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# “Does Your Compensation Strategy Drive or Hinder Growth?”



THE VISIONLINK  
ADVISORY GROUP

Today's Presenter:

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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

# Objectives

- Understand what drives business growth
- Explore why businesses want to grow
- Introduce concept of wealth “multiplier”
- Define strategic role of compensation
- Identify elements of a pro-growth rewards strategy



# Future vs. Present



It's three years from now and you're looking back, over the previous three years. What has to have happened for you to feel happy with your progress personally and in your business?

# Economic Outcomes

How would you define the economic results that need to be achieved for that three year vision to be fulfilled?

- Profits?
- Wealth accumulation?



# Initiatives and Performance Factors

What key initiatives need to be successfully launched if that three-year vision is to be realized?



What key performance measures need to consistently improved for that three-year vision to materialize?

# Compensation

It's a year from now and during that period of time you've implemented a compensation strategy that has had significant impact.

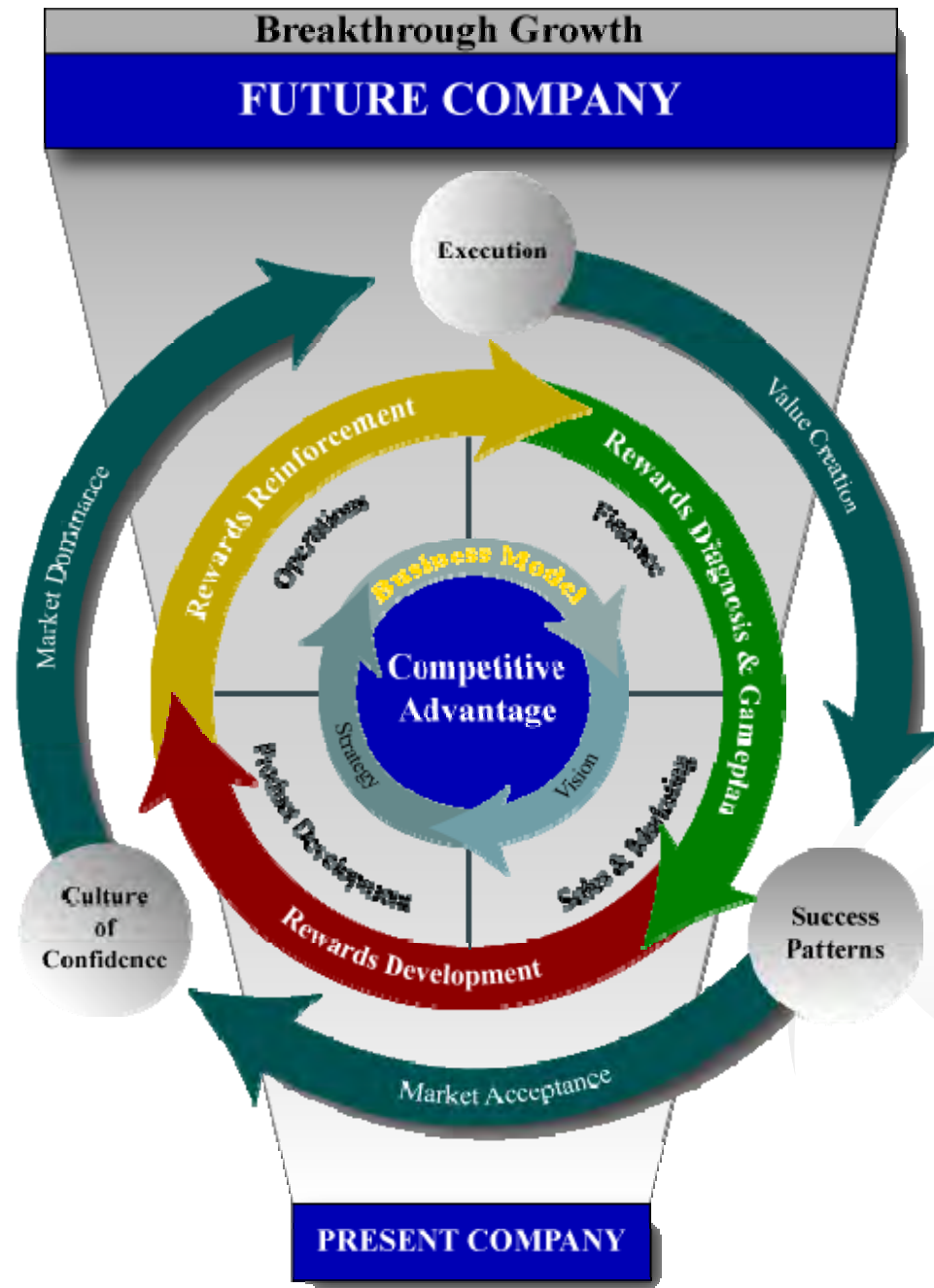
What's different in the organization now and how is it manifest?





So...what drives business growth?





# The Rewards Strategy "Must"



# Purposes of Compensation Plans

- Build a sense of partnership between ownership and the workforce--yes
- Communicate and reinforce the values, goals, and objectives of the company--yes
- Engage employees in the organization's success--yes
- Reward contributors for successful achievements--yes
- Create a unified financial vision for growing the business--yes

However...



