5 Keys to Building a High Performance Pay Strategy

THE VISIONLINK ADVISORY GROUP

Today's Presenter:

Ken Gibson

Senior Vice President
(949) 265-5703
kgibson@vladvisors.com

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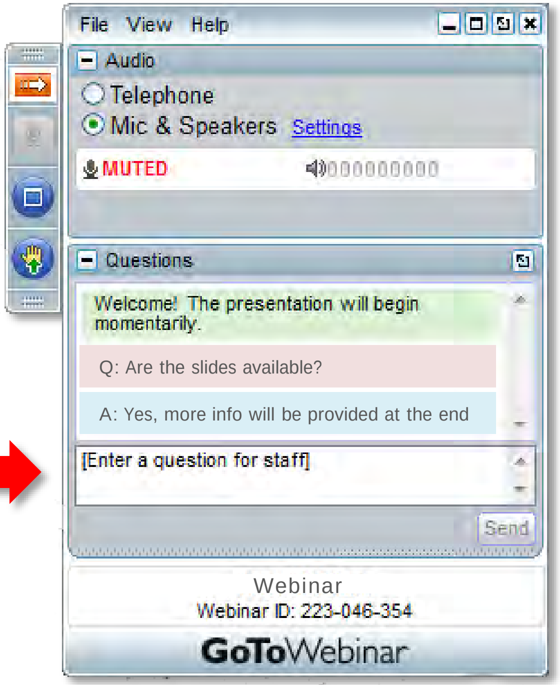

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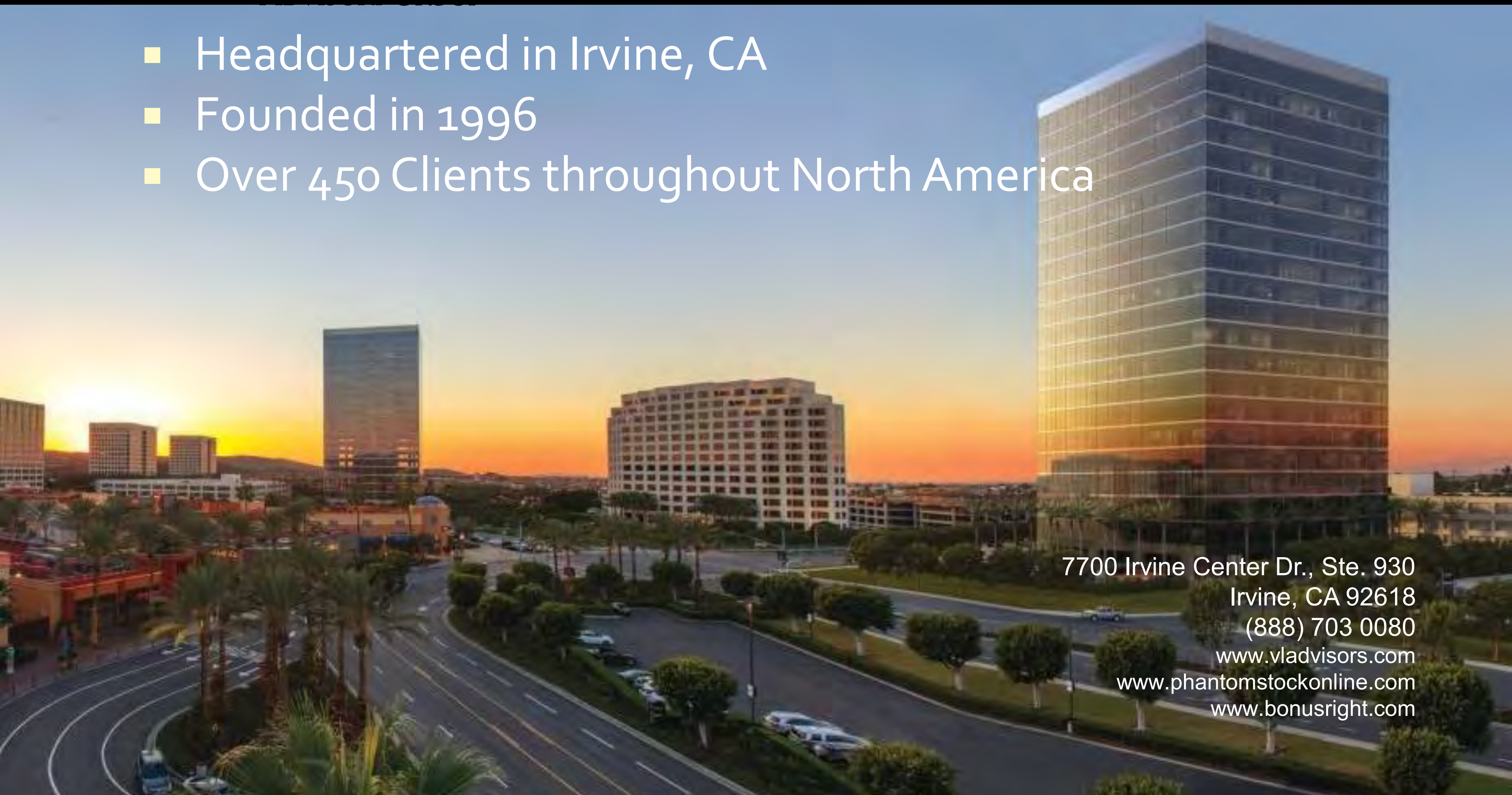

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VisionLink's Focus

Help Business Leaders Build and Sustain a Performance Culture

Accelerate performance through pay strategies that transform employees into growth partners.

If you do that…

- Quality of talent will improve.
- Employee engagement will expand.
- Performance will be magnified.
- Business growth will be accelerated.
- Shareholder value will increase.

Where We are Headed

- Why is high performance pay an issue?
  - Talent Trends
- Who are the high performers—the ones you have and the ones you will need?
  - Key Criteria
- How do you create a high performance pay strategy?
  - 5 Keys

Why is high performance pay an issue?

CEO Talent Concerns

One of the biggest headaches for CEOs is making sure that the organization has the right people to cope with what lies ahead. There's the basic question of planning for the skills that are needed now and in the future: Which roles will be automated? What new roles will be needed to manage and run emerging technology? What skills should the company be looking for, and training their people for? Where will we find the people we need?

