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How to Pay Top Performers



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Today's Presenter:

Ken Gibson


Senior Vice President


(949) 265-5703

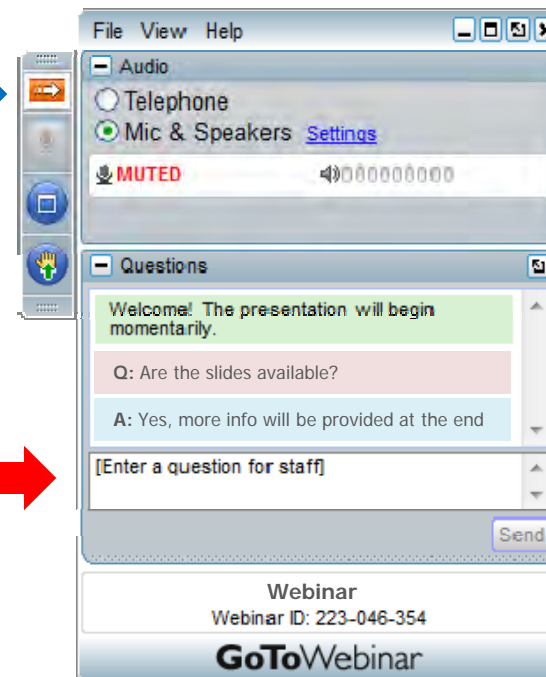
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Key Questions

- Who are “key performers”?
- Should they be paid differently?
- What form should that compensation take?
- What do top producers expect?
- Why does this matter?



The Business Landscape

The New Corporate Garage

...Apple's inventiveness is no anomaly; it indicates a dramatic shift in the world of innovation. **The revolution spurred by venture capitalists decades ago has created the conditions in which scale enables big companies to stop shackling innovation and start unleashing it.**



Harvard Business Review, September 2012

What Type of Innovation?



Business Model Innovation

Whereas the inventions that characterized the first three eras were typically (but not always) **technological breakthroughs**, fourth-era innovations are likely to involve **business models**.

Harvard Business Review,
September 2012 (cont.)

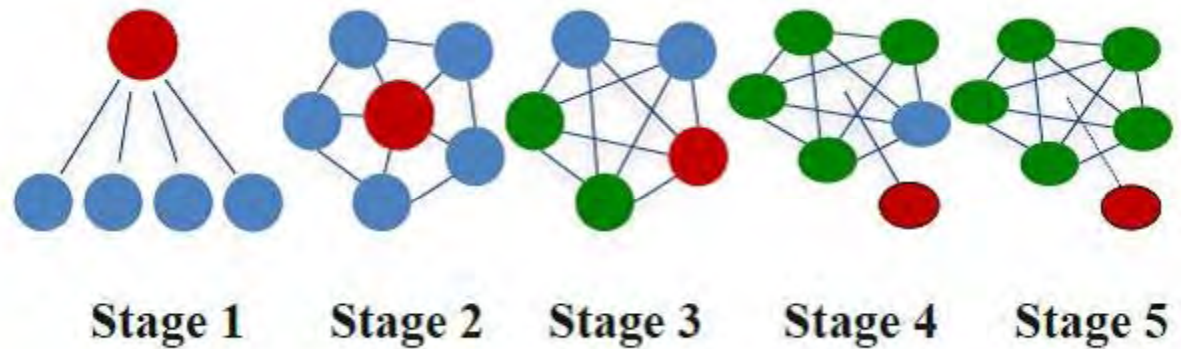
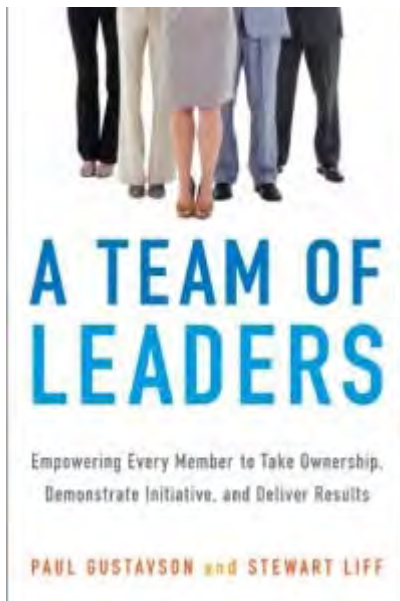
What Kind of Talent?

“...**entrepreneurial individuals, or ‘catalysts,’** within big companies are using those companies’ resources, scale, and growing agility to develop solutions to global challenges in ways that few others...”



Harvard Business Review,
September 2012 (cont.)

What Kind of Organization?



