

# VisionLink

## Bonus Plans That Increase Shareholder Value

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Financial Visions

*The “Learn & Earn” Series™*



THE VISIONLINK  
ADVISORY GROUP

June 16, 2009

Today's presenter:

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# Course Credit

## Per State Requirements:

To receive CPE credit for today's course, you must respond to at least 75% of the monitoring events – given in the form of polls.

Each person taking the course must respond to the monitoring events from their own computer. You may not share a computer when taking the course

Next CPE Course:



**“Driving Productivity and Profitability  
Through Deferred Compensation”**

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To be held on:  
Tuesday, July 21<sup>st</sup>, 2009

We're happy to provide a copy of today's slides, and a CD of the presentation. Information will be provided at the close of the presentation about requesting these.

For questions during today's presentation:

*Use the question panel  
to the right of your screen*

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# Course Objectives

- Establish an understanding of the role of short-term incentives
- Define the key ingredients of building an incentive plan that can positively impact shareholder value
- Provide guidance on the kinds of metrics that should be considered
- Define the role of a short-term incentive plan versus a long-term incentive
- Show the best way to frame the value proposition for employees

# Key Concepts

- Bonuses are incentives that are intended to improve behavior now, this year
- Short term incentives must drive immediate results but without diminishing long-term objectives
- A business must know what it wants to achieve before designing the incentive plan
- Establishing the right performance metrics is essential
- Employee involvement increases the likelihood of an ownership mentality
- Ongoing communication and reinforcement are essential



# Bonus Plan Definition

- Variable pay plan based on the achievement of objectives or subjective determination of performance
- Performance period of 12 months or less
- Generally paid in cash
- Could cover any employee group
- “Non-qualified” for tax and ERISA purposes



# Bonus Plan Types



- Executive/management incentive plan
- Gain sharing plan
- Team based plan
- Project based bonuses
- Retention bonuses
- Hiring bonuses

# Common short-term incentive plan objectives\*

- Improve business performance
- Increase the linkage of business and individual performance
- Provide competitive total pay
- Facilitate a sense of ownership
- Improve recruiting and retention
- Reinforce teamwork

\*Source: Unifi—"Survey of Incentive Programs"

# Poll #1



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# How can incentive plans be more effective?\*

1) “Line of sight” is key

*“The plans most likely to improve business results have the greatest line of sight between company objectives and an individual’s daily actions.”*

\*Source: Towers Perrin – “Compensation Effectiveness”

# How can incentive plans be more effective?



## 2) Payouts need to reflect performance

*“About 1/3<sup>rd</sup> of companies pay out awards even when they don’t achieve the minimum level of performance – a practice, not surprisingly, that’s associated with the least effective plans.”*

*A related tidbit: “Self-funded plans appear to be the most successful at improving business performance.”*

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# How can incentive plans be more effective?

3) Design and communication are “make or break” factors.

*“Plans reported to improve results significantly had three outcomes in common, they:*

- improved individual performance,*
- improved performance in target areas, and*
- engaged employees effectively.”*

# How can incentive plans be more effective?

*“Almost any type plan can deliver – if it’s properly designed and if it’s supported by business literacy, consistent communication, performance management, and leadership involvement.”*

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# Why do incentive plans work?

- Requires management to clearly define strategy and establish priorities
- Requires communication of priorities and expected achievement levels
- Requires ongoing communication of performance versus expectations
- Reinforces importance by “putting money where the mouth is”

