

“STAKEHOLDERS”

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

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As we celebrate our 25th anniversary, we would like to reminisce about how we got our start.

Creating the Foundation – 25 Years Ago

by Mike Higgins, Sr.

Mike Higgins & Associates evolved from papers I presented to ABA and BMA conventions. The topics were always about how the bank where I was CEO (1978-1983) converted from a stogy traditional “regulated” bank that was losing money to a dynamic, market driven, service oriented very competitive and profitable institution. Subsequently, as President of the National Community Bank Council, I offered various seminars on how to maximize long term shareholder value via FOCUS (strategic/market planning) and EXECUTION (commercial/retail professional sales and training).

I left the bank in 1983 to form Mike Higgins & Associates when it became apparent that there was significant demand for our concepts throughout the industry. In 1988 a client bank owner observed that his management team was not committed to facilitate the necessary culture change. I suggested he tie ALL of EVERYONE’s performance reward to their strategic objectives via a balanced scorecard of profit with growth, quality and productivity. I admitted I had never created such a scorecard, but he was enthusiastic enough about what I had suggested that he contracted with me to create and test what became “STAKEHOLDERS” in his bank. They experienced immediate enthusiastic support from the entire management team and staff.

Three years later I was asked to present “STAKEHOLDERS” at the International Marketing Symposium in Oslo, Norway. Recognition for that appearance along with the success of



a couple of dozen user clients in the United States catapulted “STAKEHOLDERS” credibility to the point where it has been adopted by over 600 financial institutions and over 100 non-financial companies and non-profit organizations.

In hindsight, the “STAKEHOLDERS” concept regulates everything Mike Higgins & Associates stands for: FOCUS – EXECUTE – REWARD via a balanced scorecard to balance the four prerequisites for success: Profit, Growth, Quality, and Productivity. That commitment was truly tested in 2003

when a large compensation consulting company inquired about their buying Mike Higgins & Associates. Mike Jr and Dennis participated in subsequent deliberations and quickly concluded that the proposed acquirer only referred to our potential in terms of more profit via faster growth, but never, ever mentioned the very reason for Mike Higgins & Associates continued success: an undying commitment to ever expanding service quality by supporting the client to the very best of our ability, and that commitment to client service quality would be accomplished at the “expense” of maximizing our growth and profit potential. I was so proud of Dennis and Mike when they concluded, “we cannot continue our commitment to quality if all they (the buyer) wants is to concentrate on profit and growth”.

I am confident that commitment from Mike and Dennis, as well as from Angela and Lisa, will forever serve as the foundation stone of what Mike Higgins & Associates is all about.



Transfer Pricing Rates – Consider a Floor!

by Dennis Guida

Let's start with a little Stakeholders 101 regarding the value of loans and deposits. When you make a loan, it's funded by either a reduction in your investment/securities portfolio or an increase in borrowings. When you acquire a deposit, it's either invested in the securities portfolio or used to reduce borrowings. So basically, the value of a loan is the difference between the loan rate and the alternative funding source while the value of the deposit is the difference between the investment and the deposit rate (related fees & costs not considered). You may have noticed that the alternative funding source for loans are the same two characters as the investment options for deposits (securities or borrowings). We refer to the rate assumed on the marginal funding/investment source as the "transfer pricing rate".

While there are many proxies used as the assumed transfer pricing rates, most of our Stakeholder clients use either the budgeted investment portfolio rate, or a 3-year FHLB fixed advance rate. While these rates typically work very well, I'm going to recommend that you



establish a floor for your transfer pricing rate...especially if it floats (this is very common within our individual portfolio manager scorecards). Further, I think the floor should be somewhere between 3.75%-4.25%.

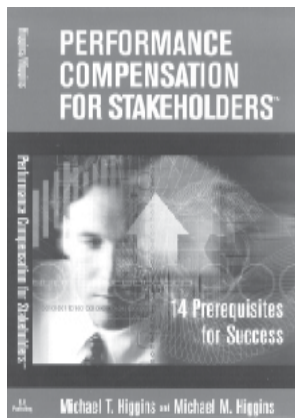
The reason for my recommendation is twofold. First of all, I doubt that loan rates will fall to the same extent as borrowings and investments in a historically low rate environment (check out the last cycle if you don't believe me). So why would we use a transfer pricing rate that could reward loans in the 4.0%-5.0% range? My second point is that I don't want to disadvantage the deposit gathering effort. A transfer pricing rate that is too low reduces the reward for acquiring low cost deposits. Remember that historically low rate environments don't last very long, but the duration of non-maturity deposit accounts is typically 7-10 years.

So make sure that the transfer pricing rate(s) used in your 2008 scorecards don't go too low. Unless, of course, that your objective is to reward more for taking on low rate loans than for low rate deposits.

PERFORMANCE COMPENSATION FOR STAKEHOLDERS™

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™, 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.

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Eight Phrases That Expose Underachievers

Adopted from Smart Supervision

Employees should not be judged based on their uttering a stray phrase or two that you don't happen to like. However, according to *Forget For Success: Walking Away From Outdated, Counterproductive Beliefs and People Practices* by Eric Harvey and Steve Ventura (Performance Publishing Co., Dallas), employees who frequently use the phrases below are probably not going very far.

1. **"We've tried that before."** This type of worker believes that every idea that did not work before is doomed to failure if it is tried a second time. He or she cannot fathom that circumstances may have changed and that the idea may be ripe for success.
2. **"That will never work."** Of course, if someone believes that something will not work, it can become a self-fulfilling prophecy. An employee who utters this remark about a certain project should not in any way be associated with that project.
3. **"They'll never let us do that."** The employee is blaming supervisors and higher management for not approving something that has yet to be presented to them. Perhaps a similar idea was once rejected for reasons of which the employee is unaware. The employee has generalized that rejection and assumes that all similar ideas will be shot down in short order by management.

Are Your People Being Too Negative?

4. **"Yes, but..."** a "yes" followed by a "but" actually

means "No." Supervisors should encourage employees to change this to "Yes, and ...". This word combination focuses on how to accomplish rather than how to find fault.

5. **"That's not how I would do it."** To some employees, how you get to a result is more important than the goal of successfully achieving the result. If it is not done their way or is not their brainchild, they are prone to criticize. They do not want to admit that there "might be a better way."

Avoid Finger-Pointing And Clinging To Convention

6. **"Nobody else does it that way."** You have to point out to this employee that every invention and innovation was at first a deviation from the way everyone else did things. If this phrase is literally true, what you may have is a distinct competitive advantage – not a procedure doomed to failure.
7. **"We have more than enough good ideas."** Tell the employee that the floor will not buckle from the weight of too many good ideas. These extra ideas may be needed if some of the "good ideas" turn out to be disappointments.
8. **"Whose idea was this anyway?"** Affixing blame for failure is more important to this employee than learning from an error. "Who" only matters when recognition is being dished out. If the idea did not work, concentrate on "what", as in "What went wrong?"

Welcome New Clients since our last announcement!

California Pacific Federal Credit Union
Concord, CA

Xerox Federal Credit Union
El Segundo, CA

Montecito Bank & Trust
Santa Barbara CA

Rock Valley Federal Credit Union
Loves Park, IL

Banco Popular
Rosemont, IL

First Security Trust Bank
Louisville, KY

Best Source Credit Union
Pontiac, MI

Bear Paw Credit Union
Havre, MT

Northern Federal Credit Union
Watertown, NY

Bank of Tennessee
Johnson City, TN

Citizens First Credit Union
Oshkosh, WI



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