# The “Must”

It **must** reinforce the logic of the business **model**, not just the business strategy

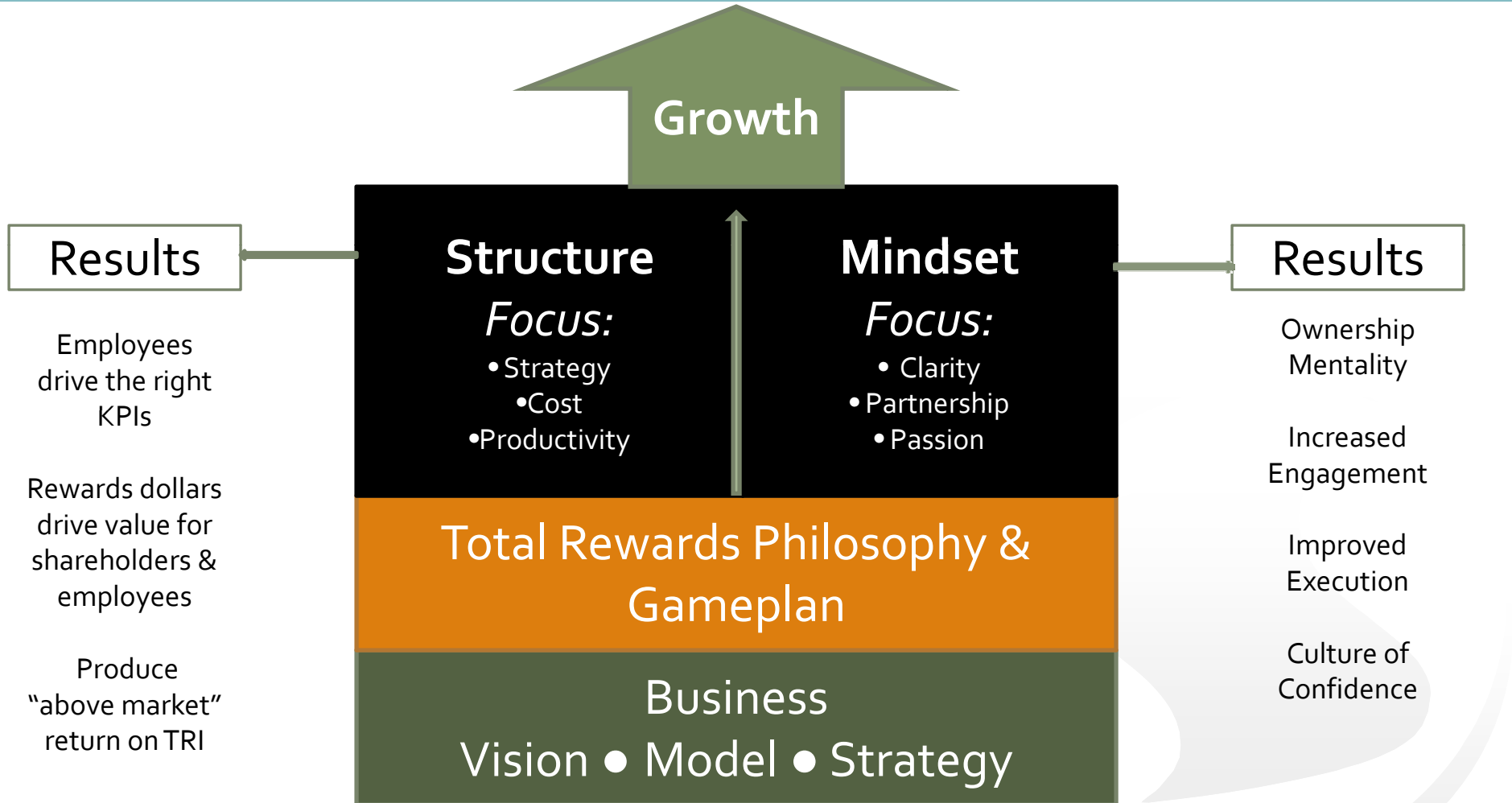


**What are you trying to do when you introduce a new compensation plan?**

**Communicate what's important so execution will align with the business model**

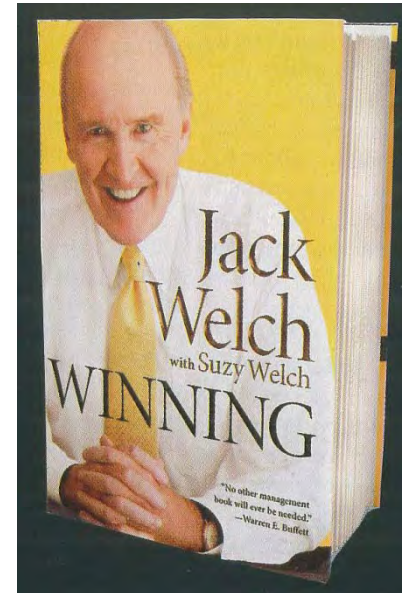


# The Compensation Framework



# Jack Welch

in his book *WINNING*



“Show me a company’s various compensation plans, and I’ll show you how its people behave.”



