

June 26, 2012

“Creating an Ownership Mentality Without Giving Away Equity”



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

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Information will be provided at the close of the
presentation.

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Today

- A few thoughts about building and sustaining an ownership mindset
- How to share long-term value without giving away equity
- Where to begin



Ownership Mindset = Engagement

- Organizations with high levels of engagement (where 65% or more employees are engaged) outperformed the total stock market index even in disruptive economic conditions.
- During 2009, total shareholder return for these companies was 19% higher than the average total shareholder return. On the other hand, companies with low engagement (where less than 40% of employees are engaged) had a total shareholder return that was 44% lower than the average.

Source: Hewitt

"Mindset"

Entitlement



Whatever



Ownership



“Ownership”

- *“I understand the company's goals and my responsibilities.”* **(Clarity)**
- *“I believe we (the company) will achieve the goals.”* **(Belief)**
- *“Achievement of the company's goals is important to me.”* **(Meaning)**
- *“I see how I can make a contribution to the achievement of the company goals.”* **(Contribution)**
- *“I see the connection between the company's goals and the achievement of my own goals.”* **(Partnership)**

Signs of an Entitlement Mentality (from a comp perspective)

- Generally, employees have not yet learned that value is only earned as value is created.
- Company not experiencing desired growth yet employees expect salary increases.
- Employees feel they “deserve” stock or similar reward.
- The company has a history of paying bonuses without concrete performance standards
- Long-time employees have a "tenured" mentality.



Pay Practices that encourage an Entitlement Mindset

- Annual bonuses are paid each year without a structured, tested formula for determining payouts.
- Incentive plan schedules don't correspond with critical performance thresholds (e.g., incentives are paid based on individual performance even during periods of unprofitability)
- There is no rewards philosophy in the organization that guides decisions about pay.



The “in-between” mindset: *“Whatever!”*

- Employees believe their pay will not be dramatically impacted by personal performance.
- They don't see their personal goals aligning with the company's goals (if they even understand the company's goals).
- They may enjoy their jobs but are not enthusiastic about their personal contribution to the future company.
- Employees are susceptible to influence by those with an Entitlement Mindset (Leadership has not captured their hearts and minds).
- They hear a lot about “change” but it rarely occurs.

"Mindset"

Entitlement



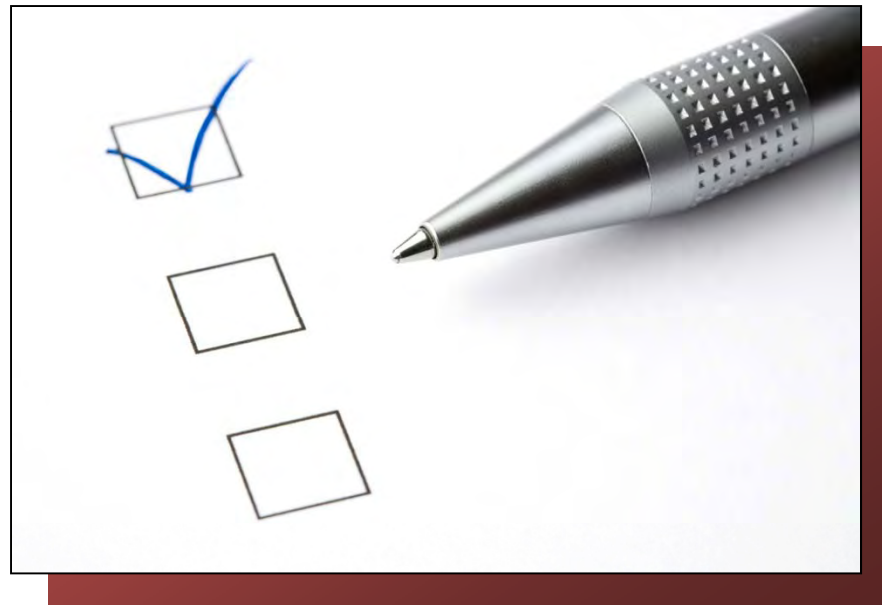
Whatever



Ownership



Poll



With an Ownership Mindset

- Accountability increases.
- Productivity gains are considered standard topics for discussion.
- Pay structure is tied to a written philosophy that is tied to the business plan.
- Incentive awards (bonuses) are expressed as a sharing of value created.



6 steps to an Ownership Mentality



Communicate a Compelling Future

- What will the company look like?
- What will it do?
 - How will that be different from what we do now?
- How big will it be?
- How will it create external value?
- How will it create internal value?
- Why is this compelling?

Present a Clear Path

- A future becomes more compelling when the path to its fulfillment is clearly laid out and defined.
- Companies that are ambitious about growth must be able to match their vision definition with a strategy statement and accompanying business plan.
- Employees need to be able to see that the path to the company's future is not only clear, but achievable.



Define Opportunities

- Talented employees want to know where they fit in.
 - *"What is my role and what is expected of me? How will my unique abilities be applied and magnified?"*
 - *"Where are my opportunities for growth?"*
 - *"How does the company recognize and reinforce creativity, innovation and extra results?"*

Nurture Openness

“Invested employees” emerge in cultures that foster open channels of communication. Employees can’t be expected to think like owners if they don’t know what ownership is thinking about.

Organizations that do this successfully communicate about critical issues relating to the economics of the business:

- Respect for capital investment and risk
- Understanding how growth is financed
- Clarity about profits
- What "down times" look like and how the company should respond



Set Clear Pay Standards

Compensation is a strategic tool that is used (in part) to define roles and expectations, increase focus and execution, and sustain motivation and engagement. A company must develop a philosophy of how it will pay its people and what guiding principles will undergird its rewards strategies.

The starting point in this effort is the development of a rewards philosophy statement:

- *Why do we pay?*
- *How do we pay?*
- *At what level do we pay?*
- *Who participates in each pay component?*
- *How do we share value during good times?*
- *What happens during down times?*

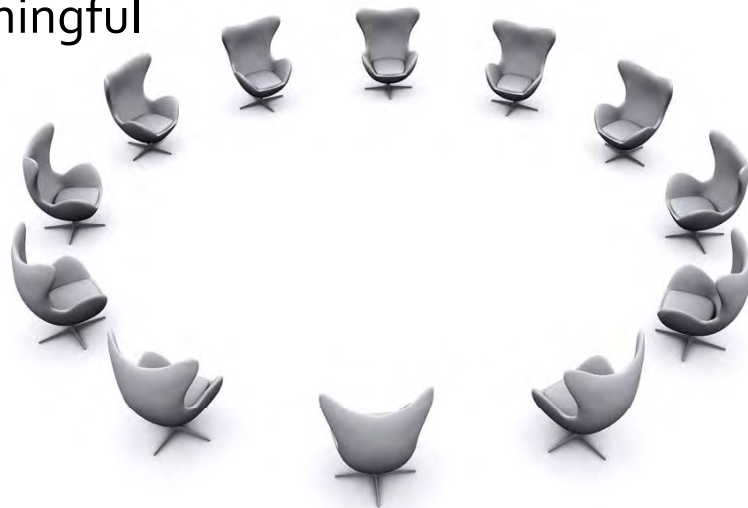


Share the Wealth

If a person financially participates in growth their efforts have helped to create, he or she will feel invested in the success of the future company. When that participation aligns with their personal wealth building objectives, an ownership mentality begins to emerge.

