

“STAKEHOLDERS”

Creating value for owners, managers, other employees,
and most importantly, your customers.

Mike Higgins & Associates, Inc
30 West Pershing Street, Suite 360
Kansas City, MO 64108
816-753-4104

First Quarter 2007

www.mhastakeholders.com

This newsletter is provided to clients for their use and reproduction. It is also readily available on our website. Feel free to use relevant sections from this publication in your newsletter and other communications with your employees.

Breadcrumbs...

by Mike Higgins

The wonderful thing about writing your own newsletter is that you get to make up whatever titles you want. This one is about laying a path for success, breadcrumbs in the forest, Hanzel and Gretel style (except the forest animals won't eat these up).

Please refer to the “Performance Summary” on the next page in this newsletter as I outline the path to success in explaining *STAKEHOLDERS* to your staff.

Breadcrumb #1: Everyone likes to keep score. The United Way has a fundraising thermometer to see how much has been raised, *STAKEHOLDERS* has a performance thermometer; the higher the score (on the left side of the thermometer) the larger the payout (on the right side of the thermometer).

Breadcrumb #2: How do we score points? Points are scored every time a KPI (key performance indicator) clears a hurdle. The more hurdles cleared, the more points. The higher the KPI is weighted, the more points per hurdle.

Breadcrumb #3: Green, Yellow and Red. KPIs scoring in the green zone are exceeding budget and therefore leading to a larger than budget reward pool. KPIs scoring in the yellow zone are behind budget, but still contributing to the reward pool, albeit, at a lesser rate. KPIs scoring in the red zone are penalizing the reward pool. The goal is to get as many KPIs in the green as possible and minimize the amount of red and yellow scores.



Breadcrumb #4: Red Zone KPIs. In football, when the team is inside the 20 yard line and about to score, it is referred to as the “red zone”. On the performance summary, KPIs that are close to clearing the next hurdle are highlighted in red to let everyone know that performance is close to clearing the next hurdle. It's a good idea to focus on the effort required to get to the next hurdle by referring to the detailed KPI reports in the monthly report set.

Breadcrumb #5: What are the KPIs? It is imperative that your entire staff understand what each KPI is first, and then what they can do to influence them. In football, if you teach your offensive linemen how to block, but don't tell them a football rolling around on the ground is a fumble and they need to recover it, you will lose the ball to the other team and won't be able to score. This is what I see too often in business; we teach people job description, but we don't teach them how we score. High performing organizations teach people what they need to do AND how we keep score. High performers can seize opportunity when it is in front of them because they know what it looks like.

The breadcrumbs I have laid out for you will lead your team to success; all you have to do is execute the game plan. Understand how you score, understand where you are at, understand what you can do to make a difference, then do something about it. It's that simple.

Performance Summary: Company Wide Scorecard

The projected reward pool is 8.82% of salary (4.6 weeks of pay).

Fcst Result	Fcst Hurdle	-->	Hurdle Rewarded	X	KPI Weight	=	KPI Score
-------------	-------------	-----	-----------------	---	------------	---	-----------

GREEN LIGHTS: KPIs Beating Budget							
	Avg Gross Loans (000s)	243,961	4.81	-->	4.00	X	25.0% = 1.00
	Fee & Service Charge Income (\$/Mo)	\$61,508	5.32	-->	5.00	X	15.0% = 0.75
	Total Non-Interest Expense (\$/Mo)	\$535,990	5.47	-->	5.00	X	10.0% = 0.50
	Variance to Budget Rates (Net %)	0.7 bp	3.65	-->	3.00	X	15.0% = 0.45
	Avg NOW / MM / Savings Deposits (000s)	139,185	5.32	-->	5.00	X	7.5% = 0.38
	Non-Time Deposits / FTE	3,318	6.22	-->	6.00	X	5.0% = 0.30
	Net Charge-Offs (000s/Yr)	19.6	5.06	-->	5.00	X	2.5% = 0.13
	Average Non-Accruals (%)*	0.00%	4.04	-->	4.00	X	2.5% = 0.10
YELLOW LIGHTS: KPIs Below Budget, But Beating Baseline							
	Avg Non-Interest Bearing Deposits (000s)	10,135	1.89	-->	1.00	X	15.0% = 0.15
RED LIGHTS: KPIs Below Baseline							
	Average Past Dues (%)*	1.17%	-0.69	-->	-1.00	X	2.5% = -0.03