## Why do You Want Your Business to Grow?

- What level of growth do you seek?
- Do you want to be a *Wealth Creator* or *Wealth Multiplier*?



# Wealth *Creator* vs. Wealth *Multiplier*

## Wealth Creator

- Profitable business
- Modest but successful results
- Focus on shareholder growth



## Wealth Multiplier

- Above market returns
- Breakthrough results
- Focus on growth for all stake holders



# A Difference in Perspective

Wealth *Multipliers* fundamentally view the role of compensation differently than Wealth *Creators*...

Wealth *Multipliers* understand that multiplying the economic value for everyone increases the likelihood their wealth will increase



# ROTRI™ - Return on Total Rewards Investment



# 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?

\_\_\_\_\_ %



# 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%
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(ROTRI = Productivity Profit/Total Rewards Investment)

Current Equity Value	EOY	10% GR (Threshold)	11% GR	12% GR	13% GR	14% GR	15% GR
25,000,000	1	27,500,000	27,750,000	28,000,000	28,250,000	28,500,000	28,750,000
	15	104,431,204	119,614,737	136,839,144	156,356,759	178,448,449	203,426,541
	Incremental increase in value		15,183,533	17,224,407	19,517,615	22,091,690	24,978,091
	Cum Value Increase Above Threshold		15,183,533	32,407,940	51,925,555	74,017,245	98,995,336
	% Shared		10%	15%	20%	25%	30%
	\$ Shared		1,518,353	4,861,191	10,385,111	18,504,311	29,698,601
	Net Increase for SH		13,665,180	27,546,749	41,540,444	55,512,934	69,296,736
	New SH Value		118,096,384	131,977,953	145,971,648	159,944,138	173,727,940
	IRR		10.9%	11.7%	12.5%	13.2%	13.8%



How do you know when a rewards system is hindering growth?



# Hindering

- Key employees think short-term when you need them thinking long-term - or vice versa
- Premier talent leave for a better value proposition elsewhere—greater opportunity
- Compensation programs such as bonus plans are reinvented frequently



# Hindering

- Key employee performance is not improving despite the talent you know is there
- Employees don't seem to understand and/or appreciate their rewards programs
- Key people cannot clearly articulate the expectations and rewards associated with the fulfillment of their roles in the organization



# Creating Alignment Between Leadership and Workforce through Compensation



# CEO Worry List—Focus on The Model



Sales

Productivity

Competitive Advantage

Execution

Talent

Not hitting  
sales targets

Sales not  
growing

**Sales**

Sales cost  
too high



Gross  
profit/employee  
too low

Gross profit  
not improving

Productivity

Headcount  
too high



Market share  
not improving

Return on  
equity not  
satisfactory

## Competitive Advantage

Market value  
not growing





Employees  
lack sense of  
urgency

Innovation  
cycle too long

Execution

Falling short  
of critical  
KPIs



Not employer  
of choice

Turnover  
too high

Talent

Talent level  
below desired  
standard



# Worry List

- No award should be generated unless improvements are made in one or more of these 5 strategic areas— ***all impact business model***
- Must have ways to measure each
  - Sales growth—easy
  - Employee productivity—multiple metrics
  - Competitive Advantage—market share, ROE
  - Execution—critical KPIs, employee engagement
  - Talent—turnover, attraction strength



# Addressing the Worry List

- New value is created (sustainable profits)
- Competitive advantage is enhanced
- Employer of choice
- The culture is all about execution



**There are things going on  
below the surface that  
are hindering your  
execution**

# Alignment

## Action

Clarity • Focus • Rewards

## Attitude

Ownership • Accountable • Commitment

## People

Talent • Vision • Right fit

## Plan

Achievable • Understandable • Compelling

**“Growth” implies different results,  
therefore the pay cannot be  
the same**

# Plan



- Where are we going?
  - Are we headed in the right direction?
- What is our model?
  - What is the formula for our success?
- How are we going to get there?
  - Do we have the best strategy to get us there?



# People

- Can we recruit top tier talent?
  - Anyone we want or need?
- Can we retain them?
  - Is there a long-term commitment?



# Attitude

- Do they have an ownership mentality?
  - Do they own the results?
- Are they aligned with the shareholders?
  - Are their rewards at risk?



# Action

- Are employees focused on daily execution?
- Do we reward for performance?