Priorities in this process:

- Place shareholder value creation first
- Make the value that is shared meaningful



4 Quadrants of Employee Fulfillment

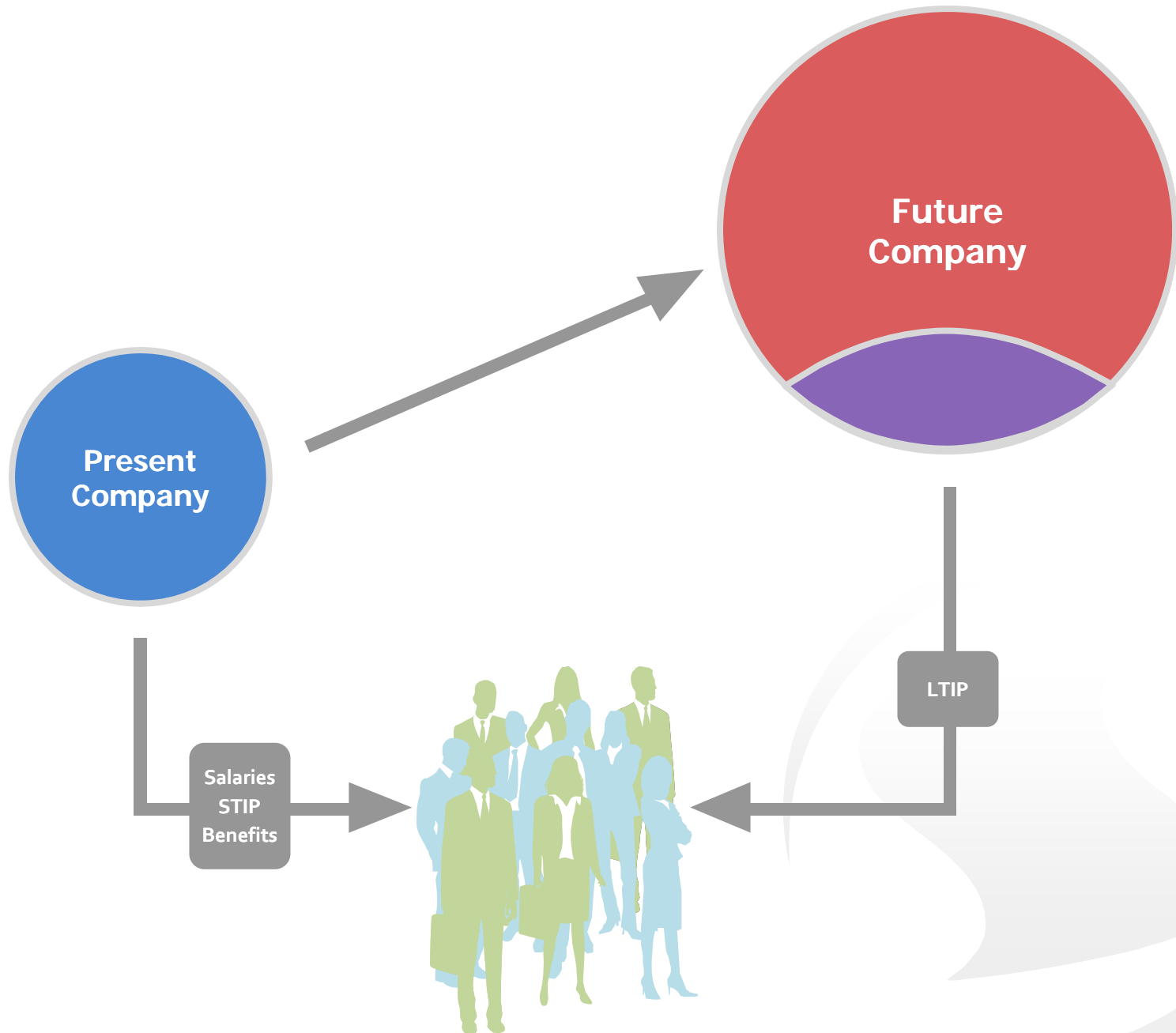


Our term

**A Unified Financial Vision
for Growing the Business**

What Type of Value Sharing Works Best?