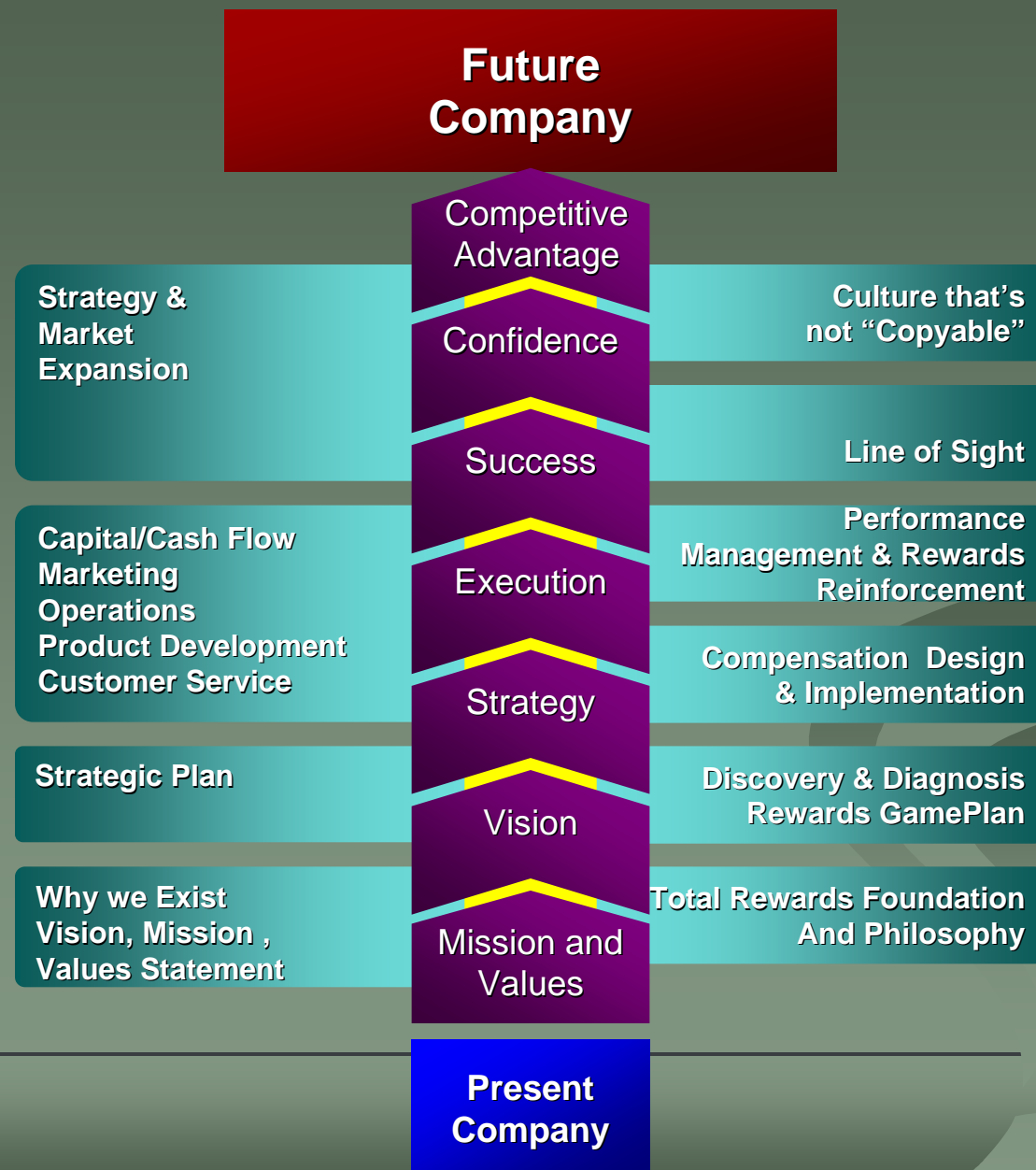
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# Essential plan design principles

- Directly support the company strategy
- Include employees with substantial impact on performance
- Provide meaningful awards
- Recognize individual employee contribution
- Revise to reflect dynamic business environment

# Compensation as a Competitive Advantage



# VisionLink Philosophy

- Variable compensation is an investment, not an expense
  - Increase financial performance via “self funding” programs
    - Production, profits, and/or share value
    - Should exhibit Return On Compensation
  - Recruit and retain quality employees
- Company performance is maximized when owner and employee “visions” are linked
  - Creates line of sight
  - Win-win outcomes

# THE VISIONLINKSOLUTION™

Owner/Shareholder Vision



COMMON THEMES

Owners want to:

Employee's Vision



COMMON THEMES

Employees want to:

Grow share value

Maximize abilities of key employees

Provide a quality product/service

Minimize liability and exposure to risk

Recruit and retain key employees

Focus employees on strategic goals/plans

Build a legacy

Exit the business and unlock equity

Develop and apply unique abilities

Be rewarded for superior performance

Enhance their income and growth opportunities

Protect their families financially

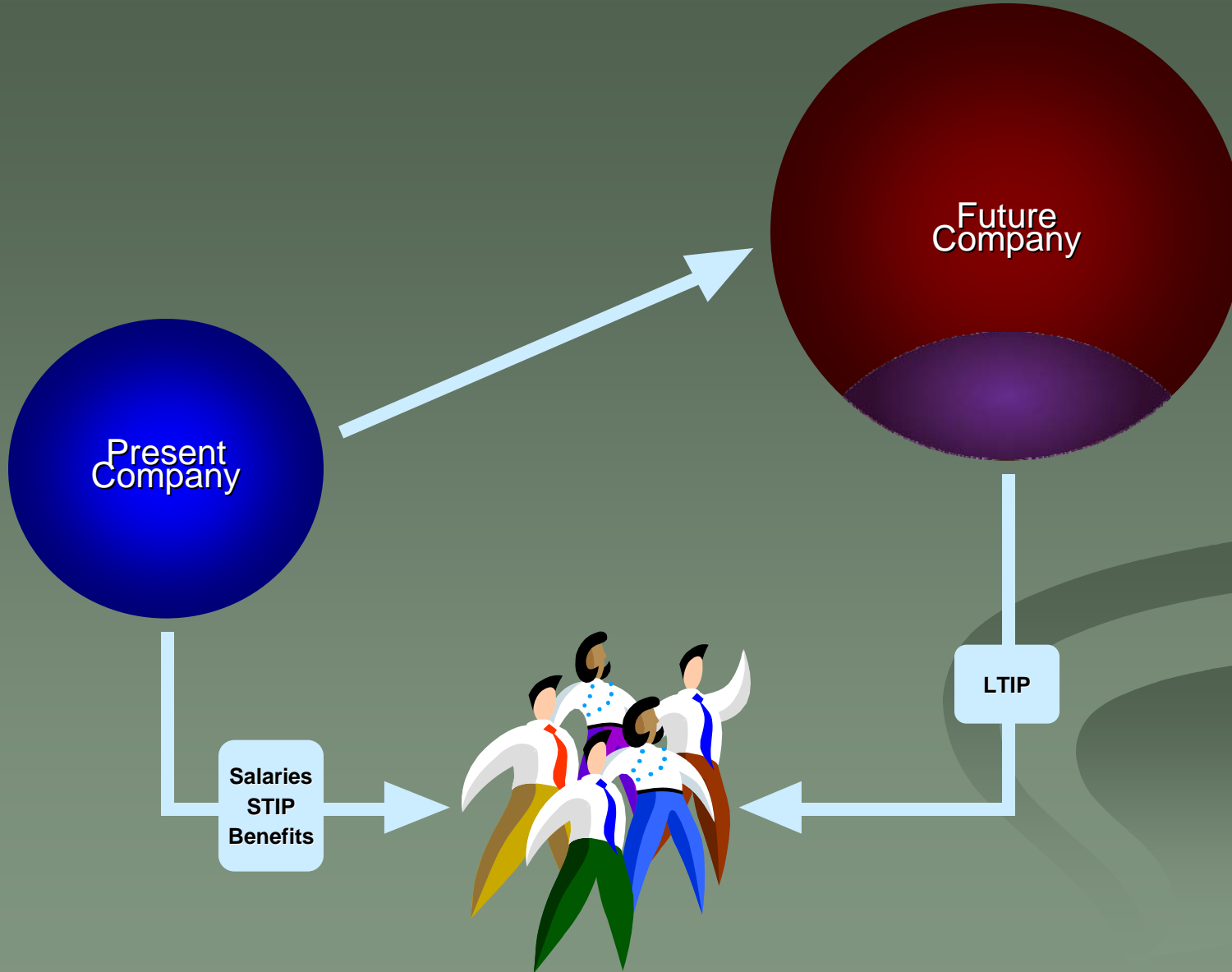
Provide for their retirement

Participate in the growth of the company

Earn opportunities for professional growth

