

The "Learn & Earn" Series™

December 1, 2011

"5 Success Factors Every Compensation Strategy Must Fulfill"



THE VISIONLINK
ADVISORY GROUP



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ADVISORY GROUP

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

We're happy to provide a copy of today's slides, course syllabus/summary, 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

Course Objectives

- Identify key barrier to a comp plan that drives growth
- Define a process (5 Success Factors) for achieving results
- Understand how to measure productivity
- Identify the key outcome that defines success

Key Concepts



- Compensation needs to be evaluated in the context of its impact on company growth
- Compensation can't be evaluated "in a vacuum"; it is part of larger framework
- Understanding the 5 Success Factors in the context of a case study
- ROI on compensation is a key factor most companies find difficult to measure

The “Driving” or “Hindering” Factor
Key Questions



Dialogue with CEO



VL: "Is your approach to compensation driving or hindering growth?"

CEO: "Hmmm. Not sure."

Dialogue with CEO



VL: "What is the largest budget item on your company's financial statement?"

CEO: "Comp and benefits"

Dialogue with CEO



VL: "So...comp and benefits is the largest item on the company's financial statement, but you don't know whether its driving or hindering growth?"

CEO: "I guess that doesn't make much sense, does it?"

VL: "No...it really doesn't."

Why does this occur?

- Don't have appropriate assessment criteria
- Don't have appropriate assessment mechanism



Outcome

Millions of dollars are poured into something that isn't measured for results in the same way other large capital investments are evaluated.



Poll #1



The “Driving” or “Hindering” Factor
Another way of looking at it.....



Your
Business
Plan

Chasm
Execution

Your
Business
Plan

Chasm

Execution

Why?

Good Plan + Good People = ?

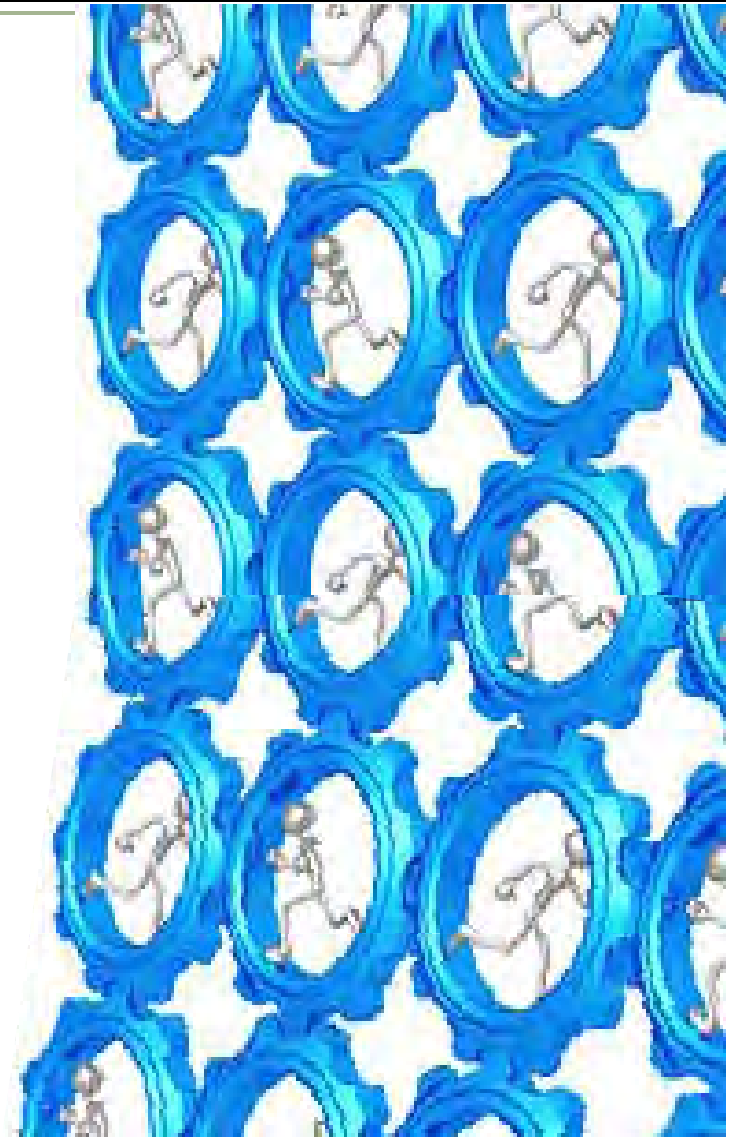
Assumptions in the business plan

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



Assumptions in the business plan

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



Mind of a Concerned CEO



We have good product. 😊

We have a solid plan. 😊

We have great people. 😊

We are achieving lower than expected results.



