

August 24, 2010

“What To Do When Your Employees Act Entitled”



THE VISIONLINK
ADVISORY GROUP

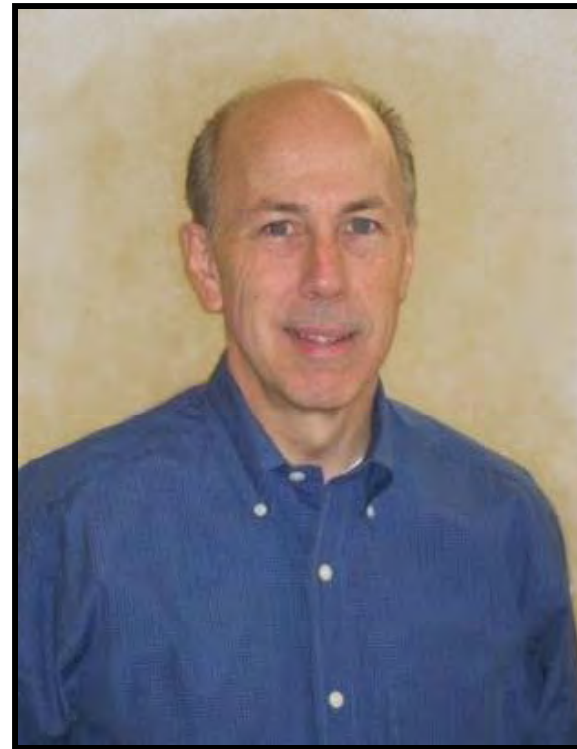
Today's Presenter:

Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



We're happy to provide a copy of today's slides.
Information will be provided at the close of the
presentation.

For questions during today's presentation:

Use the question panel
To the right of your screen

Key Concepts



- Understanding an entitlement mentality
- Why great people join and then stay with a company
- What it means to create alignment
- Taking a strategic approach
- The role of incentives
- How to assess where you are now

The Entitlement Issue



Annual Passes at Disneyland

- “Do we have to go to Disneyland today?”

Company A



Company A



Water Cooler Talk:

- “I can’t believe they aren’t paying bonuses this year—they’ve always paid them.”
- “I’ve been here longer, why aren’t I paid more?”
- “Look, the market pay data shows I’m underpaid”
- “I think I deserve a bigger raise.”

Company A



- Employees disengaged
- Compensation not aligned
- Employees unclear about the future
- Productivity measures are vague

Company B



Company B



Water Cooler Talk:

- “For the first time in my career, I feel like I’m sharing in the success of the company.”
- “If we meet the targets the CEO discussed today, my incentive will double! And I think we’ll hit those targets!”
- “There is a philosophy about pay here that makes sense to me; I understand how I can maximize my earnings.”
- “It just doesn’t make economic sense for me to leave at this point.”

Company B



- Distinct ownership mentality
- Focused attention to execution
- Employees compelled by future
- Culture of accountability

**What attracts great talent and
makes them want to stay?**

(Hint: It's not through entitlements)

4 Keys

Compelling Future

Positive Work Environment

Opportunities for
Personal and
Professional Growth

Financial Rewards

Where does an entitlement mentality usually manifest itself?

Compelling Future

Positive Work Environment

Opportunities for Personal and Professional Growth

Financial Rewards

Where does an entitlement mentality usually manifest itself?

Compelling Future

Positive Work Environment

Opportunities for Personal and Professional Growth

Financial Rewards

Where does an entitlement mentality usually manifest itself?



Where does an entitlement mentality usually manifest itself?



**What accounts for the difference
between Company A and
Company B?**

What's the same? Assumptions in the business plan

- All the “little things” must work at once
 - Marketing
 - Sales
 - Capital and cash management
 - Production
 - Service
 - Delivery
 - Personnel management
 - And so forth

Company B's Approach to Assumptions

- All the “little things” must work at once
- But...this is a not a linear process. It's dynamic.
 - Stuff happens
 - People must respond and adapt
 - But, they must keep their “eye on the ball”

“The Ball”



Sales

Productivity (Margins)

Competitive Advantage

Execution

Talent



“The Ball”



**Who's ultimately responsible
for these results?**

CEO Worry List



Sales

Productivity

Competitive Advantage

Execution

Talent

Mr./Ms. CEO—Is this what you want?

- Employees are as anxiously engaged in your business as you are
- Employees understand that their ultimate compensation is dependent upon productivity gains in the company
- Employees realize that the fulfillment of their personal goals is tied to the success of the business
- Employees are perfectly clear on what they can/should do to contribute to the fulfillment of the business plan
- You can attract and keep anyone you want

If so, consider this hierarchy

Critical Business Improvements

Key Initiatives

Strategic Execution

Tactical

Purchasing

If so, consider this hierarchy

Critical Business Improvements

Key Initiatives

Strategic Execution

Tactical

Purchasing

Then why...

- ...are most compensation decisions made at the tactical level?
- ...do few companies have a written TR philosophy statement that is aligned with the business plan?
- ...is there little (if any) integration of the key compensation decisions?
- ...is the return on the total rewards investment not measured at most companies?

