

“3 Keys to Attracting Premier Talent”



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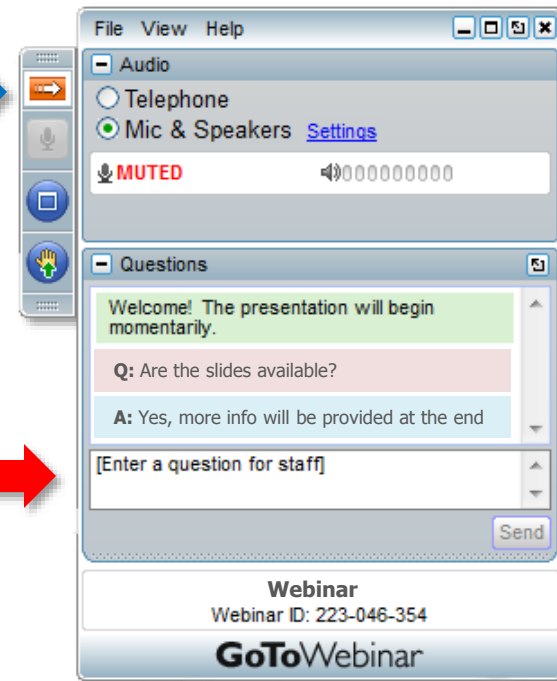
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ADVISORY GROUP

- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth
- “VisionLink” = rewards alignment between shareholders and employees

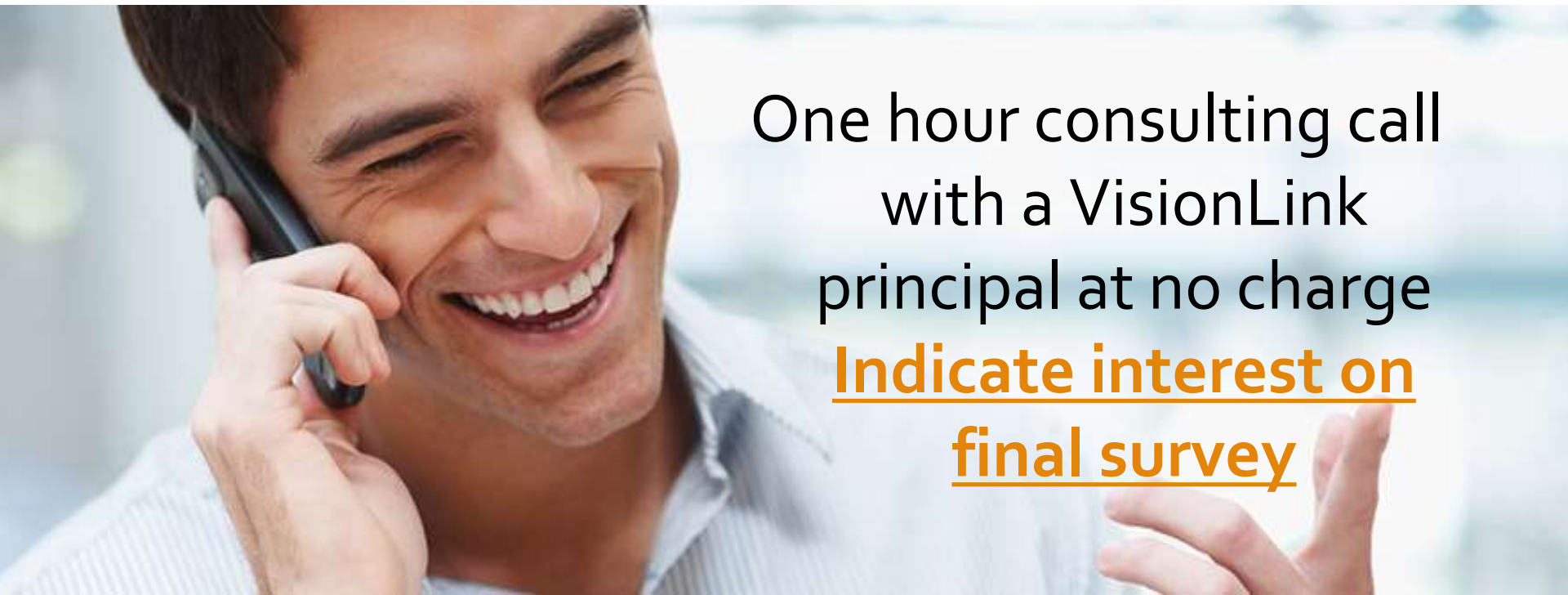
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today's presentation:** 
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on your control panel



