

How Should You Pay High Performers?





THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

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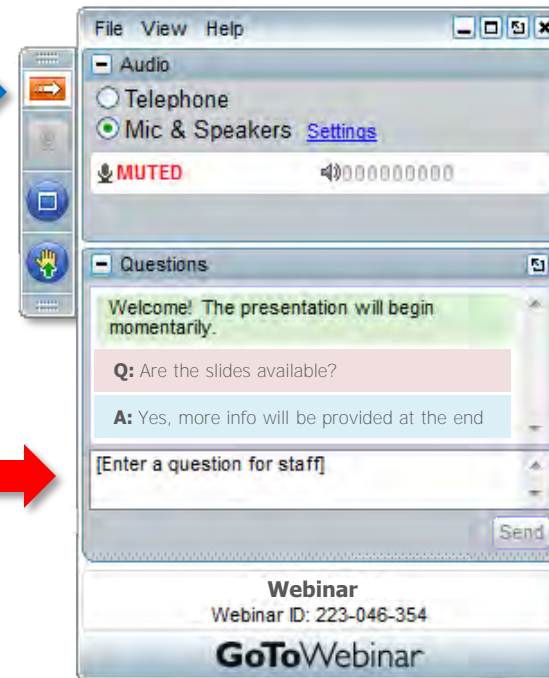
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Information will be provided at the close
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SURVEY



For Webinar Participants

A close-up photograph of a man with dark hair and a light beard, smiling broadly while talking on a black mobile phone. He is wearing a light blue and white striped button-down shirt. The background is a bright, out-of-focus outdoor setting, possibly a beach or a park with water and trees.

One hour consulting call with a
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Indicate interest on final survey



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- Founded in 1996
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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 pay for high performers an issue?
 - Talent Trends
- Who are the high performers—the ones you have and the ones you will need?
 - Key Criteria
- How do you pay high performers?
 - 6 Rules



Why is high performer 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



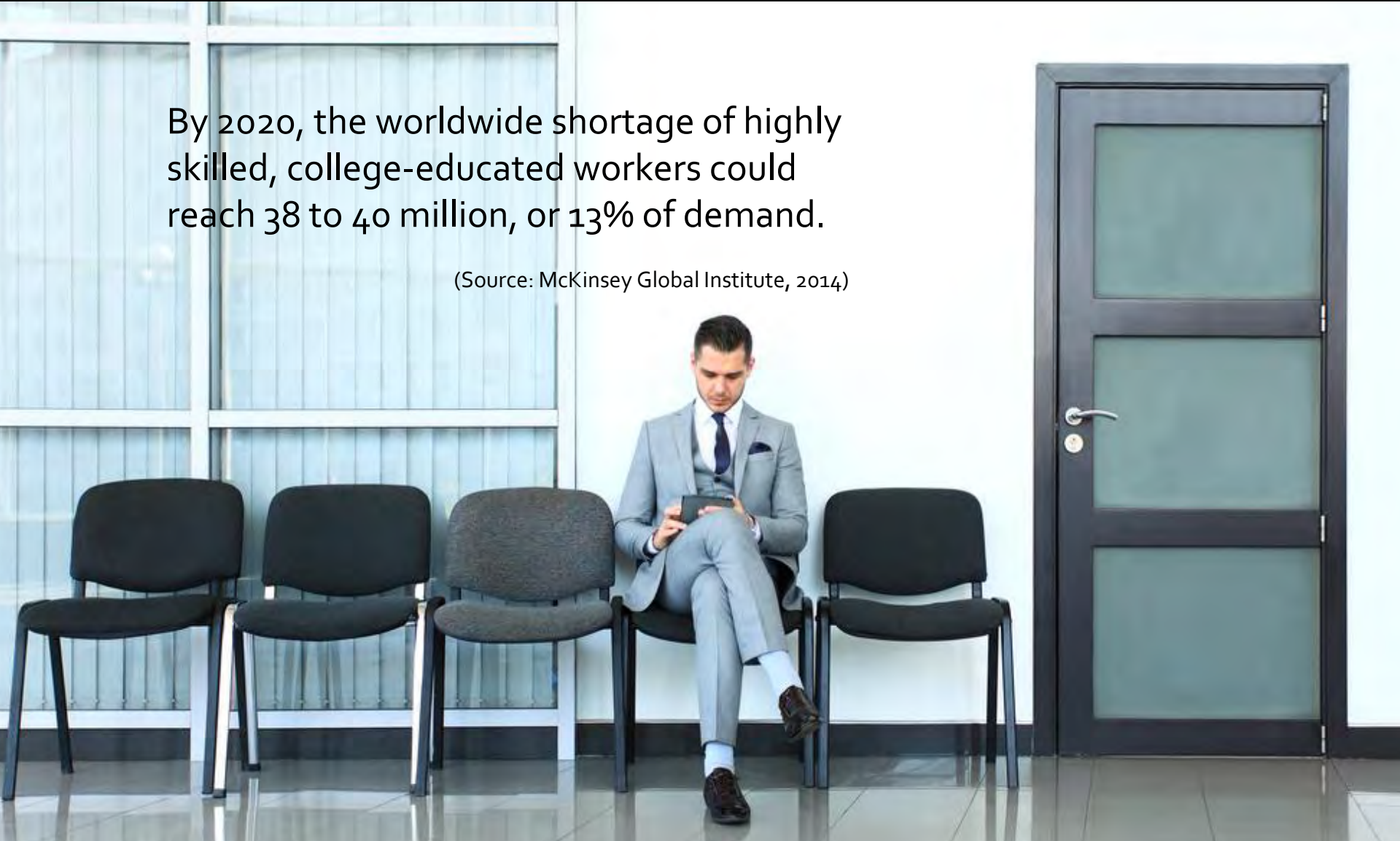
But more importantly, CEOs need to be sure that the business is fit to react quickly to whatever the future may throw at it – and that means filling it with adaptable, creative people, working in a culture where energy fizzes and ideas spark into life. If they can't be found, they must be created.