Talent & Business Model Alignment



The competitive environment of the future will require that companies attract and retain “catalysts” and:

- Have top performers working in roles that maximize their unique abilities
- Relieve key producers of responsibilities that don't have a strategic impact
- Outsource other duties

Talent Assessment

- Companies identify skill “categories” to drive business model
- Identify gaps
- Form recruiting strategy



Key Talent Trend



- Competitive advantage increasingly coming from hard-to-duplicate know-how of most skilled people
- Not enough knowledge workers to go around

(Source: "Redesigning Knowledge Work," HBR, January-February 2013)



Key Talent Trend

By 2020, the worldwide shortage of highly skilled, college-educated workers could reach 38 to 40 million, or 13% of demand.

(Source: McKinsey Global Institute)



Conclusions Regarding Talent Trends

- Companies will need catalysts to maintain a competitive advantage
- Those individuals need to spend their time on things that have the most strategic impact
 - Especially important due to high comp levels
- These two factors lead to scarcity of high impact talent
- Scarcity creates high competition within the talent pool
- Companies will need a unique and robust value proposition to win the talent wars



The Compensation Landscape

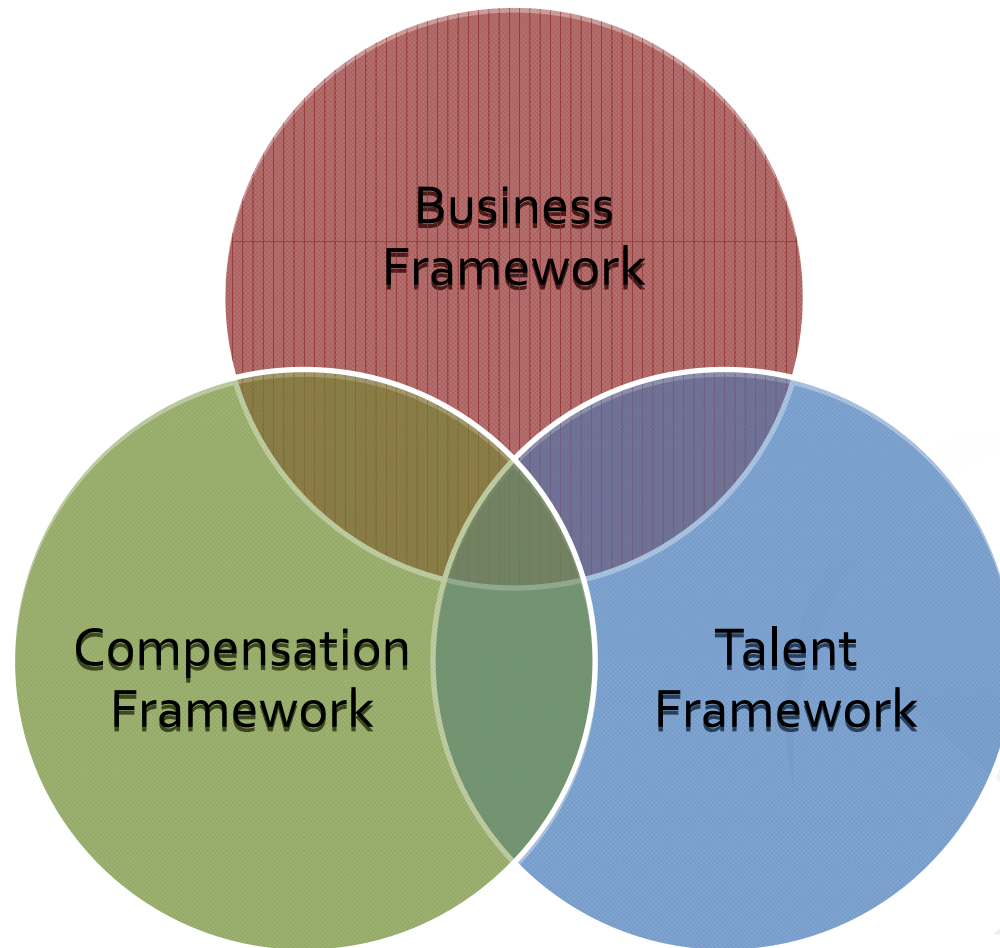
Two Approaches to Retaining Employees

- Expansive
- Selective

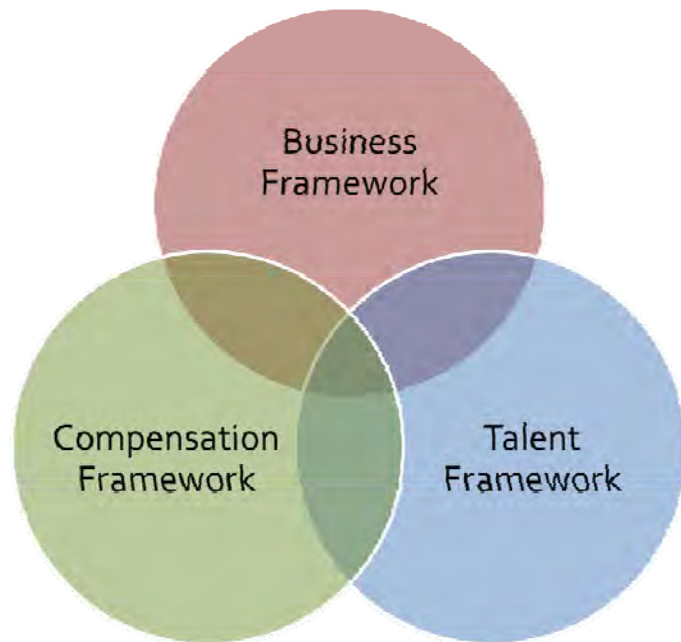
Workspan (World at Work)
The War for Stars, May 2012