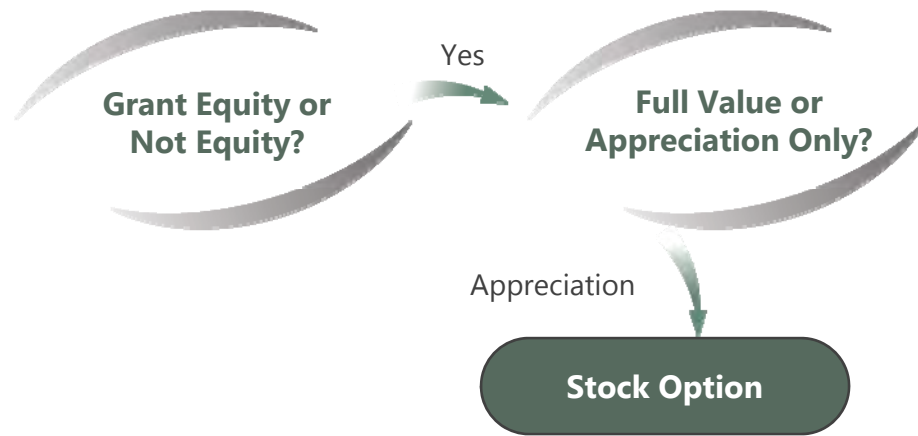






Long-Term Incentive Plan Decision Tree

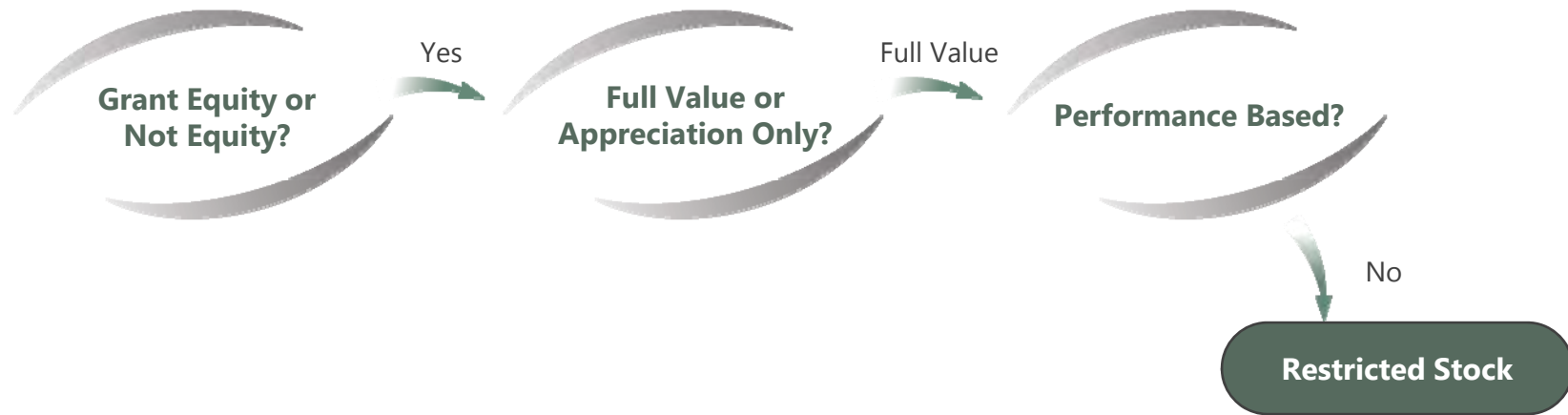




Stock Options



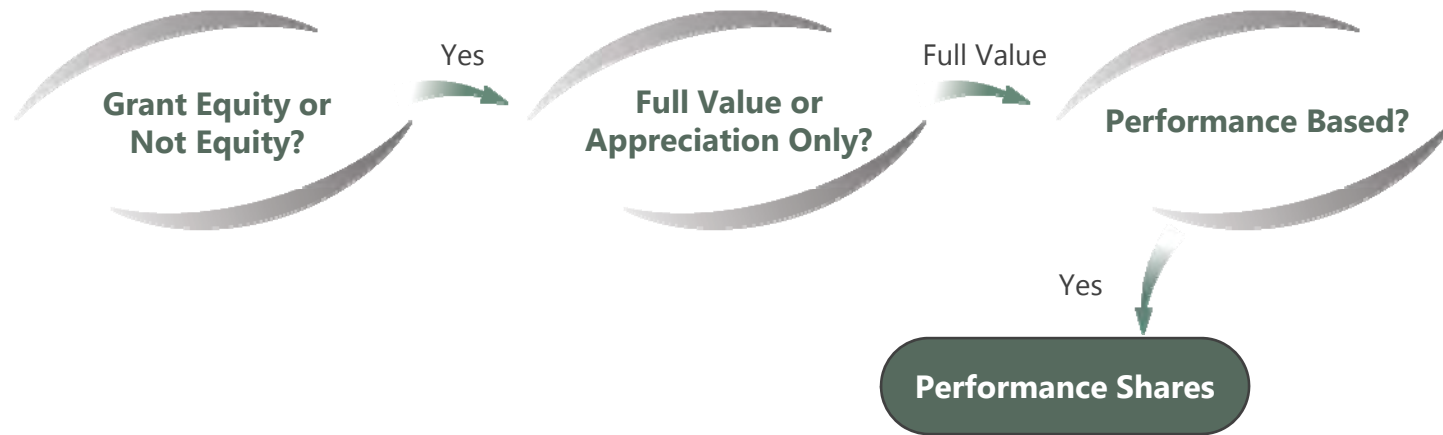
- Employees given a right to purchase stock at a pre-set price
- The right is subject to a time limit and a vesting schedule
- Common in public companies
- Must expense when granted



Restricted Shares



- Employees given actual stock at current value
- Their ability to sell the stock is limited by vesting schedule and market restrictions
- Rewards for past contributions and future growth
- Employees choose to pay tax (ordinary) in year of receipt or when vesting occurs (83(b))
- Full deduction for company in year employee takes into income

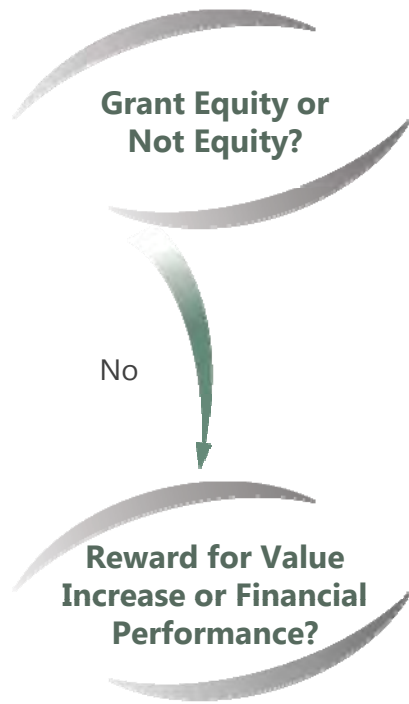


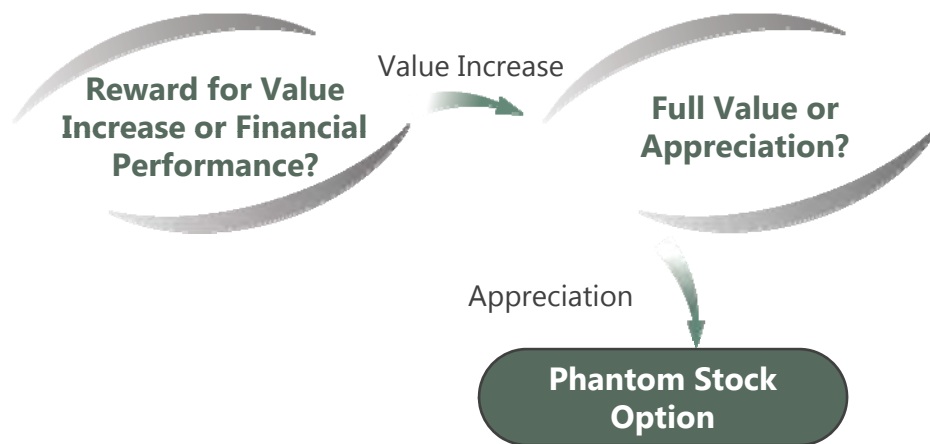
Performance Shares



- Employees given the promise to receive stock upon fulfillment of financial goals
- Shares will be “restricted” once received
- Dilution is “self-financing”
- “Sweat equity” converted to actual equity



