



Using “the Numbers” and Incentive Compensation to Encourage Profitable Employee Behavior

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Don't confuse incentive compensation with performance management or recognition



- Incentive compensation should reward specific results beyond routine job performance
- Performance management should focus on and be driven by specific measurements that support the strategic business objectives and desired results of the business overall
- Recognition should focus on thanks and appreciation for a job well done

Well-designed incentive plans



- Have a very positive impact on overall value creation for your bank
- Support management, not replace it
- Take time to develop, implement, and improve upon
- Are closely aligned to the business objectives
- Support—along with other sales management tools—the sales force and their management team
- Are a powerful motivator
- Help you differentiate and reward your best performers
- Bring focus and clarity around key objectives
- Create marketplace awareness that “ABC Bank rewards its best people.”

Poorly designed incentive plans



- Can diminish the leverage of management by creating the expectation that “you have to pay me extra to do that....”
- Can be very distracting...people focus on how to make money, rather than how to serve the customer
- Can detract from value creation and a positive customer experience
- Can create disconnects at various levels within the organization
- Have so many components that everyone loses track of how *behavior* can positively impact the *outcome*

What types of incentives are best to avoid



- Payments for unit sales without a threshold
- Things beyond the control of the target employee group
- Negative measures of performance
- Activities not tied to results
- Routine job functions
- Things unrelated to profit targets or growth objectives...incentives must tie into value creation for the company

Types of incentive programs



- Discreet, time-bound plans to incent one specific result
 - Product or service campaigns
 - Efficiency programs
- Quarterly or annual branch or officer programs
 - Based on a multitude of factors: deposits, loans, overall sales production, etc.
- Annual corporate-level plans
 - Generally tied to corporate-level performance, sometimes related to unit or LOB to support broad based business objectives
- Sales overrides (frequently bps) with or without thresholds
- Individual performance-based plans tied to the profits of customer portfolios

When to use recognition



- To give *public* acknowledgement of success
- To say thanks for one-time results
- To show appreciation for exceptional service
- To retain and develop employees
- As an ongoing part of management

Examples of great recognition methods



- Quarterly or annual dinners or trips for the top 10-15% of employees
- Tokens of appreciation
 - Company mementos
 - Flowers
 - Movie tickets
- Letters or voicemails from executive management
- Acknowledgements in company newsletters
- Best practice or service quality awards

Aligning incentive plans with business objectives



- Define your business objectives
 - how will your value proposition guide competitive strategy?
- Determine the specific financial plan
 - What will you expect to achieve for shareholders?
- Create the sales strategy
 - What are you going to do—specifically—to achieve these objectives?
- Organize your resources to ensure success
 - How will you manage the sales effort; how will you train and develop the right people?
- Establish the right infrastructure of support
 - How will you measure, track, and report success?
 - How will sales management support the incentive plan?
- Begin to develop an incentive plan to support these five things and create true strategic alignment

Guiding principles for retail incentive design



- Ensure there is a **clear line of sight** between the measures and specific roles
- Strike an appropriate **balance** between line of sight and a direct impact on financial business results
- **Increase participation** while balancing costs (ideally, 50% to 70% participation in any one period)
- Create a strong **pay-for-performance** differentiation; ensure continued motivation for top performers exceeding goal
- Increase the **focus on individual** measures, while maintaining an appropriate degree of team impact
- Keep the plans as **simple as possible**
- Focus the plan on **quantifiable results** that can be objectively measured and/or assessed; minimize the use of true “discretion” or subjectivity in the plan

There are four key building blocks to the “ideal” plans



- **Performance measures** —how the plan is linked with business strategy and aligns with roles
- **Mechanics**—where do employees “get in the game” and begin to participate?
- **Frequency**—how often the plan pays out
- **Hurdles**—critical minimum requirements that must be met to qualify for a full payout