# Eight components of pay

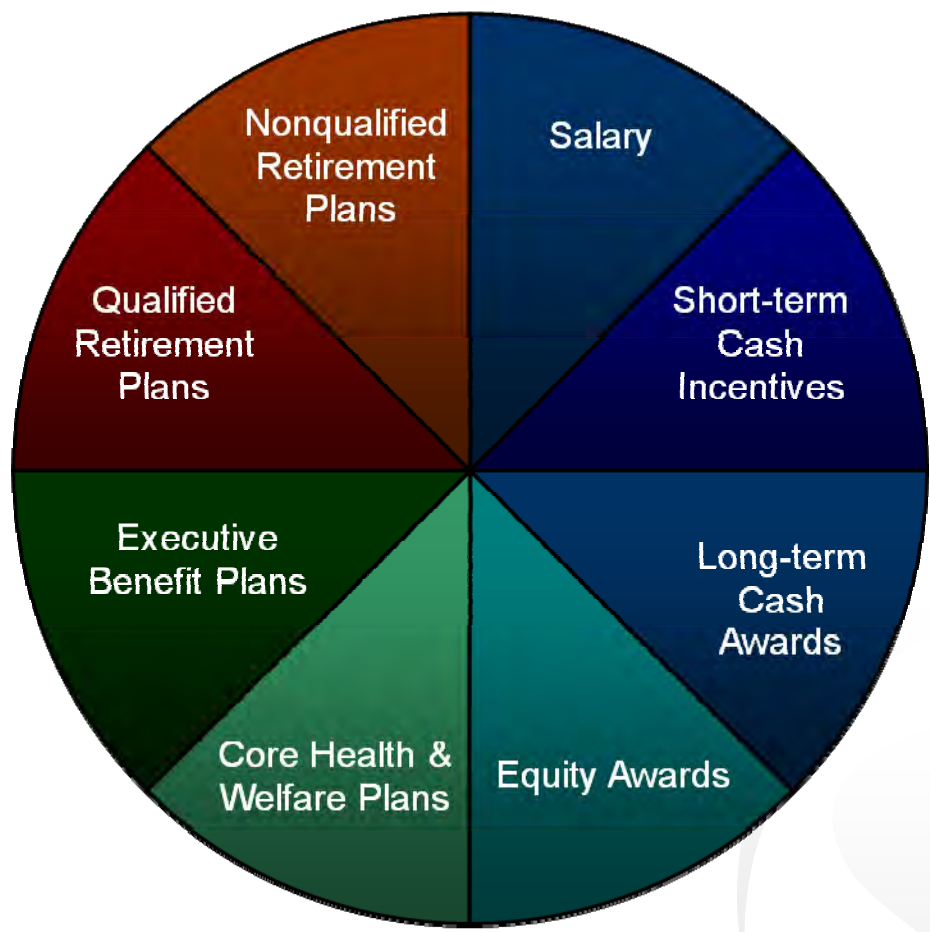
## Benefits

- Core benefits
- Executive benefits
- Qualified retirement plans
- Supplemental retirement plans

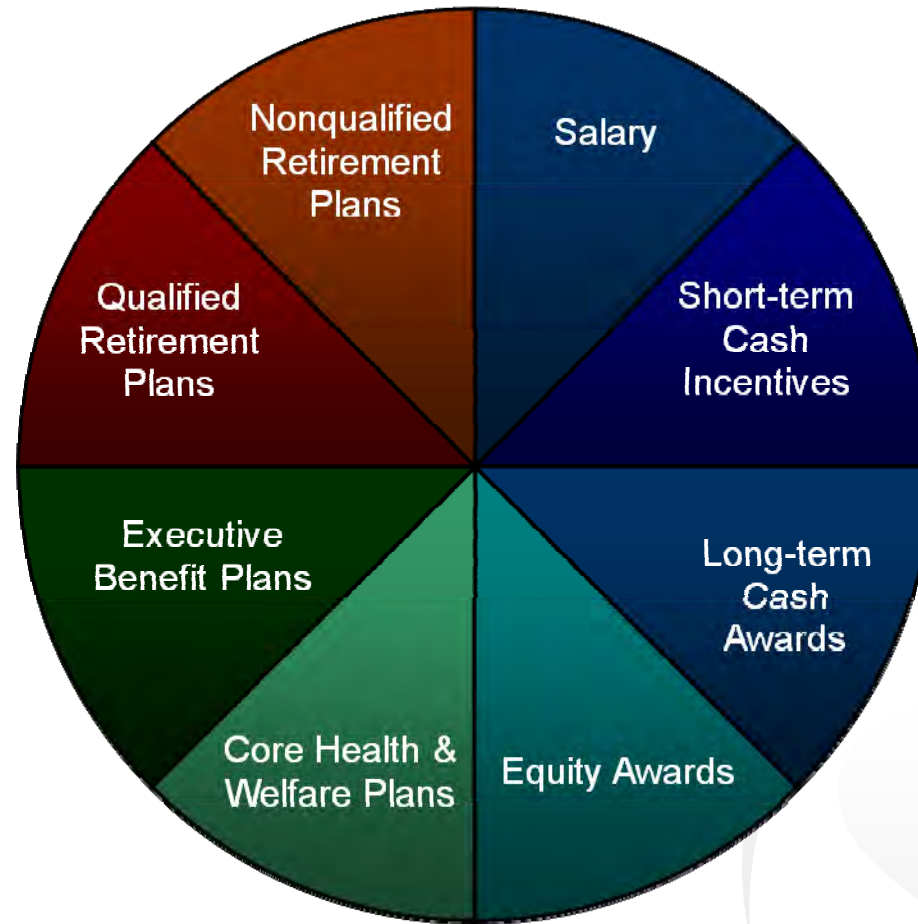
## Compensation

- Salary
- Short-term incentives
- Long-term incentives (cash)
- Long-term incentives (equity)