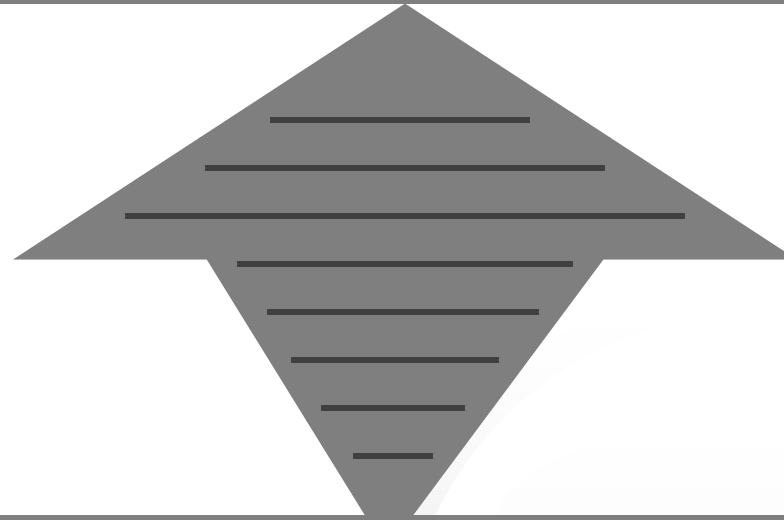
At the **Key Initiative** level

- Does our Total Rewards Investment (TRI) produce a positive return for shareholders?
- Does our TRI align tightly with our business plan?
- Do we reward our employees for meaningful productivity gains?
- Are we wasting dollars on rewards programs that don't drive shareholder value or meet employee expectations?
- Are we measuring and managing the return on our TRI?

5% of
Companies

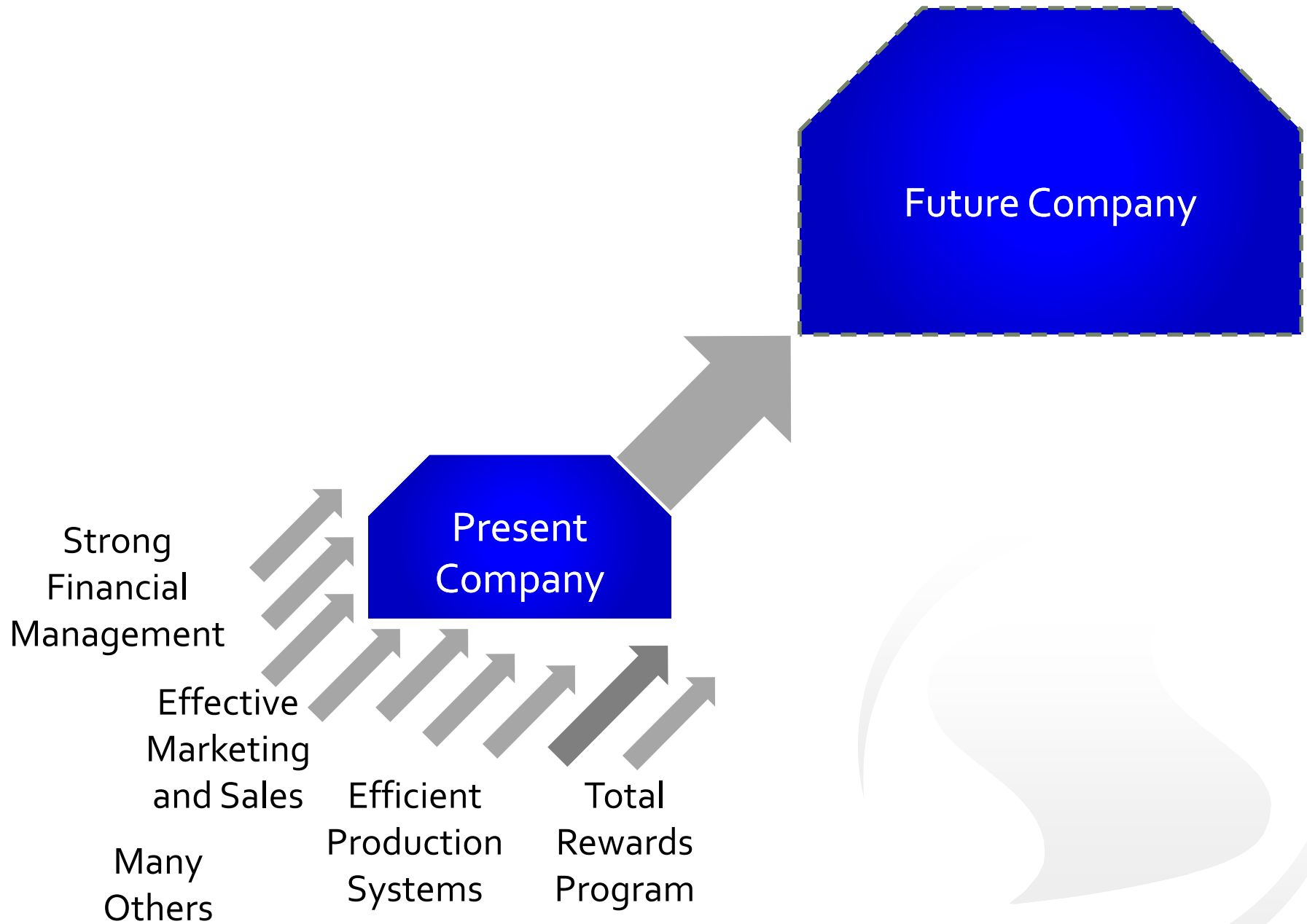
- Distinct ownership mentality
- Focused attention to execution
- Employees compelled by future
- Culture of accountability

