

The "Learn & Earn" Series™

November 1, 2012

"The Eight Fatal Compensation Mistakes"



THE VISIONLINK
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 and course syllabus/summary. 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

Course Objectives

- Understand the framework for building an effective rewards strategy
- Identify how a business knows when a compensation plan is working and when it's not
- Identify key steps to avoid making common mistakes in compensation development
- Envision the means by which an effective rewards strategy can be envisioned, created and sustained

Key Concepts



- Compensation strategies should impact execution
- Line of sight creates an appropriate link between vision, strategy, roles and rewards
- Effective compensation development results in greater line of sight
- Eight key issues must be properly addressed for a rewards strategy to be effective

Ideal Outcome of Effective Compensation Strategies

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



**What is a business trying to do
when it introduces a new
compensation plan?**

**Communicate what's important
so execution can align with the
business model and strategy**

So, then...what are the biggest mistakes employers make when attempting to achieve that?

8 Fatal Outcomes

1. No strategic context for the plan
2. Lack of creative value
3. Lack of employee buy-in and enthusiasm
4. Unnecessary burden on company's administrative team
5. Disenchanted employees
6. Legal or regulatory error
7. Poor financial return on compensation expenditure
8. Plan moves off course (no line of sight)

Poll #1



**Eight key questions
(and their answers)
to help avoid fatal mistakes
with your rewards programs**

Step One

Plan Purpose

“How can we ensure a Plan design that will positively contribute to the fulfillment of our company’s vision and strategic plan?”

Mistake avoided:

No strategic context for the plan

Step One

Plan Purpose

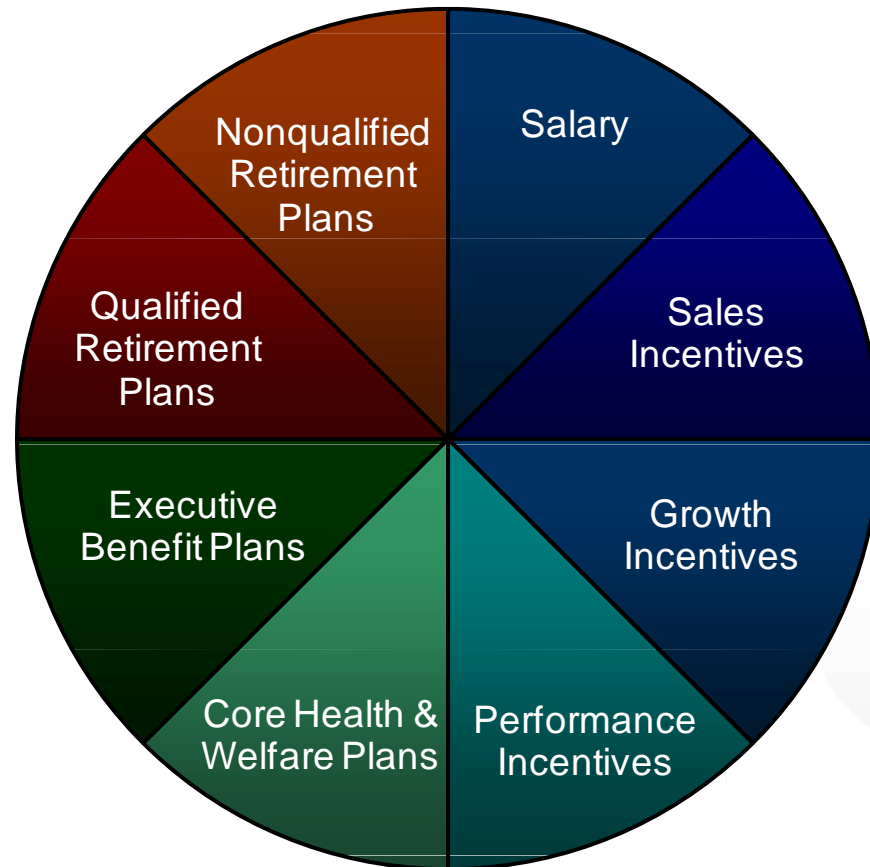
- Link between pay and performance?
- Line of sight?
- Shareholder value?
- Employee value?

Step One

Plan Purpose

- Requirement: full attention of senior management
- Result: written summary document
- Each plan: specific purpose (strategic contribution, expectations, broad measurements, timetable, etc.)