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Core Questions



- Why is attracting premier talent an issue?
- Whose responsible for recruiting great people?
- What is premier talent?
- What are the “3 Keys to Attracting Premier Talent?”

Why is It an Issue?

Recruiting Priorities

- 
1. Recruiting/sourcing highly-skilled talent (46%)
 2. Improving quality of hire (34%)
 3. Improving sourcing techniques (25%)
 4. Pipelining talent (23%)

*(Source: LinkedIn 4th Annual Report 2015
Global Recruiting Trends)*

Biggest Threats to Hiring



1. Competition
 - 42% in 2012
 - 47% in 2014
2. Compensation
 - 40% in 2012
 - 47% in 2014

*(Source: LinkedIn 4th Annual Report 2015
Global Recruiting Trends)*

CEO View

PwC's 2012 Global CEO Survey

(reported in Chief Executive Magazine, November/December 2012 Edition)

- Just 12% of CEOs finding it easier to hire today
- 25% reported being unable to pursue a market opportunity or being forced to cancel or delay strategic initiatives because of talent challenges
- 31% feared they would not be able innovate effectively going forward because of skill shortages
- More CEOs plan on changing their talent management strategies this year than adjusting approaches to risk or capital investment—or any other corporate strategies



Key Statistic

A majority of CEOs surveyed by PwC—68% global; 71% U.S.—wish they could spend even more time than they do focused on developing the leadership of their business and their talent pipeline.



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)



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)



Who's Responsible?

“The biggest mistake CEOs can make is to delegate the talent strategy to HR. HR is the enabler of the strategy, but CEOs need to think of themselves as the chief talent officer of their organizations.”

In the future, it's likely that while the human resources chief will report directly to the CEO, it is the latter who will have to drive talent strategy.

(Ed Boswell, PwC's U.S. advisory services people and change practice leader.)



What is Premier Talent?

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

Three Trends Behind Shift

1. **Short-term pressures for start-ups.**
Copycats with larger resources
1. **Large companies are integrating entrepreneurial behaviors with existing capabilities.**
Embracing open innovation
2. **Innovation focused on business models.**
Not product and service driven as before



What Kind of Talent Do Businesses Need?

“...**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...”



Key Conclusions



- Businesses need to innovate to remain competitive
- Companies need to attract “entrepreneurial talent” to meet innovation demands
- Marketplace has a scarcity of *skilled* talent
- Businesses will have to compete for *premier* talent
- Innovative employee value propositions will be needed to compete
- CEOs must become the chief talent officer of the company