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



What is a High Performer?

Value Creator



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)



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

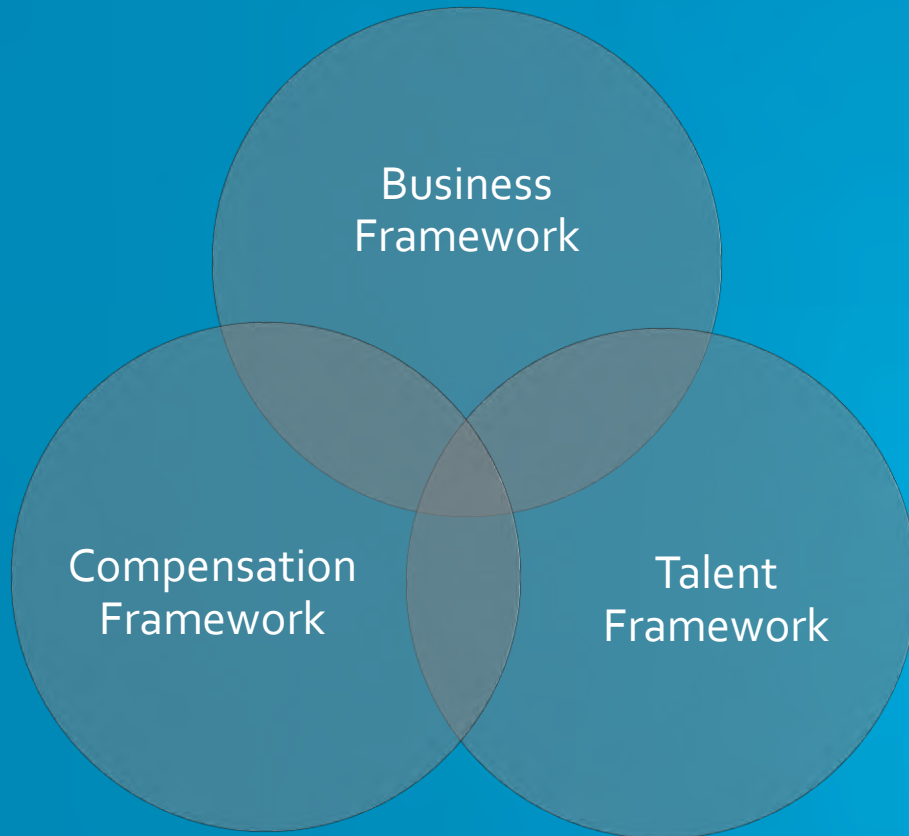
6 Rules for Paying High Performers

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

...plus a bonus rule.