What are we missing?

The Performance Gap

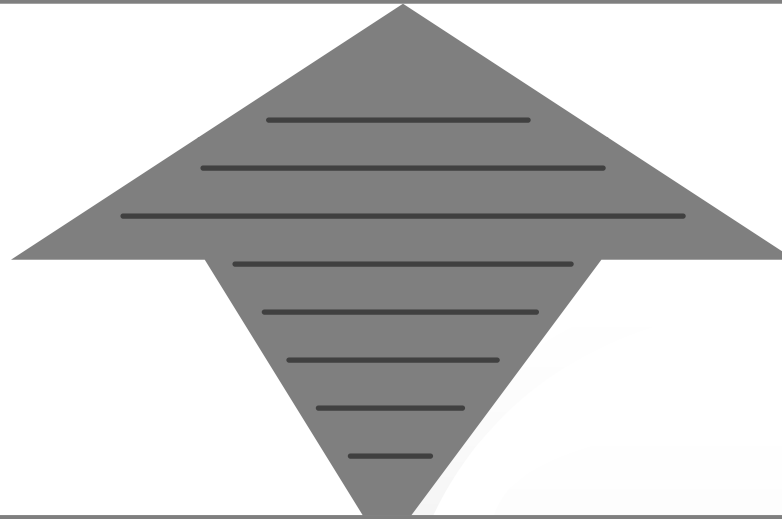


- Your company is capable of breakthrough growth
- Your company is achieving only modest results
- You and your employees are dissatisfied
- Nobody's starving—some are even doing pretty well—but not multiplying wealth at the level you envisioned.
- Capable of more, but just not getting there

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

“Driving” or “Hindering”

The 5 Success Factors

Interdependent dynamics



Developing the Right Success Factors

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?

Case Study

**\$30 million business wanting to grow to
\$50 million in next three years.**

Alignment Appraisal™

June 22, 2011



7700 Irvine Center Drive, Suite 930 ♦ Irvine, CA 92618 ♦ 949-852-2288

The Alignment Appraisal™ Purpose

- Measure effectiveness of compensation relative to “World Class” standards
- Identify the areas of greatest vulnerability
- Position the business to create a clear Compensation Philosophy and GamePlan
- GamePlan should then lead to the creation of specific rewards strategies that will be key drivers of growth in the business

Methodology

The Alignment Appraisal consists of the following steps:

1. Assessment
 - Leadership Profile Questionnaire
 - Executive Committee Assessment Survey—99 statements (scale of 1-10)
 - Employee Assessment Survey—68 statements (scale of 1-10)
2. Compilation and Evaluation
 - VisionLink compiles all data
 - Appraisal is “scored”
 - VisionLink consultants produce written analysis and commentary
3. The Alignment Appraisal Presentation
 - Recommended attendees: CEO, CFO, HR (and any others on the executive committee that will influence decisions about compensation)

Critical Goals

The Chief Executive Officer of Sample Company has identified the following goals and concerns:

Business Growth

- Grow business to \$50 M in revenues with corresponding growth in EBITDA (3 yrs.)
- Grow market share

Performance

- Create greater cooperation between sales and operations teams—overcome “who owns this?” issues
- Improve incorporation of technical strengths into sales process
- Create a more efficient and effective sales process
- Achieve a more systematic approach to selling, supporting, and serving Sample Company’s clients

Talent/Culture/Compensation

- Maintain family-like culture and prepare for the next phase of growth
- Create a pay system that aligns rewards with the achievement of company goals
- Secure key talent in the following areas: sales, customer service, technicians, analysts

Alignment Appraisal Index

Alignment Appraisal Index (1 to 100)

- An Index of 85 or higher indicates that the Total Rewards Program (TRP) is at or near “world class” standards and is **driving** sales and profits
- An Index of between 75 and 85 indicates that the TRP is **supporting** sales and profit growth
- An Index below 75 indicates that the TRP is **hindering** (reducing) sales and profits

Net Appraisal Score (-10 to +10)

- A Net Score of 7 or higher indicates that **most** employees are strong promoters of the Company as an employer of choice.
- A Net Score greater than 3 but less than 7 indicates that a **majority** of employees are promoters of the Company as an employer of choice.
- A Net Score of less than 3 indicates that too many employees are **unwilling** to promote the Company as an employer of choice.