3 Keys to Attracting Premier Talent

1. Know What Talent You Need
2. Recruit to a Role (not a Position)
3. Market a Partnership



Know What Talent You Need

Talent & Business Model Alignment



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

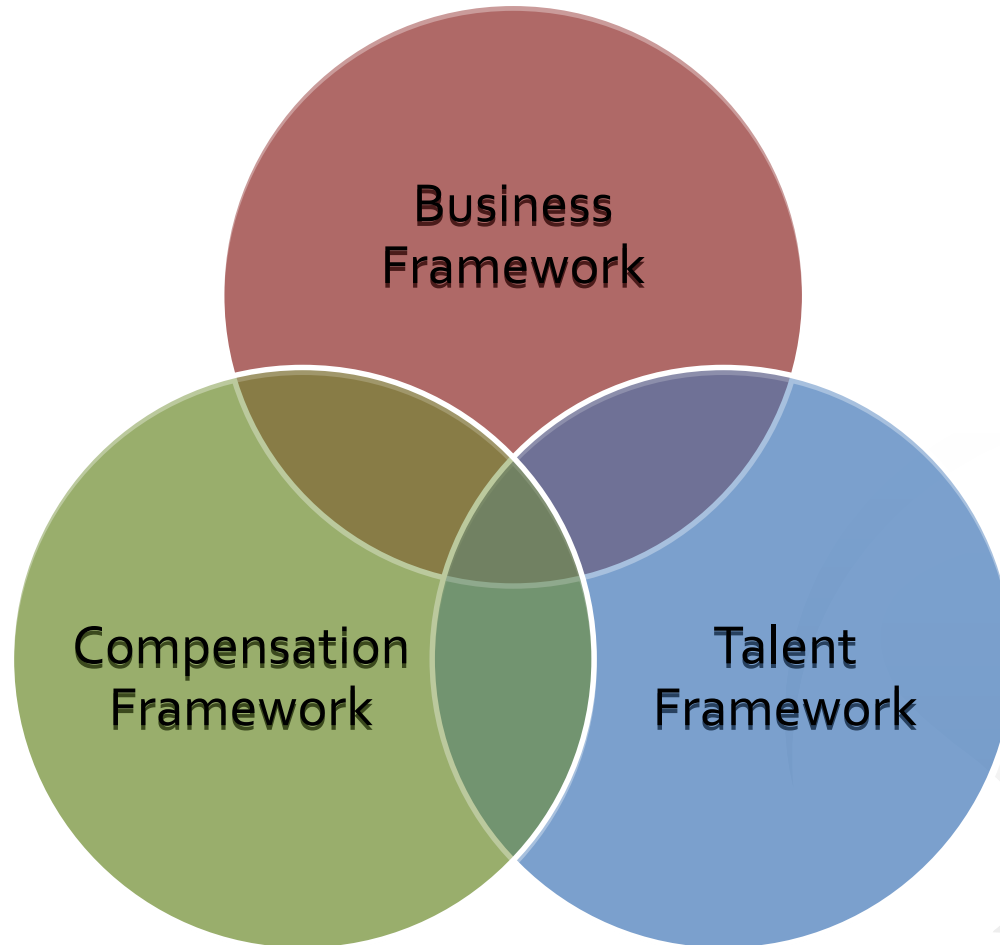
- Have top performers working in roles that maximize their unique abilities
- Relieve key producers of responsibilities that don't have a strategic impact
- Outsource other duties

Talent Assessment

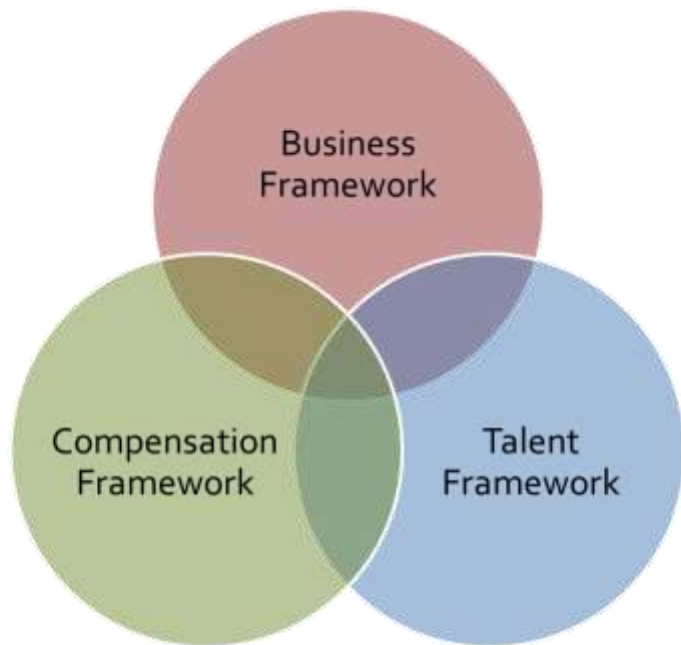
- Companies identify skill “categories” to drive business model
- Identify gaps
- Form recruiting strategy