Total KPI Score	Performance Thermometer	Reward Pool
10.00 +		20.01% +
9.75		19.61%
9.50		19.21%
9.25		18.80%
9.00		18.40%
8.75		18.00%
8.50		17.59%
8.25		17.19%
8.00		16.79%
7.75		16.39%
7.50		15.99%
7.25		15.59%
7.00		15.19%
6.75		14.79%
6.50		14.39%
6.25		13.99%
6.00		13.59%
5.75		13.19%
5.50		12.79%
5.25		12.39%
5.00		11.99%
4.75		11.60%
4.50		11.20%
4.25		10.80%
4.00		10.41%
3.75		10.01%
3.50	Score = 3.73; Pool = 8.82%	9.62%
3.25		9.22%
3.00	Budget -->	8.8%
2.75		7.72%
2.50		6.62%
2.25		5.52%
2.00		4.41%
1.75		3.86%
1.50		3.31%
1.25		2.76%
1.00		2.21%
0.75		1.65%
0.50		1.10%
0.25		0.55%
Baseline		0.00%
< Baseline		0.00%

Red Zone (Indicates performance close to clearing next hurdle)

Total KPI Score (Sum of Individual KPI Scores): **3.73** → **3.73** → **8.82%**

BEST PRACTICES

Team Approach Success

Monticello Bankshares, Inc. in Monticello, KY has been a *STAKEHOLDER* client since October 2001. They have had success with *STAKEHOLDERS* and highly recommend it to others. "If you look at our numbers effective January 1, 2003, and compare them to the past, it is obvious that something dramatic happened to change the direction of the Bank" (Kevin Mullins, CFO and *STAKEHOLDERS* head coach).

At Monticello Bankshares their main focus is on creating business literacy and teaching their employees to think and act like owners. They want all employees to understand the rules of the game and know what has to be done in order to win. Listed below are some of their "Best Practices" in using the *STAKEHOLDERS* program. They have developed these to get employees more involved in their *STAKEHOLDERS* program.

1. Monthly Coaches Meetings
2. Dividing the Bank into Teams named after NFL Mascots to make the game more fun
 - a. Finance Division Falcons
 - b. Credit Administration Bears
 - c. Deposit Operations / Information Technology (DOIT's) Titans
 - d. Monticello Market Vikings
 - e. Somerset Market Saints
 - f. Clinton County Market Cowboys
 - g. Russell County Market Raiders
 - h. Bowling Green Market Packers
 - i. Casey County Market Chargers
3. Weekly Team Meetings (See Item 2 Above)
4. Stakeopoly (A game very similar to Monopoly that is used by each team to accomplish goals)
5. Halftime Show (A very fun and innovative event for all employees: SEE PICTURE)
6. Kickoff Meeting (Held every January to roll-out the new model, scorecard, and the Reward Pool)
7. All Head Coaches completing the Certified *STAKEHOLDERS* Coaches Training Program
8. A PowerPoint Presentation for new hires
9. Posting Scorecards and Key Reports Every Month after the Monthly Coaches Meeting (All Locations for All Teams)
10. Referring to reaching KPIs just like playing the game of football (4 Quarters, 4 chances to get a first down (More Hurdles), etc.)
11. Focusing on KPIs each month that are "On The Edge" of dropping below to a lower hurdle or close to achieving the next higher hurdle

Kevin Mullins may be reached at (606)348-8411. He regularly recommends the *STAKEHOLDERS* program and shares his ideas with other financial institutions. Thank you, Kevin!