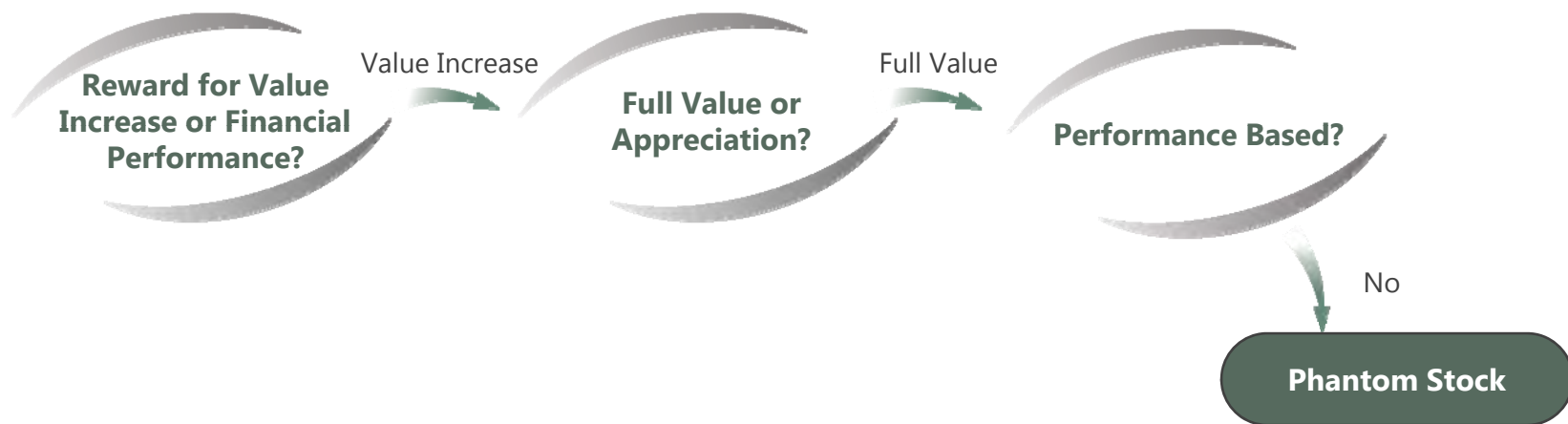




Phantom Stock Options



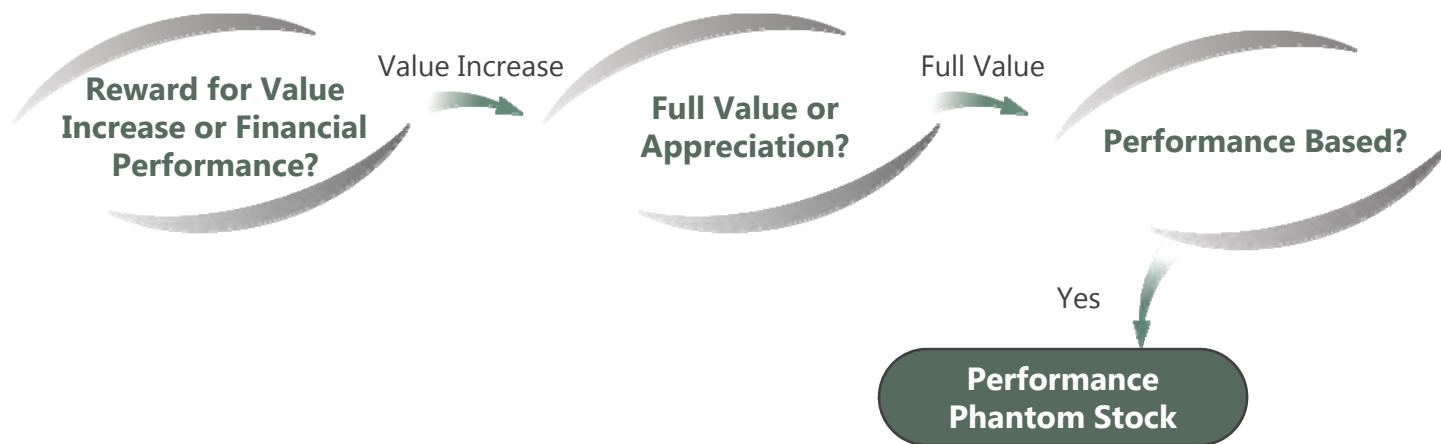
- Employees given a promise of cash payment at a future date
- The value will be based on the appreciation in stock price from the date of award to the date of redemption
- Like a stock option but without the need to pay for shares
- Value will be taxed as ordinary income when received
- Employee not given full control over date of redemption



Phantom Stock



- Employees given an award that has current value essentially equivalent to company stock value (subject to vesting schedule)
- No rights of ownership
- Rewards for past contributions and future growth
- Payments will be made in cash at pre-determined dates
- Full deduction for company in year employee takes into income

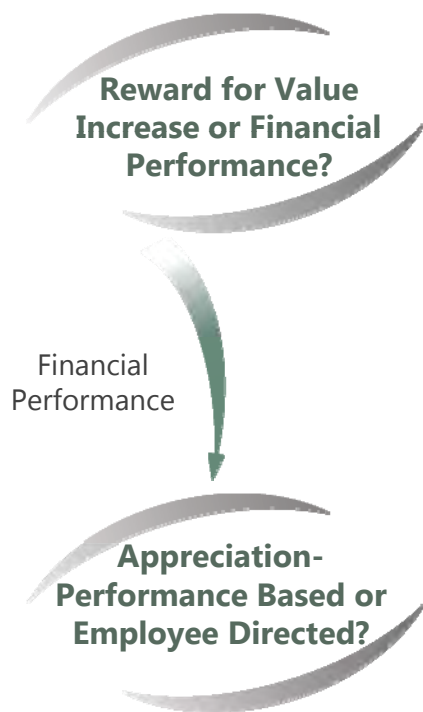


Performance Phantom Stock



- Employees given the promise to receive phantom shares upon fulfillment of annual financial goals
- Shares can be full value or appreciation
- Pay-for-performance concept



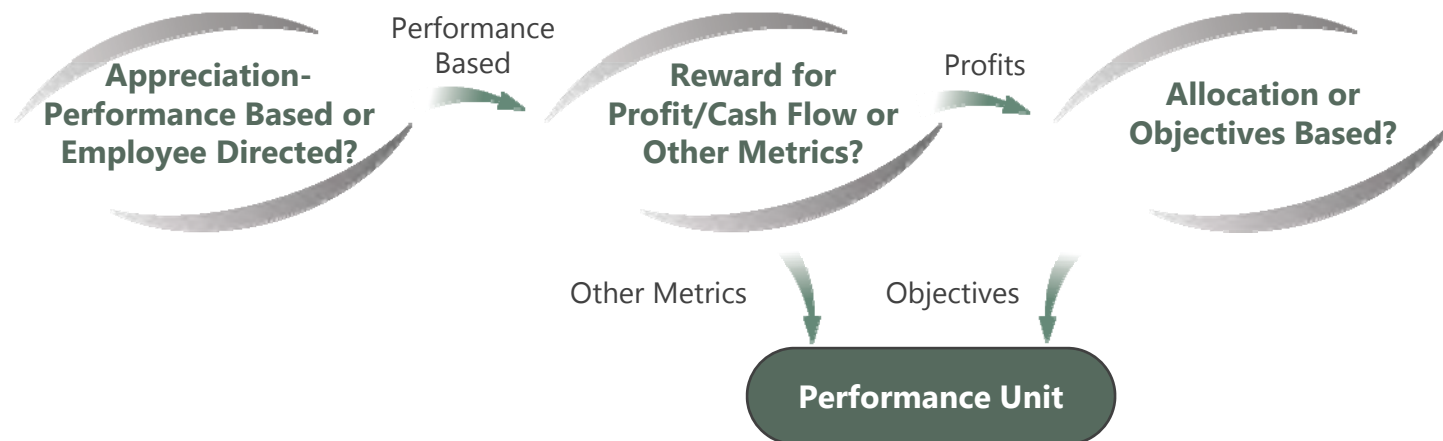




Profit Pool



- Employees given a right to participate in an annual distribution from an accumulating profit pool
- A percentage of profits are credited to a pool that is to be distributed to selected participants in future years
- Selected percentage of the pool allocated to participants
- Typical distributions may begin in year 3 and recur annually
- Productivity Profit concept calls for a reduction in pool for “capital profits” attribution



Performance Unit Plan



- Employees given award units (PUPs) with a current value (e.g., \$100) that will be redeemable in a few years (3 years most common)
- Payment is made in cash at the end of the period
- The value of the PUP at redemption will depend on 2 (or 3) performance metrics
- Value of the PUP may be much higher than starting amount, or much lower (even \$0)
- New PUP cycle starts each year, thus ultimately producing an annual payout