Missing
Structure

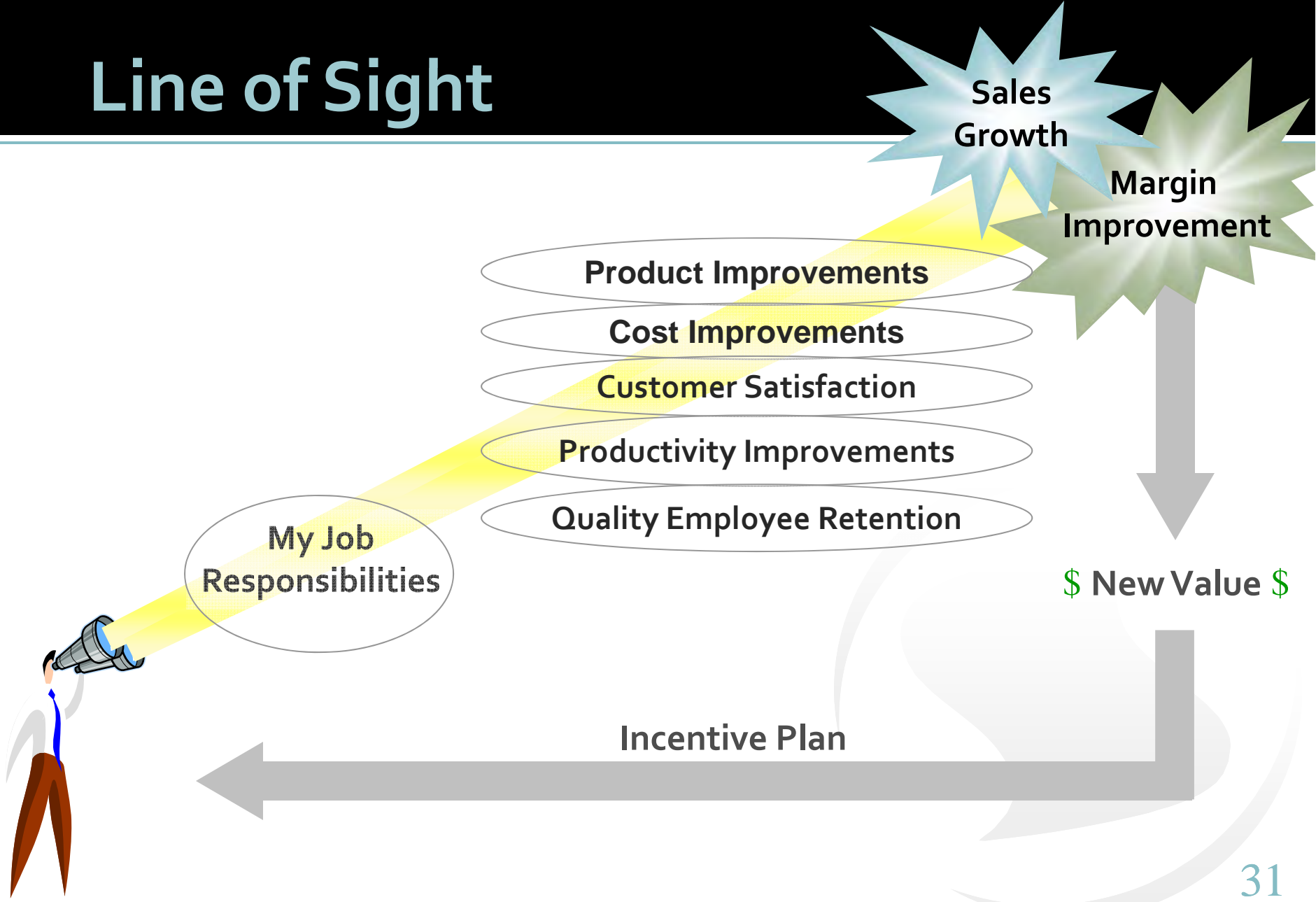


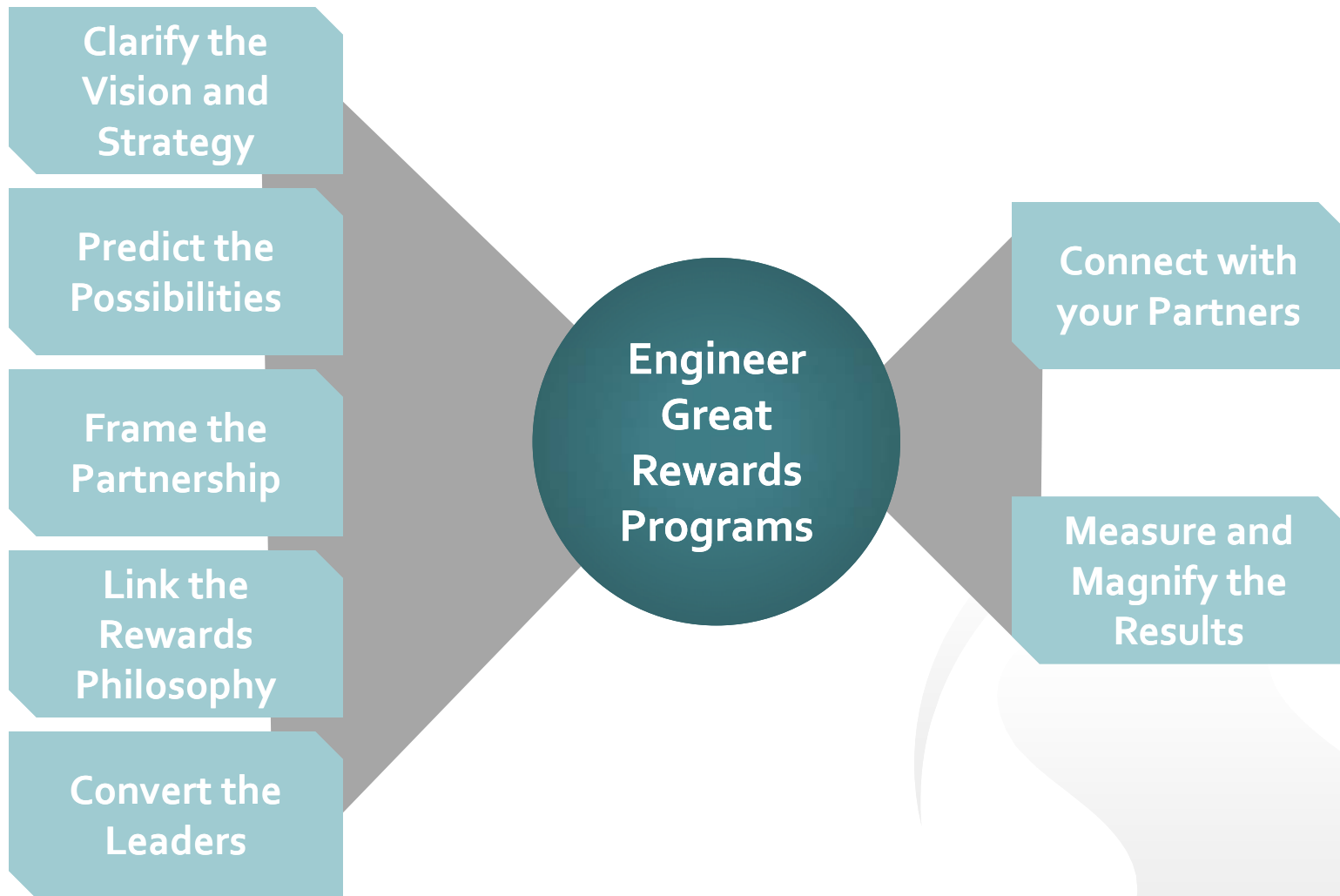
95% of
Companies

- Employees disengaged
- Compensation not aligned
- Employees not clear
- Productivity measures vague



Line of Sight



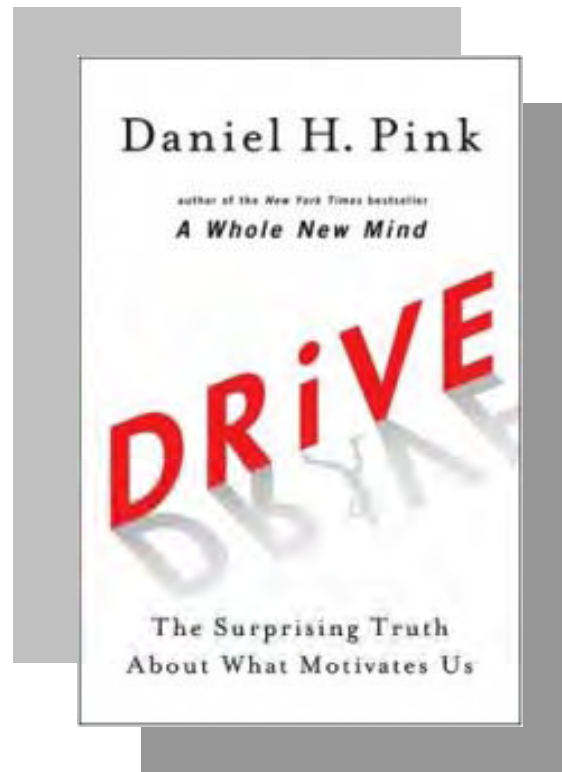


The Role of Incentives

An interesting debate

Do incentives work?

Catch the buzz about Dan Pink's book—Drive



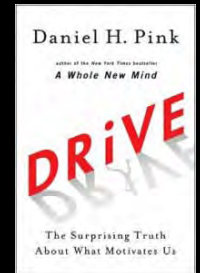
Drive—studies show...

- Rewards narrow our focus, concentrate the mind, and restrict our possibilities
- When a task requires creative thinking, offering a reward extends the time it takes to solve the problem
- Extrinsic rewards should not be applied to tasks that require creativity

This isn't new...and it's "not wrong"

- Studies have reached this conclusion for 30 years
- Rewards can distract from results by focusing people on "how to get the bonus"
- Rewards can buy temporary compliance but do not change intrinsic motivation
- Rewards can discourage innovation

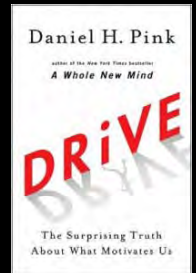
Drive—“instead...”



Use intrinsic rewards

- Autonomy—directing our own lives
- Mastery—getting better at something that matters
- Purpose—doing what we do in the service of something larger than ourselves

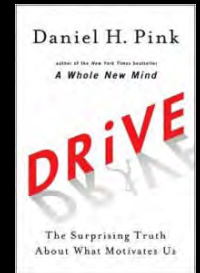
Drive



No real argument here, but...

“Pay people adequately and fairly,
get the issue of money off the table,
then give them lots of autonomy.”

Drive



- Not so easy in real life:
 - Do you set salaries at the same level that formerly reflected total pay?
 - How do you handle pay management for people of clearly different skill levels?
 - How do you budget for total compensation without anticipating self-financing elements?
 - How do you tell people, “don’t worry about pay; enjoy the intrinsic awards”?

The Obvious Question

Can we develop a culture that supports intrinsic motivation and offers extrinsic rewards?

Compelling Future

Positive Work Environment

Opportunities for Personal
and Professional Growth

Financial Rewards

Compelling Future
Purpose

Positive Work Environment

Opportunities
Autonomy and Mastery

Financial Rewards

The Key
Reinforce, don't force



Purposes of the incentive plan

- Carrot and stick
- Change behavior
- Get people to do things they don't want to do
- Motivate people to "do the right thing"

WRONG!

Purposes of a good incentive plan

- Demonstrate a financial partnership with employees
- Communicate the outcomes and results most valued by the organization
- Create flexible means of rewarding high performers and recognizing special circumstances and achievements

Force

Reinforce

This is the behavior that's expected and rewarded.

These are the results that are valued and rewarded.

Do these things whether you like them or not (they're a necessary part of the job).

As you can see the outcomes we're striving for, determine the best ways to get them done. Here are our standards, patterns, expectations.