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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Total Rewards Investment	\$25,000,000
ROTRI™ (Return on Total Rewards Investment)	30.4%

***Variable Pay Plans (Value Sharing) are financed from Productivity Profit**

(ROTRI™ = Productivity Profit/Total Rewards Investment)

3. Choose a Pay Philosophy & Structure

- 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 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 Value Sharing Alternatives

Restricted Stock

Phantom Stock

Profit Pool

Performance Shares

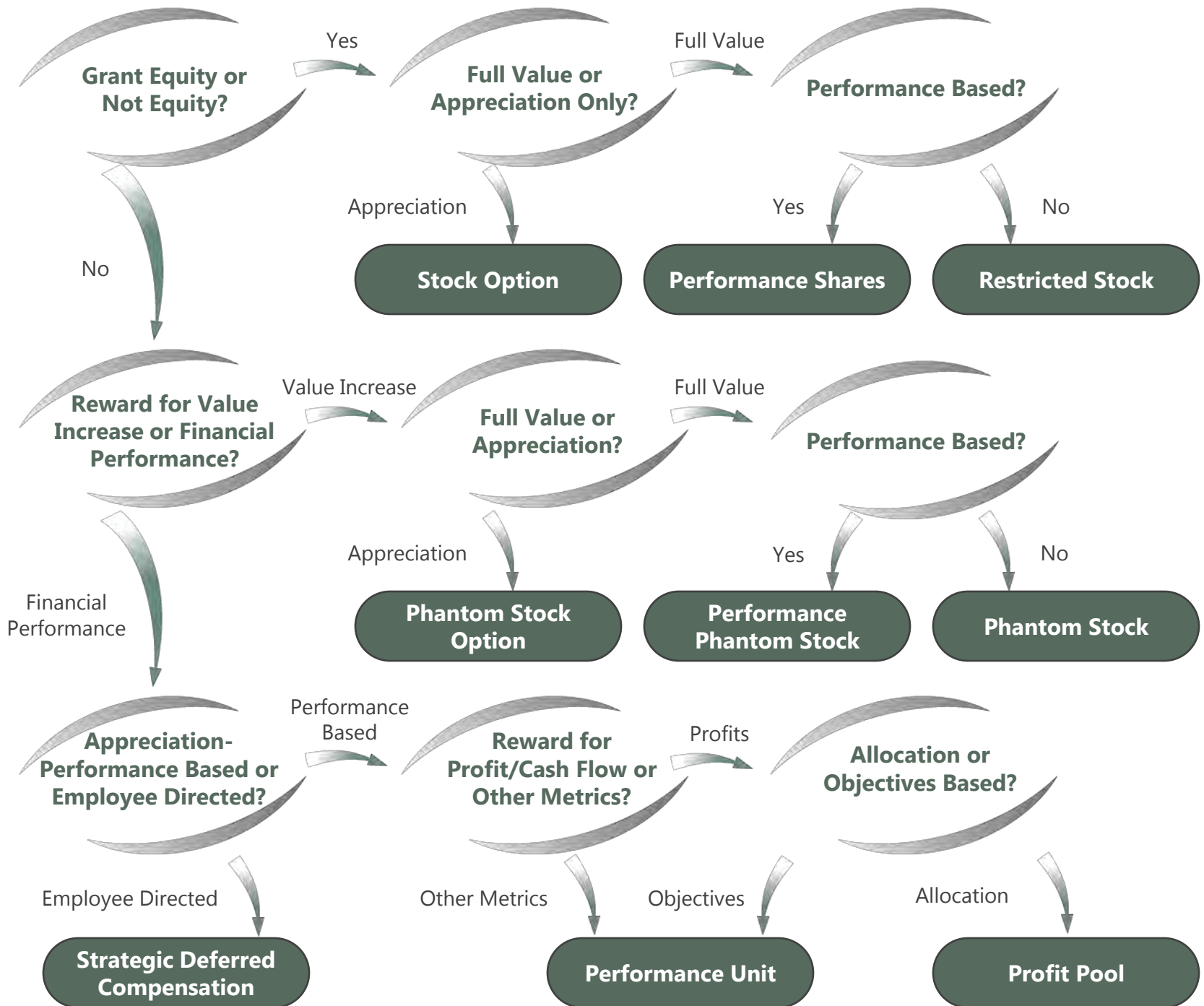
**Performance
Phantom Stock**

Performance Unit

Stock Option

**Phantom Stock
Option**

**Strategic Deferred
Compensation**



Sharing Equity

A 3D maze with a red path leading through it, symbolizing a complex decision-making process. The maze is made of white walls and a red path. A person in a dark suit is standing at the bottom of the maze, looking up and pointing towards the path.