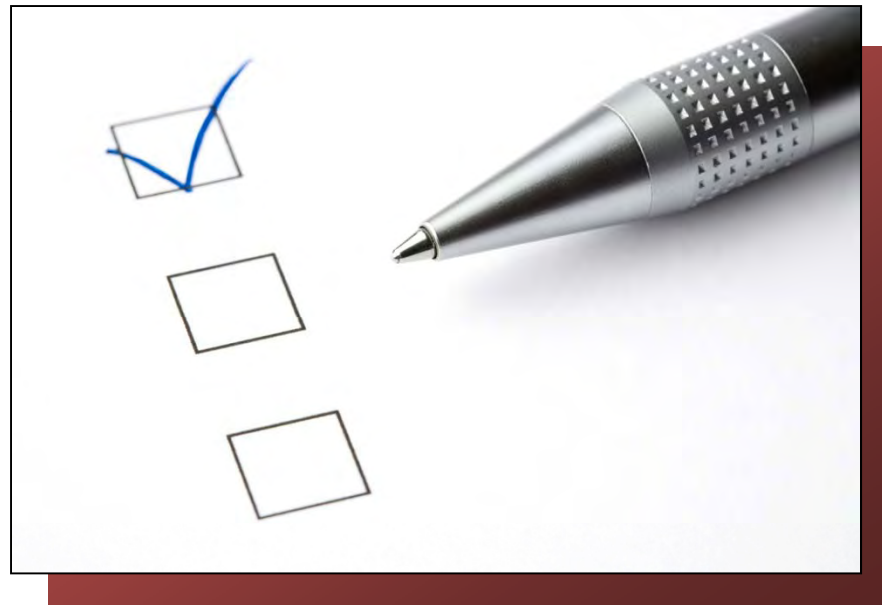


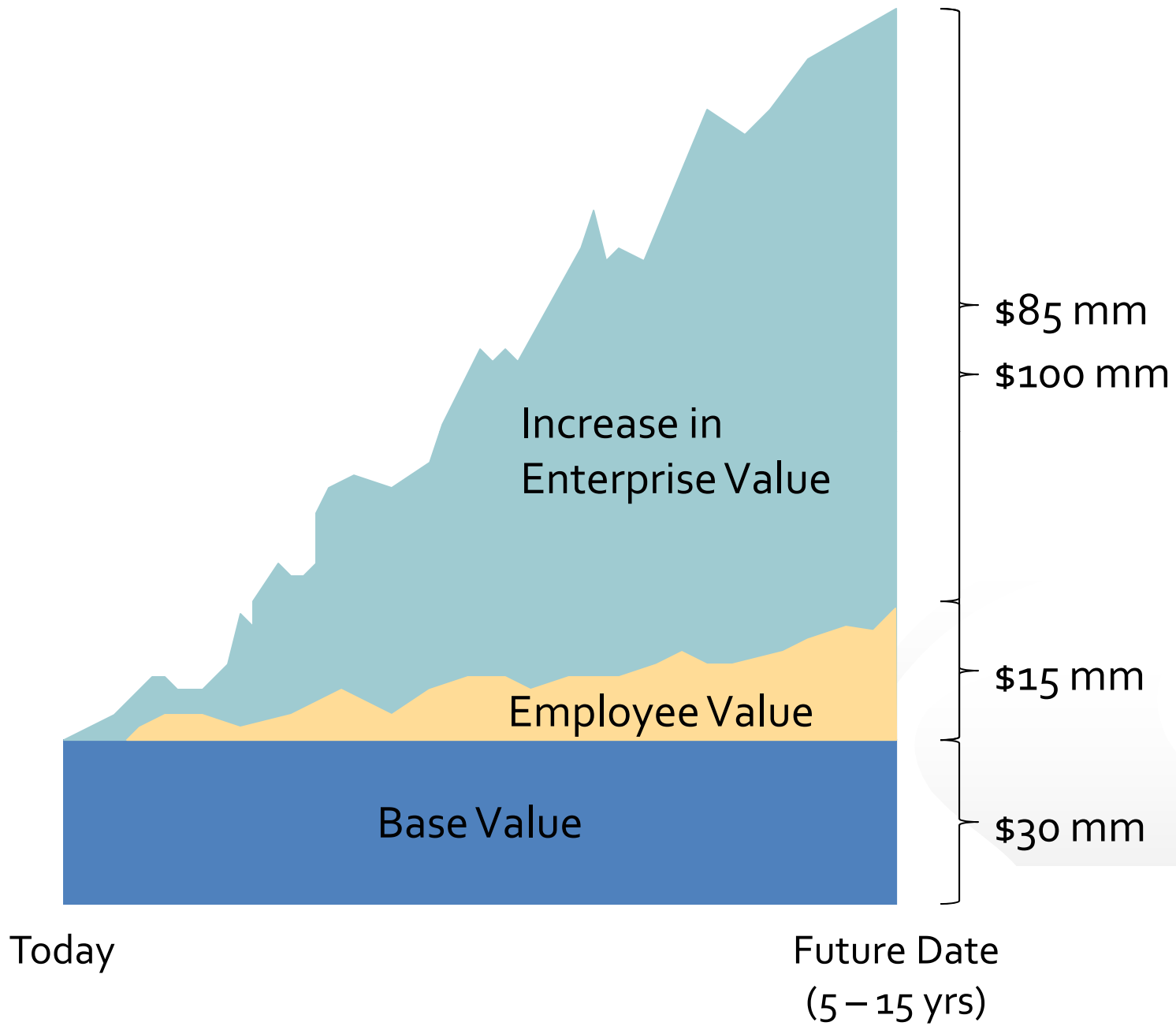
Strategic Deferred Compensation

- Employees awarded a credit to a retirement account
- The amount credited typically varies depending on pre-set company performance achievements (e.g., revenue and/or profit goals)
- The account is “self-directed” so that employee may choose between alternative investment options
- Vested account paid in cash upon termination or retirement
- Employee may add voluntary deferrals