Build wealth and save taxes

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# Poll # 2



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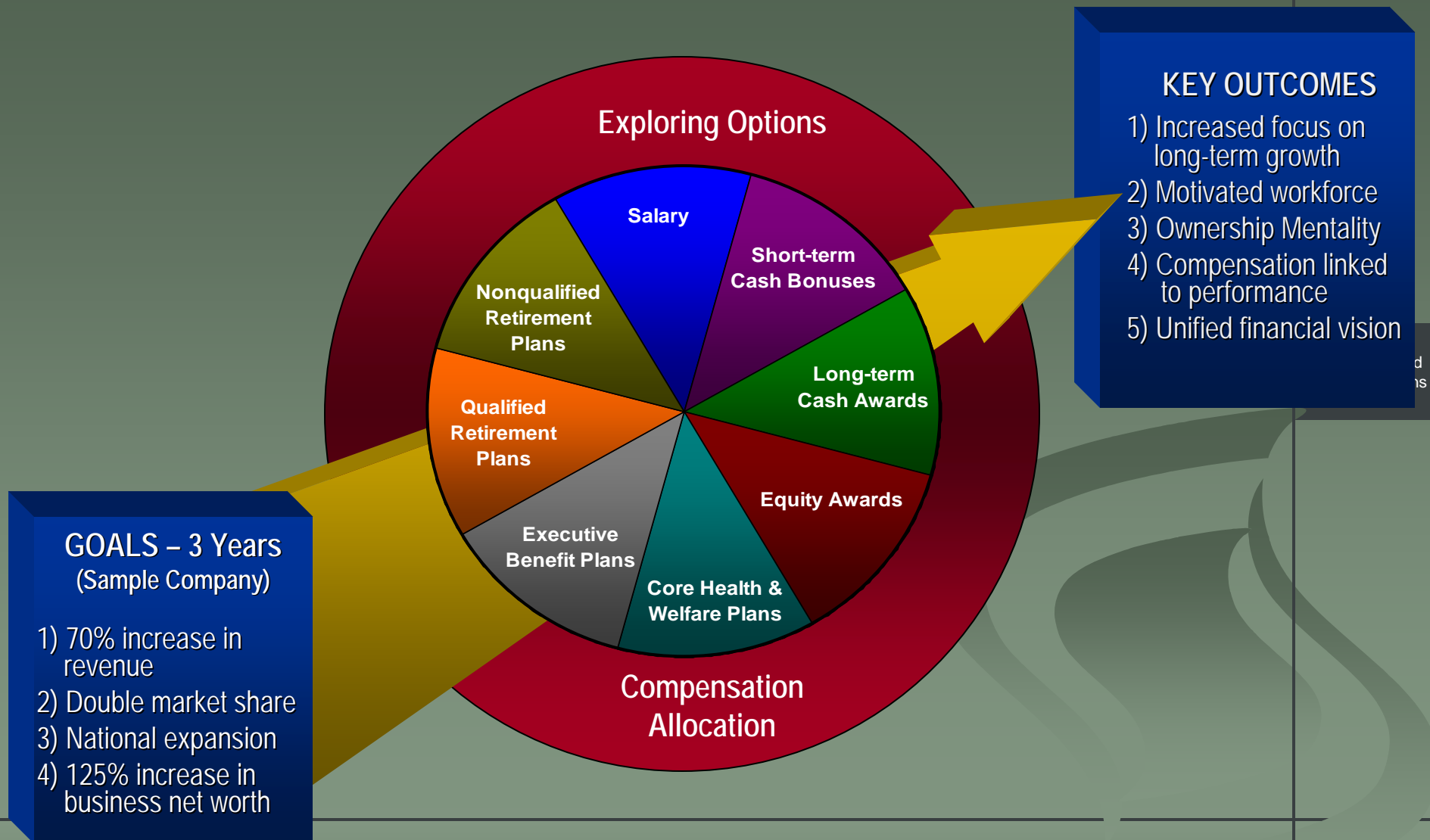
# Compensation decisions

- Which pieces should we use?
- How much of each?
- Under what terms and conditions should they be realized?





# Allocate the Compensation Investment



# Performance Metrics

- The most critical design factor is selecting the right performance metrics
  - If not the right ones, you will motivate and reward employees for *doing the wrong things!*