Establish a Performance Framework



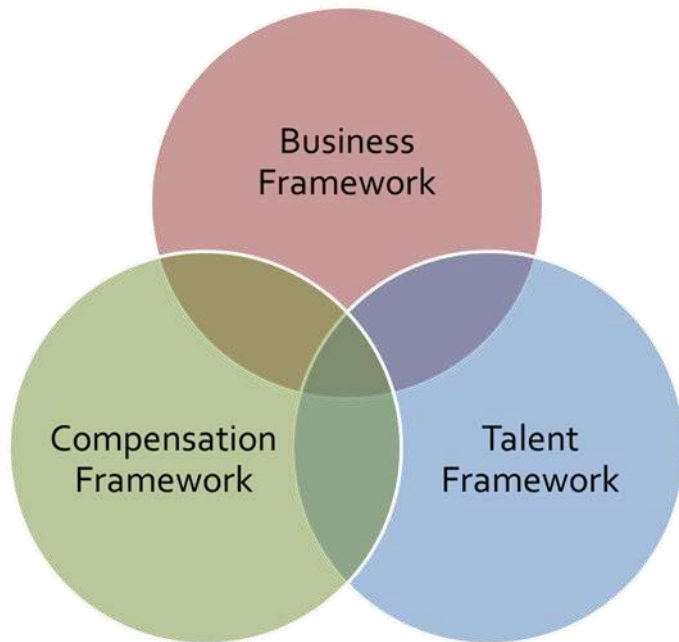
Establish a Performance Framework



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"

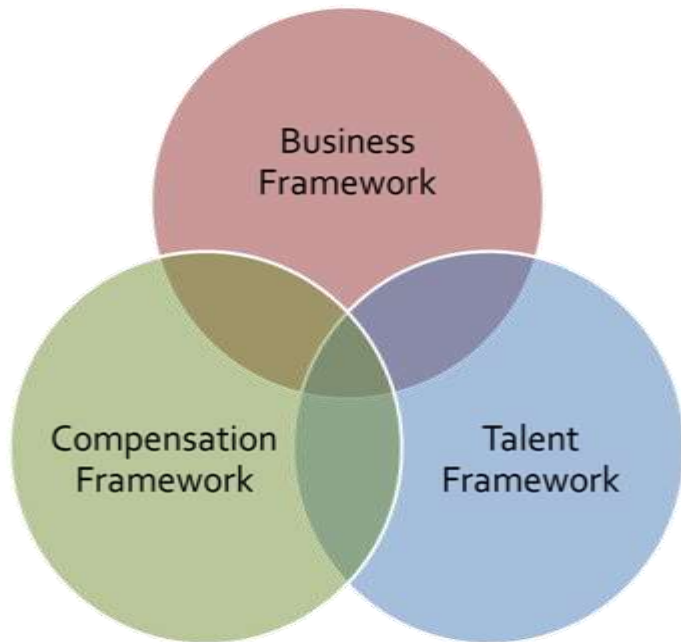
Establish a Performance Framework



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

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

Recruit to a Role (Not a Position)



- Position: characterized by specific duties you need someone to carry out.
- Role: defined by outcomes and stewardship.

Positions are filled. Roles are *fulfilled*.

