

“STAKEHOLDERS”

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

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Pay Attention, Dummy!

by Mike Higgins, Jr.

I didn't say that, Joy Turner did (e.g., from the television sitcom *My Name is Earl*). This is what she always says to Randy, Earl's younger brother. I do like what Joy says. She means well. Like Joy, I want you to pay attention too (but I won't call you dummy). I want you to have the best year you can have this year, despite the tough economic conditions. The best way to make that happen is to make sure you are off to a good start. Waiting until the end of the first quarter to "check in" with the results is too late.

Here is why waiting until the end of the first quarter to review results is a bad idea ... it all has to do with your budget cycle. The problem with most budgets is they are developed long before the year actually ends. Many customers develop their budgets in September, October and November for approval during the December board meeting. Well, a lot can happen between the time the budget was crafted and when the year actually starts (e.g., announcement of target Fed Funds Rate in the 0.00% to 0.25% zone in December). Does your budget contemplate this? Hint: It should.

There is nothing more frustrating than starting the year with an operating budget that no longer makes sense. If the operating landscape has changed so much that you will have no chance of making budget, your staff will be demoralized before you even start. You will also have to answer to the board for 12 consecutive meetings as to why you are not meeting your earnings targets.

The opposite situation is also true. You run the risk of losing credibility with your board if you exceed budget



by too much because the landscape shift is going to cause earnings to be much more than expected. This type of budgeting "windfall" also gives employees the false impression they are doing great with no change in behavior required.

Bottom line: Any time your operating budget becomes invalid, it needs to be reviewed and potentially updated.

If I were the CEO of your organization, here is what I would do when the first set of reports comes back with your January results: I would pay very close attention to the KPI Detail Reports (generally starting on the fifth or sixth page of your report packet).

These pages of the report packet provide a tremendous amount of very powerful information:

In the upper left hand corner, you will see where you stand relative to budget, right now. If you are way behind plan in the first month, you are going to have to do a lot of catch-up the rest of the year (or should revise your plan). If you are way ahead of plan in the first month, be sure to understand why and attempt to understand if that can be sustained for the rest of the year.

On the right hand side of the report (Plan-Do-Check-Act), there will be a table that shows you what you need to do the rest of the year to hit budget (or hit the next hurdle if you are already ahead of budget).

- For loans, it will show you how much you have to originate each month for the rest of the year.

continued on next page

Pay Attention! continued

- For deposits, it will show you how many accounts you have to open each month for the rest of the year.
- For interest rates, it will show you where the actual rates for the first month of the year stand versus budget.
- For non-interest income, it will tell you how much additional income you need each month.
- For leading indicators of asset quality (watch list, past dues, etc.) it will tell you what level of performance you need in each of the remaining months of the year.
- For non-interest expense, it will tell you how much savings you need each month.

I cannot stress enough the importance of leveraging this information. The reports literally lay out “bread crumbs in the forest” as a path to success. With the path so clearly defined at the tactical level, all you have to do is prepare a course of action to make it happen, then check in each month to see where you stand.

There is a lot more to Stakeholders than just the size of the reward pool on the second page of the report. Like any good book, the plot thickens the further you get into it. If you fail to read the entire book, you will never know why things ended up the way they did.

Please feel free to contact any one of us at MHA if you would like us to review your first report set with you.

You Get What You Reward

**Adapted from “Listening begins at home,”
in the Harvard Business Review**

What’s more important – launching new initiatives or launching successful initiatives? If you said the latter, then you have to build accountability into your incentive programs.

In 2000, Proctor & Gamble suddenly realized morale was in ruins and core products were losing market share. Among the problems cited by employee surveys was a policy of rewarding and promoting marketing employees based on the number of initiatives they launched with no thought for long-term results. And because job tenure averaged two years, employees knew they could launch an initiative, then leave the worries to their successor.

Thanks to these findings, P&G now keeps marketers in their posts for three to four years and focuses on two-year rather than quarterly results.

Beware of these Pitfalls to Effective Coaching

Adapted from “Management training: How to Overcome the 7 most common pitfalls of coaching,” in *Managing Training and Development*

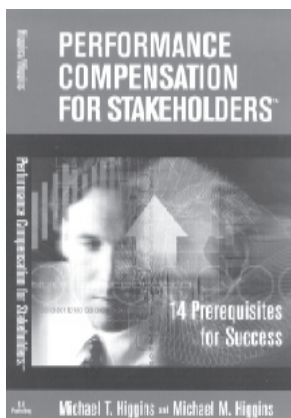
It takes more than cheerleading to secure a winning performance from your staff – it takes effective coaching. Try to avoid these common coaching mistakes:

- Over relying on data. When it comes to performance evaluations, numbers don't tell the whole story. Help employees see how their rankings apply to their performance and what they need to do differently to reach the next level.
- Passing the buck. When possible, give feedback directly rather than assigning the task to supervisors or co-workers. If you haven't directly observed the behavior you want to discuss, talk to those who have so you'll be able to provide specific examples.
- Talking off the cuff. While it's fine to give a heartfelt compliment or constructive criticism in the heat of the moment, that's not enough to make you an effective coach. Devise a system for regularly providing useful, well-documented feedback.
- Shortchanging the effort. You may have a dozen projects or people vying for your attention, but that doesn't mean it is okay to resort to hit-and-run coaching. Devote the time necessary to meet each employee's needs.
- Sending mixed messages. Ask yourself what's most important to your company or department. Then ask yourself whether that's where you've been focusing your coaching efforts. The performance objectives you coach should support departmental and organizational goals.
- Becoming a nitpicker. Imagine a champion coach lecturing players on, say, the tread of their shoes. Don't fall into the trap of constantly criticizing workers and calling it coaching. Feedback should be constructive and purposeful. Otherwise, workers will dismiss it as “being picky”.

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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