As an Old National Bancorp Board member, and Chair of the company’s Compensation and Management Development Committee, I’m pleased to say that Old National passes the corporate governance and ethics test, as evidenced by five straight years on the Ethisphere World’s Most Ethical® companies list and seven consecutive years of earning the Ethisphere Certification®. But national recognition and awards aside, one of the clearest signals that any organization is ethical, transparent and trustworthy is how it chooses to structure and manage its executive compensation.

At the risk of being obvious, informed investors value executive compensation structure that is fair, transparent and decidedly performance-driven. And investors aren’t the only ones paying attention. When a company’s employees recognize that their senior-most leaders are focused on performance and being compensated accordingly, they are more apt to be mindful of their own performance, which then helps fuel organizational success.

It wasn’t always this way. An article in the March/April 1990 edition of the Harvard Business Review stated the following: “In most publicly held companies, the compensation of top executives is virtually independent of performance.” Today, however, many publicly-traded companies have a performance-based compensation structure. There is also a greater understanding of how performance-based compensation, when structured and managed properly, correlates positively with long-term value for shareholders.

As a publicly held company, Old National (ONB: NASDAQ) is squarely in the performance-based compensation camp. Equity grants for CEO Bob Jones are 100% performance-driven, and about 70% of his total compensation is performance-based. Compensation for other senior executives is also heavily tied to performance, specifically to TSV relative to Old National’s peer group. And operating results and measurable company results help drive incentives at virtually every level of management.

There is admittedly risk associated with a performance-based compensation structure. An executive in a position of control might be tempted to manipulate results and/or make decisions that are not in the best long-term interest of a company or its owners. So how does Old National address and mitigate these risks? In a number of important and interconnected ways.

1. A STRONG commitment to Compliance and Enterprise Risk Management

While Total Shareholder Value (TSV) is the ultimate measure of a publicly held company’s worth, modern investors are also highly concerned about corporate governance, transparency and business ethics. For evidence of this, look no further than the rise of Socially Responsible Investing, or SRI. Today more than $6.5 trillion dollars under professional investment management in the US is invested according to SRI strategies.
"I really enjoy my time with Old National," said Godwin, a consultant with Pearl Meyer who has worked with Old National since 2002. "The leadership team is thoughtful and thorough, and there is a culture of doing the right thing. What that means in practice is that they are willing to make tough decisions and they are completely transparent about those decisions. Not every company, or every leadership team, takes that approach – especially with regard to executive compensation."

Dubé says that ultimately it comes down to strong Corporate Governance. "Ethics, Risk Management, Auditing ... these are all facets of strong, enterprise-wide Corporate Governance," he said. "Whether you want to call it a value or say it’s part of our culture, Corporate Governance, and the transparency that is inherent in strong Corporate Governance, is a key part of who and what we are as a community bank."

2. Establishing an appropriate peer group

For community banks like Old National, another major factor in structuring a performance-driven compensation plan that works well and accounts for potential risks is establishing a solid peer group. Old National’s peer group, which includes 31 banks that have certain similarities to Old National, helps the Compensation and Management Development Committee properly align compensation with the market.

A well-chosen and well-defined peer group allows a bank to strike a proper balance between underpaying employees and potentially losing or missing out on top talent, and overpaying employees and therefore not being good stewards of its owners’ capital.

"The peer group is the foundation of all the analysis I do as an executive compensation consultant," explained Godwin. "Therefore, it’s incredibly important to get it right."

3. Tone (and approach) at the top

As a former CEO, I have tremendous appreciation for a leader like Old National CEO Bob Jones who insists that as much of his compensation as possible be tied to company performance, regardless of how that may affect his personal earnings in a given year. In so doing, he has established a powerful tone at the top that is modeled by every other executive leader at Old National.

"Not only does it send a message to other company leaders, it signals to current owners and potential investors that the company truly values and is focused on long-term performance," noted Dubé.

Ultimately there is an art to structuring and managing an effective performance-based executive compensation plan, no matter the industry or business type. It requires a leadership team and Board of Directors who are committed to transparency, strong collaboration and doing the right thing every time. I am fortunate to find myself affiliated with an organization that not only believes in these principles but also puts them into practice.