Poll





Sample Participant

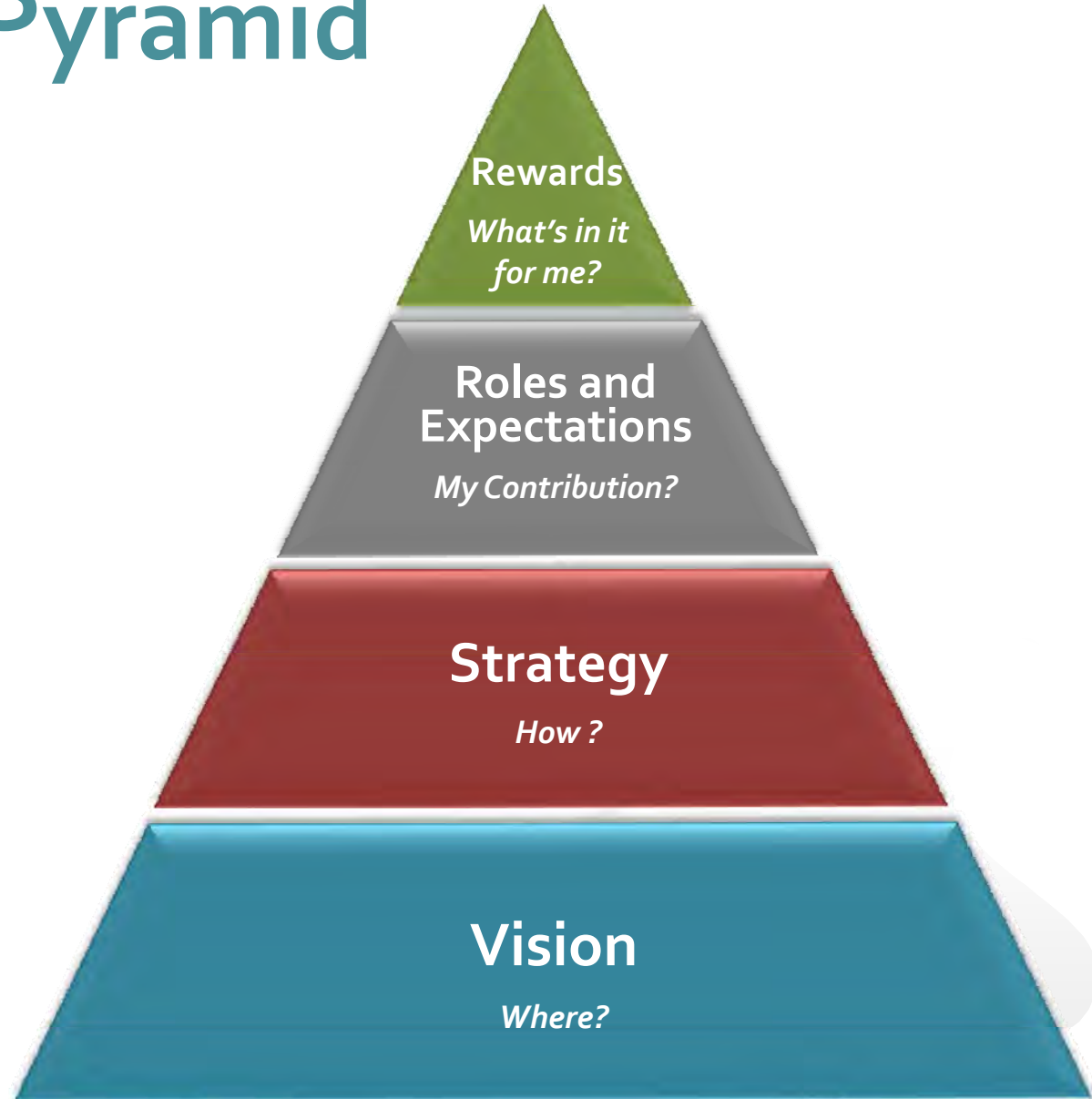
Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000	\$ 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

Sustaining an Ownership Mentality

- Find a good way to measure it—and do so regularly
- CEO should have this on his/her priority list
- Evaluate the company's commitment to the 6 steps
- As far as pay goes: philosophy and practices
- Develop a campaign to communicate and reinforce



Rewards Pyramid



Summary and Conclusions

- Generating an “Ownership Mentality” should be a high-priority step for every organization
- It requires a serious, long-term commitment from senior leadership along with a strategic plan
- Compensation is an important element in the equation
- A long-term incentive plan seals the deal

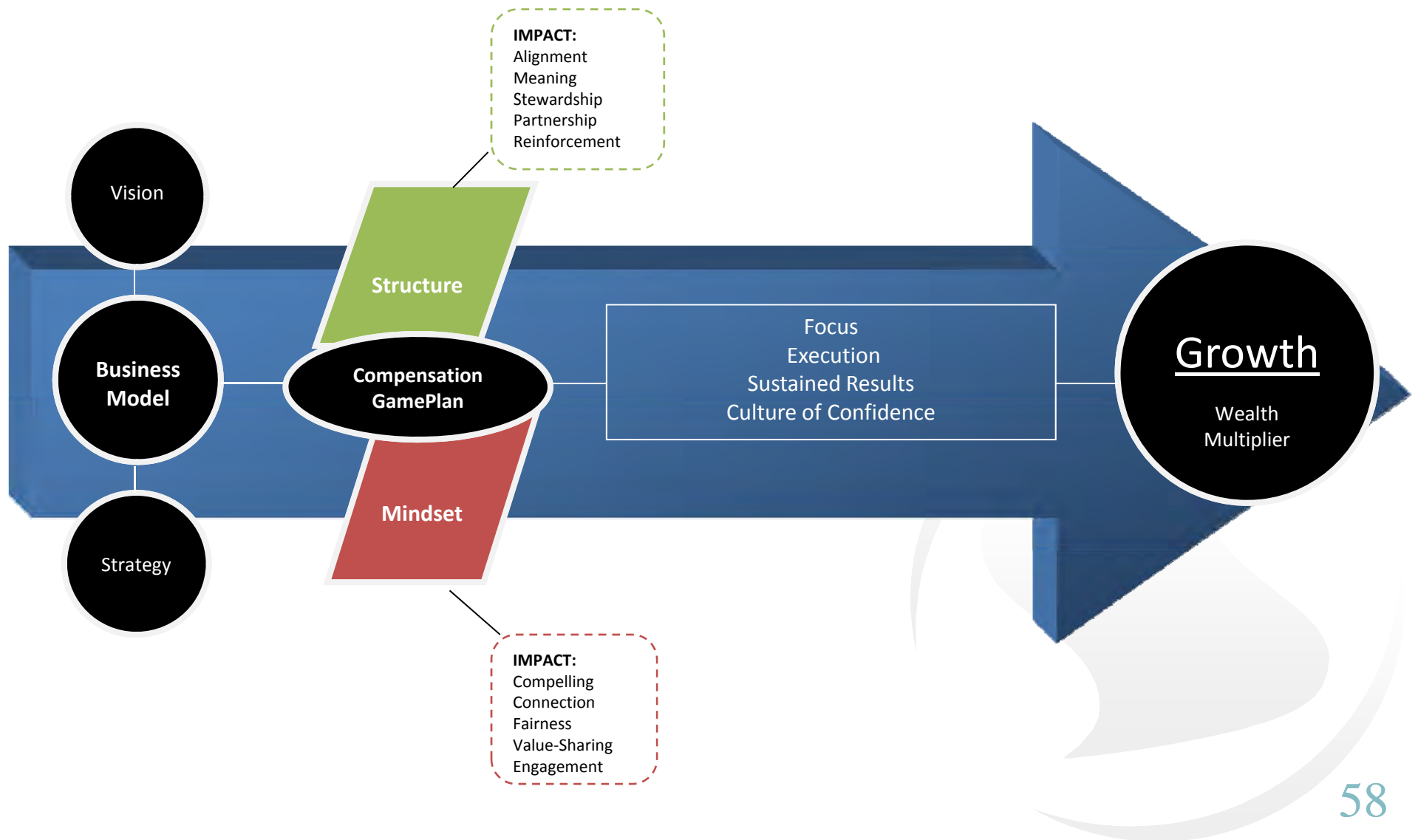
First Step

- 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

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?”
- The AA is broken into two categories: Structure (are we constructing our pay plans in the best possible way?) and Mindset (are we creating the best possible perception of our plans by our employees?)
- Process—simple online survey

Building a Unified Financial Vision for Growing the Business



Compensation Practices (Structure)

The Alignment Appraisal™ assesses the pay philosophy and practices of the company relative to world-class standards.