PwC's 18th Annual Global CEO Survey

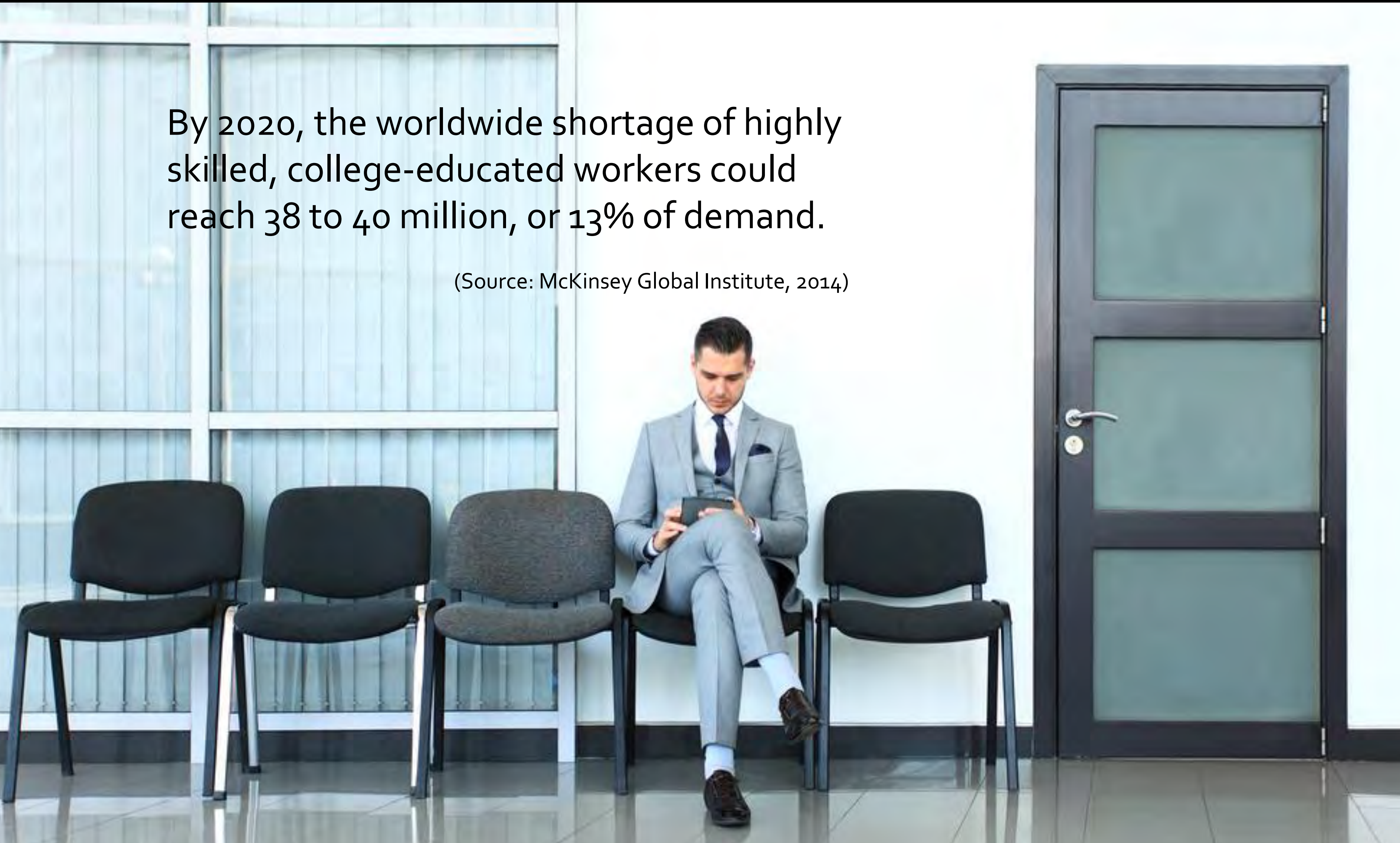
But more importantly, CEOs need to be sure that the business is fit to react quickly to whatever the future may throw at it – and that means filling it with adaptable, creative people, working in a culture where energy fizzes and ideas spark into life. If they can't be found, they must be created.

PwC's 18th Annual Global CEO Survey (continued)

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, 2014)



2020 is Here

"The conversations overheard at every Chief Executive Group event this year undoubtedly echo the conversations you're having with …the heads of every division in your organization: how to deal with the skills gap that has made it so difficult for companies throughout America to fill available jobs, increase often-stalled productivity, navigate change, and fuel the sort of disruptive activity that is essential for survival in this economy."

(Chief Executive Magazine, July 25, 2017)

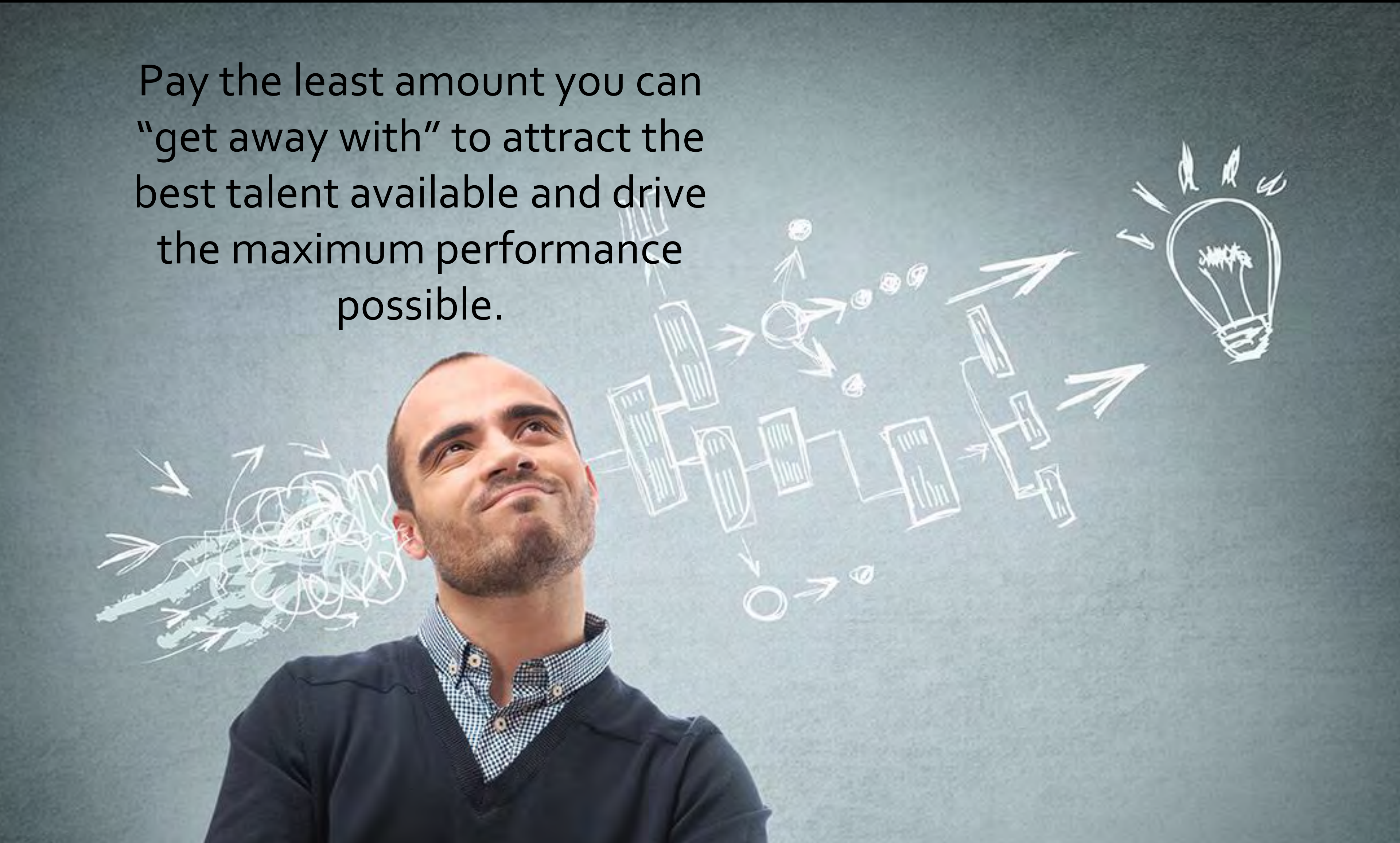
Employee Empowerment

Employees today have increased bargaining power, the job market is highly transparent, and **attracting top-skilled workers is a highly competitive activity**. Companies are now investing in analytics tools to **figure out why people leave**, and the topics of purpose, engagement, and culture weigh on the minds of business leaders everywhere.