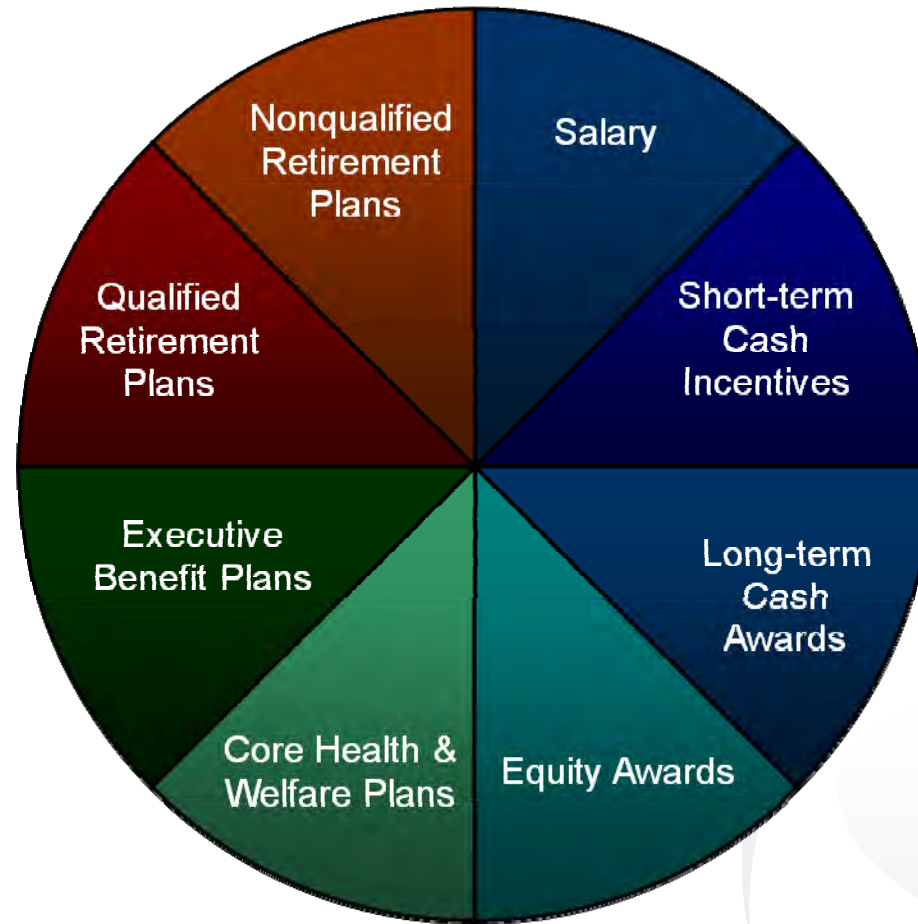




# How do these slices differ?



# When they're paid



**And whether they're received (how much they'll be worth when received)**

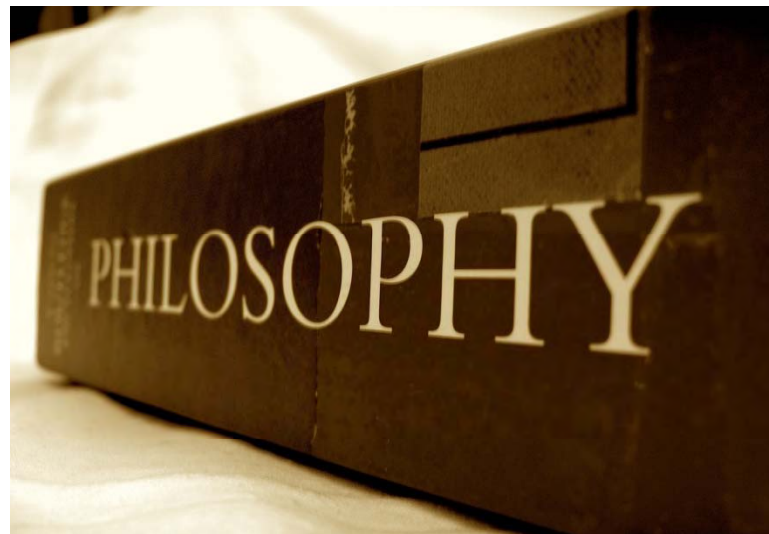


Form of Pay	Purpose	Standard	Investment	ROI
Salaries	Provide for the current cash needs of our executives	40-50th percentile for peer group	\$500,000	Achieve ROA standard of 0.75%
Short-term Incentives	Enhance current cash payments to executives for achieving top and bottom line annual goals	30-40% of base salary	\$168,000 (Target)	15% revenue growth and 12% margin
Long-term Incentives (Cash)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Long-term Incentives (Equity)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Core Benefits	Meet basic security needs of the executives	50th percentile for peer group	\$25,500	ROA of 0.75%
Executive Benefits	Enhance basic security needs and meet market standards for perquisites	50th percentile for peer group	\$24,000	ROA of 0.75%
Qualified Retirement	Provide wealth accumulation opportunity for executives	40th percentile (3% of salary)	\$15,000	ROA of 0.75%
Supplemental Retirement	Strengthen rewards value proposition to help recruit and retain executives; meet wealth accumulation needs	30th percentile compared to banks that have plans	\$135,000	ROA of 0.9%



# Fundamental Philosophy

Fair salaries, strong benefits, great upside for short- and long-term growth and profitability. We share the economic value our employees help create.