Establish a Performance Framework



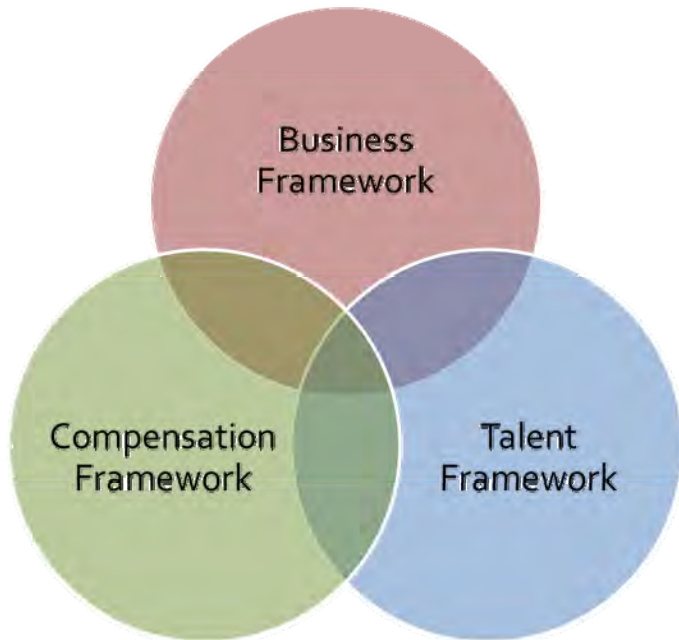
Establish a Performance Framework



Phase One—Business Framework

- Define Growth Expectations (Vision)
 - Key outcomes that must be achieved
- Define Business Model and Strategy
 - Performance Engine
 - How the company will compete
 - Where are growth opportunities?
- Identify Roles and Expectations
 - Establish Performance Criteria
 - Define "Success"

Establish a Performance Framework



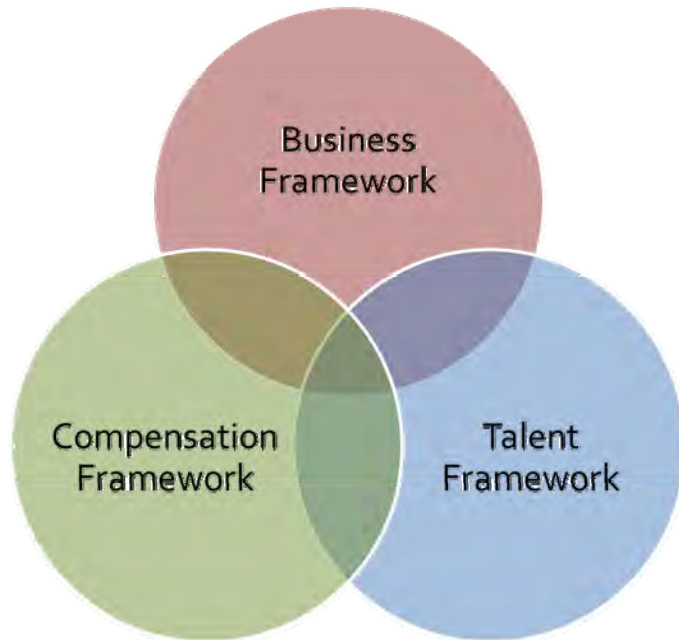
Phase Two—Compensation Framework

- Establish a pay philosophy
 - Expansive vs. Selective—or Hybrid
 - Define what the company is willing to pay for
- Engineer a pay strategy
 - Structure
 - Mindset
- Adopt a “Total Rewards” Approach

Total Rewards Approach



Establish a Performance Framework



Phase Three—Talent Framework

- Identify Key Producers
 - Meeting “success” standards
- Identify Talent “Gaps”
 - Recruiting Strategy
- Communicate Expectations
 - Define success
- Communicate Rewards
 - Philosophy
 - Programs
 - Value Statement

Future Criteria for Pay Strategies

- Must attract top talent (particularly entrepreneur-oriented people)
- Must promote and reinforce innovation
- Must be flexible
- Must drive business value
 - Reinforce leverage points of virtuous cycle
- Must minimize guarantees
 - Share the risk
- Must provide large “upside” to key producers
- Must employ value creation and sharing philosophy and practices