The Role Principle

Three Components

- Stewardship Expectations
- Recruiting Philosophy
- Pay Philosophy

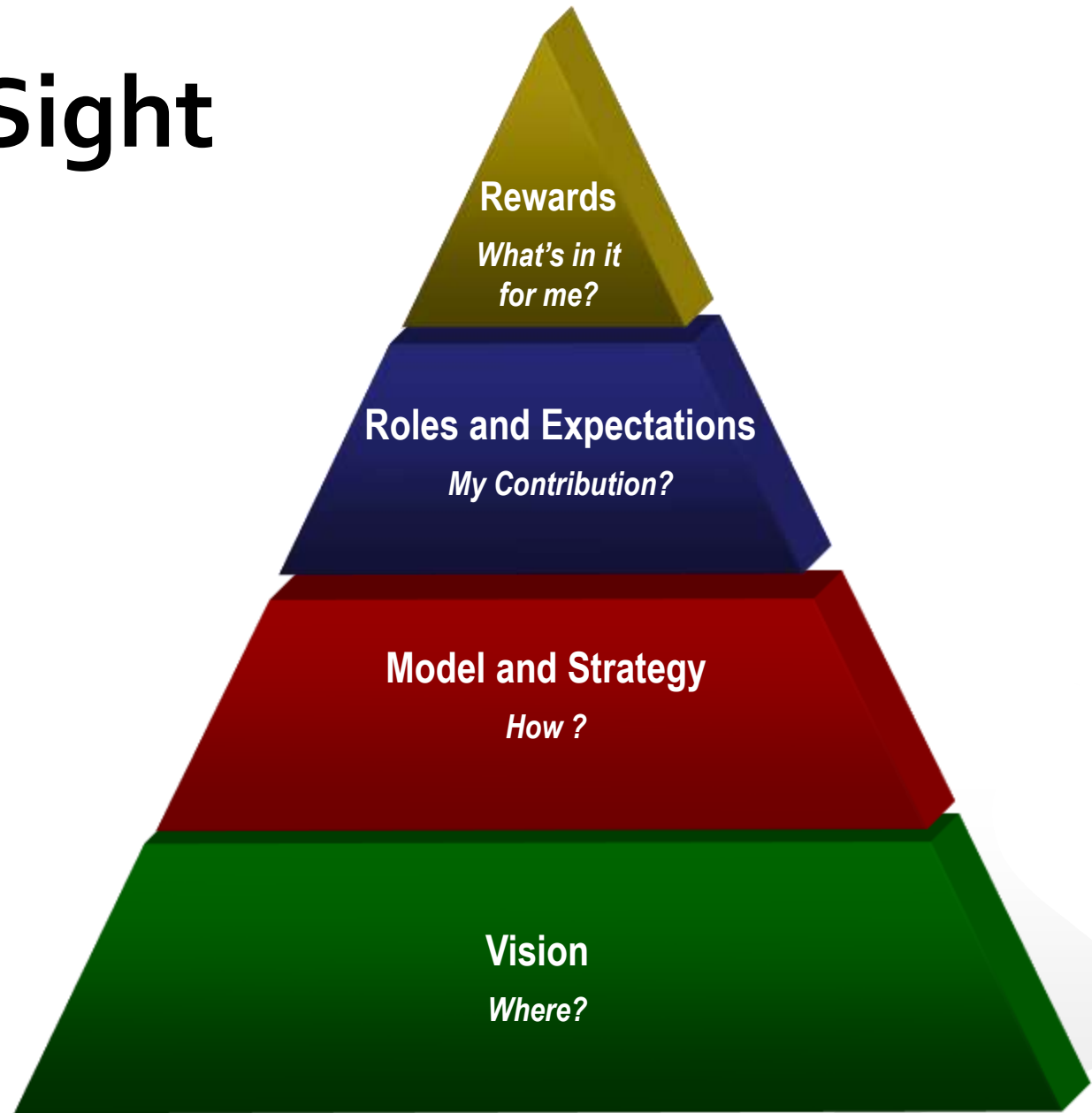


Key Questions



1. What outcomes need to be achieved if the company's growth goals are going to be fulfilled?
2. What specific skill sets are needed to produce those outcomes?
3. What is the gap between the talent we have and the skill sets we need?
4. What value proposition will attract and retain that kind of talent?

Line of Sight



Market a Partnership



CFO to CEO friend:
“What would *you* be
looking for in a CFO?”

CEO: “I’d be looking for
a business partner.”

The Compensation Landscape

Two Approaches to Retaining Employees

- Expansive
- Selective

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



Stewardship

Roles gain greater clarity when the right financial metrics are introduced. The reverse is also true.

