Effective leadership is the difference between an organization's success and failure
- Contrary to popular opinion, most people do not leave their organization for money



Why Do People Leave Organizations?

- In a recent Korn/Ferry International study, only 5% of global executives cite inadequate or inconsistent compensation as their reason for leaving the last job



Role of the CEO

- Establish a Culture

- Establish a culture that is flexible, adaptive to change and focused on your bank's strategic goals

- Build Trust

- Management is expected to deliver on promises, to be honest and open, to invest in their people, to treat people fairly and compensate them for the results of their efforts



Role of the CEO

- Focus on Vision and Values

- The executive team must not only understand the vision and values, they must act on them and demonstrate them in their actions

- Performance Evaluation

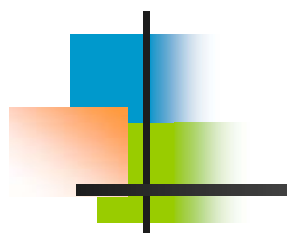
- Tie performance evaluation to both the company and individual goals



Role of the CEO

- Communicate

- Strong and clear repeated communication from the top management team
- The company goals need to be established and communicated to all levels prior to the beginning of the plan year



**If you are having trouble attracting
and retaining the best talent,
it is time to evaluate yourself and
your management team**



Summary

- Each community bank needs a solid foundation from which employees can grow, develop, and produce results
- This is the responsibility of the CEO and his or her leadership skills



Remember – Good Leaders

■ Do

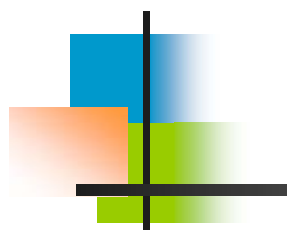
- Listen a lot
- Ask
- Prevent
- Explore
- Seek commitment
- Challenge
- Work with
- Put process first
- Seek results
- Take responsibility

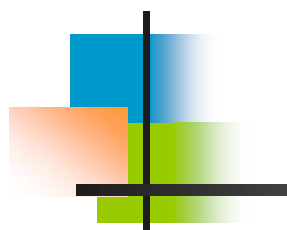
■ Do Not

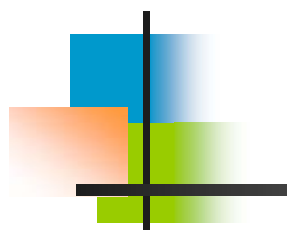
- Talk a lot
- Tell
- Fix
- Pressure
- Seek control
- Order
- Work on
- Put product first
- Want reasons
- Assign blame



The Legal Framework And Rules of the Game

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- What type of organization are you?
 - Quasi-Public Bank
 - Private
 - SEC Reporting
 - Who monitors your bank and for what?
 - Be consistent with reporting and philosophy
 - SOX, SEC and Stock Exchanges
 - Define the roles of the Board and Management

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- When do you need an expert and for what?
 - Reporting is a one time event;
What you report is a year round process
 - When do you need counsel and for what?
 - What are the consequences of non-compliance and the risks associated with walking the legal fine line?



- Set the framework for a results-oriented compensation program

- Goal setting: short- and long-term
- Tailor them to your bank
- Understand the end sum game;
What do we want to do with this bank?
 - Grow by acquisition or de novo
 - Position for sale



- Stay apprised of recent legal and legislative changes

- 409A
- 280G Regulations
- CD&A Disclosure
- Tax Rules
- Accounting Rules



Put the Platform in Place

- You don't have to spend like the New York Yankees to be in the game



Developing an Effective Executive Compensation Strategy



Compensation – A Historical Perspective

In 1994 Peat Marwick conducted a study on Executive Pay

- Higher performing companies reward executives for performance by offering lower base salaries and higher incentives
- Compensation programs in higher performing companies reinforce the organization culture
- Higher performing companies have plans in place that are simple and understood by participants



Compensation – A Historical Perspective

- Pay systems work best as part of a total reward strategy rather than a stand alone program
- Successful plans are installed to improve business performance, rather than to maintain market competitiveness
- The most successful plans clearly link measures and rewards to organizational goals



The Goal Setting Process

- Establish Company goals (Board of Directors) prior to commencement of the plan year
- Establish Individual goals (CEO) prior to the commencement of the plan year
- There is a difference between short- and long-term goals



The Goal Setting Process

- Short-term goals directly affect the performance-based bonus plan
 - Profit
 - ROE/ROA
 - Efficiency
 - Subjective goals like management effectiveness
- Long-term goals establish the overall organizational strategy
 - Growth through acquisitions
 - Organic growth
 - Sale



Total Compensation Strategy

- A total compensation strategy should be
 - Internally equitable
 - Externally competitive
 - Cost effective
 - Attract, retain and motivate
 - Support the bank's business strategy



Executive Compensation Defined

- The sum total of the following elements
 - Base salary
 - Short-term incentive (bonus)
 - Long-term incentives (equity based compensation)
 - Deferred compensation (qualified and non qualified plan participation)
 - Benefits (traditional and executive perquisites)



Impact of Compensation

Various compensation elements have differing impact on individual executives as the chart below indicates

Compensation Element	Attract	Retain	Motivate
Salary	High	Moderate	Low
Benefits	Low	Low	Low
Short-Term Incentives	High	Moderate	High
Long-Term Incentives	High	High	Moderate
Perquisites	Low	Moderate	Low



Base Pay

Key is to know what market base pay for the executive position is in the bank and as a Board where do you want to position the executive's pay vs. market

Base Pay	Effective Date	Market			% of Market at Median
		25 th Percentile	Median	75 th Percentile	
\$90K	Jan 08	\$75K	\$100K	\$150K	-10%



Bonus Keys

- The key to an effective bonus plan is for the executives to know prior to the commencement of the plan year:
 - What their objectives are and how they are weighted
 - What their bonus opportunity is if they meet target as a percentage of base pay
 - How the awards will be calculated



Long-Term Incentives (Equity) (Strategy is Changing)

- Use to link executive and shareholder return
- Use as a retention device (restricted stock)
- Do not provide to those you do not wish to retain
- Determine frequency – Executives annually
- Determine vesting – Metered or cliff
- Determine amount – Multiple of base
Discretionary
Fixed and variable
- Size of pool and dilution issues



Deferred Compensation

- Serves as a very important retention device
- Serves as a financial planning tool
- Serves as a supplement to retirement
- Works well for both Directors and Executives
- Common in community banks



Benefits and Executive Perquisites

- Maintain a competitive program
- Do not lead the market
- Cost sharing strategy
- Remember entitlement issues



Benefits of a Sound Compensation Strategy for Executives

- Earning results based on strategic goals
- Executives believe compensation strategy is aligned with market
- Short-term rewards based on executive performance
- Long-term rewards tied to shareholder gain
- Retention plans in place to hold for competition
- Benefits and individual security needs met



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