# Performance Metrics

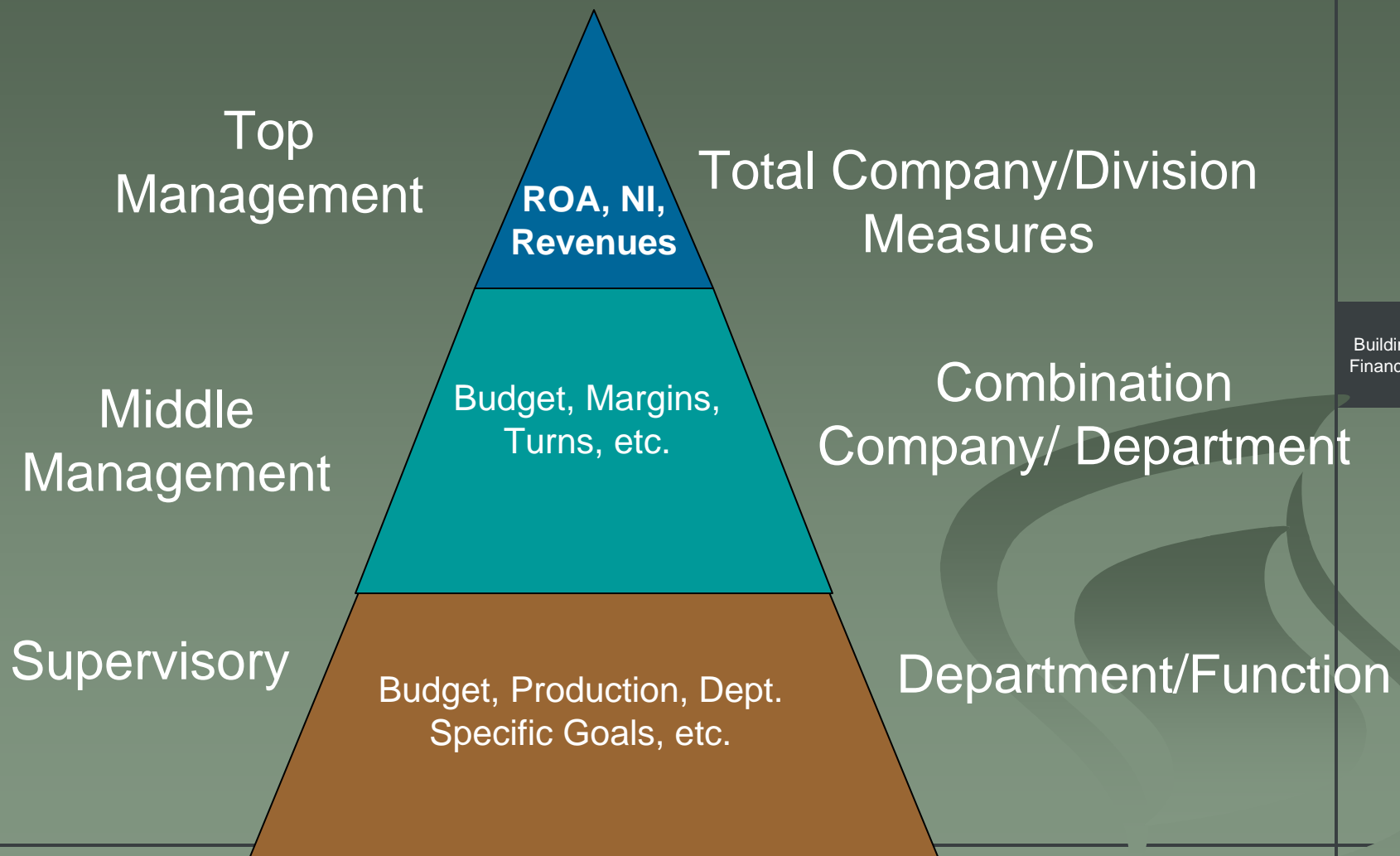


- 1) What is the strategy?
  - Growth
  - Profitability
  - Profitable growth
  - Market penetration, market share
  - Other?
- 2) What are key performance indicators that support the strategy?
  - We will only “pay for performance”
- 3) What can participants directly influence?
  - Create strong “line of sight”

# Performance Metrics

- KISS
- No more than 3-5 performance metrics
  - Clouds clear message of what's important
  - Dilutes weighting of key metrics
- The number one sin is trying to do too much with the incentive plan!
  - The bonus plan is a tool, not the replacement for good management!