The “ideal” plans are built on two critical performance measures



New Sales

- Definition: a \$ value sales credit metric or a point value that focuses on the relative weight of each product
- Rationale: create a stronger alignment between sales and profitability; rewards for incremental new sales
- Requirements
 - Establish product-based \$ credit values (likely to be fixed \$ value for some products, bps or % of product value for others)
 - Create pro-forma results by translating historical goals and understanding historical performance vs. goal

The “ideal” plans are built on two critical performance measures



Balance Growth & Retention

- Definition: Sum of deposit balances and outstanding loans; includes baseline + net growth
- Rationale
 - Rewards for retention and growth of total book of business
 - Reinforces importance of both sales and service
- Requirements
 - Need ability to measure at branch level
 - Need to determine degree of comfort in setting branch level goals

Annual Net Growth Measurements are Best Proxy for Profit



1/24/2005		TRI COUNTIES					
		LOANS					
		Consumer Weight = 20% *					
Index	Start	Goal	Actual	+/-	%	Start	
032	204.24	7,404,980	8,478,702	10,157,493	1,678,791	256.35	991,566
026	193.93	7,691,462	9,229,754	10,681,698	1,451,944	194.39	2,114,805
014	172.48	8,411,943	10,010,212	10,651,432	641,220	140.12	2,016,246
028	161.56	8,757,109	10,333,389	11,956,527	1,623,138	202.97	861,132
017	160.15	10,164,459	11,689,128	12,212,693	523,565	134.34	2,910,474
072	150.29	1,009,480	1,766,590	4,308,583	2,541,993	435.75	628,533
040	149.41	0	1,000,000	3,381,852	2,381,852	338.19	0
038	144.12	1,030,653	2,061,306	2,545,445	484,139	146.97	493,409
035	124.61	4,168,626	5,335,841	5,933,046	597,205	151.16	320,988
022	123.80	3,790,248	5,147,157	4,997,073	(150,084)	88.94	1,131,496
030	120.15	2,153,830	3,123,054	2,909,993	(213,061)	78.02	506,688
034	117.26	5,423,446	6,453,901	6,681,710	227,809	122.11	449,685
003	116.89	18,595,713	21,942,941	23,854,840	1,911,899	157.12	6,916,713

Detailed measurements of the business



Measurement	Detail Level
Sales Production	CSR and call center employee
DDA and New Households	
New Deposit Accounts	
New Money	
DDA or Household Net Gain	Branch/ Area/ Division
Core Deposit Growth	Branch/ Area/ Division
DDA New to Closed Ratio	Branch/ Area/ Division
Same-Store Sales/ Balances	Branch/ Area/ Division
New Deposit Balance Generation	Branch/ Area/ Division
Balances per Sales FTE	Branch/ Area/ Division

Incorporating team performance into the individual's plan



- Tie Individual compensation to branch performance through a matrix

Individual Savings Units	60	\$750	\$1,000	\$1,500
	40	\$400	\$600	\$750
	20	\$0	\$300	\$500
		\$1,000,000	\$1,500,000	\$2,000,000
	Branch Quarterly Deposit Growth			

Other measures of business success



- A model for a branch financial specialist
 - Individual sales production
 - Deposits
 - Loans
 - Investments
 - Book of business (+15% to -30%)
 - Retention
 - Growth
 - Service Measurement (+ or -30%)
 - Customer satisfaction
 - Branch and individual
 - Customer loyalty

Measuring customer satisfaction and loyalty



- What is your overall level of satisfaction with ABC Bank on a scale of 1 to 7?
- What is the likelihood that you would recommend ABC Bank to a friend on a scale of 1 to 7?
- What is the likelihood that you will purchase an additional product from ABC Bank over the next 18 months on a scale of 1 to 7?

A loyal customer is one who rates the bank a 7 on all three of these loyalty questions

The top five things to consider



- Keep it simple: no more than 4 or 5 measures
- Don't incent what employees can't control or strongly influence
- Don't confuse incentive compensation with performance management; one is not a substitute for the other
- Compensation involves three areas; all of which must be executed well: Design, goal setting, and tracking
- Consider team performance in addition to individual performance