(Deloitte 2015 Study & Report)

Governing Thought

Pay the least amount you can "get away with" to attract the best talent available and drive the maximum performance possible.



Those Days are Gone

Who are the High Performers?

Value Creators

The Emergence of Catalysts

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."**

Catalysts Change Growth Trajectory

"…**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)

Jony Ive

Strategic Leaders

"Most companies have leaders with the strong operational skills needed to maintain the status quo. But they are facing a critical deficit: **They lack people in positions of power with the know-how, experience, and confidence required to tackle what management scientists call "wicked problems.**

"…**strategic leaders**…tend to have several common personality traits: They can challenge the prevailing view without provoking outrage or cynicism; they can act on the big and small picture at the same time, and change course if their chosen path turns out to be incorrect; and they lead with inquiry as well as advocacy, and with engagement as well as command, operating all the while from a deeply held humility and respect for others.

(10 Principles of Strategic Leadership, Strategy+Business, May 18, 2016, Jessica Leitch, David Lancefield, and Mark Dawson)

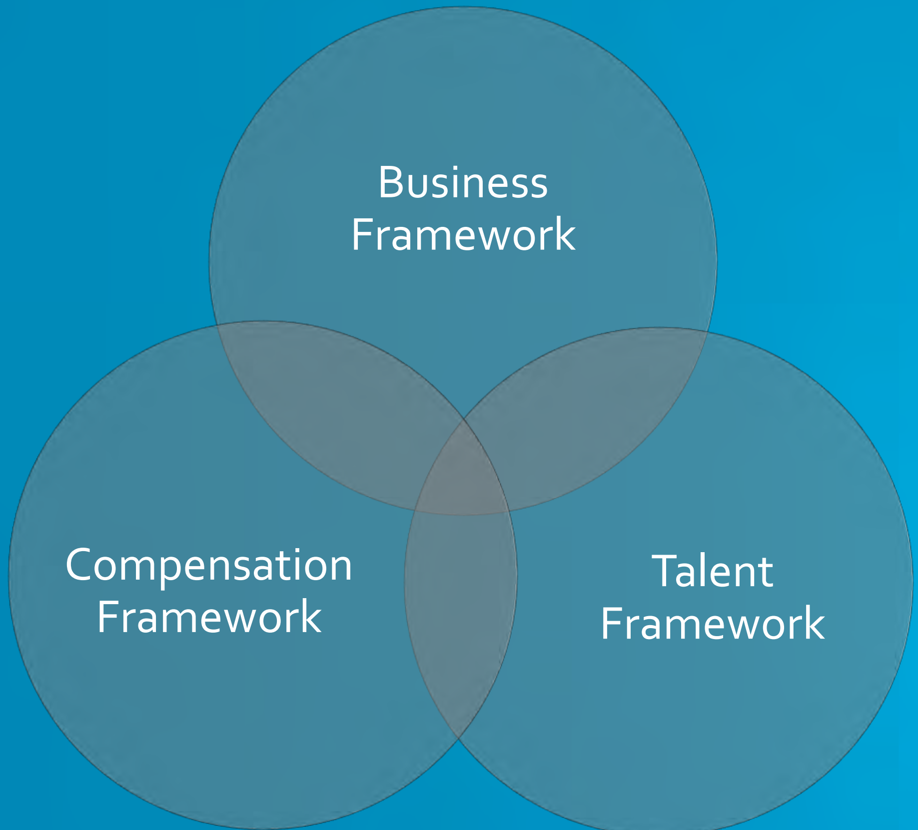
What it Means

- Companies need catalysts who are strategic leaders.
- Catalysts must focus on areas of strategic impact
- Catalysts are scarce.
- Scarcity creates competition
- Competition requires a unique and comprehensive value proposition

5 Keys to Building High Performance Pay

1. Establish a performance framework
2. Define value creation
3. Choose a pay philosophy & structure
4. Emphasize long-term value sharing
5. Frame a partnership

1. Establish a Performance Framework



Business Framework

Business Framework

Phase One

- 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”

Compensation Framework

Compensation Framework

Phase Two

- 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

Talent Framework

Talent Framework

Phase Three

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

2. Define Value Creation

Value attributable to the productivity and performance of human capital.

2. Calculating Value Creation

Focus on
Productivity Profit

Value Creation Example:

Item	Amount
Capital Account	$20,000,000
Cost of Capital	12%
Capital Charge	$2,400,000
Operating Income	$10,000,000
Productivity Profit	$7,600,000
Total Rewards Investment	$25,000,000
ROTRI™	30.4%

(ROTRI™ = Productivity Profit/Total Rewards Investment)

ROTRI™ Example:

Item	Figure
Capital Account	$20,000,000
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***Variable Pay Plans** (Value Sharing) **are financed from Productivity Profit**