Stewardship Depends on Clarity

Criteria for Value Proposition

- Must appeal to top talent (catalysts)
- Must promote and reinforce innovation
- Must be flexible
- Must be tied to driving 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 Trends for Defining a Financial Partnership

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



Performance Agreements



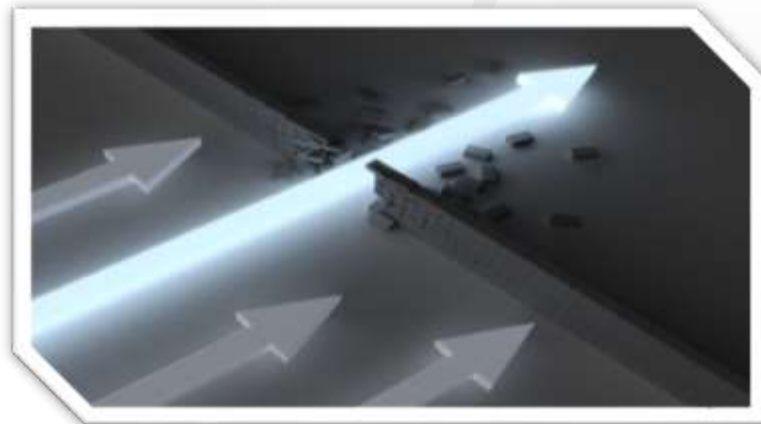
Prominent Media Company

- 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

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



Select the Right Plan Type

Phantom Stock
Option

Restricted Stock

Profit Pool

Performance Shares

Phantom Stock

Strategic Deferred
Compensation

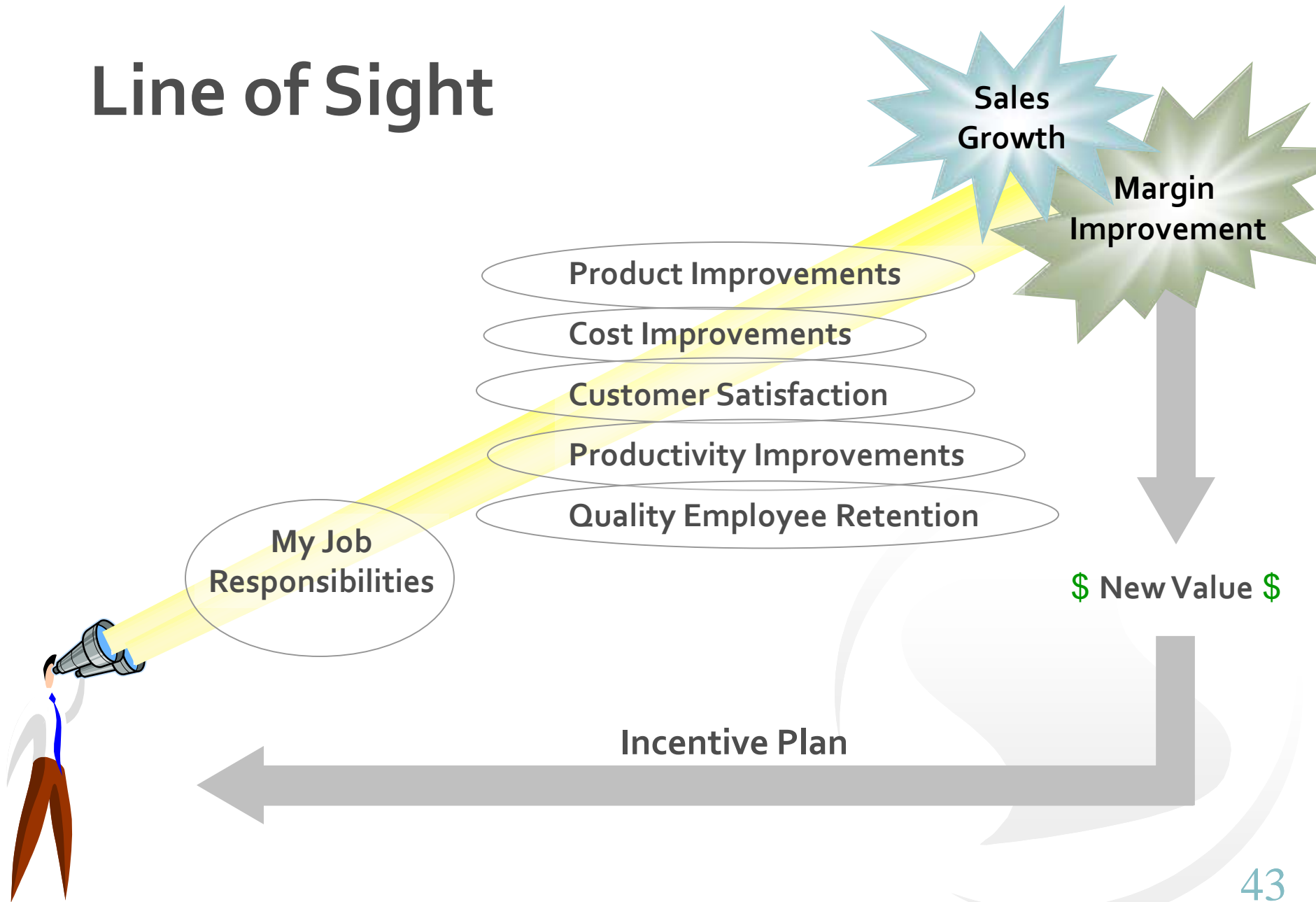
Performance
Phantom Stock

Stock Option

Performance Unit



Line of Sight



Market a Future