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
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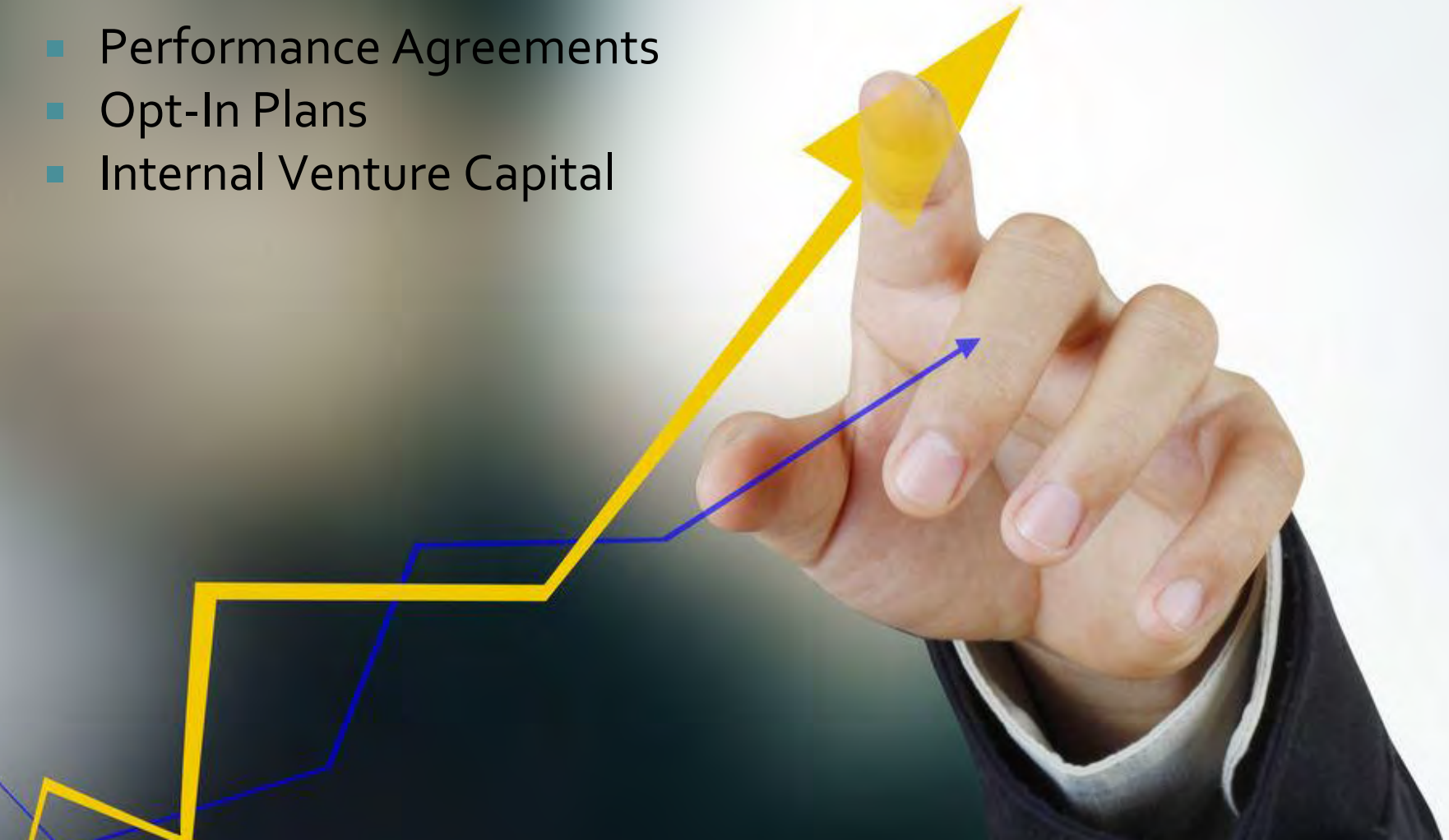


5. Be Innovative



Trends for Paying High Performers

- Performance Agreements
- Opt-In Plans
- Internal Venture Capital



Performance Agreements

A photograph showing two people's hands signing documents on a white table. The person on the left is wearing a blue and white striped shirt and a blue tie, holding a blue pen. The person on the right is wearing a white sweater, holding a black pen. The background is a bright, out-of-focus window with a view of a cityscape.