VisionLink's View of Compensation



Step One

Plan Purpose

The Strategic Blueprint

1. Clearly identify the two visions
2. Periodically review market pay data
3. Periodically assess the proper balance between the eight pay components
4. Contrast current plans against ideal models
5. Create a written “game plan” for implementation and execution

Step Two

Plan Construction

“What will ensure the Plan will properly address all financial and legal considerations without forfeiting creativity and innovation?”

Mistake Avoided:
Lack of creative value

Step Two

Plan Construction

- Sources of creative and visionary input?
- Role of legal and accounting resources?
- Process for balancing creative issues with technical requirements?
- Documentation?

Step Two

Plan Construction

- Creativity
- Uniqueness
- Imagination
- Simplicity
- Clarity
- Motivational
- Inspiring
- Financially responsible
- Legally compliant
- All details considered
- Properly documented

Step Two

Plan Construction

The Performance Framework

1. Insist on developing a plan that is fresh, compelling and visionary
2. Seek professional help
3. Identify precise financial targets; model effectively
4. Follow a process that won't sacrifice quality for expediency
5. Use legal and financial advisors to solve problems and clear hurdles

Poll #2



Step Three

Plan Launch

“How can we know that the Plan rollout reinforces the company vision while building participant confidence and enthusiasm?”

Mistake Avoided:

Lack of employee buy-in and enthusiasm

Step Three

Plan Launch

- Employees must understand the plan
- Employees must be able to communicate the plan to others
- Employees must appreciate the plan
- The plan must achieve line-of-sight

Step Three

Plan Launch

- The employees must know what outcomes are expected of them to maximize the plan value
- Rewards must be meaningful enough to impact the desire to achieve optimum results
- The employees must believe and trust the underlying assumptions and data
- The employees must know when and how additional information will be made available

Step Three

Plan Launch

The Strategic Launch

1. Customized invitation/announcement
2. Group and/or person-to-person presentations
3. CEO involvement
4. Provide context for the plan (Vision → Rewards)
5. Clear overview
6. Attractive written summary
7. “Where to go for more”
8. “What to expect from here”

Step Four

Operations Management

“What can be put in place to assure effective internal communication and administration of the Plan?”

Mistake Avoided:

Unnecessary burden on company's administrative team

Step Four

Operations Management

- Job impact?
- Internal oversight?
- New responsibilities and duties?
- New processes?
- Unnecessary burden?

Step Four

Operations Management

The Backstage GamePlan

1. Meet with impacted personnel to clarify responsibilities and determine what will be outsourced
2. Advise Department Heads of impact of plan on their management responsibilities
3. Coordinate enrollments and terminations, internal plan communication and participant interaction
4. Coordinate payroll deductions (if applicable) and data reporting
5. Coordinate funds remittance (if applicable) and plan distributions

Step Five

Communication and Marketing Management

“What can be done to ensure meaningful, ongoing communication of the value of the plan to participants?”

**Mistake Avoided:
Disenchanted employees**

Step Five

Communication and Marketing Management

- Ongoing maintenance
- What methods?
- Who will be responsible for communication?

Without a serious, top-down commitment to this step the Plan will certainly fail to live up to its potential!

Step Five

Communication and Marketing Management

The Communication Solution

1. Internal meeting to establish and commit to an ongoing marketing campaign to effectively communicate total rewards throughout the year
2. Quarterly letter and statement mailed to home (with current and projected plan values)
3. Internet access to account information and assistance (where appropriate)
4. Personal contact to top managers to offer assistance

Step Five

Communication and Marketing Management

The Communication Solution

5. Semi-annual information newsletter sent to home
6. Financial planning assistance to validate and enhance plan value
6. Annual meeting with participants to review plan and announce changes

Rewards Strategy Experience



To Be Kept in Orbit Everything Must Be Either...



- Delegated fully to internal personnel
- Validated by an outside professional after being developed by internal personnel
- Outsourced to other professional firms

Step Six

Compliance Management

“How can we be sure that we are fulfilling all legal and regulatory responsibilities for the Plan?”