Future Pay Trends for Top Performers

- Performance Agreements
- Opt-In Plans
- Internal Venture Capital
- Long-Term Value Sharing Plans



Performance Agreements



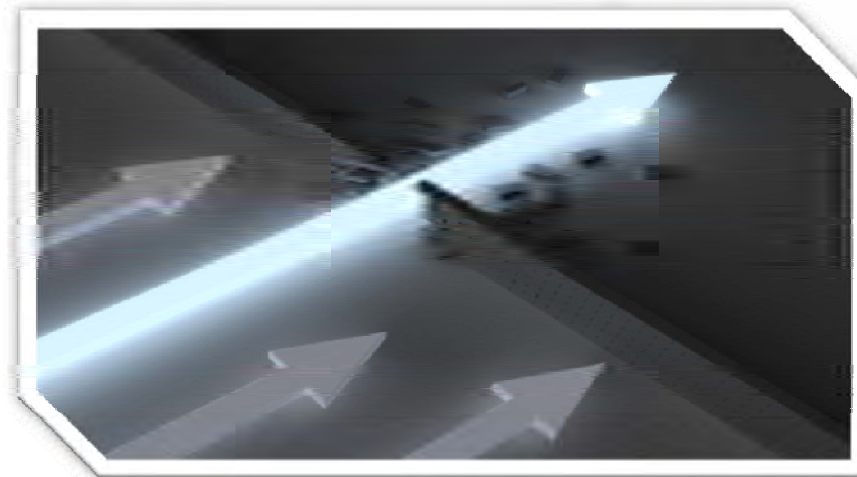
Prominent Media Company

- High performers excluded from company's "egalitarian" profit sharing-type incentive plan
- Annual "deal" negotiated with COO & CFO
- Deal memorialized on a "deal sheet"
 - Defines financial, operational & leadership expectations
 - Defines value of the award that could be generated
- Quarterly self-evaluation against performance expectations with COO & CFO

Performance Agreement

Outcomes:

- Threshold for compensable performance is very high
 - Small or even \$0 payouts can occur
- High-risk, high-reward—high upside
- Self-evaluations create a mentoring environment
- High performers think and feel like owners in the company's success
- Because no competitors offer this opportunity, high performers rarely leave



Opt-In Plans



Most Ideal in Start-Up Environment

- Opt for:
 - “Higher” salary plus modest incentives
 - “Low” or no salary and high upside through short and long-term value sharing
- Opt-In payments tied to a revenue or profit-sharing formula
- Volatility: payments lowered &/or deferred
 - Deferred payouts made when economics permit
- Opt-In periods may differ
 - Quarterly, semi-annual, annual

Opt-In Plans

Outcomes

- Employees feel more in control
- Owners can limit guaranteed payouts
- Highly flexible—can adjust to rapidly & frequently changing economics
- Provides a “shared” entrepreneurial experience
- Promotes an ownership mindset
- “Self-identifies” key performers



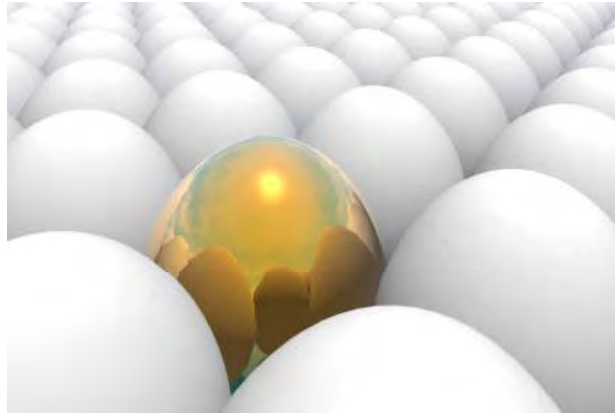
Internal Venture Capital



Highly Entrepreneurial Approach

- Most common in larger organizations
- Venture capital account established
- Criteria for access is defined
- Innovative ideas “funded” and financed through venture capital account
- Performance criteria set
- Value sharing plan tied to performance criteria
- Often accompanied by performance agreements or “opt-in” comp plans

Internal Venture Capital



Outcomes

- Attracts entrepreneurial employees
- Creates a “start-up” environment within larger organization
- Places a large emphasis on innovation
- Creates ability to move quickly with new ideas
- Allows mini-entrepreneurs to leverage resources and scale of larger organization