Alignment Appraisal Index = 72^* / -0.2

*Scale of 100

Leadership Appraisal

65

Employee Appraisal

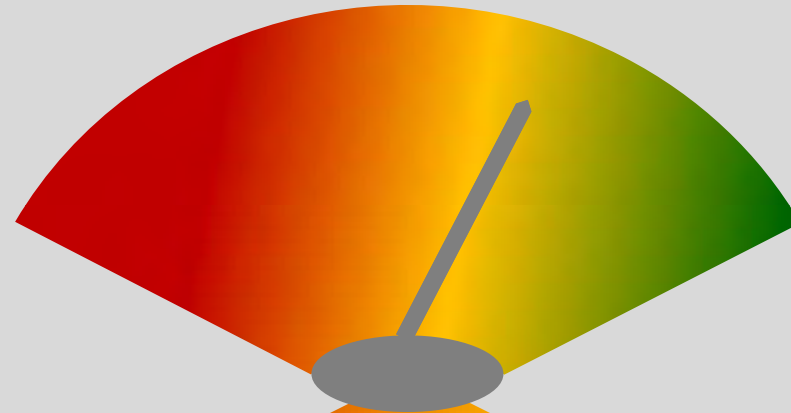
72

Variance

7

Net Score

-0.2



Partnership

7.4

Clarity

7.6

Engagement

7.5

Practices

6.5

Productivity

6.9

Diagnosis

The Alignment Appraisal process reveals the following areas of strength and opportunity.

- The company has effectively communicated its mission and ownership's vision of the future. This creates clarity of direction and purpose.
- The company has created a culture where employees feel a sense of family and trust. This communicates a commitment to employee interests and not just company goals.

Note: This strength can become a liability if an overall pay for performance philosophy isn't adopted. An entitlement mentality can emerge and create a barrier to an ownership mentality.

- Employees believe in the business plan of the company. This strengthens the company's ability to create a unified financial vision once it links pay to performance.
- Employees generally find purpose and meaning in their work and appreciate the company's work environment. This strengthens the company's ability to educate its workforce and improve productivity.
- There is a foundational "stewardship" mentality in place in the organization that can be nurtured into a more complete "ownership" mentality. This removes a common barrier to a corresponding pay for performance approach.

Diagnosis

The Alignment Appraisal™ process reveals the following areas of concern.

- The company does not have a clear and purposeful compensation philosophy that effectively supports the business plan. This creates a lack of focus and stifles execution.
- The company does not currently employ best practice options in the design, implementation and communication of its rewards programs. This is inefficient and erodes profitability.
- The company does not yet effectively measure and manage improvements in productivity. This slows growth and creates a deficit of accountability.
- There is not a strong link between improvements in productivity and rewards. This impedes ambition and initiative—which in turn slows growth.
- There is not yet a clear path of professional opportunity and growth within the organization. This weakens a unified vision and restrains commitment.
- Overall, the appraisal shows there are many employees that are not yet promoters of the company as an employer of choice. This diminishes the company's ability to attract and retain premier talent.

Related Outcomes

Until these issues are addressed and corrected the shareholders of Sample Company should expect the following:

1. Lower than desired sales revenue
2. Lower margins
3. Some difficulty in recruiting and retaining premier talent
4. Limited increases in employee productivity
5. Diminished sustainable competitive advantage (reduced shareholder value)

