

# “STAKEHOLDERS”

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

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## A Gold Medal Performance

by Mike Higgins, Jr.

Like many of you, I watched the opening ceremonies of the Beijing Olympics in awe and amazement of the pageantry. NBC announcer, Bob Costas, summed it up best when asked if this was the most spectacular opening ceremony he had ever seen in his career as a broadcaster. His response was just three words: “Retire the trophy.” In other words, there will never be another opening ceremony to compete with the one he just witnessed.

On October 13th, I witnessed a “Retire the Trophy” event at Citizens National Bank of Meridian, MS (1.1B in assets). Each year, they have a high energy, all-employee celebration to recap the accomplishments of the year and begin to focus upon what is in store for the upcoming year. Citizens’ CEO, Archie McDonnell, invited me to attend their celebration and make a few comments about *STAKEHOLDERS* (which I cover in another article in this newsletter). I walked away from that day awestruck and inspired. I have never seen an organization embrace and run with the “spirit” of *STAKEHOLDERS* in the way that Citizens Bank has. Here is a rundown of what they did that so impressed me...

First, they rented a historic music hall that had recently been renovated, as the venue for their event. The theme for this year’s event was the Olympics. When I walked into the lobby of the hall, I saw a series of real track and field hurdles lining the entrance to the hall. The first hurdle was labeled baseline, the second Hurdle One and so on. A flag for each scorecard was placed on the corresponding hurdle it was performing at (like the flags of each nation at the Olympics). By the way, most of the flags were at Hurdle Five and higher.



Next, they had their opening ceremonies. The employee base was divided up into five groups, each wearing a colored t-shirt that represented one of the colors of the Olympic rings. There was the North Region, South Region, Meridian Region, Jackson Region and Service and Sales Support Team. Each group entered the hall, one at a time, to an ovation of cheers from the other groups.

On the stage was an eight foot cauldron from which the Olympic Flame burned during the ceremony (which an employee crafted using tissue paper and a fan as the flame), a podium for the medal ceremonies, and a huge video screen.

After a few comments from Archie to open the event, each group (North Region, South Region, etc.) took a turn awarding medals (Gold, Silver, Bronze and Honorable Mention) on stage to individuals that had made a significant contribution to the organization during the past year. This was not a superficial activity; for each medalist, a short speech noting their accomplishments was made by the group leader. How many accounts they opened or loans they originated and how much balance that translated into. For some of the staff using individual scorecards, how much excess return they created for shareholders was communicated. For the Service and Sales Support team, individuals were recognized for the cost savings they had created (and most were in the hundreds of thousands of dollars annually). Their credit administrator got a standing ovation when it was communicated that their total loan loss for the year was only 0.05%.

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## A Gold Medal Performance, continued

At the lunch break (which was catered into a banquet hall) I asked the executive team what was driving their success this year. They are beating budget on seven of their KPIs, and the four that are behind budget are all exceeding baseline by a safe margin. To paraphrase, their response was this:

We understand the KPIs and how they directly correlate with profitability. We have always known this. However, this year, we really committed to focusing on the KPIs and backing up that focus with education and specific strategies and tactics to influence each KPI. It's one thing to say "this is what we want" ... it's another thing to say here is how we are going to accomplish what we want. This year, we have really focused on the how we are going to get there; how we are going to execute on

a day to day basis to accomplish what we want to make happen.

After lunch, the executive team put on a skit poking fun at "large" banks in a series of Olympic contests that drew a series of laughs so hard they brought tears to your eyes and made it hard to catch your breath.

After my comments about *STAKEHOLDERS*, the closing ceremonies commenced that included a balloon drop and confetti display that would make a political convention envious.

Gold Medal to Citizens National Bank! The rest of the banks in Mississippi had better watch out. An Olympic Champion is looking for more medals in the future.

## Train Like an Olympian

by Mike Higgins, Jr.

OK, I admit the title of this article is a bit hokey, but the content is not. I was asked to make some comments about *STAKEHOLDERS* at a recent employee event (see related newsletter article).