Alignment



Do we align our pay strategy with our business strategy?

Meaning



Does our pay strategy offer fair and meaningful value to our top contributors?

Stewardship



Are we effective stewards of the compensation investment being made by shareholders?

Partnership



Do the design components of our incentive plans promote a value-sharing, partnership philosophy?

Reinforcement

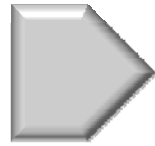


Are we excellent communicators of the value and purpose of our rewards programs?

Compensation Impact (Mindset)

The Alignment Appraisal™ assesses the impact of your pay practices on your employees' perception of how well they fit in your company.

Compelling



Do your employees perceive themselves as belonging to a dynamic organization with a compelling future?

Connection



Do your employees see the connection between company success and personal rewards?

Fairness



Do your employees feel that your pay practices are fair, consistent and purposeful?

Value-Sharing



Are the design components of your incentive plans based on a value-sharing, partnership philosophy?

Engagement



Do your employees feel fully engaged in their jobs?

Structure Index = 52*

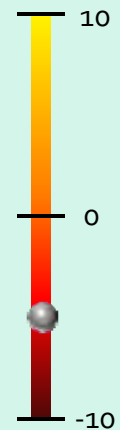
*Scale of 100

Leadership Appraisal

25.9

Net Score

-55.0%



Alignment

6.2

Meaning

5.3

Stewardship

5.8

Partnership

4.8

Reinforcement

3.8

Mindset Index = 60*

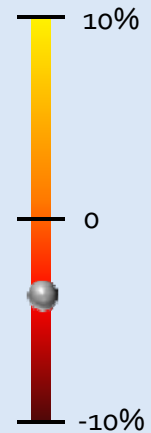
*Scale of 100

Employee Appraisal

30.2

Net Score

-32.0%



Compelling

7.0

Connection

6.4

Fairness

5.4

Value-Sharing

5.0

Engagement

6.4

Special Offer

This Appraisal is typically \$1,800.

For today's webinar attendees only:

No cost

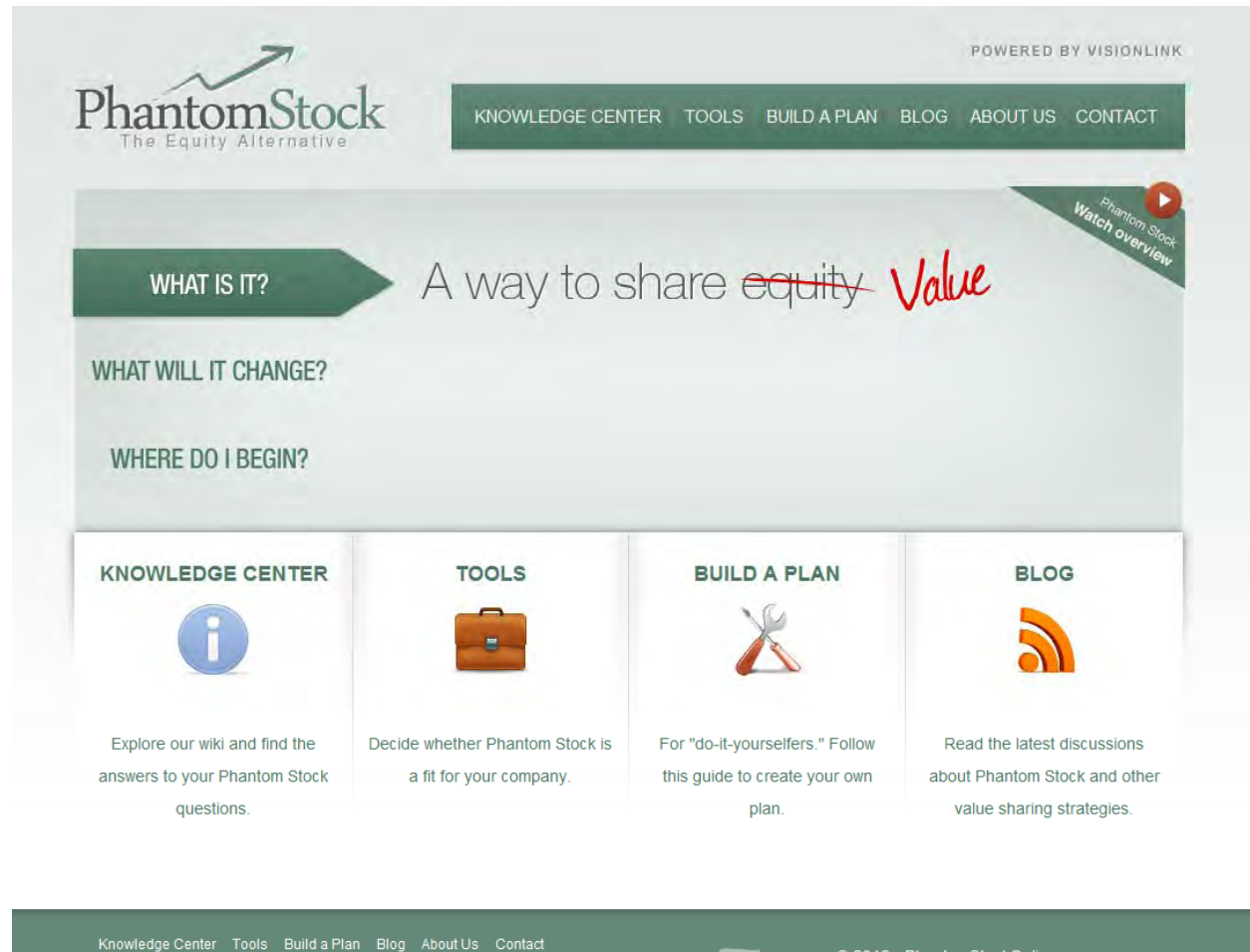
Indicate interest on final survey

Next Online Seminar:

“Success Stories in Pay for Performance”