Poll #2

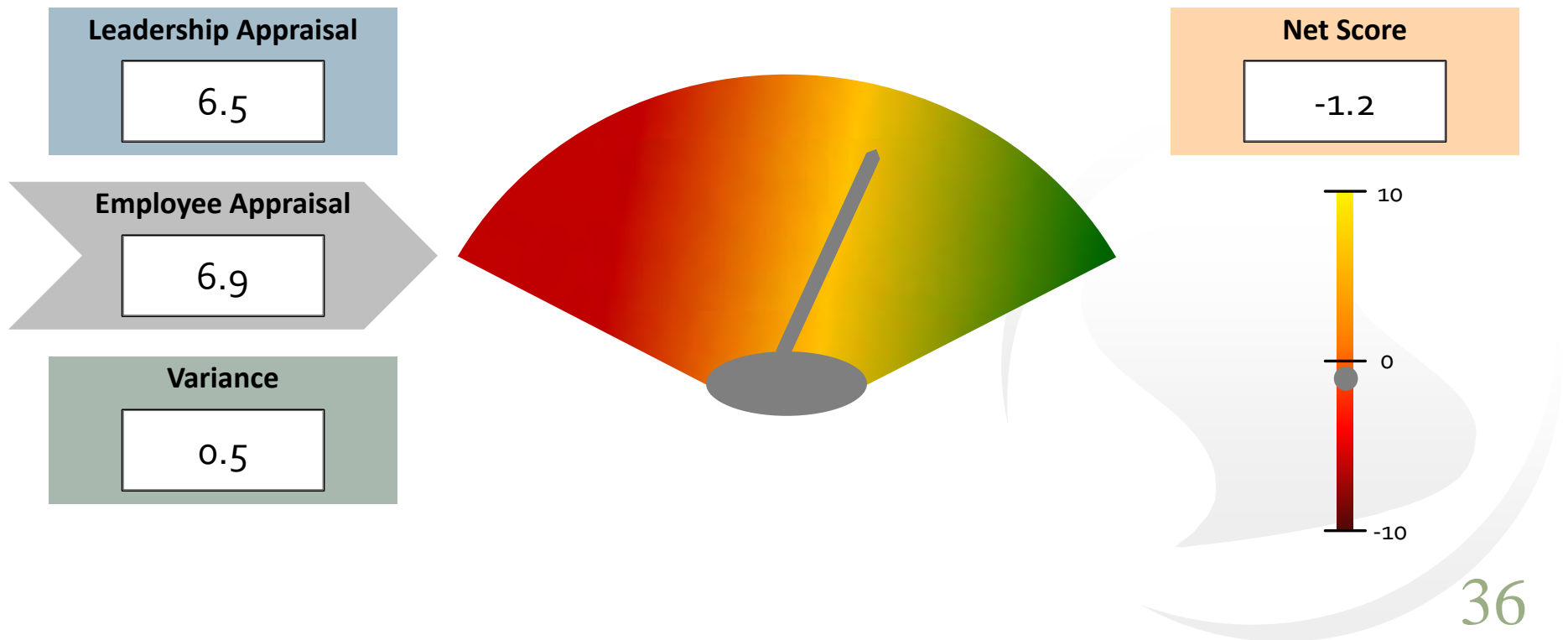


Return on Total Rewards Investment
Measuring Productivity



Productivity

"Do we conscientiously measure and manage employee productivity?" The company's business plan is powered by two essential fuels--capital and people. Shareholders expect (and financial managers measure) return on capital. But great companies also measure "return on people," aka employee productivity. Employees within these companies understand the importance of productivity improvements and respect the fact that their total rewards potential is tied to the same.



How much is the Total Rewards Investment?

- Salaries
- Commissions
- Bonuses
- Deferred award accruals (LTIP)
- Core benefits
- Executive benefits
- Retirement contributions
- Payroll taxes



What return do you get on that investment?

_____%

Start with your Capital Account:

Shareholder's Equity + Debt

**This is the capital you've
committed to the creation of
Future Company**

What is your cost of capital?

Think of this as an opportunity cost; i.e., the fair return on capital left in the business (or borrowed) to be used by management to create Future Company

_____ %

ROTRI™ Example:

Capital Account	\$ 2,000,000
Cost of Capital	12%
Capital Charge	\$ 240,000
NOPAT	\$ 1,000,000
Productivity Profit	\$ 760,000
Total Rewards Investment	\$ 4,500,000
ROTRI™	16.9%

(ROTRI = Productivity Profit/Total Rewards Investment)