Prominent Media Company

- High performers excluded from profit sharing-type incentive plan
- Annual negotiated “deal”
- “Deal sheet”
- Quarterly self-evaluation

Performance Agreement



Outcomes

- High performance threshold
- Small or even \$0 payouts can occur
- High-risk, high-upside
- Mentoring environment
- Ownership mindset
- High retention

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
- Tied to a revenue or profit-sharing formula
- Volatility: payments lowered &/or deferred
- Opt-In periods may differ



Opt-In Plans

Outcomes

- Employees feel in control
- Owners limit exposure
- Highly flexible
- “Shared” entrepreneurial experience
- Promotes an ownership mindset
- “Self-identifies” key performers



Internal Venture Capital

Highly Entrepreneurial Approach

- Larger organizations
- Establish venture capital account
- Define access criteria
- Fund innovative ideas
- Performance criteria set
- Value sharing plan tied to performance criteria
- Accompanied by performance agreements or “opt-in” comp plans



Internal Venture Capital

Outcomes

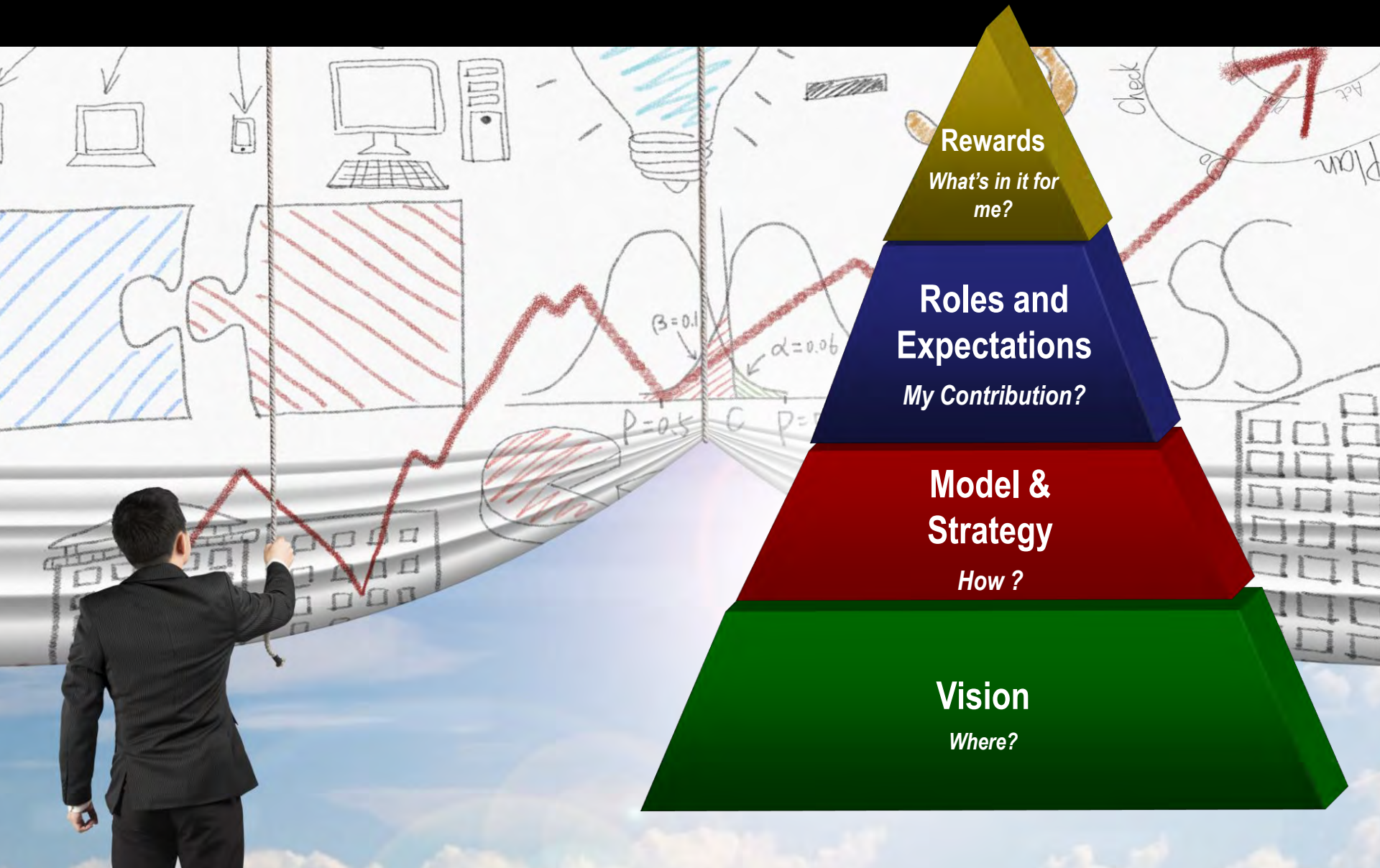
- Accelerate innovation
- Attract catalysts
- Share risk
- Identify potential future leaders and owners