Long-Term Value Sharing Plans

Broad Application

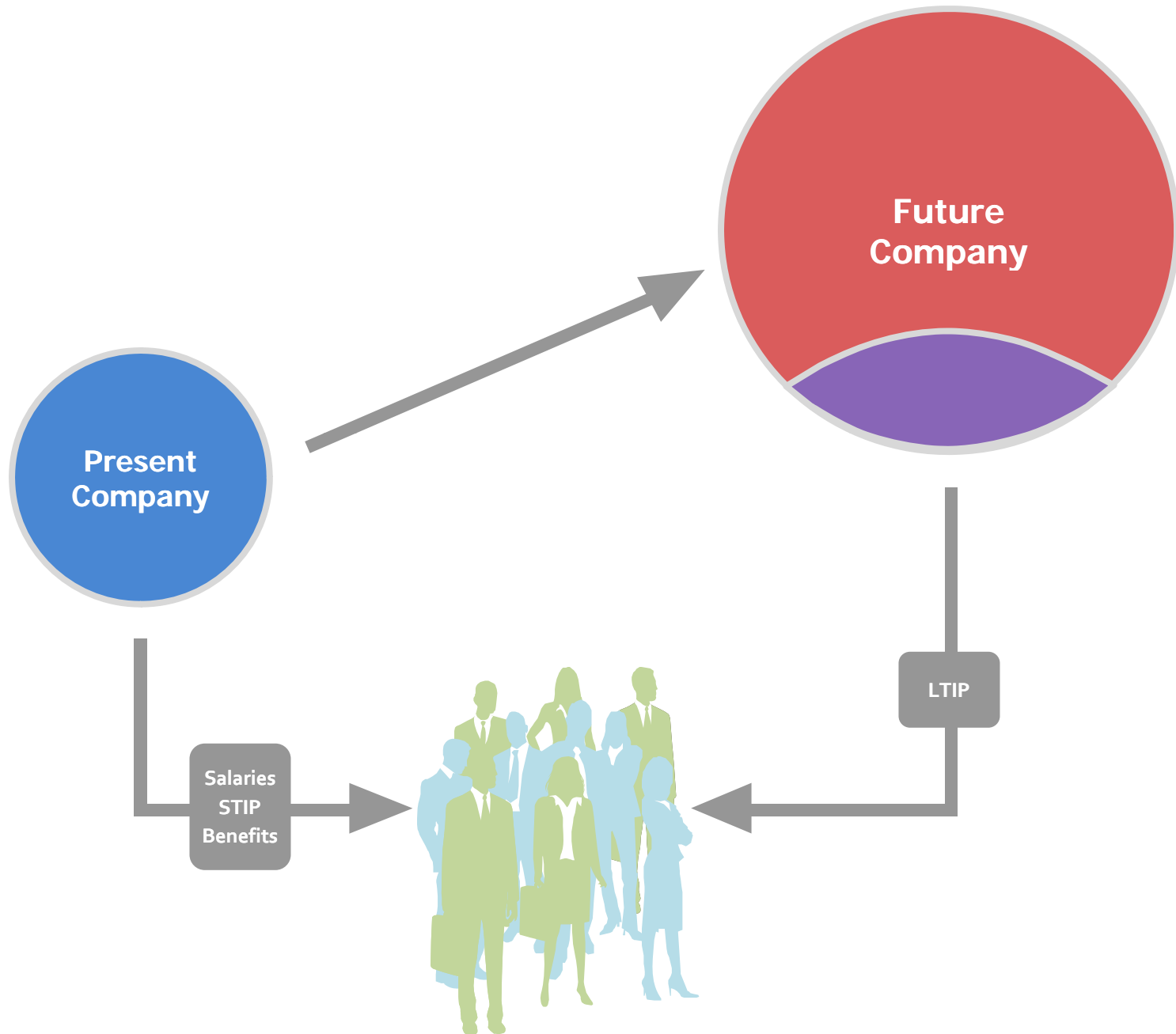
- Used in every size organizations
- Can be tied into any of the previous approaches
- Creates “wealth multiplier” mindset
- Ties employees to vision and business plan of the company