# Creating Line of Sight



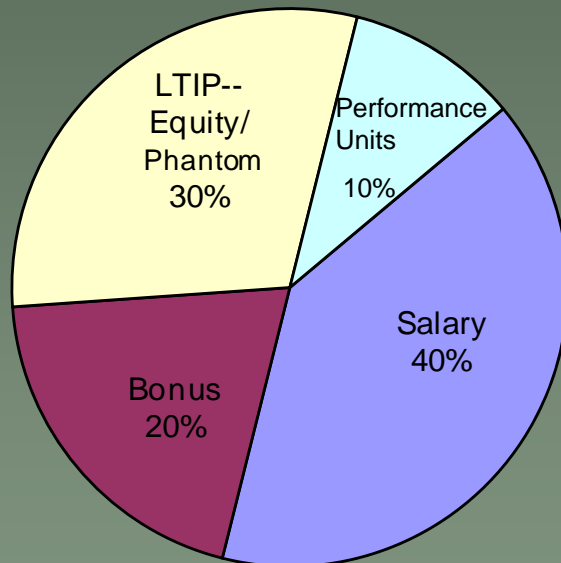
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# Example Performance Weightings

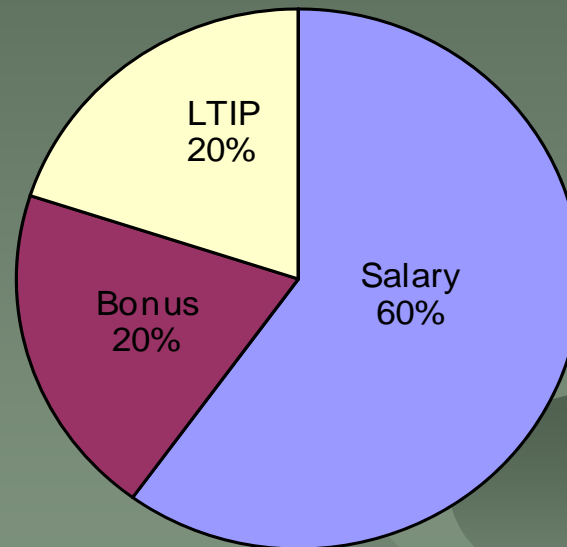
	<u>Company</u>	<u>Department/ Function</u>	<u>Individual</u>
CEO/ Exec VP	75%	0	25%
VP	50%	25%	25%
Director	25%	50%	25%
Manager	25%	25%	50%

# Total Compensation Mix Example

Executive



Management



# Effective Communications

## 1. Involve participants in the design process

- Link owner and employee visions
  - » Owner and employee interviews
- Solicit buy-in and ownership in plan design
  - » Participant interviews
  - » Focus groups
  - » Design committee
  - » Written surveys

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# Effective Communications

## 2. Kick off meeting

- Participants must understand:
  - What you want them to do – metrics
  - What's in it for them – reward

## 3. Consistent reinforcement

- Monthly/quarterly updates
- Performance coaching

# FoxHill, Inc. Example



- Overriding objective:  
Grow revenues while maintaining profit levels
- Multiple management tiers

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# Design Parameters

- Common metrics and structure for entire team
- Individual bonus targets
- Minimal annual tweaking

# Design Features

- Common performance matrix – revenues and profits
- Individual targets communicated to participants
- “What if” scenario analysis spreadsheet
- Leveraged individual performance modifier



**FoxHill, Inc.**  
**2003 Financial Performance Matrix**  
**Executive Incentive Plan**

<b>Revenues vs Budget</b>	120% (\$36M)	100%	145%	150%	175%	200%
	110% (\$33M)	87.5%	100%	125%	150%	175%
	100% (\$30M)	75%	87.5%	100%	125%	150%
	90% (\$27M)	62.5%	75%	87.5%	100%	125%
	80% (\$24M)	50%	62.5%	75%	87.5%	100%
		90% (\$1.69M)	95% (\$1.79M)	100% (\$1.88M)	105% (\$1.97M)	110% (\$2.07M)
<b>Net Income vs. Budget</b>						

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**FoxHill, Inc.**  
**2003 Financial Performance Matrix**  
**Executive Incentive Plan**

**Revenues  
vs Budget**

120% (\$36M)	15% \$18,750	18.75% \$23,438	22.5% \$28,125	26.3% \$32,813	30% \$37,500
110% (\$33M)	13.13% \$16,406	15% \$18,750	18.75% \$23,438	22.5% \$28,125	26.3% \$32,813
100% (\$30M)	11.25% \$14,063	13.13% \$16,406	15% \$18,750	18.75% \$23,438	22.5% \$28,125
90% (\$27M)	9.38% \$11,719	11.25% \$14,063	13.13% \$16,406	15% \$18,750	18.75% \$23,438
80% (\$24M)	7.5% \$9,375	9.38% \$11,719	11.25% \$14,063	13.13% \$16,406	15% \$18,750
	90% (\$1.69M)	95% (\$1.79M)	100% (\$1.88M)	105% (\$1.97M)	110% (\$2.07M)