The CEO was very proud of what the bank had accomplished during the past year, but did not want the organization "resting" in its laurels. He asked me to bring some perspective to his employees as an outsider. Here is what I shared with them...

You need to train every day. You cannot let your skills become dull or outdated. You need to keep your saw sharp. Why? There are four factors that you confront every year that must be overcome.

**Increasing Compensation Costs:** Compensation represents about 50% of operating expense, regardless of asset size. Each year, those costs grow, on average, by 7-10% due to cost of living adjustments, merit increases, promotions, new hires, increases in benefits costs, payroll taxes, etc. In fact, in my entire career, I have never heard a CFO say we are going to budget less in compensation expense next year. Your biggest expense is getting bigger each year; therefore, it is necessary to grow net revenue (net interest income and/or non-interest income) enough to offset the annual increase in expense.

**Loan Runoff:** Each year, about 20-30% of your loan balance is returned through monthly principal pay-

ments, scheduled loan maturation and prepayments. Oh, life would be so much easier if our customers did not repay the principal (but continued making payments). Unfortunately, this is not the case. Employees need to understand that to grow the loan portfolio by 5-7% means originating three to five times that amount. The antennae always need to be up for the opportunity to make (good) loans.

**Customers Move:** Did you know that on average, a family will relocate about every seven years? This means that about 14% of your deposit customers are moving each year ( $1/7 = 14\%$ ). It should be easy to retain customers that are moving within your markets serviced (hopefully). However, you will need to replace the ones that leave. Therefore, it is imperative to be the financial provider of choice in your markets; you need to figure out how to get at the new entrants before your competition does.

**Others Dream of Glory:** Your competition wants your customers. Even non-banks, like Wal-Mart, are entering the market by allowing customers to put their paychecks directly onto debit cards (thereby stealing your deposit base). Do your best to make things very difficult for your competition and they will be more likely to stay away.

Remember, you can make a difference; you do have a stake in the outcome.

# 7 Steps to Conquering Performance Problems

Adapted from "Performance counseling activity," on the Web  
at <http://www.nwlink.com/~donclark/leader/counce12.html>

Counseling an employee who has a performance problem should be a straightforward process. Although problem employees can make the session uncomfortable, most employees who want to do a good job will respond positively if you follow this format:

Identify the issue. Be sure you can describe the problem in precise, measurable terms. "Joe doesn't seem very committed to his job" is vague; "Joe has left work 15 to 30 minutes early three times this week" is much more helpful.

Schedule the session. Don't surprise the employee on the job. Set up an appointment ahead of time when it's convenient for both of you.

Describe the situation as you see it. Be firm, but kind: "Joe, your work has been good, but lately I've noticed you leaving early without any explanation. For

instance, on Thursday you left at 4:30, and on Friday you left at 4:45."

Explore the problem. Ask the employee if he or she is aware of the problem and its causes. For example, Joe might have worked through his lunch period and felt he deserved to leave early. Or he may have been genuinely unaware of rules regarding early departures.

Choose your style. Use your judgment deciding which approach the employee will respond to best. Directive: "Don't let this behavior continue." Nondirective: "What can we do to keep this from happening again?"

Plan your action. Will another counseling session be necessary? Discuss what you and the employee need to do in order to resolve the situation. "Joe I'd like you to check with me prior to leaving work 5:00."

Follow up. Monitor the worker's behavior afterward to see if future counseling is necessary.

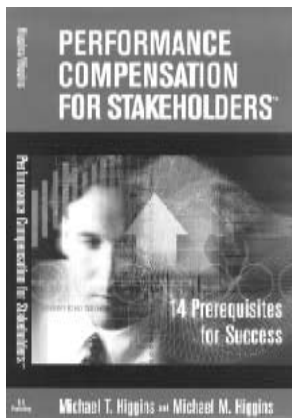
*"The most pathetic leader in the world is the leader who has insight but no vision."*

HELEN KELLER

## 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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# **We have moved!**

***Please take note that as of June 1, 2008 our business address is:***

**Mike Higgins & Associates, Inc  
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**Our Kansas City office phone number  
has remained the same: 816-753-4104.**

***Please update your records with this new address for all correspondence.***