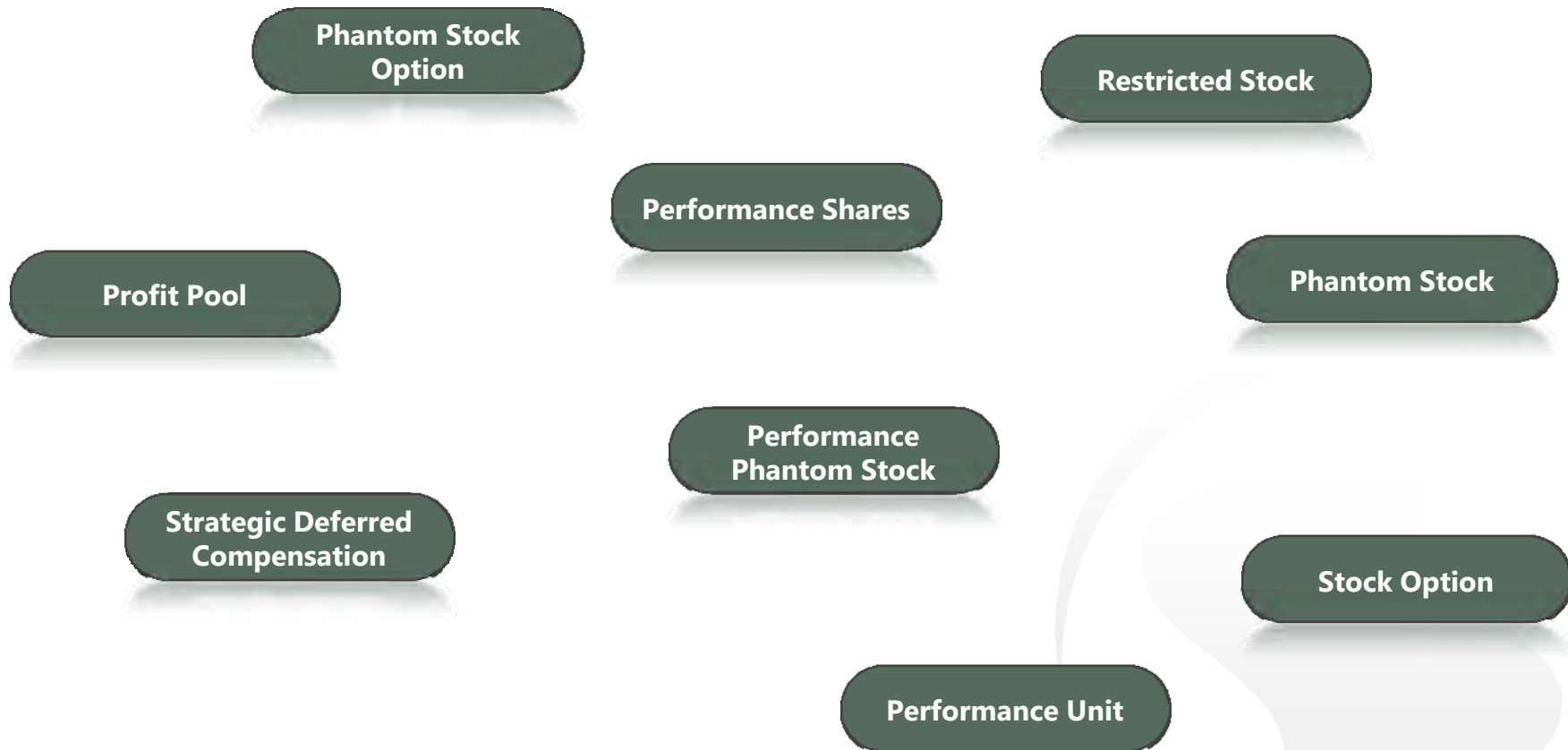
Why Long-Term Value Sharing Matters

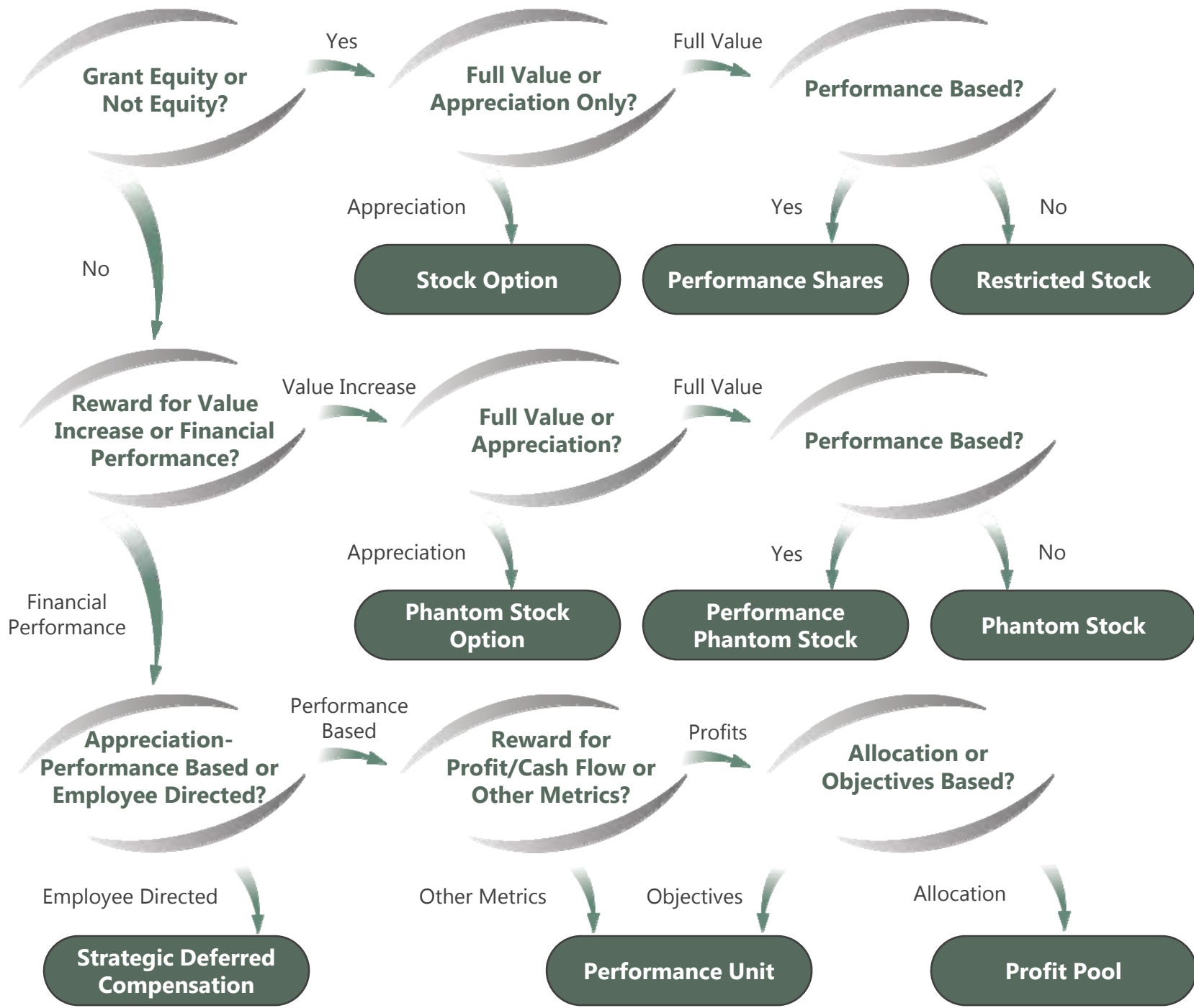
1. Value sharing attracts the best talent and magnifies results
2. Value sharing plans (effectively designed) reinforce the company's business model
3. Value sharing protects against bad profits and promotes good profits
4. Value sharing promotes an ownership mindset
5. Value sharing builds trust and accelerates results