Our bonuses are reflective of our "market pay" analysis for your job classification

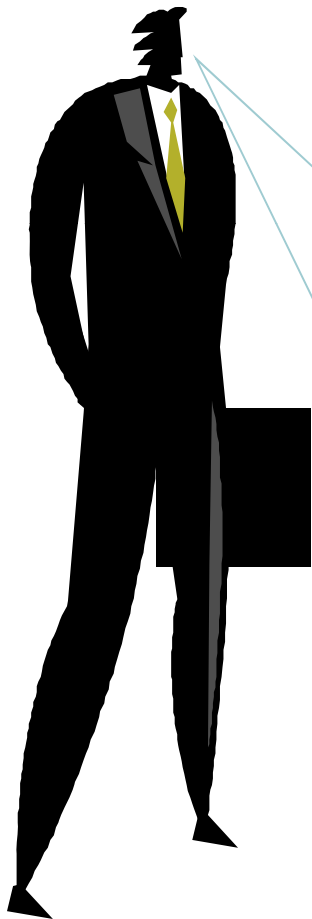
Our bonuses reflect the way we share value that you help create.

Bad profits

Good profits

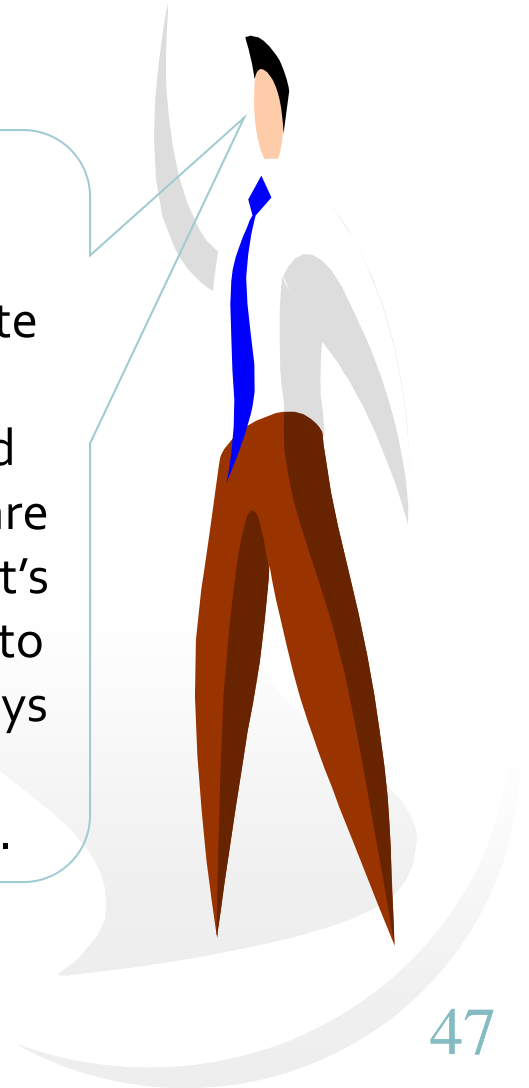
Owner

Employee



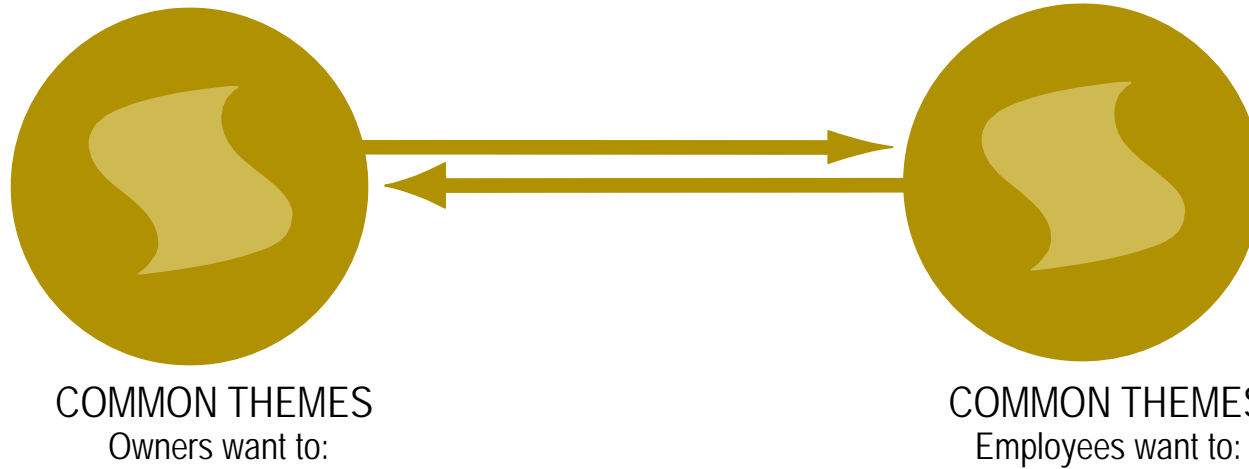
Help us create financial value (good profits). We have a specific, proven and valuable way to share it with you.

I see what business results create value. I understand how you share that value. It's meaningful to me. I see ways I can contribute.



This is fundamentally about fulfilling a commitment to reward people fairly (generously) for helping to fulfill the mission of the organization. When quality people understand and believe in this commitment you reinforce their intrinsic desire to deliver on your business plan.