- Think transformation, not just change
- Build a sense of partnership
- Demonstrate commitment
 - To the future business
 - To key contributors
- Promote don't just communicate
- Be consistent

Total Rewards Approach

Compelling Future

Positive Work Environment

Opportunities for Personal and Professional Growth

Financial Rewards

Link Company & Employee Goals

Employee "Hierarchy of Needs"

5 Wealth Accumulation

4 Value Sharing

3 Retirement Planning

2 Risk Protection

1 Cash Flow & Living Standard

Wealth Multiplier Philosophy

Short & Long-Term Incentive
Plans

Qualified & Executive
Retirement Plans

Comprehensive, Flexible
Benefits Plan

Salary & Bonus

Clear Pay Philosophy

Employee Value Statement

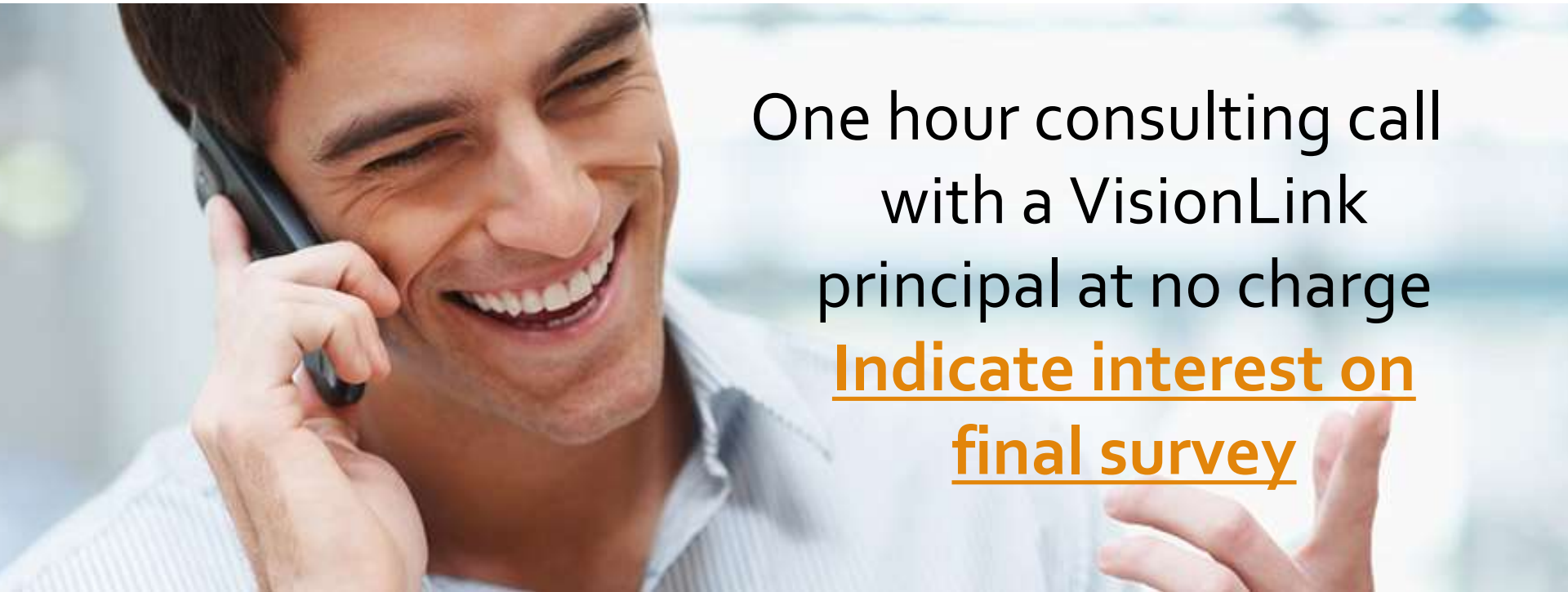
Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000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