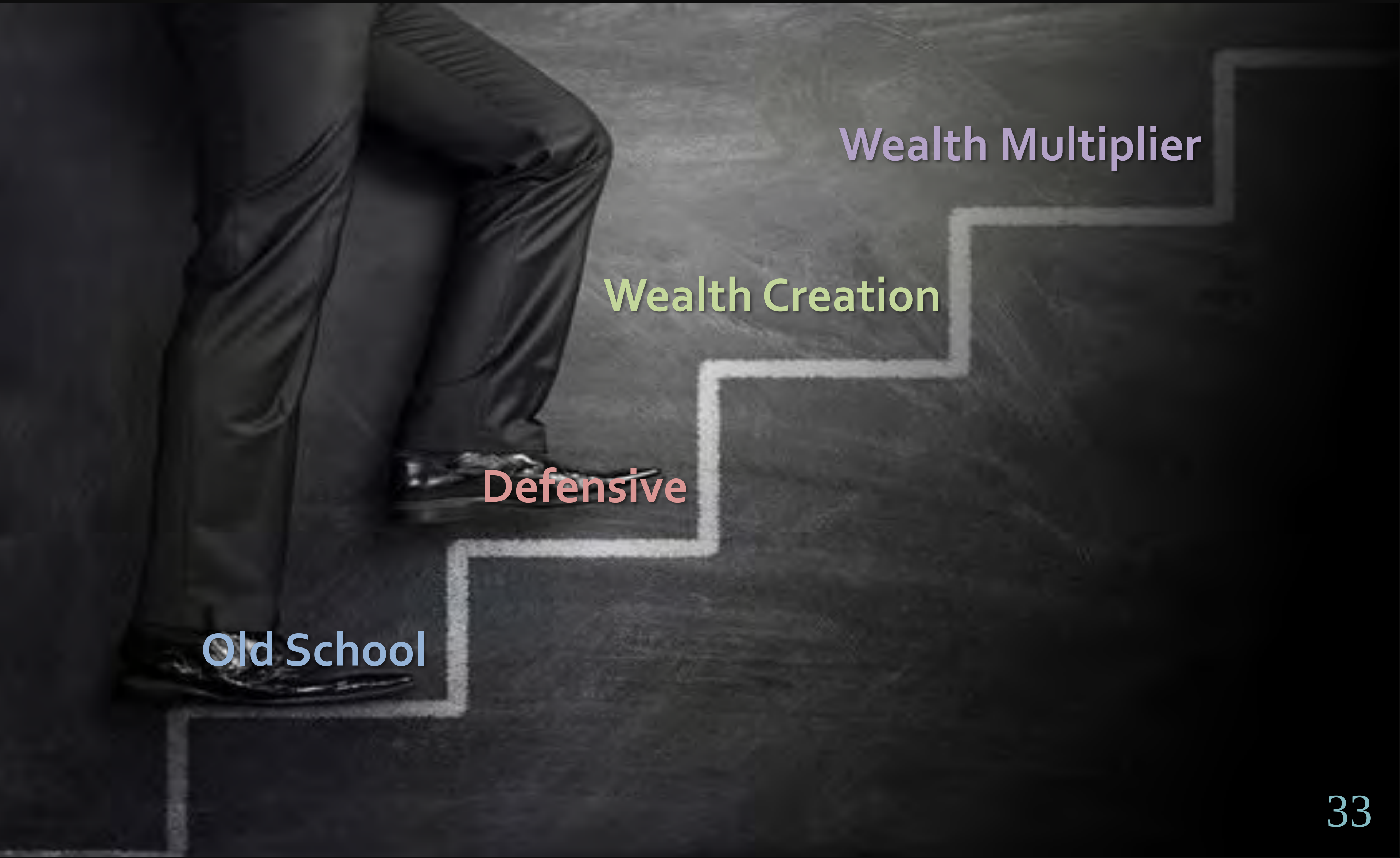
(ROTRI™ = Productivity Profit/Total Rewards Investment)

3. Choose a Pay Philosophy & Structure

Compensation Philosophy Statement

- How value creation is defined.
- How value is shared—and with whom.
- Market pay standards.
- How guaranteed pay and value-sharing will be balanced.
- How short and long-term value-sharing will be balanced.
- When or if equity will be shared.
- How merit pay is defined.

Pay Philosophy Evolution



Old School

	People Are Lucky to Have a Job
Philosophy	Pay the least you can to get the work done.
Cost or Investment?	Every dollar spent on pay is one dollar less in profits.
Salaries	Check the market; pay less if we can get away with it.
Bonuses	Maybe; let's wait and see if we have a good year.
Long-term Incentives (quasi-equity)	Are you crazy?
Results	If you have a business with sustainable cash flow and it doesn't require innovative employees or much customer interaction, this can work…but won’t attract or retain premier talent.

Defensive

	Don’t Rock the Boat
Philosophy	We want to pay people well, but we have to be very cautious.
Cost or Investment?	We need to be very careful to control costs--including pay.
Salaries	We want to be "at market." Keep searching for it.
Bonuses	We will try to pay bonuses as long as we can afford them.
Long-term Incentives (quasi-equity)	Not our cup of tea. Seems expensive and unnecessary.
Results	If you want employees who are cautious about bringing up pay issues . . . and accept that pay should never go lower but rarely should go higher, this is the approach for you.

Wealth Creation

	Let's Focus on Performance
Philosophy	Pay strong salaries and incentives to enable the company to attract great talent. We are willing to pay "above market" for top performers.
Cost or Investment?	We see compensation as an investment that should produce a positive return for shareholders.
Salaries	Salaries should be "at market" for most positions but somewhat above for high value positions.
Bonuses	Bonuses are set and communicated early in the year; they are expressed as a meaningful percentage of salaries.
Long-term Incentives (quasi-equity)	May play a small role.
Results	If you want to focus on aligning employee performance and pay with your crucial budgeted goals, consider this approach.

Wealth Multiplier

	Let's Secure Growth Partners
Philosophy	Share economic value. "If you create financial value, you will participate in a generous portion of it."
Cost or Investment?	Compensation is allocated to produce the highest possible return for both shareholders and contributing employees.
Salaries	We use data for benchmarking, but our pay philosophy drives where we want to be vis a vis market pay.
Bonuses	Bonuses (value sharing plans) are tied to crucial metrics, recognize personal contributions, and are not capped.
Long-term Incentives (quasi-equity)	Viewed by top performers as the most meaningful part of their rewards program.
Results	If you want to be able to attract and retain the best talent in your industry and have them adopt a stewardship mindset regarding shareholder goals, this is your system.

Pay Structure

- Expansive
- Selective

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

Expansive Approach

Strives to retain virtually every employee under the theory that everyone is needed or they wouldn't be there. Largely egalitarian.

"Why upset our harmonious culture by creating an elite group that receives special treatment? All our employees are critical and perform well, and most are not going to leave."

Expansive Approach

- Easy to administer
- Does not usually support an organization's efforts to raise overall performance
- Discourages and disengages high performers

Selective Approach

Identifies, nurtures and works to retain the high performers at all levels of the organization.

Seeks to produce a cycle that, in the long term, will not only retain existing high performers, but create and attract more high performers and generate ever-improving standards of performance and organizational results.

Selective Approach

- Sets high performance standards
- Acknowledges the company is in a war for stars
- Recognizes high performers always have an opportunity to move

Which approach makes the most sense?

4. Focus on Long-Term Value Sharing

Value Sharing Instead of "Incentives"

Incentives imply a "carrot and stick" approach while value sharing is about reinforcing outcomes and forging a financial partnership.

What High Performers Want

- There is a philosophy that guides pay decisions and I relate to it.
- There is a mechanism for sharing value with those who help produce it.
- I have some control over how much I can earn if I produce.
- I feel a sense of partnership with ownership.