6. Frame a Partnership



Focus on Line of Sight



Rewards

What's in it for me?

Roles and Expectations

My Contribution?

Model & Strategy

How ?

Vision

Where?

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 Rule: Market the Employer Brand



What is an Employer Brand?

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

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.

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

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



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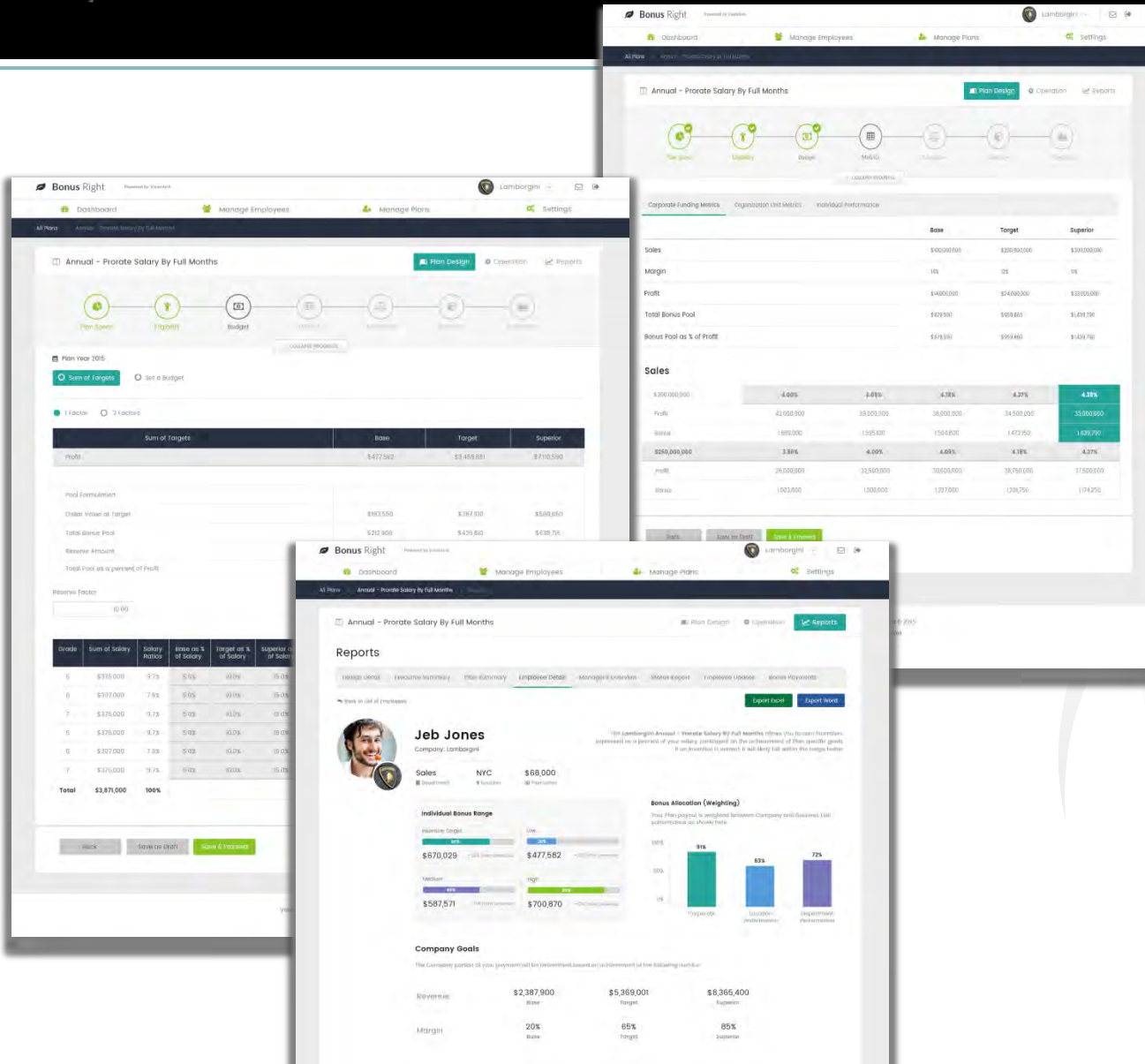