**Mistake Avoided:
Legal or regulatory error**

Step Six

Compliance Management

- Maintain regulatory responsibilities
- Fulfill statutory duties
- Avoid costly legal remedies
- Maintain up-to-date documents
- Maintain up-to-date records and procedures
- Catalog decisions and supporting records

Step Six

Compliance Management

The Compliance Manager

1. Designate internal manager responsible for oversight of regulatory and compliance functions
2. Identify outside resources to serve as advisor to company (consultants, attorneys, accountants)
3. Set meeting dates (once or twice per year) to review compliance issues on all compensation plans

Step Six

Compliance Management

The Compliance Manager

4. Create written and electronic documentation process for decisions made and supporting reasons
5. Produce annual senior management report identifying actions taken and pending

Poll #3



Step Seven

Financial Management

“How will we ensure the Plan is being managed financially and is producing an appropriate return on investment?”

Mistake Avoided:
***Poor financial return on
compensation investment***

Step Seven

Financial Management

- Specific financial targets and expectations?
- How and when will performance be measured?
- Tracking financial data?
- Recommending course corrections?
- ROTRI Calculation?

Step Seven

Financial Management

The Financial Monitor

1. Set clear financial expectations (base, target, superior)
2. Establish periodic review dates (e.g., quarterly)
3. Identify responsible internal parties
4. Identify third parties needed to provide information

Step Seven

Financial Management

The Financial Monitor

5. Set expectations for delivery of financial data by all parties
6. Periodically contrast actual results with projected
7. Involve senior management (CEO/ President) in annual meeting to evaluate and consider changes

Step Eight

Strategic Management

“How will we be sure to keep the Plan in line with the evolution of the company vision and business strategy?”

Mistake Avoided:

Plan moves off course (no line of sight)

Step Eight

Strategic Management

- Frequency of review?
- Assessment of options?
- Accountability for drawing conclusions?
- Responsibility for alterations or termination?

Step Eight

Strategic Management

The “Line of Sight” Review

1. Set an annual review period for all compensation plans (3 months before end of fiscal/calendar year)
2. Senior management review and assess integrity and consistency of all compensation plans

The “Line of Sight” Review

3. Written evaluation of each plan that analyzes:
(a) employee value perception, (b) connection to vital company goals, and (c) consistency with company compensation philosophy
4. Action plan with responsibilities, timetable and accountable parties for adoption and implementation of agreed upon changes

VisionLink’s Alignment Appraisal™

Rewards Strategy Experience



8 Fatal Outcomes

1. No strategic context for the plan
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Rewards Strategy Experience Q & A

“How can we ensure a Plan design that will positively impact the fulfillment of our company’s vision and strategic plan?”	The Strategic Blueprint
“What will ensure the Plan will properly address all financial and legal considerations without forfeiting creativity and innovation?”	The Performance Framework
“How can we know that the Plan rollout reinforces the company vision while building participant confidence and enthusiasm?”	The Strategic Launch
“What can be put in place to assure effective internal communication and administration of the Plan?”	The Backstage Gameplan
“What can be done to ensure meaningful, ongoing communication of the value of the plan to participants?”	The Communication Solution
“How can we be sure that we are fulfilling all legal and regulatory responsibilities for the Plan?”	The Compliance Manager
“How will we ensure the Plan is being managed financially and is producing an appropriate return on investment?”	The Financial Monitor
“How will we be sure to keep the Plan in line with the evolution of the company vision and business strategy?”	The Line of Sight Review

Next CPE Course:

“Compensation that CEOs and Shareholders Can Endorse”

To be held on:
Thursday, December 6, 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:

“The Future of Compensation: What’s Next & Why?”

Next Tuesday,
December 4, 2012

Check out our UPDATED website:

www.VLadvisors.com

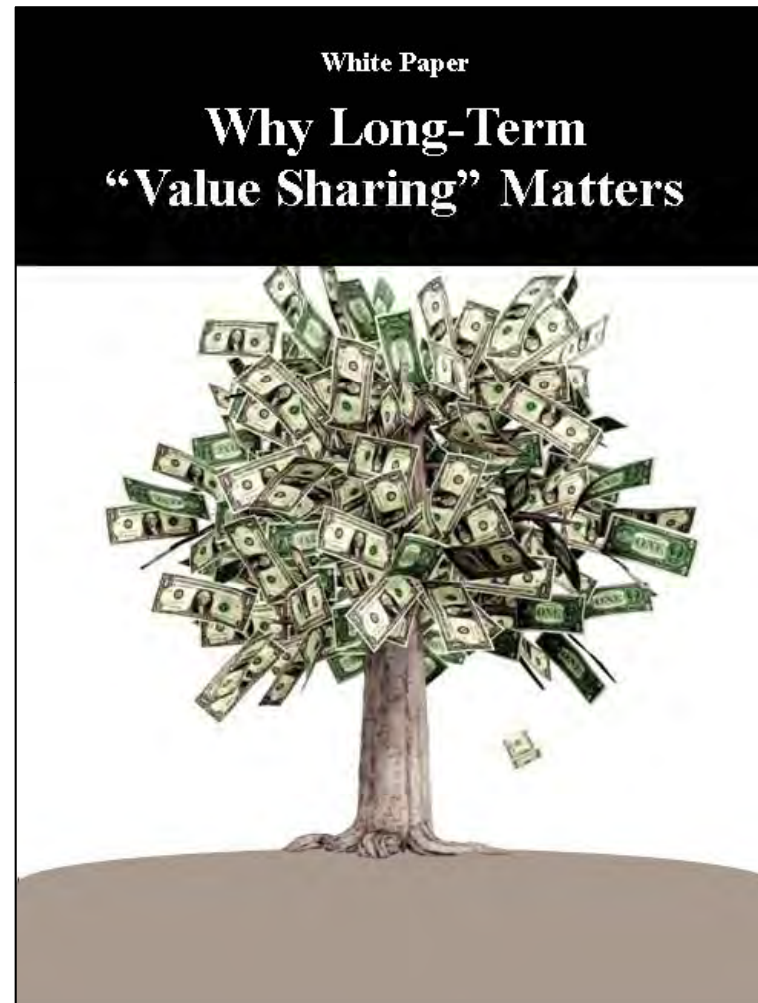
The screenshot shows the homepage of The VisionLink Advisory Group. At the top left is the logo, and at the top right is a 'Client Login' button and a phone number '(888) 703 0080'. A navigation bar contains links for Home, About Us, Client Profile, Knowledge Center, Speaking Engagements, Events, Blog, and Contact Us. The main content area features a large image of a mountain peak. Below the image are three article teasers: 'WHAT IS PHANTOM STOCK?', 'HOW SHOULD I SHARE VALUE?', and 'HOW DO I END ENTITLEMENTS?'. To the right of the image is a featured article titled 'How should I Share Value?' with a 'Learn More' button. Below the main content is an 'Events' section with a list of dates and topics, and a 'Join our webinar invitation list' section with an email input field and a 'Go' button. At the bottom, there are three columns with the headings 'ASK THE RIGHT QUESTIONS', 'FOLLOW THE RIGHT PROCESS', and 'CHOOSE THE RIGHT COACHES', each with a brief description.

You can also subscribe to our blog

Check out our NEW website:
www.PhantomStockOnline.com

The screenshot shows the Phantom Stock website homepage. At the top left is the logo for Phantom Stock, 'The Equity Alternative', featuring a green arrow pointing up and to the right. To the right of the logo is a dark green navigation bar with white text for 'KNOWLEDGE CENTER', 'TOOLS', 'BUILD A PLAN', 'BLOG', 'ABOUT US', and 'CONTACT'. In the top right corner, it says 'POWERED BY VISIONLINK'. Below the navigation bar is a large light gray banner. On the left side of the banner, there are three green arrow-shaped buttons pointing right, labeled 'WHAT IS IT?', 'WHAT WILL IT CHANGE?', and 'WHERE DO I BEGIN?'. The main text in the banner reads 'A way to share ~~equity~~ Value', where 'equity' is crossed out with a red line and 'Value' is written in red cursive. In the top right corner of the banner, there is a red play button icon and the text 'Phantom Stock Watch overview'. Below the banner is a grid of four white boxes with green headers. The first box is 'KNOWLEDGE CENTER' with an information icon and the text 'Explore our wiki and find the answers to your Phantom Stock questions.' The second box is 'TOOLS' with a briefcase icon and the text 'Decide whether Phantom Stock is a fit for your company.' The third box is 'BUILD A PLAN' with a wrench and screwdriver icon and the text 'For "do-it-yourselfers." Follow this guide to create your own plan.' The fourth box is 'BLOG' with an RSS icon and the text 'Read the latest discussions about Phantom Stock and other value sharing strategies.' At the bottom of the page is a dark green footer with white text for 'Knowledge Center', 'Tools', 'Build a Plan', 'Blog', 'About Us', and 'Contact'. On the right side of the footer, there is a copyright notice: '© 2010 PhantomStockOnline.com'.

NOW AVAILABLE!



Express interest on the final survey

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 and course syllabus from today's presentation

Questions?



Thank You!



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