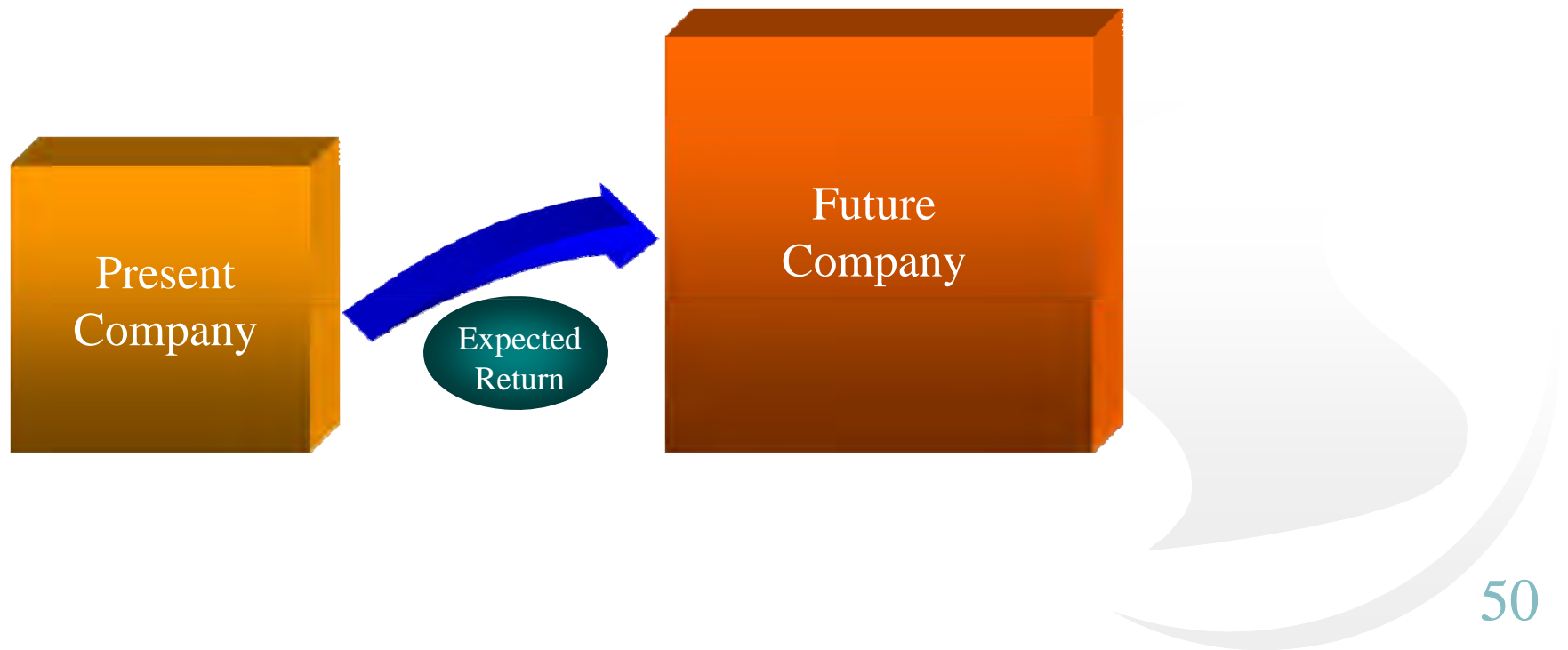
Building a Unified Financial Vision



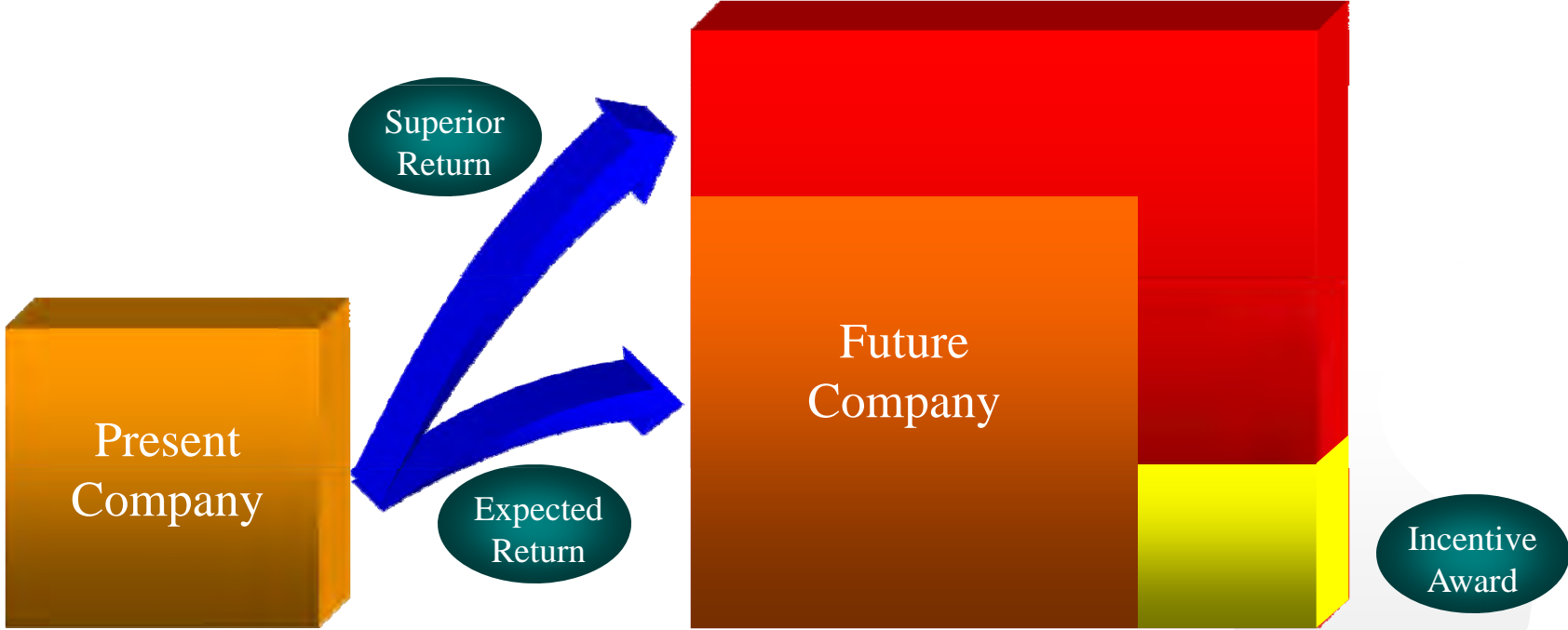
- Grow share value
 - Maximize abilities of key employees
- Provide a quality product/service
 - Minimize liability and exposure to risk
- Recruit and retain key employees
 - Focus employees on strategic goals/plans
- Build a legacy
 - Exit the business and unlock equity