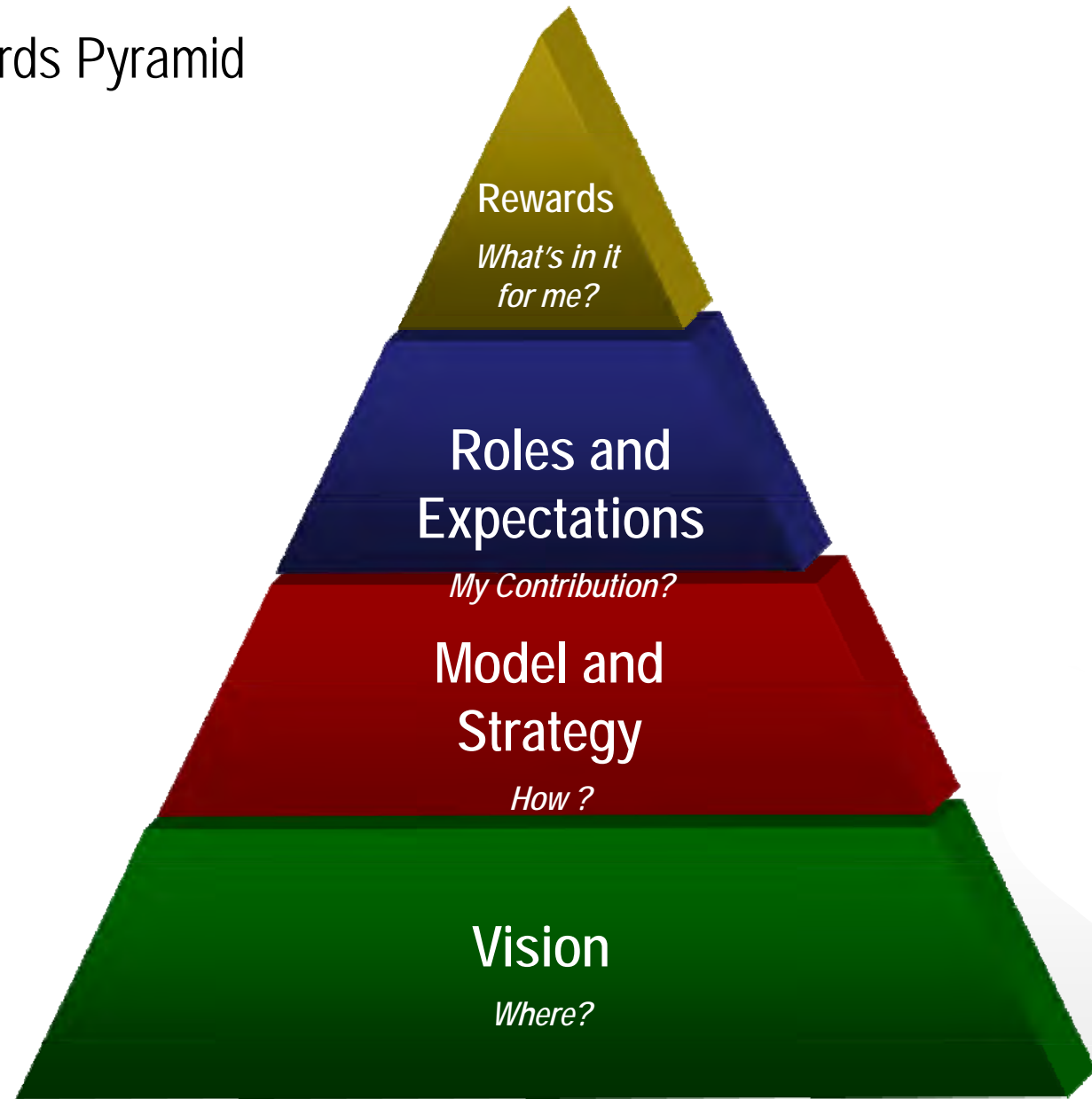
# Employee Value Statement

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

**How do you know a Rewards System  
is properly focused?**



# The Rewards Pyramid





**Total Rewards**

**Sustainable  
Cash Flow**

**Security**

**Wealth Accumulation**

**Salary / STIP**

**Benefits**

**Retirement / LTIP**

**Confidence in Lifestyle**

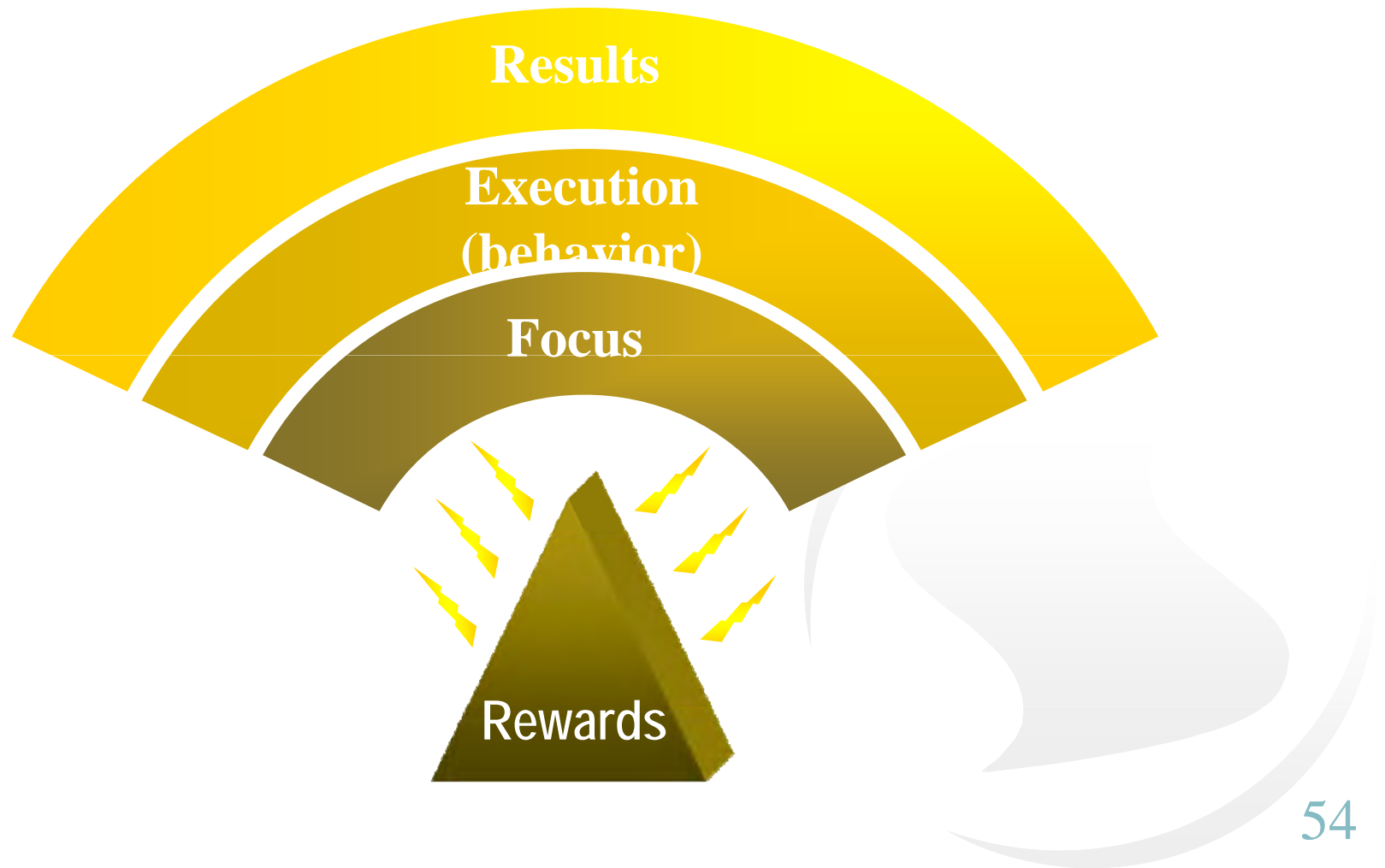
**Participation in  
Value Creation**

**Ownership Mentality  
Line of Sight  
Deferred Gratification  
Win Talent Wars  
Self-financing  
Abundance Mentality**

**Sustainable Growth**

**Culture is Competitive  
Advantage**

# Rewards to Results



# First Step

- Alignment Appraisal™
  - A focused look at your current practices with a comparative eye on whether your company is building a “Unified Financial Vision for Growing the Business”
  - Process—online employee survey