Long-Term Value-Sharing & Catalysts

- Single most important component in attracting and retaining “catalysts”
- Should be used in every size organization
- Creates “wealth multiplier” mindset
- Ties employees to vision and growth plan of the company
- Most under-utilized plan in most private companies

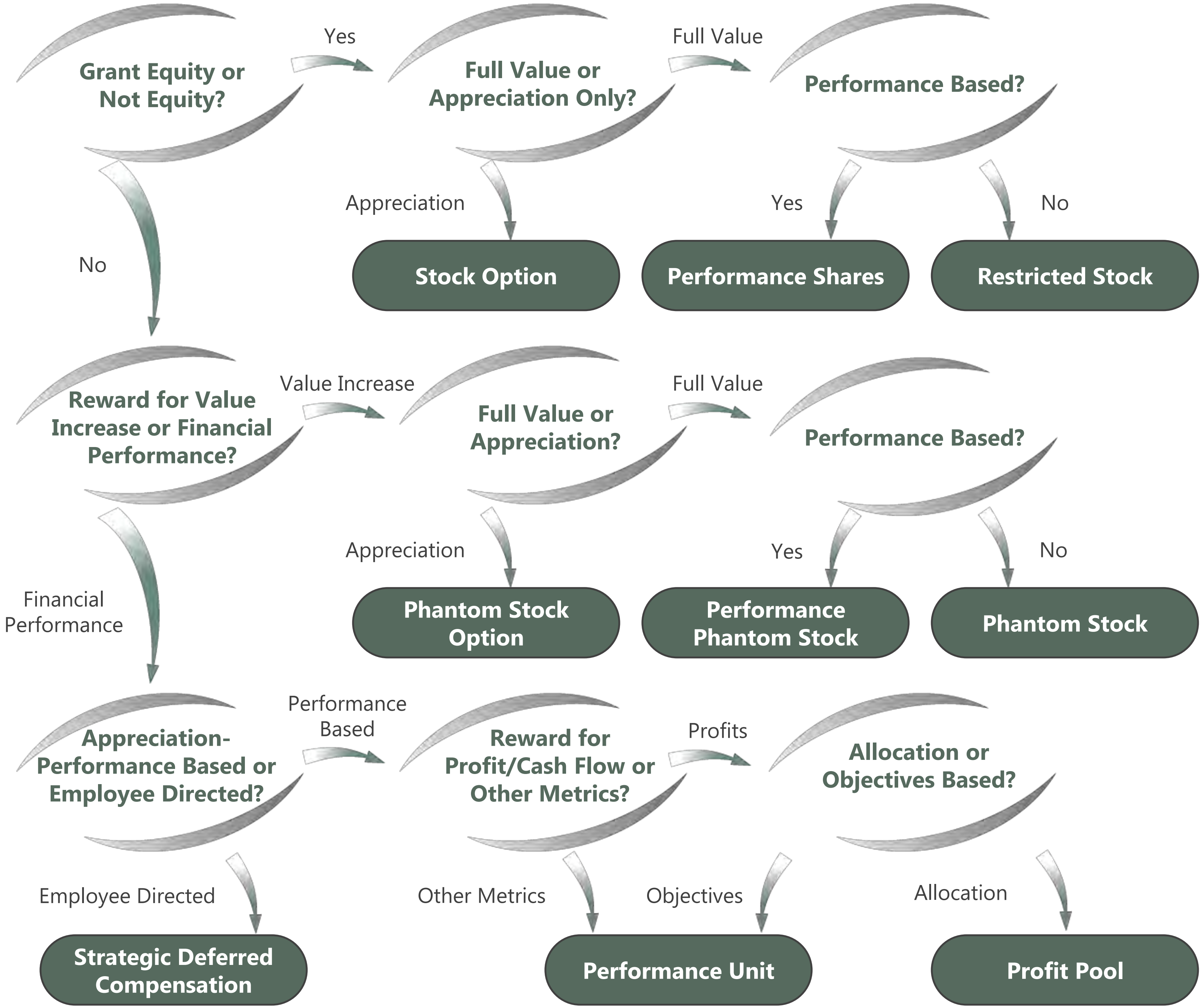
Financial "Hierarchy of Needs"

5	Wealth Accumulation	Wealth Multiplier Philosophy
4	Value Sharing	Short & Long-Term Incentive Plans
3	Retirement Planning	Qualified & Executive Retirement Plans
2	Risk Protection	Comprehensive, Flexible Benefits Plan
1	Cash Flow & Living Standard	Salary & Bonus

Clear Pay Philosophy

9 Long-Term Value Sharing Alternatives

- Restricted Stock
- Phantom Stock
- Profit Pool
- Performance Shares
- Performance Phantom Stock
- Performance Unit
- Stock Option
- Phantom Stock Option
- Strategic Deferred Compensation



Grant Equity or Not Equity?
Yes
Full Value or Appreciation Only?
Full Value
Performance Based?
Appreciation
Stock Option
Yes
Performance Shares
No
Restricted Stock
No
Reward for Value Increase or Financial Performance?
Value Increase
Full Value or Appreciation?
Full Value
Performance Based?
Appreciation
Phantom Stock Option
Yes
Performance Phantom Stock
No
Phantom Stock
Financial Performance
Appreciation-Performance Based or Employee Directed?
Performance Based
Reward for Profit/Cash Flow or Other Metrics?
Profits
Allocation or Objectives Based?
Employee Directed
Strategic Deferred Compensation
Other Metrics
Objectives
Performance Unit
Allocation
Profit Pool

Sharing Equity

In a Private Company, when does it make sense?

Key Questions

- Competing against public companies for talent?
- Need to give equity to attract or retain vital contributors?
- Employees have earned an ownership stake?
- Means exist for transferring or repurchasing stock?
- Can accept the immediate dilution of your equity?

What Direction Should You Take?

	Value Tied To	Total Value or Appreciation Only?	Awarded or Earned?	When Redeemed (Typically)?	Executives or Broad (Typically)?
Phantom Stock Options	Share Price	Appreciation	Awarded	3-7 years	Executives
Full Value Phantom Stock	Share Price	Total	Awarded	6-10 years	Executives
Performance Phantom Stock	Share Price	Either	Earned	3-10 years	Executives
Profit Pool	% of Profits	Either	Earned	3 years	Broad
PUP	2-3 Key Metrics	Either	Awarded	3 years	Broad
Strategic DCP	1-2 Annual Financial Metrics	Either	Earned	Retirement	Executives

