

Compensation in a Diversified Financial Services Company

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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

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

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

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

Key steps to creating successful plans

- Determine job expectations
- Select the right success measurements
- Allocate the right goals in relation to the success metrics
- Determine target payout levels (target pay)
- Provide regular reporting of results
- Celebrate success

Determine job expectations

- Clarify job descriptions first
- Understand the mix of time spent on routine servicing, existing client maintenance, and proactive selling
- Decide which of these things you want to incent
- Communicate performance expectations through a regular review process and ongoing coaching

Select the right success measurements

- Good plans have no more than 3 or 4 components
- *Only* include factors under the control of the targeted population
- For each success measurement, establish
 - Target (aka: goal)...make sure it is understandable
 - Weighting
 - Payout calculation
 - 100% of goal=\$X
 - 150% of goal=\$Y

Allocate the right goals in relation to the success metrics

- Incentives should target performance over and beyond routine expectations
- Not all employees should earn incentives
 - Target top 50-75% of employees in sales jobs
- Payouts should start *after* goals are achieved
 - Generally for performance in ranges above goals
- Goals should take into account:
 - marketplace conditions: the economy and competitive landscape
 - staffing levels
 - past performance
 - the company's financial plan

Determine the target payout levels (targeted pay)

- Use salary surveys to understand total comp level by job type
- Understand the role of the individual in the achievement of objectives
 - The higher the element of individual persuasion, the higher the weight placed on incentives
 - If the company creates the value, the comp is predominately base pay
- Calculate a mix of team incentives with individual performance if appropriate

Tying individual performance to team objectives

| | | | | |
|----------------------|----|-----------------------------|---------|---------|
| Individual DDA Sales | 75 | \$750 | \$1,000 | \$1,500 |
| | 50 | \$400 | \$600 | \$750 |
| | 25 | \$0 | \$300 | \$500 |
| | | 75 | 150 | 200 |
| | | Branch Quarterly DDA Growth | | |

Provide regular reporting of results

- Don't incent what you can't track and report
- Reporting should be monthly...or weekly
- For plans with multiple factors, weight each category and rank performance in relation to goals

Celebrate success

- Recognizing top performance is as important as the incentive
- Combine incentive programs with an element of recognition

Sample plan components

- Commercial loan officer
 - Loan outstandings
 - Average core deposits
 - Profit contribution
- Branch platform employee
 - Home equity units
 - Non-DDA deposits
 - Branch team goals: performance to plan for DDA , business loans, etc.
- Branch manager
 - DDA units or net gain
 - Other deposits
 - Home equity
 - Other consumer loans
 - Business loans
 - Investment referrals