# Quantitative and Qualitative Assessment

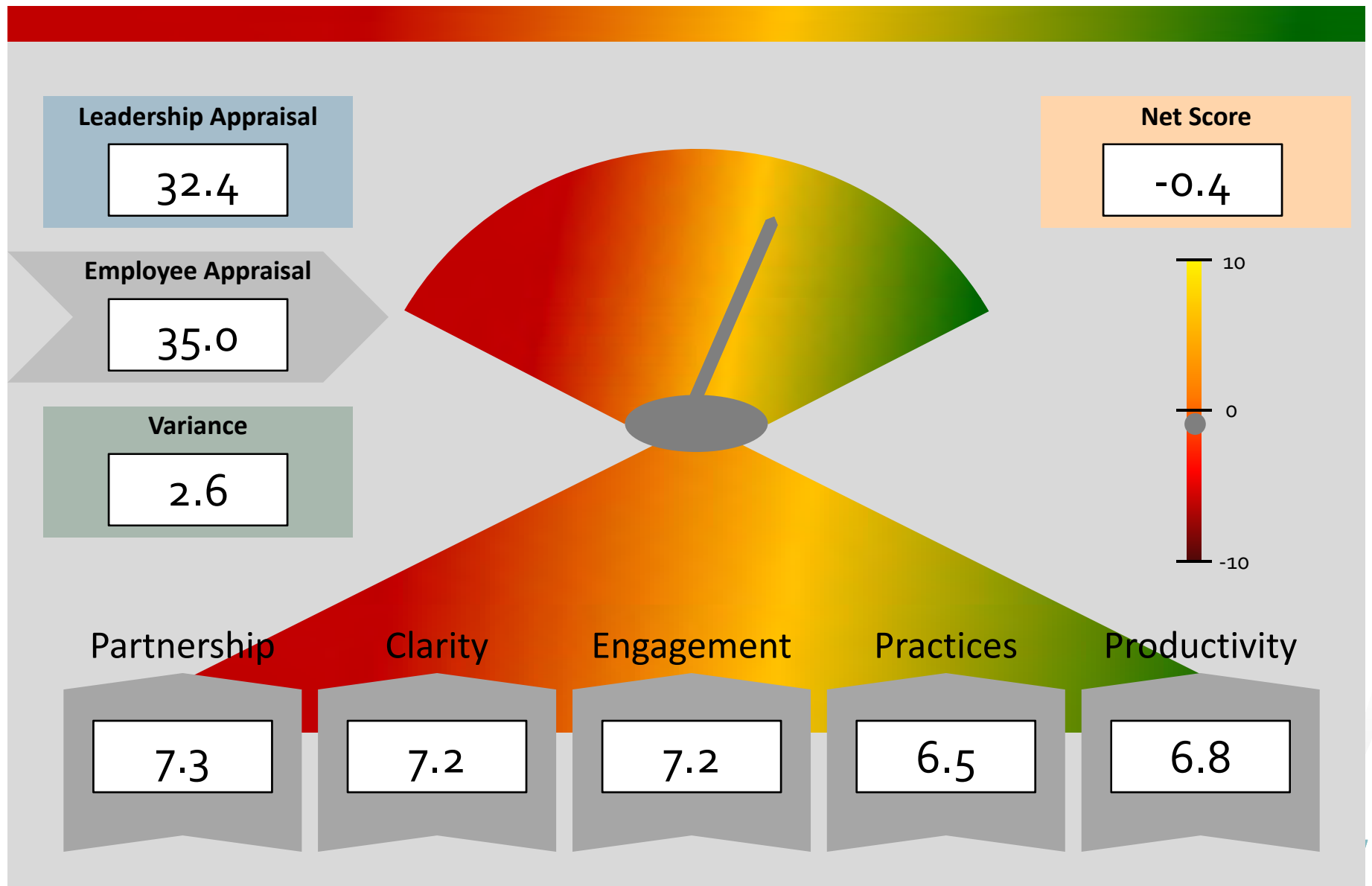
## The Alignment Appraisal™

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?



# Alignment Appraisal Index = $70^*$ / $-0.4$

\*Scale of 100



# Next Online Seminar:

## **“Can You Reduce Pay Costs without Reducing Productivity?”**

To be held on:  
Tuesday, April 26<sup>th</sup>, 2011

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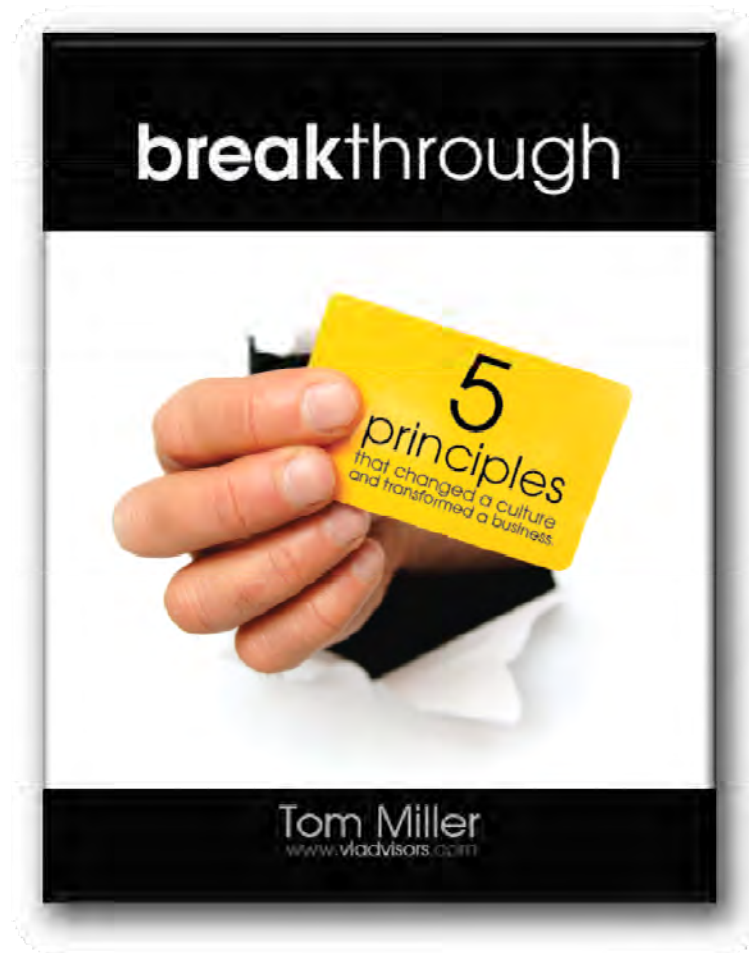
**Strategic Compensation Development and Management Firm**

VisionLink enables mid-market companies to achieve greater execution and productivity from key talent through pay-for-performance compensation strategies. Our work helps businesses instill an ownership mentality.

"VisionLink arrived on the scene just in time for us. We needed a new framework for our short-term and long-term incentive plans. VisionLink's"

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# 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!



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