Long-Term Value Sharing Drives Productivity Profit

Item	Figure
Capital Account	$20,000,000
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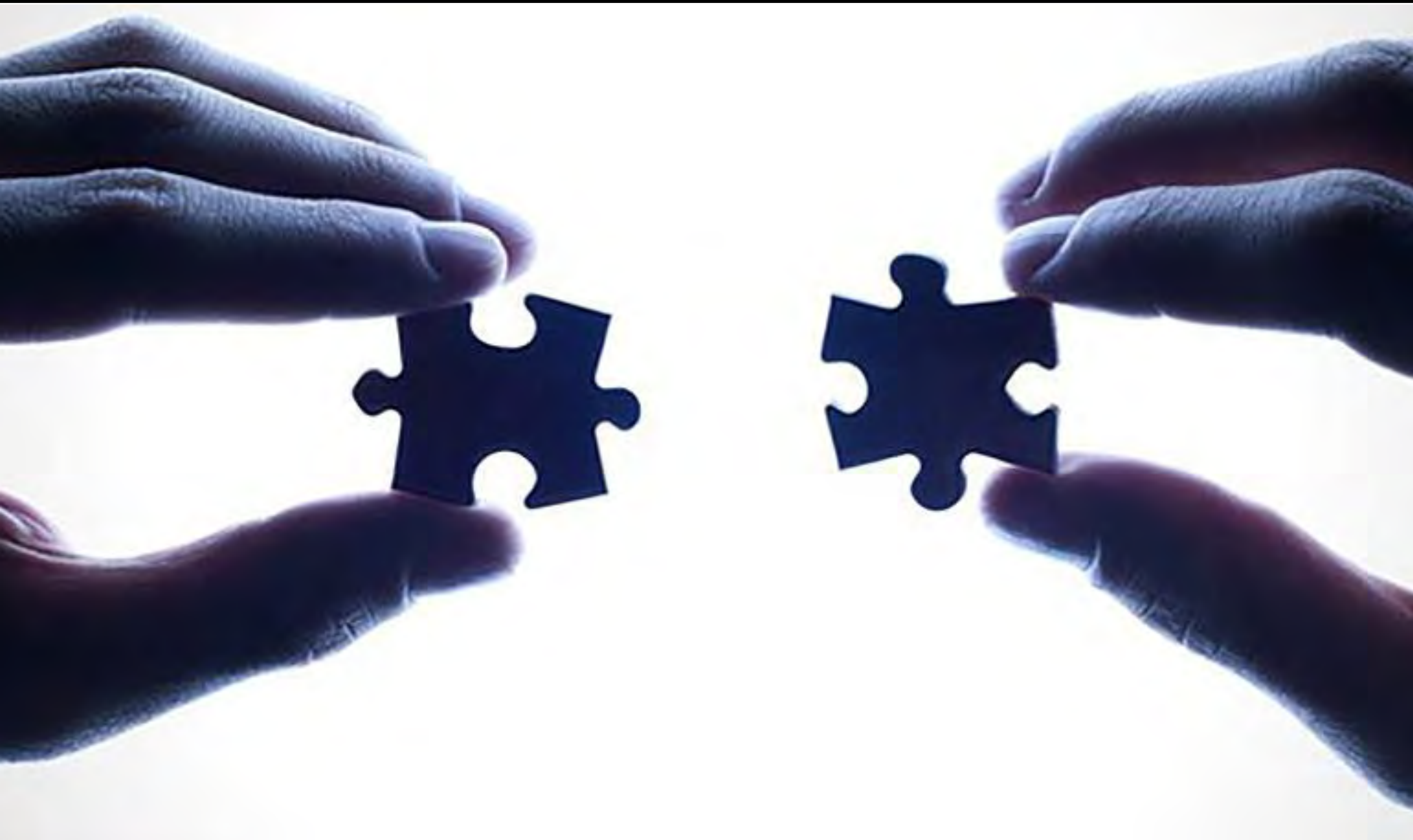
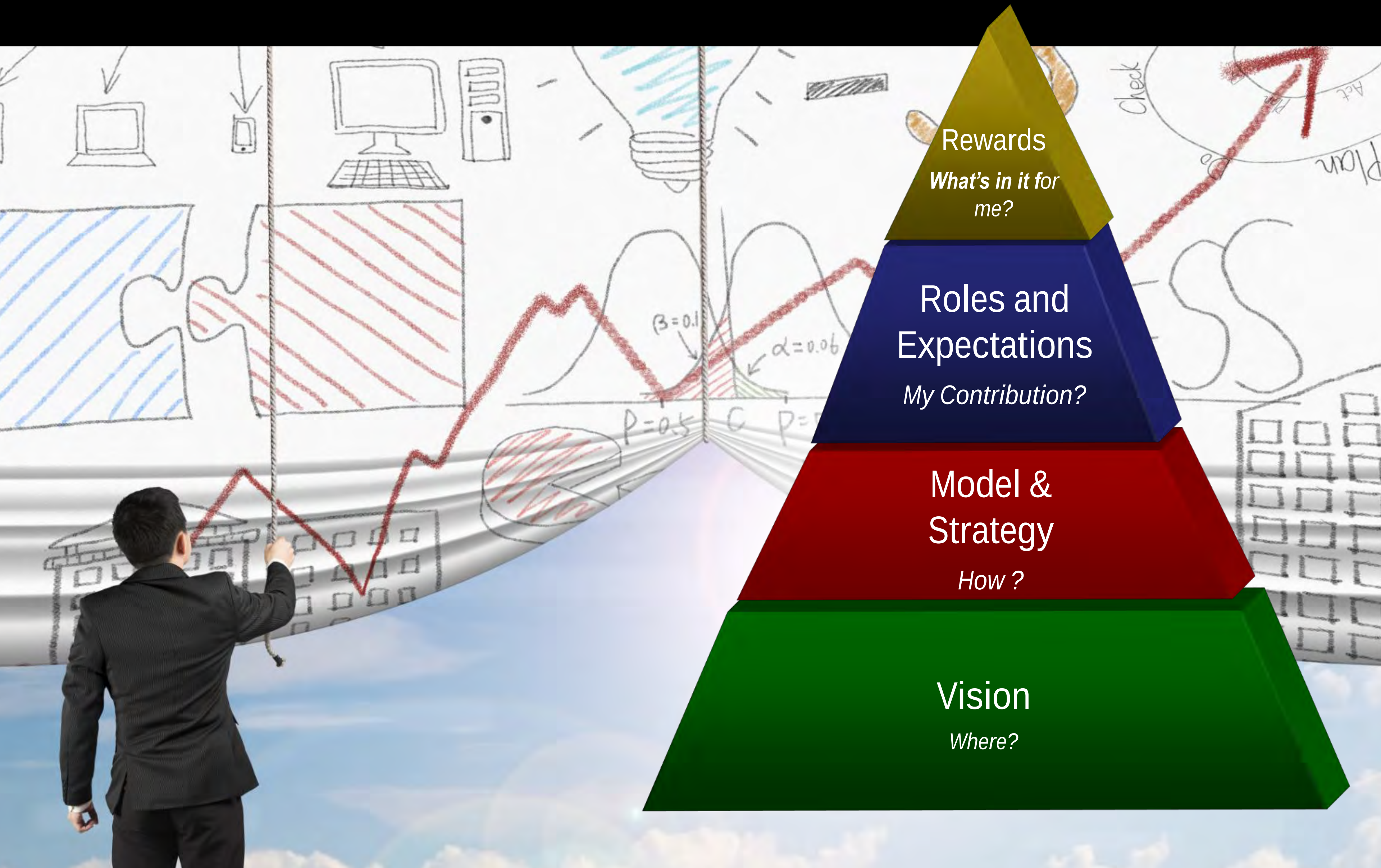
5. Frame a Partnership



Focus on Line of Sight



Market a Future that's Relevant

- Communicate desire for a growth partnership
- Demonstrate commitment
  - To the future business
  - To key contributors
- Promote don't just communicate
- Be consistent

Market a Future that's Relevant

- Here's our future
- Here's how we're going to get there
- Here's the role we picture for you
- Here's how we encourage our people to grow and contribute
- Here's our philosophy about pay and rewards
- Here are our specific pay programs
- Here's how our pay programs could work for you if we achieve our plan

Employee Value Statement

Year	1	2	3	4	5
Targeted Results	100%	100%	100%	100%	100%
Salary	$160,000	$166,400	$173,056	$179,878	$187,177
STVS	$64,000	$66,560	$69,222	$71,991	74,871
LTVS (EOY)	--	$74,000	$186,000	$311,000	$448,000
401(k) @7%	$17,120	$36,123	$57,169	$80,428	$106,086
Total Cash	$224,000	$232,960	$242,278	$251,970	$262,048
Wealth Accrual	$17,120	$110,123	$243,169	$391,428	$554,086
Total Value	$241,120	$567,083	$942,407	$1,342,636	$1,767,343

Bonus Key: Market the Employer Brand

What is an Employer Brand?