**Net Income vs. Budget**

Name: Randy Ellsworth

Position: VP, Sales & Mktg

Salary: \$125,000

EIP Target: 15%

Est. Revenues: \$

Est. Net Income: \$

Projected Bonus: \$

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# Individual Performance Modifier

- Individual performance modifier
  - Based on achievement of predetermined goals
- Example performance rating scale

<u>Rating</u>	<u>Modifier</u>
Unsatisfactory	.0x (no award)
Well below expected	.8x
Below expected	.9x
At expected performance	1.0x
Exceeds expected	1.1x
Greatly exceeds expected	1.2x

- Final bonus calculation
  - Results of financial performance matrix
  - Multiplied by individual performance modifier.

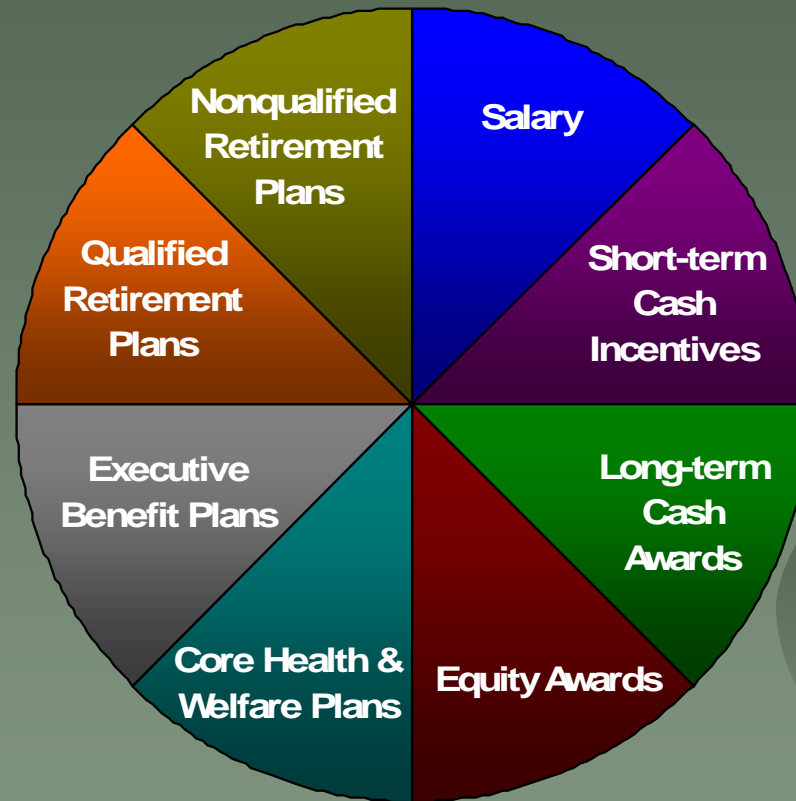
# Poll #3



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# *Compensation Pantry*

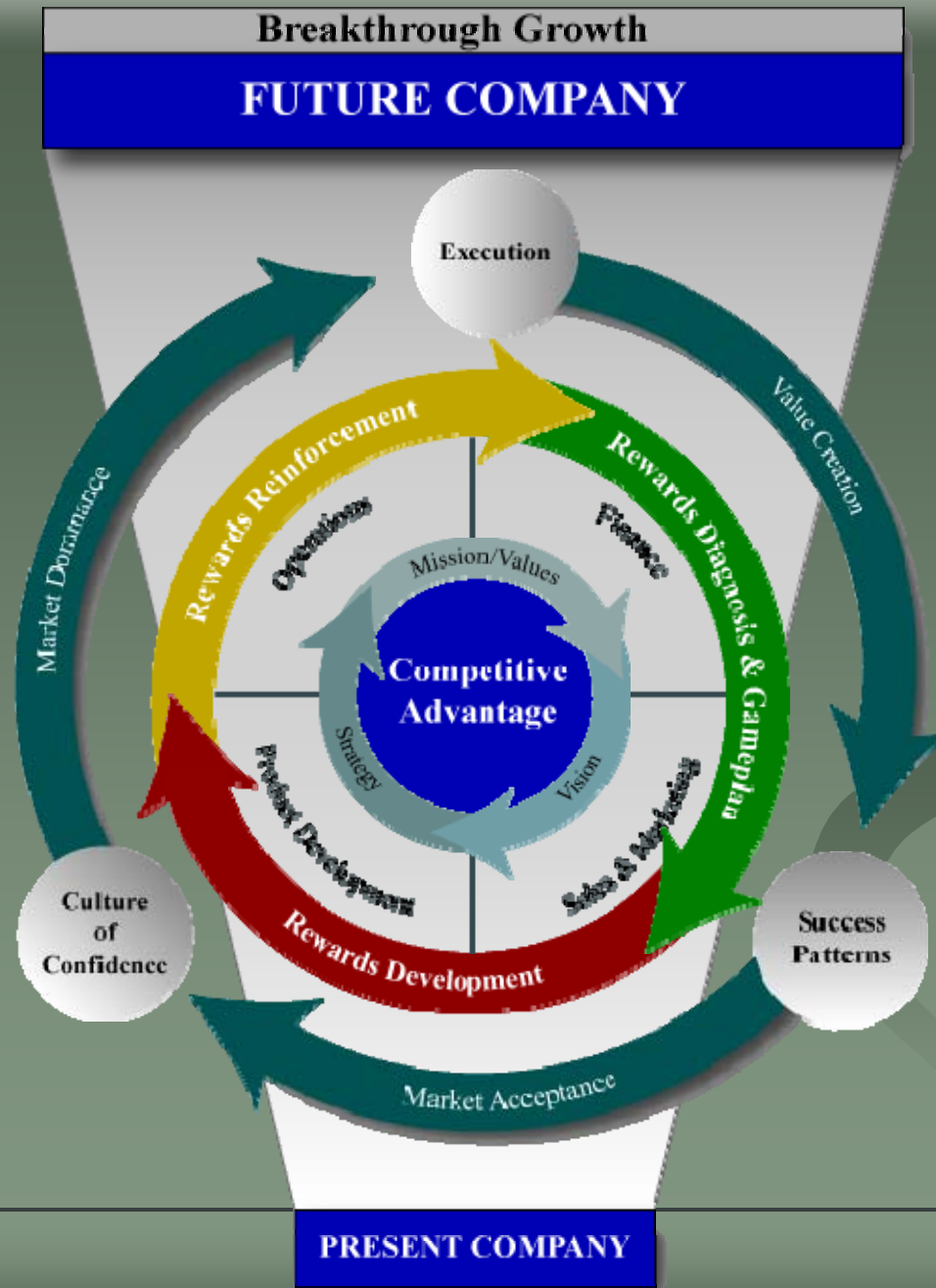


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# Employee Value Statement

Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000	\$ 448,000
Retirement Plan Value (at 7%)	\$ 17,120	\$ 36,123	\$ 57,169	\$ 80,428	\$ 106,086
Total Cash Received	\$ 224,000	\$ 232,960	\$ 242,278	\$ 251,970	\$ 262,048
Total Wealth Accumulation	\$ 17,120	\$ 110,123	\$ 243,169	\$ 391,428	\$ 554,086
Total Paid or Accumulated	\$ 241,120	\$ 567,083	\$ 942,407	\$ 1,342,636	\$ 1,767,343

*Caveat:*



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# Questions?

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# Thank you for attending

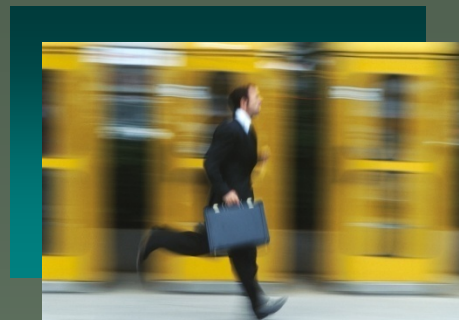
*Please complete our survey form immediately following our presentation.*

***This will be counted as a monitoring event.***

*You may request a copy of the slides and also a CD of today's presentation*

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Thank You!



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