Select the Right Plan Type





Attraction Differentiator

View of Business Growth:
Wealth Multipliers vs. Wealth Creators



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 all stakeholders increases the likelihood their own wealth will increase

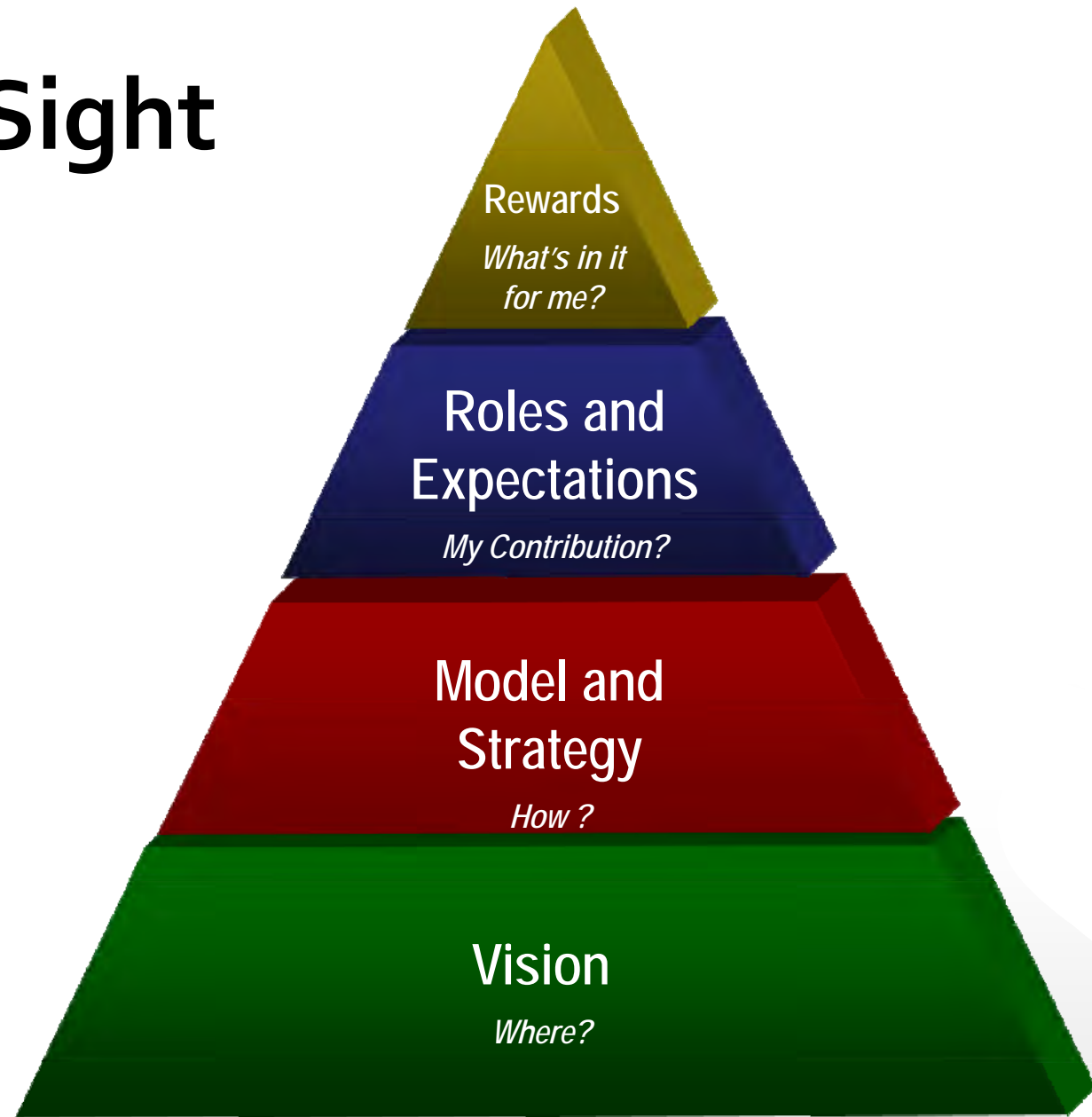


Compensation Strategy

Systematic way of investing profits in employees in a way that multiplies productivity and growth. In the process, create a sense of partnership with those on whom our future growth depends.



Line of Sight





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**

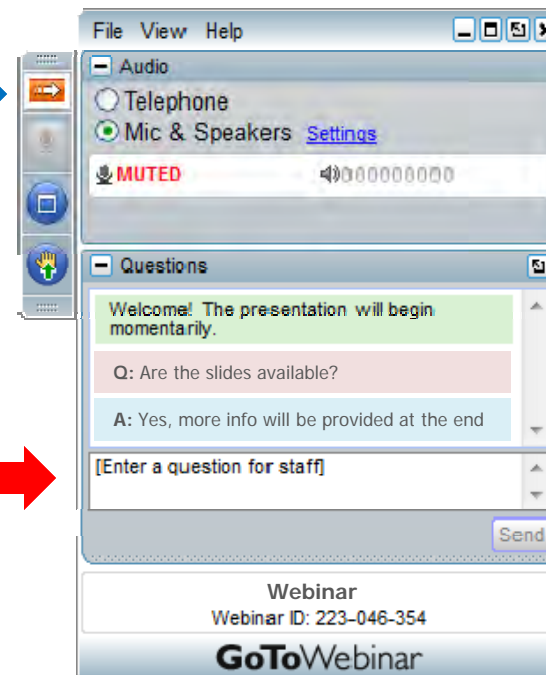
Employee Value Statement

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

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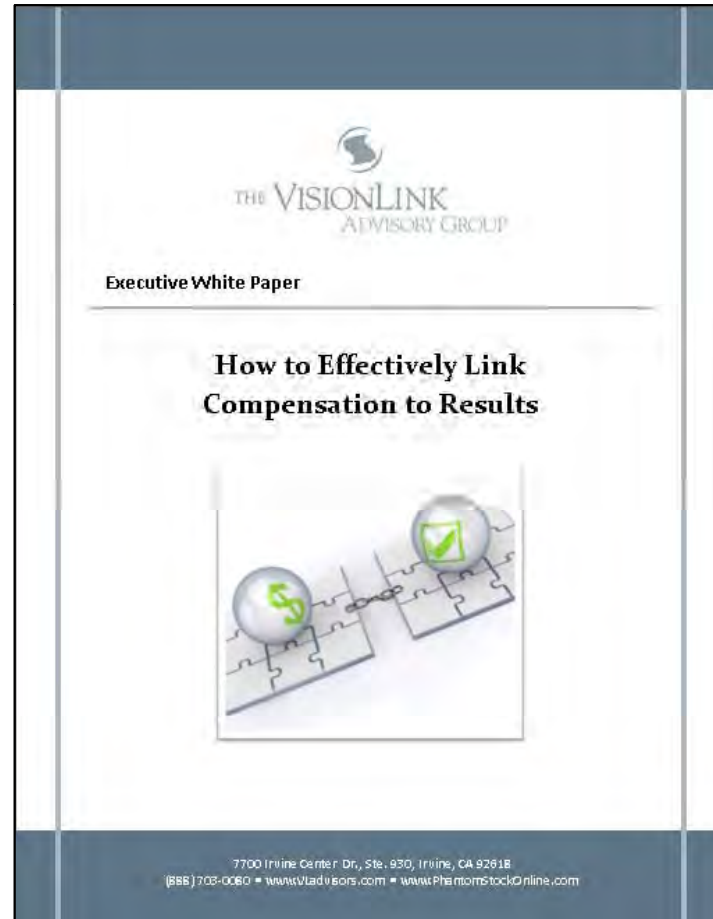
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Q&A

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Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



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