

A STRATEGIC APPROACH TO COMPENSATION

BY WILLIAM “BILLY” GRANVILLE III

How often does your bank address compensation? I've worked with banks that determine year-end bonuses based on the strength of the CEO's morning coffee. And some banks have comp plans so convoluted that it takes legal counsel to interpret them.

Somewhere along this continuum is your bank's “sweet spot” — that combination of planning and strategy that gives you value for your talent investment. This balance doesn't happen by itself; it takes intention, effort and constant improvement.

Here are five key elements that I recommend every bank — regardless of size — consider:

1. *Think strategically.* Compensation works with — not separate from — your bank's strategic goals. We're not talking lofty goals; we're talking goals that you plan to accomplish: market expansion, loan growth, technology initiatives, rebranding, improving efficiency.

This analysis of your bank's strategy is paramount to getting the right team on board. And don't settle for a recycled version of your strategic plan that looks the same year after year. Take time to look at your bank with fresh eyes and place your goals in the context of your bank's unique position:

- Where is your bank in the business life cycle (start-up, growth phase, maturity, transfer)?
- Is your bank public or privately held? Family owned?
- What are the market demographics, location, opportunity?
- What is the culture (collaborative, hierarchical, branch-centric, home office-driven)?

Once this analysis is complete, you are ready to answer the key question: What are the skills, experience, knowledge and behaviors needed to accomplish your strategic goals?

2. *Know your people.* You have identified the talents you need to accomplish your bank's goals. Now it's time to take a close look at your team. You may be going through this process for a single hire, not an entire team, but the process remains the same.

Be brutally honest with your assessment. Think realistically about what is required and who is on your team. Questions to ask may include:

- What motivates this officer?
- Do we have a range of talent in different life stages, so we are preparing for the future as well as meeting current goals?
- What is the market value of each officer?
- What unique abilities does each person bring to senior management?
- What is the overall environment for employment (competition, market, economy)?
- Can/should certain skills be outsourced instead of employing a senior-level officer?

From this assessment, you will then be ready to move forward with:

- Defining roles/job descriptions.
- Setting pay ranges.
- Establishing performance reviews. Make clear expectations, assess progress, provide feedback.
- Setting a budget.
- Identifying which staff may need repositioning and where talent acquisition may be needed.

3. *Get good information from trusted sources.* Maybe you call your banking buddy down the road to find out what his bank is paying a senior officer. That's one data point — but it's no guarantee his bank is doing it right.

The smart solution is to get information from compensation experts. These experts can:

- Provide current market- or job-specific compensation data.
- Analyze data, not just spout numbers.
- Understand trends and market dynamics to help you make a decision that works not just today but also tomorrow.
- Help you construct compensation packages that are based on solid, competitive data.

4. *Think full package, not just cash compensation.* Cash compensation is certainly the underpinning of any solid compensation plan. But the banks that can land the best talent recognize that compensation has many intangibles that make work life enjoyable and beneficial for all parties.

So think beyond just payday cash:

- Recognize the value of non-cash items: i.e., vacation, car allowance, country club membership, expense allowance for business development.
- Be realistic about benefits (medical, 401k, flexible spending plan).
- Include annual bonus/short-term incentive (cash). These should be part of a structured plan and should align with achievement of individual and corporate objectives.
- Include long-term incentives (key officers typically want upside opportunity, useful for long-term retention, helps motivate officers to think more like shareholders; equity, if possible within your bank's structure; and deferred comp/phantom stock/supplemental executive retirement plans).
- Pay well, but don't overpay.

5. *Make compensation planning a process, not an event.* Your bank's goals often change as opportunities arise or market conditions shift. Likewise, your compensation planning should be flexible and efficient so you can remain competitive.

One challenge you will face is taking the emotion out of the process. This is why pay for performance — having key benchmarks that impact compensation — is critical. However, at the same time, it is important not to overlook the intangible benefits some officers bring to an organization — an ability to create collaboration, a quiet leadership that others emulate, a team spirit that supports others above self. While you remove emotion, do not be afraid to reward these intangibles.

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