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



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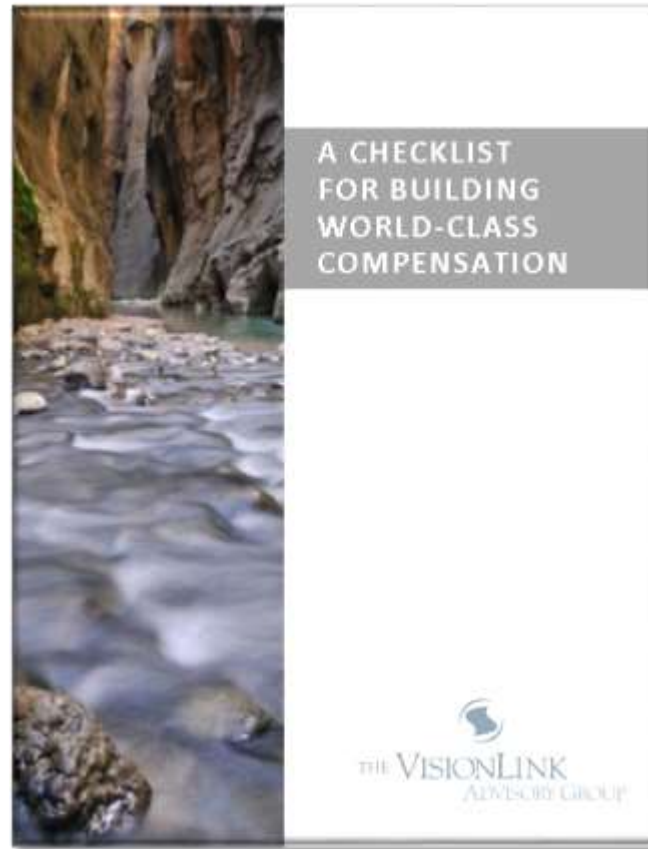
Pay, Performance & Productivity <i>How to Place Results at the Center of the Rewards Equation</i>	April 28th
5 Pay Essentials for Growing Your Company <i>How to Build Tomorrow's Business without Sacrificing the Present</i>	May 26 th
Guaranteed vs. Incentive Pay: What's the Right Balance? (HR Audience)	June 9 th
Compensation as a Wealth Multiplier <i>How to Build Pay Strategies that Increase Shareholder Value</i>	June 23 rd
4 Alternatives to Sharing Stock <i>How to Share Value without Diluting Equity</i>	July 28 th
"The 3 "Habits" of Highly Effective Pay Plans" <i>How to Ensure Your Rewards Programs will Succeed</i>	August 25 th

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WHAT WILL IT CHANGE?

WHERE DO I BEGIN?

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Q&A

Thank you!



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