The perception employees, future employees and the community hold of your company.

You don't get to decide what your brand is. Others determine it.

While you don't get to decide what your brand is, you can decide what you want it to be. CEOs must lead that effort.

Employer branding is largely a marketing *effort*. It is not an HR *function*.

Build an Employer Brand Strategy

As the global economy picks up, there is growing concern among CEOs about finding and keeping the best talent to achieve their growth ambitions. Different surveys show that in 2014, 36% of global employers reported talent shortages, the highest percentage since 2007, and in a more recent 2015 survey, 73% of CEOs reported being concerned about the availability of key skills. **So how can companies compete effectively in this new war for talent? First and foremost, it's time for leaders to focus on strengthening their organizations' employer brands.**

("CEOs Need to Pay Attention to Employer Branding," Harvard Business Review, May 11, 2015, Richard Mosley)

5 Keys to Building High Performance Pay

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...plus a bonus key.

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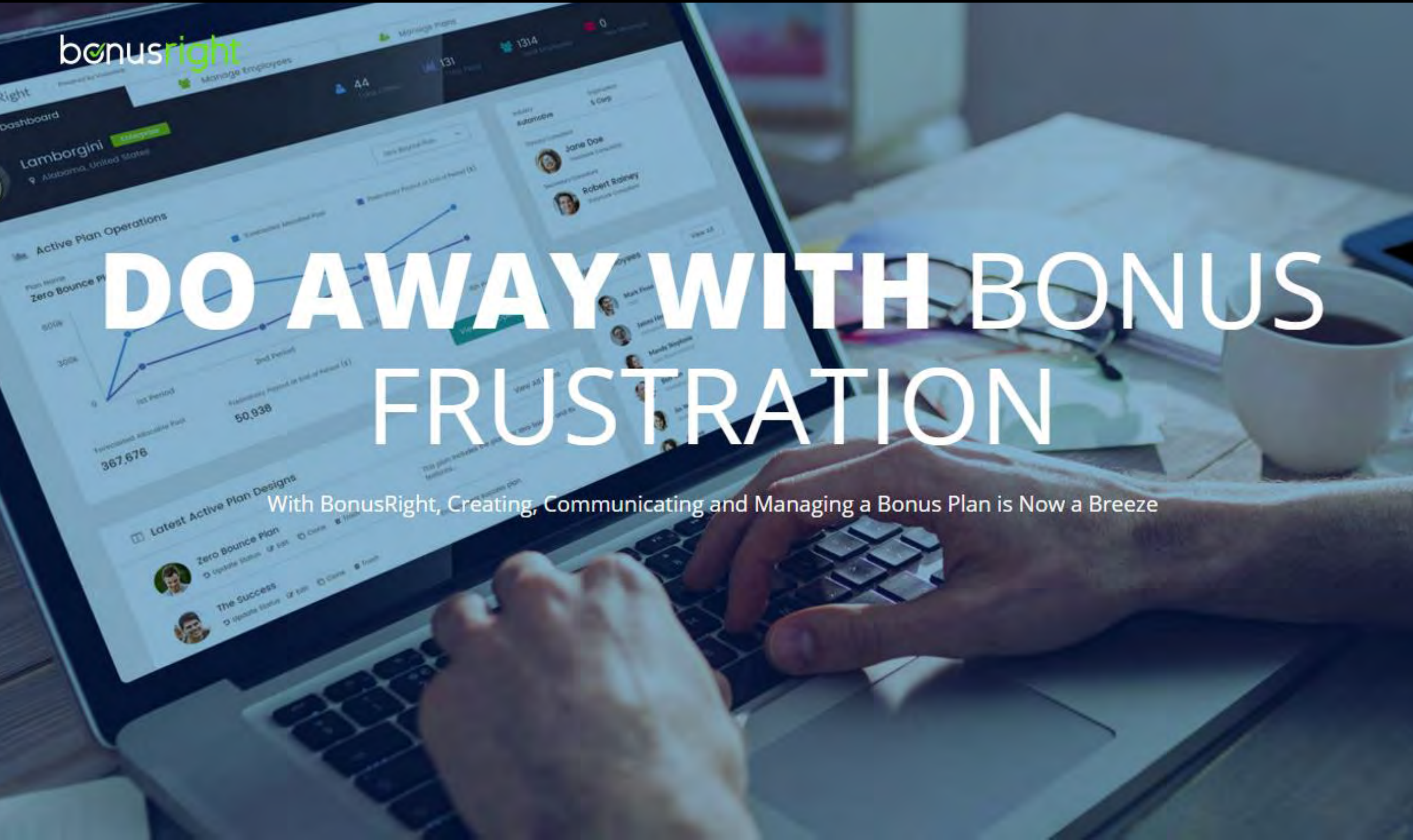