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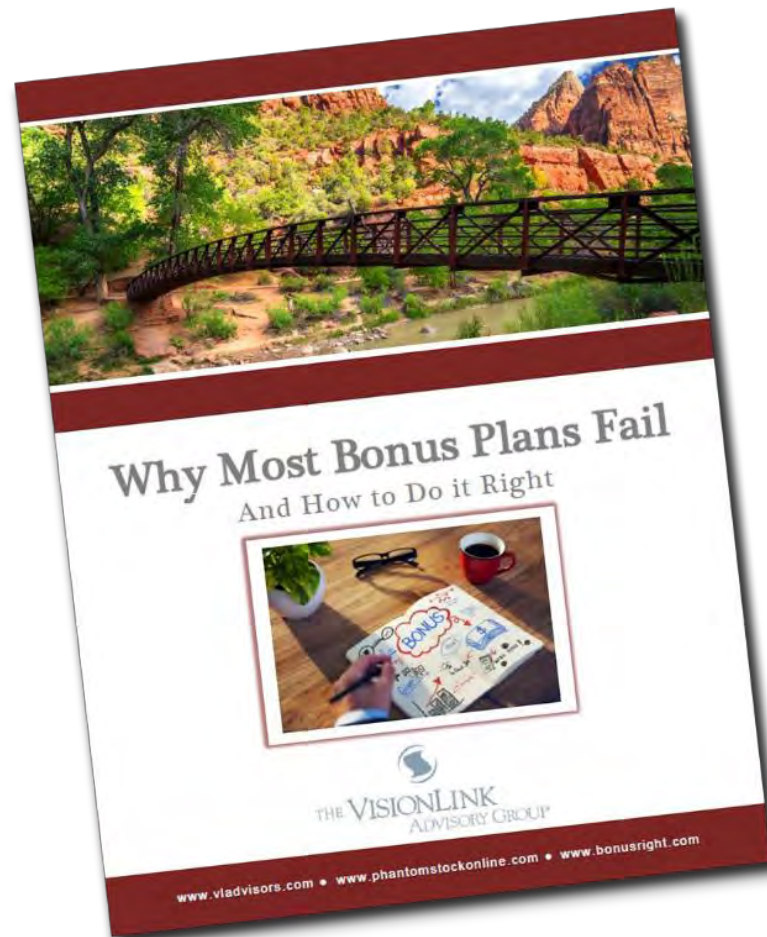
Upcoming VisionLink Webinars:

4 Pay Practices the Kill Employee Engagement	December 6th
5 Pay Trends You Should Follow in 2018	January 24 th
How to Balance Salaries and Incentives	February 28 th
3 Ways to Hit a Home Run with Millennial Pay	March 28 th
New Rules for Incentive Planning – What Works & What Doesn't	April 25 th

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New Report: **WHY MOST BONUS PLANS FAIL** And How to Do it Right

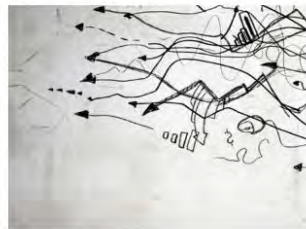


Request your copy on the attendee survey

Is Your Pay Strategy Conventional or Transformational?

Conventional wisdom is a dangerous thing, particularly when it is used as a substitute for strategic thinking. In their book *Freakonomics*, authors Steven Levitt and Stephen Dubner make the point this way: "It was John Kenneth Galbraith, the hyper literate economic sage who coined the phrase 'conventional wisdom.' He did not consider it a compliment. 'We associate truth with convenience,' he wrote, 'with what most closely accords with self-interest and personal well-being or promises best to avoid awkward effort or unwelcome dislocation of life. We also find highly acceptable what contributes most to self-esteem.' Economic and social behavior, Galbraith continued, 'are complex and to comprehend their character is mentally tiring. Therefore we adhere, as though to a raft, to those ideas which represent our understanding.'"

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



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

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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Thank You!

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