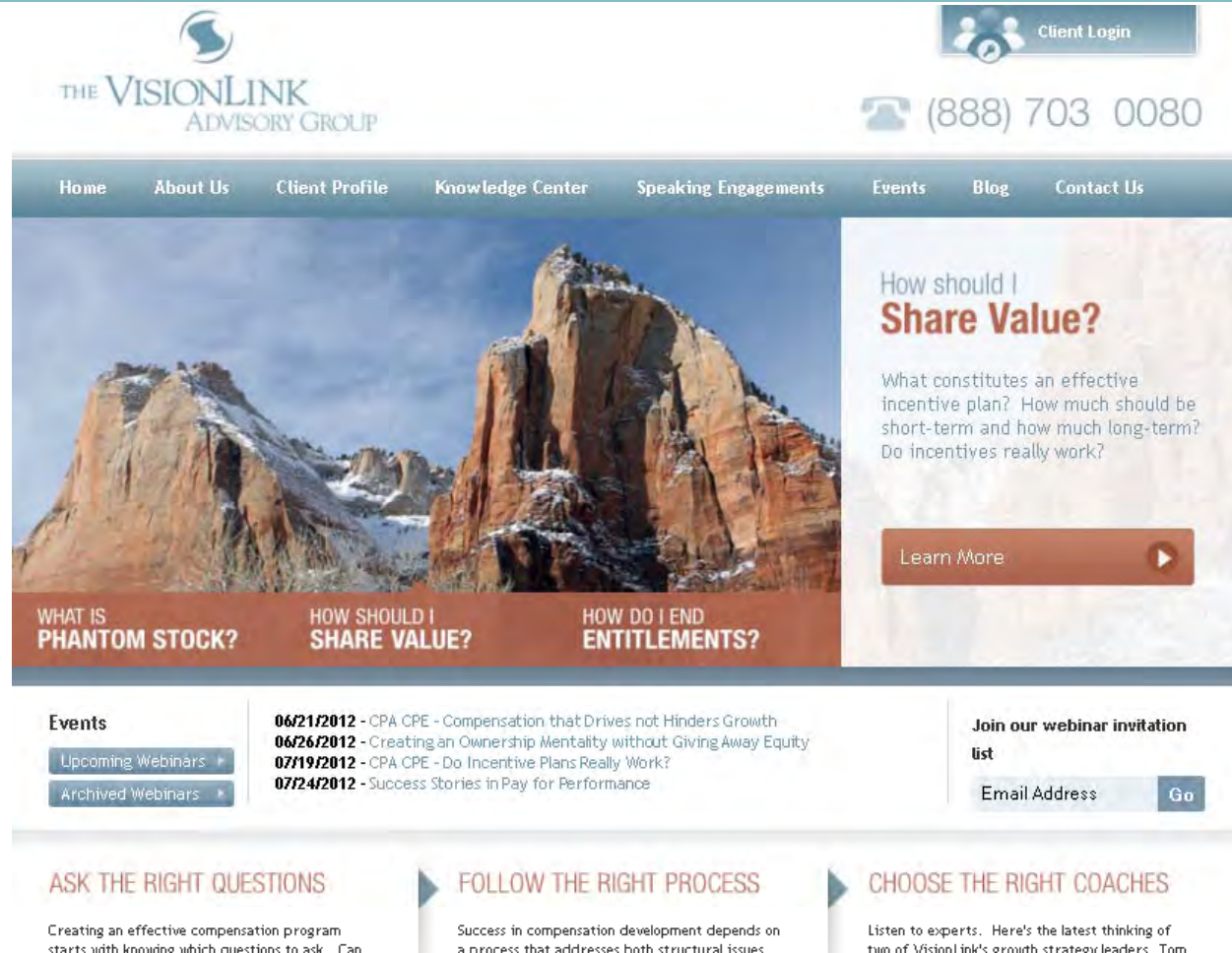
To be held on:
Tuesday, July 24th, 2012

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The screenshot shows the homepage of The VisionLink Advisory Group. The header includes the company logo, a 'Client Login' button, and a phone number (888) 703 0080. A navigation bar lists: Home, About Us, Client Profile, Knowledge Center, Speaking Engagements, Events, Blog, and Contact Us. The main content area features a large image of a mountain peak with the headline 'How should I Share Value?' and a 'Learn More' button. Below this, three smaller sections are visible: 'WHAT IS PHANTOM STOCK?', 'HOW SHOULD I SHARE VALUE?', and 'HOW DO I END ENTITLEMENTS?'. The 'Events' section lists upcoming webinars with dates and topics. A 'Join our webinar invitation list' form is also present. At the bottom, three columns provide additional information: 'ASK THE RIGHT QUESTIONS', 'FOLLOW THE RIGHT PROCESS', and 'CHOOSE THE RIGHT COACHES'.

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How should I
Share Value?

What constitutes an effective incentive plan? How much should be short-term and how much long-term? Do incentives really work?

Learn More

WHAT IS
PHANTOM STOCK?

HOW SHOULD I
SHARE VALUE?

HOW DO I END
ENTITLEMENTS?

Events

Upcoming Webinars

Archived Webinars

06/21/2012 - CPA CPE - Compensation that Drives not Hinders Growth
06/26/2012 - Creating an Ownership Mentality without Giving Away Equity
07/19/2012 - CPA CPE - Do Incentive Plans Really Work?
07/24/2012 - Success Stories in Pay for Performance

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ASK THE RIGHT QUESTIONS

Creating an effective compensation program starts with knowing which questions to ask. Can

FOLLOW THE RIGHT PROCESS

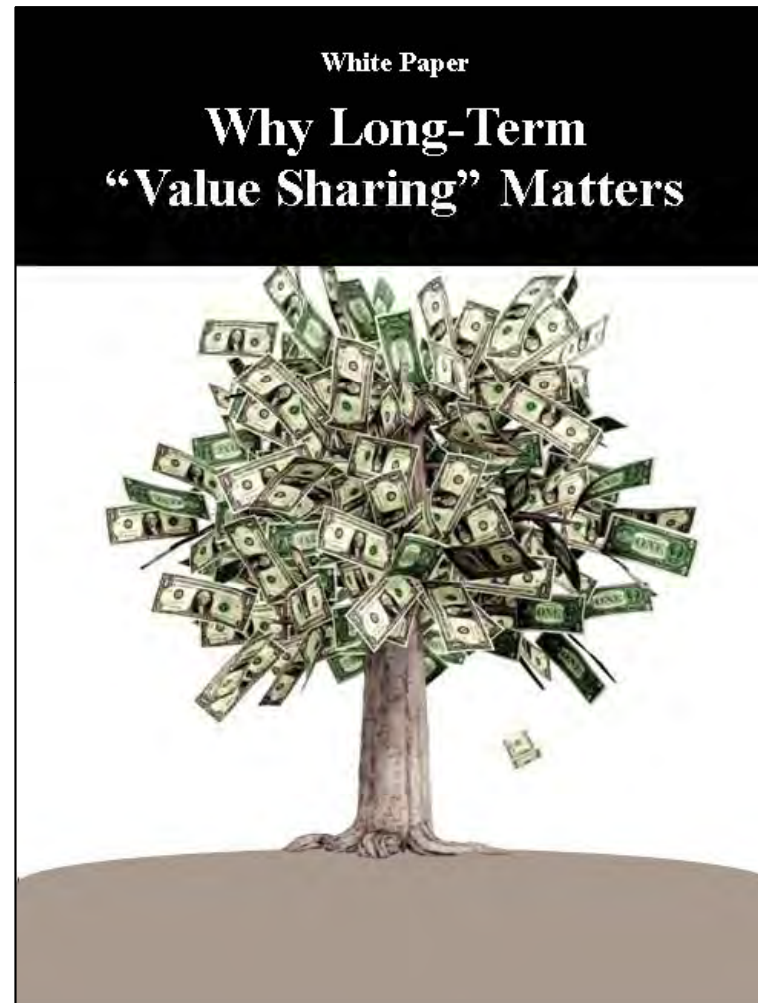
Success in compensation development depends on a process that addresses both structural issues

CHOOSE THE RIGHT COACHES

Listen to experts. Here's the latest thinking of two of VisionLink's growth strategy leaders. Tom

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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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