- 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

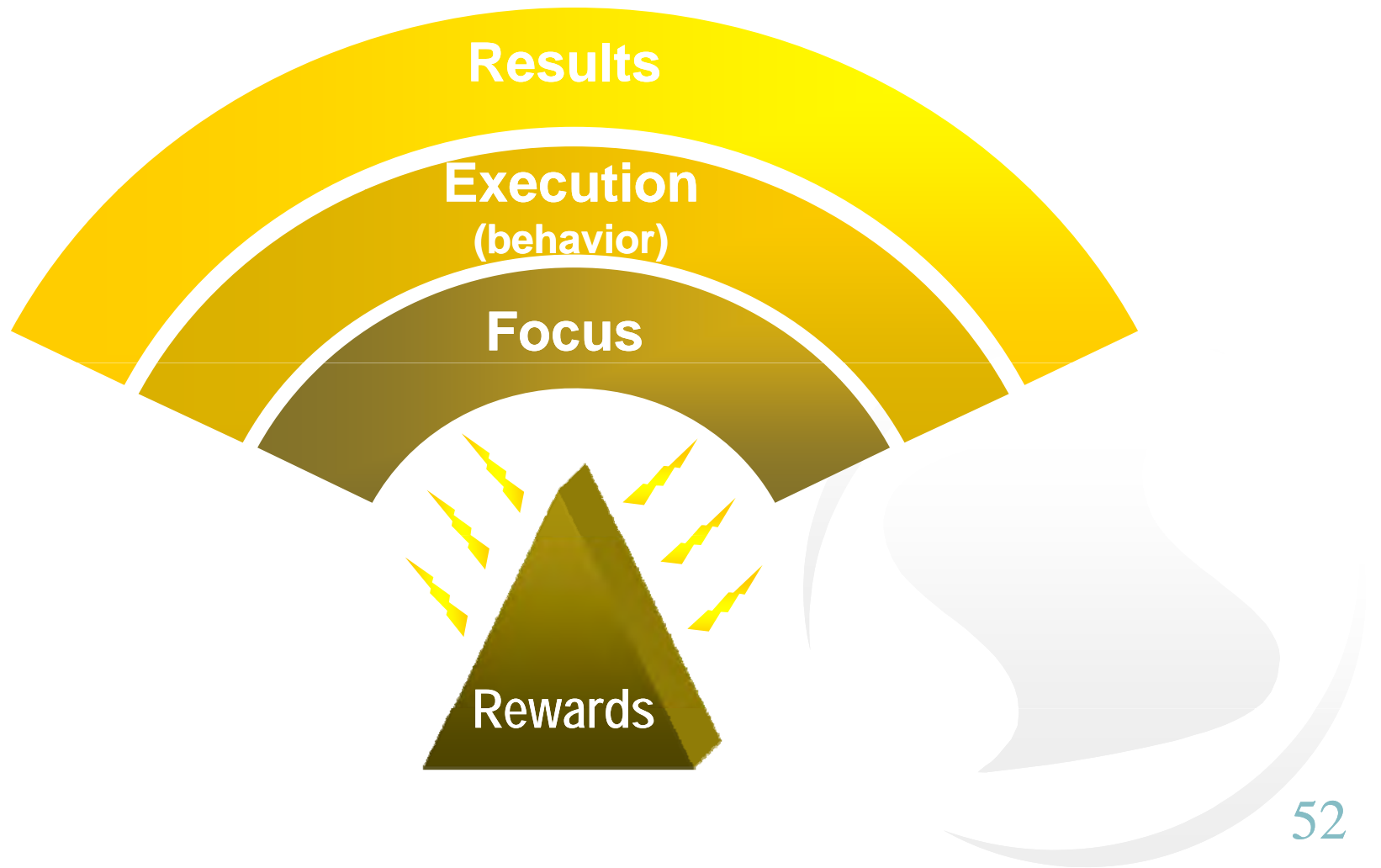
Creating value added results



Creating value added results



Rewards to Results



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:

A word or two about motivation

- Intrinsic vs. extrinsic
- Alignment
 - I can't believe how fortunate I am. I get paid well for doing what I love to do.
 - The rewards here are great. But I'd work here without them.
- The rewards are a reflection of a job well done—not compensation for doing something you aren't inclined to do

Ownership Mentality

- I understand the company's goals
- Achievement of the company's goals is important to me
- I see how I can make a contribution to the goals
- I see the connection between the company's goals and the achievement of my own goals

Importance

Contribution

Understanding

Connection



How do you know if you have a unified vision?

- Hard to measure
- “You know when you have it”
- Can try to identify key elements

First Step

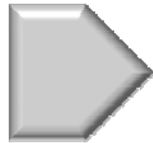
- Where are we now?
- VisionLink's Tool:
 - Alignment Appraisal™
 - A focused look at your current practices with a comparative eye on “World Class Compensation” standards. “Is your total rewards program enhancing or slowing growth?”
 - Process—simple online employee survey

Quantitative and Qualitative Assessment

The Alignment Appraisal™

helps a business measure results in five key areas

Partnership



Do our employees feel like participating partners in our business successes?

Clarity



Do we effectively communicate and reinforce our organizational standards and the value of our total rewards opportunity?

Engagement



Do we achieve a crucial level of employee commitment, passion and engagement?

Practices



Do we follow best practices in managing our compensation investment?