Poll #3

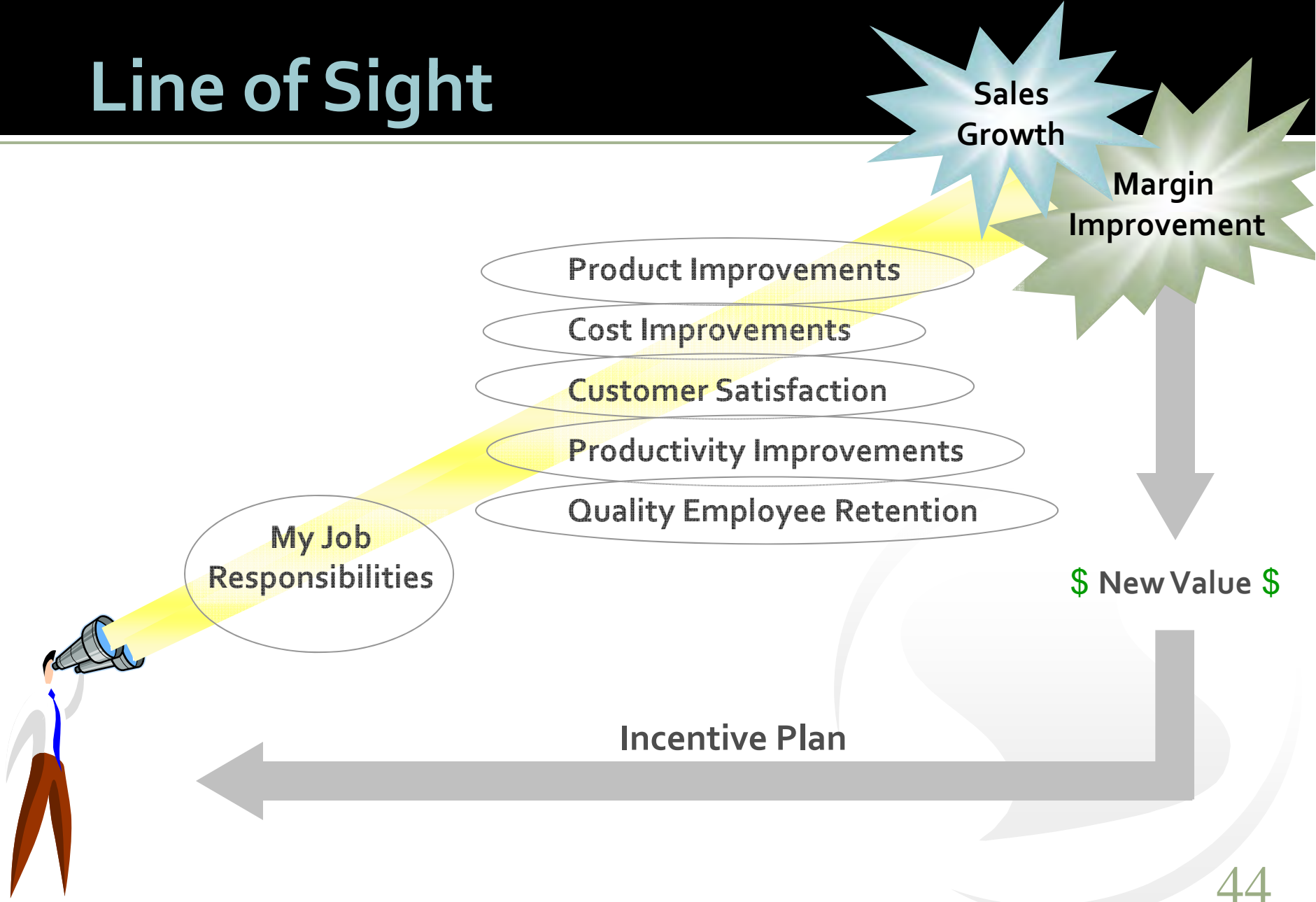


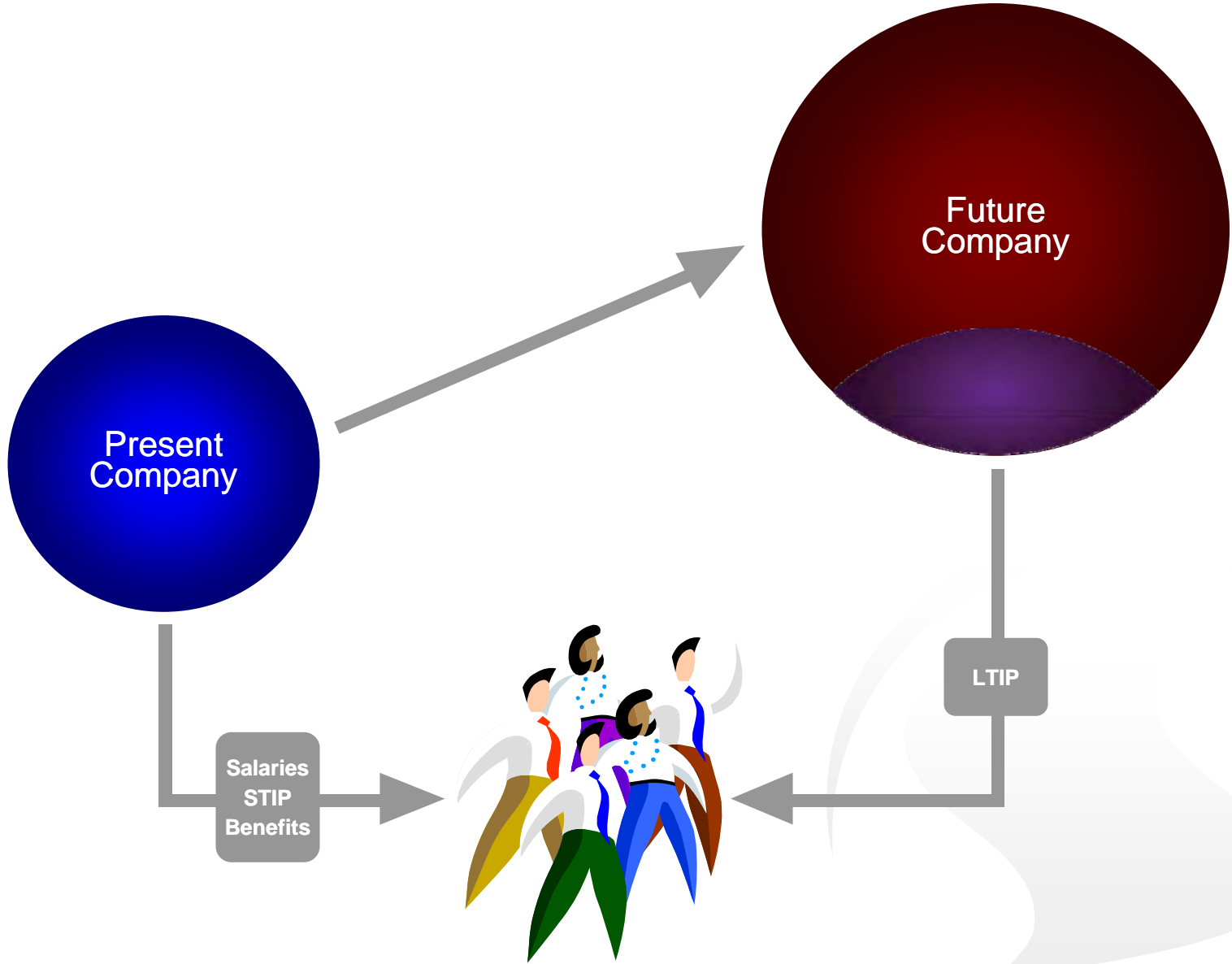
The Ultimate Success Test

Creating Alignment

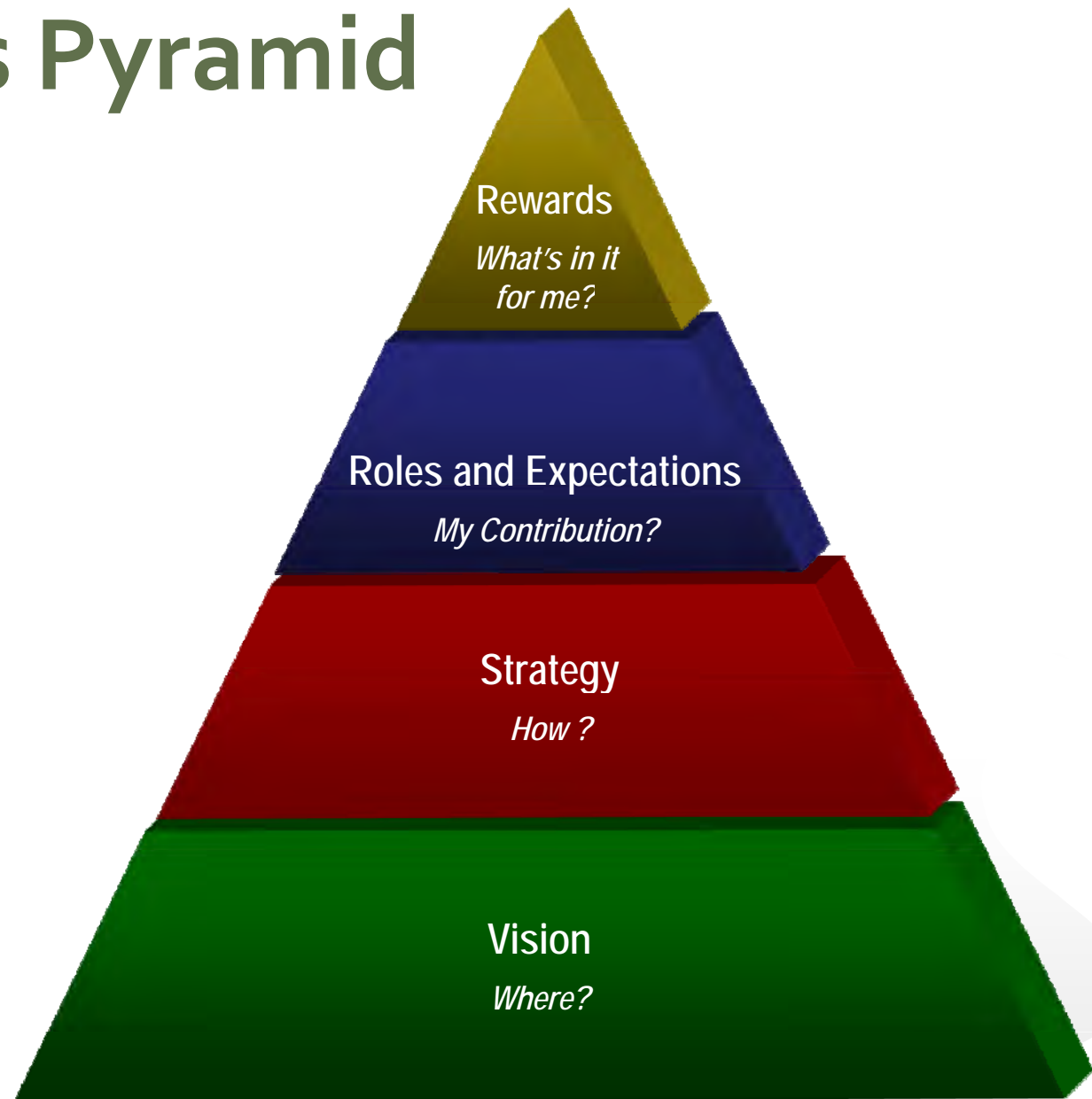


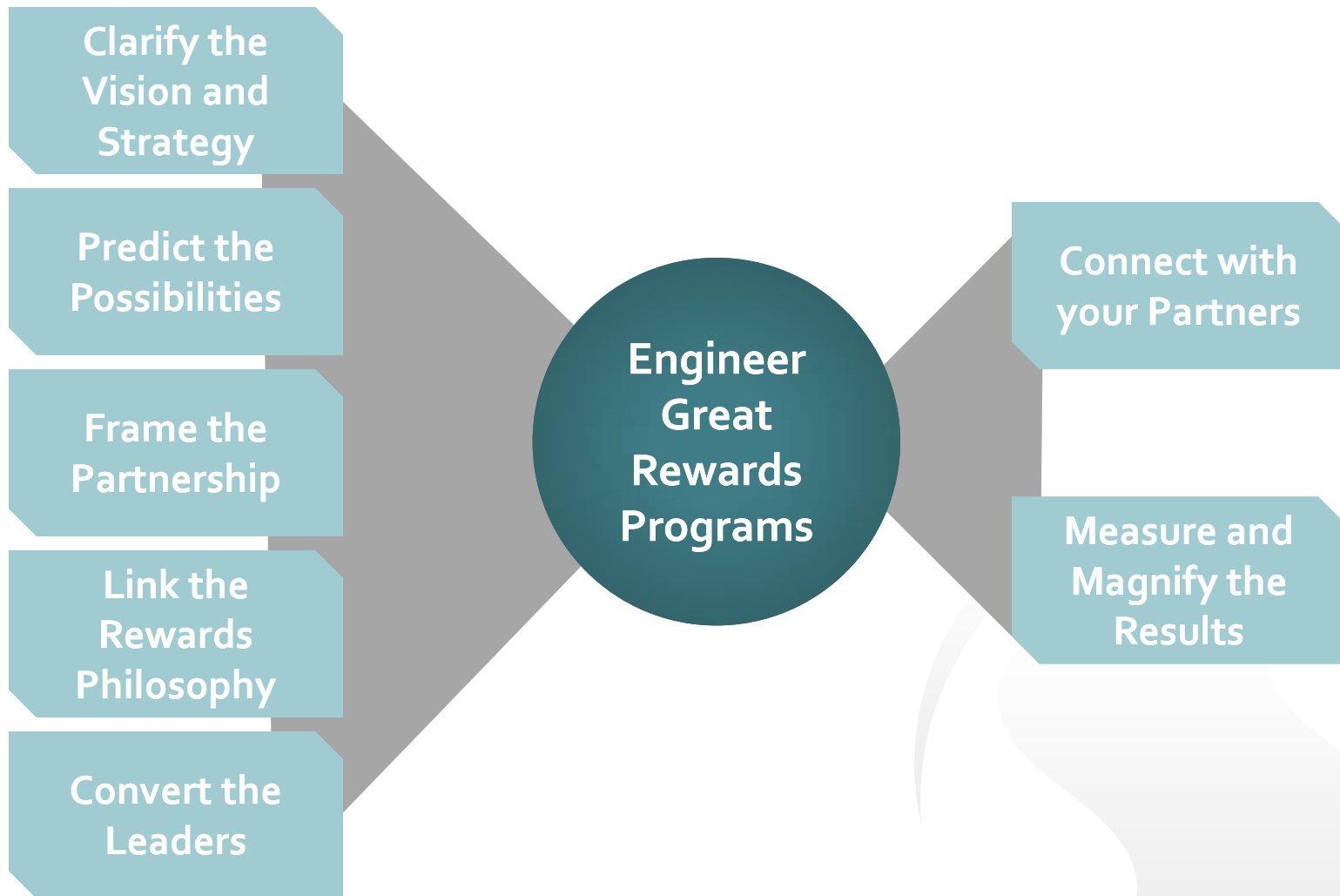
Line of Sight





Rewards Pyramid





Next CPE Course:

“Mr. Owner, Can I Have Equity Too?”

To be held on:
Thursday, January 19, 2012

If you have three or members that can attend, we will make a specific presentation just for your firm on a mutually agreed upon date.
(Indicate interest on survey.)

Next Public Webinar:

“What Think Ye of Phantom Stock? Does it Work?”

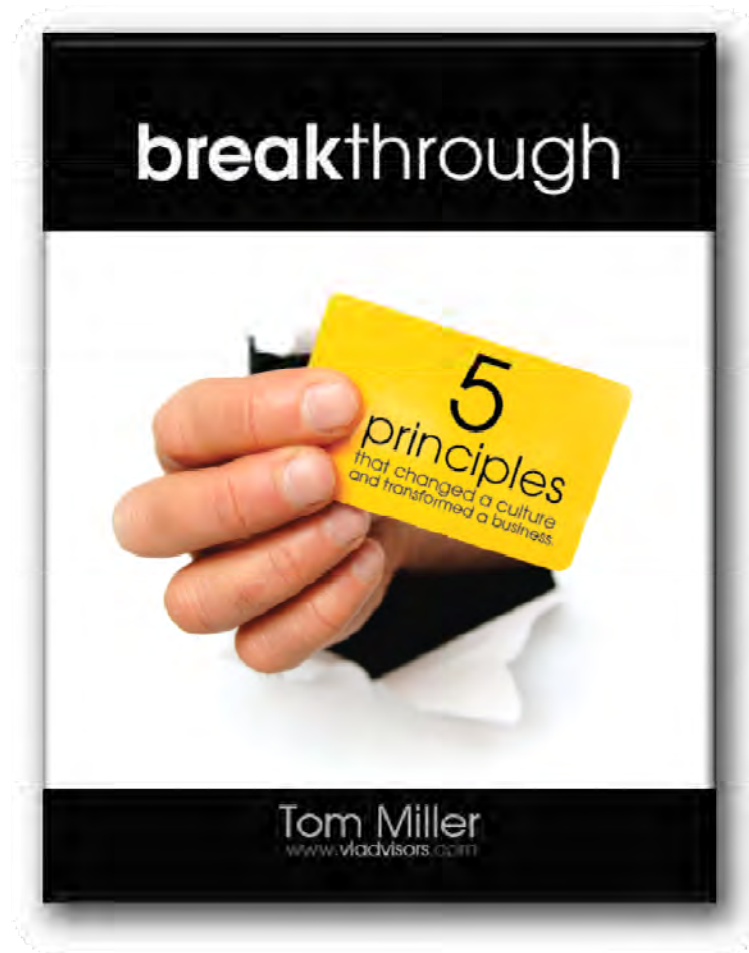
To be held on:
Tuesday, December 6, 2011

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 consists of a blue circular icon with a white shape inside, followed by the text "THE VISIONLINK ADVISORY GROUP". To the right of the logo is a "CLIENT login" section with fields for "User:" and "Password:" and a "Login" button. Below the login section is a phone number "(888) 703 - 0080" and social media icons for RSS, Facebook, Twitter, and LinkedIn. A dark blue navigation bar contains the following links: 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 background image of a man in a suit. On the left side of the banner are three dark blue buttons: "Incentive Plans", "Think Like Owners", and "Top People Management". In the center of the banner is a lightbulb icon and the text "How Do I Get My Employees to Think Like Owners?". Below the banner is a section titled "Strategic Compensation Development and Management Firm" with a sub-headline "VisionLink enables mid-market companies to achieve". To the left of this section is a form for a webinar invitation list with the text "Join our webinar invitation list: Please enter your email address:" and an input field.

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Questions?

Thank you for attending

Please complete our survey form immediately following our presentation.

This will be counted as a monitoring event.

You may also request a copy of the slides, course syllabus/summary and a CD of today's presentation

Thank You!



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