"STAKEHOLDERS will NEVER be the same!"
Kevin Mullins
STAKEHOLDERS Halftime, 2003.

Katharine Graham's Rules of Toughness

Executive Leadership: Adapted from *Personal History*, Katharine Graham, Alfred A. Knopf.

Legendary *Washington Post* Publisher Katharine Graham developed her tough leadership style during battles with printer and pressmen unions that almost sank the newspaper in the 1970s.

Plagued almost daily by printers' and pressmen's slow-down tactics and bullying tactics from their union, Graham worried nightly whether the next day's paper would get out on time.

Finally, Graham decided to toughen her stance against the unions, training backup pressmen in the event of a strike and threatening disciplinary action for slowdowns. One day, when a printer marking up an ad had made only two marks in eight hours, he was fired.

But the firing sparked a wildcat strike, and Graham felt compelled to rehire the printer.

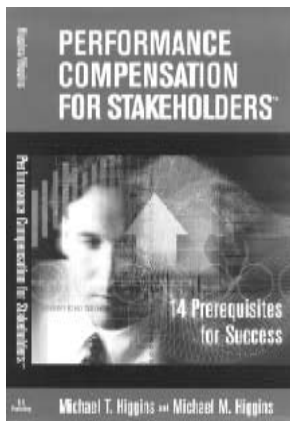
In hindsight, she called that rehire a serious mistake. By

caving in, she'd shown that if she were kicked hard enough, she'd give way: a dangerous precedent to set.

Sure enough, a few years later, on the night their contract expired, the *Washington Post's* pressmen set fire to one press, severely damaged the others, beat up their foremen and walked out. The paper's unionized reporters were so upset that they crossed the picket line. Graham shipped the paper out by helicopter to be printed, and eventually started her own press running again.

The lessons Graham says she learned:

- Leaders have to be tough. The pressmen's rampage "straightened our spines," she wrote.
- Appeasement never works.
- It is possible to run a tight ship.
- Removing bad actors boosts morale.
- Standards and discipline benefit customers.



PERFORMANCE COMPENSATION FOR *STAKEHOLDERS*TM 14 Prerequisites for Success by Michael T. Higgins and Michael M. Higgins

Why Traditional Compensation Methods Fall Short

In the last century, the world has gone from being an industrial economy driven by manual labor to a global economy driven by information. Yet, little has changed in reward compensation methodologies since the Industrial Revolution.

In their book *PERFORMANCE COMPENSATION FOR STAKEHOLDERS*TM, 14 Prerequisites for Success, the authors relate a state-of-the-art method for performance management. The "STAKEHOLDERS" premise is as simple as it is effective: Total employee compensation must be tied to performance if businesses are to maximize their potential.

**NOW AVAILABLE - \$15.00 for clients
and \$19.95 for non-clients,
plus shipping and handling.**

Mail or Phone Angela at MHA:
30 West Pershing St., Suite 360
Kansas City, MO 64108
phone: 816-753-4104
email: angela@mhastakeholders.com



MHA Offices

Michael M. Higgins
Mike Higgins & Associates, Inc
30 West Pershing St., Suite 360
Kansas City, MO 64108
816-753-4104
mhigginsjr@mhastakeholders.com

Dennis Guida
Mike Higgins & Associates, Inc
26895 Aliso Creek Road, Suite B #650
Aliso Viejo, CA 92656-5301
949-283-4829
dguida@mhastakeholders.com

PERFORMANCE COMPENSATION FOR STAKEHOLDERS is a trademark of Mike Higgins & Associates, Inc. The articles published herein are designed solely as a resource for general management and leadership information and are not intended to provide legal advice. The information provided is intended to be general in nature and its applicability to specific circumstances or issues may vary. Some articles contain information that is time sensitive and subject to change.

Welcome New Clients since our last announcement!

CME Federal Credit Union
Columbus, OH

Colorado East Bank & Trust
Lamar, CO

The Bank of Currituck
Moyock, NC