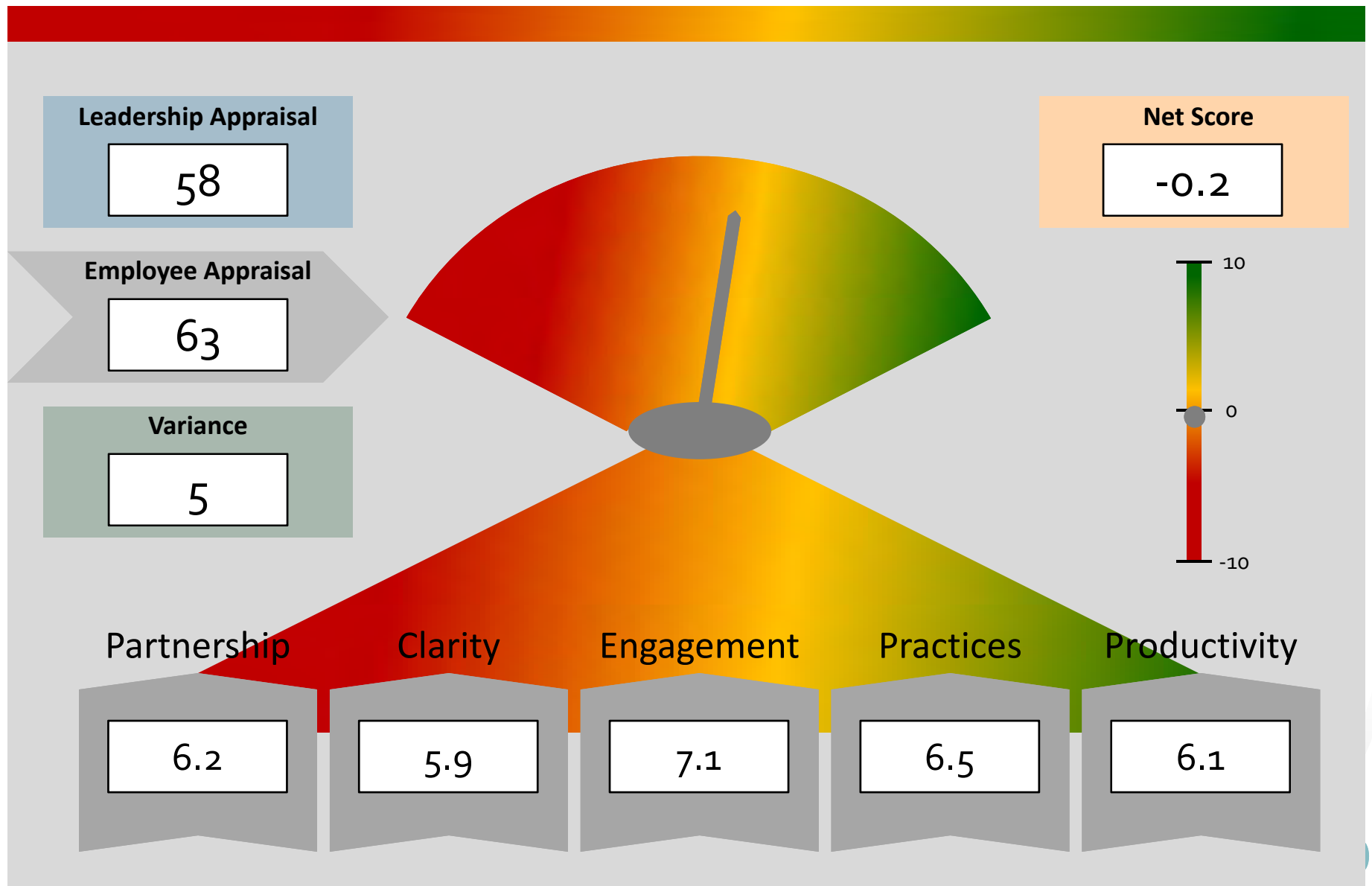
Productivity



Do we conscientiously measure and manage employee productivity?

(Sample) Alignment Appraisal Index = 63^* / -0.2

*Scale of 100



Conclusions



- An ownership mentality is essential to overcome an entitlement mentality
- Sustainable business growth
- Careful planning and implementation can get you there
- Your incentive plan decisions ratify your value sharing philosophy
- Ownership mentality can be simply measured in order to identify where to begin

Next Online Seminar:

“Pay for Performance that Works in the Real World”

To be held on:
Tuesday, September 28, 2010

Check out our website:
www.VLadvisors.com

The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, which includes a globe icon and the text "THE VISIONLINK ADVISORY GROUP". To the right is a "CLIENT login" section with input fields for "user name" and "password", and a "Login" button. Below the login section is a phone icon and the number "(888) 703 - 0080" along with an RSS icon. A navigation menu contains links for "Home", "About Us", "Client Profile", "Information and Resources", "Client Locations", "Events", "Blog", and "Contact Us". The main content area features a large banner with a blue-tinted image of people in a meeting. The banner text reads: "How Do I Structure Compensation in Recessary Times ...and Still Maintain a Competitive Advantage?". On the left side of the banner are three buttons: "Structure Compensation", "Top People Management", and "Entitlement Mentality". Below the banner is a section titled "Strategic Compensation Development and Management Firm". It includes a "Join our webinar invitation list:" form with an email input field and a "Join" button. To the right of the form is a testimonial: "VisionLink enables mid-market companies to achieve greater execution and productivity from key talent through pay-for-performance compensation strategies." Below this is a quote: "VisionLink has helped us successfully navigate a number of complex issues regarding our rewards programs. It has".

You can also subscribe to our blog



Find us on
Facebook

follow us on
twitter

twitter.com/vladvisors

Questions

Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

You may request a copy of our slides and more information about the Alignment Appraisal™.

Thank you!



Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



THE VISIONLINK
ADVISORY GROUP