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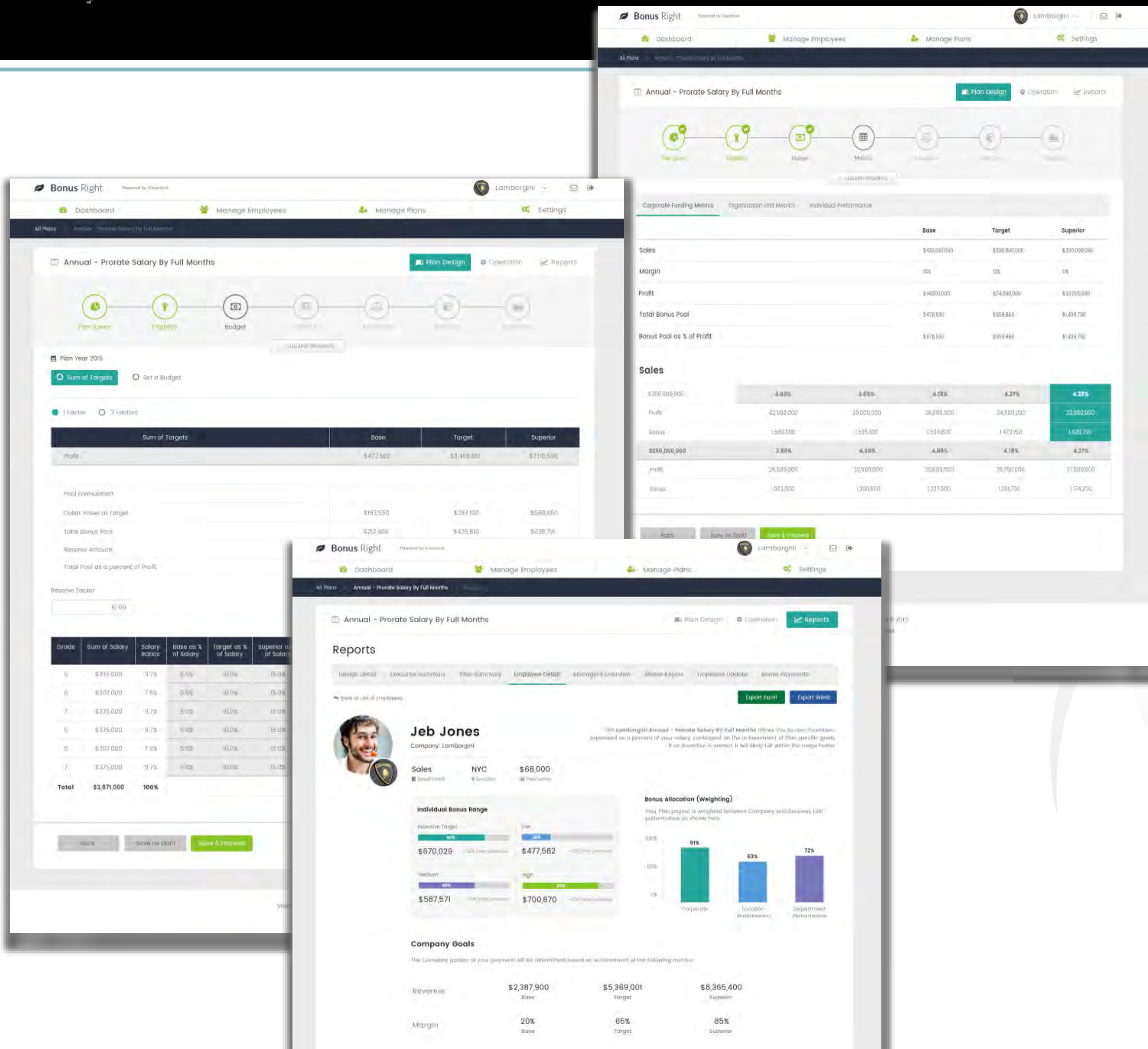

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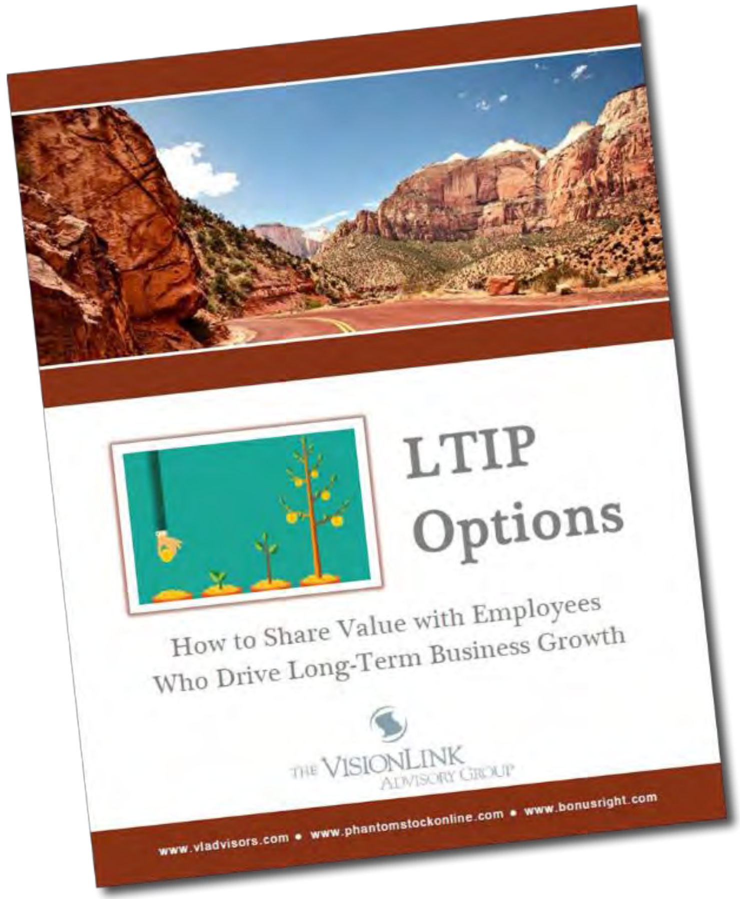
VisionLink Report

LTIP Options

How to Share Value with Employees Who Drive Long-Term Business Growth



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3 Ways Your Value Proposition is Impacting Recruiting and Retention

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When you are speaking with a potential new employee, does the subject of compensation ever come up? Or when one of your key people announces she is taking an opportunity at another company, is pay ever mentioned as a factor? Okay, forgive the insulting questions. But with all that has been written in recent years about how small a role a rewards strategy plays in an employee's performance, engagement and loyalty, I just thought I would ask what your "real life" experience has been. I imagine the truth is that compensation is a huge factor in recruiting and retaining the kind of talent you want. For most business leaders,having a compelling value proposition can make or break their ability to secure the people they are trying to attract--or keep. So let's stop pretending it's not a big issue and examine how your compensation approach is impacting your competitiveness in today's talent market place.

How Do You Make Incentive Plans "Self-Financing?"

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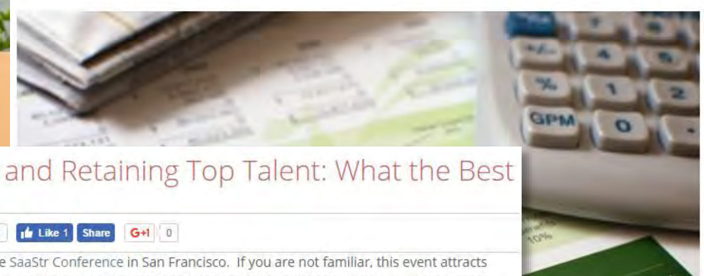
CEOs and business owners are always concerned about costs—because costs diminish profits. As a result, if you lead a company, one of the first questions you likely ask when an incentive plan is proposed is this: "What is it going to cost?" The question is understandable and appropriate; however, it starts a discussion about the merits of incentive plans on a wrong premise. In theory, an incentive plan shouldn't "cost" the company anything. Let me explain.



Attracting and Retaining Top Talent: What the Best Expect

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Last week I attended the SaaStr Conference in San Francisco. If you are not familiar, this event attracts about 10,000 attendees from the technology world to hear and learn from some of the industry's most successful SaaS company founders and leaders. These are individuals who have had to attract and develop talent in a highly competitive environment—and have succeeded in doing so on their way to building valuable companies. However, the principles and practices they apply in attracting and retaining top talent are not unique to their industry. They are what every successful organization does. So, let's learn from them, shall we?

Q&A

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ADVISORY GROUP

Today's Presenter:

Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com

Thank You!

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