

# “How Do I Marry Compensation & Accountability?”





THE VISIONLINK  
ADVISORY GROUP

Today's Presenter:

**Ken Gibson**

Senior Vice President

(949) 265-5703

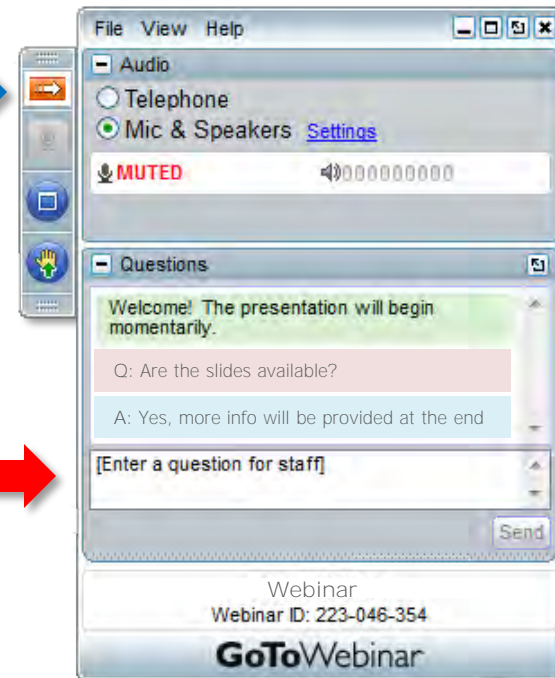
[kgibson@vladvisors.com](mailto:kgibson@vladvisors.com)



We're happy to provide a copy of today's slides.

**To open or close  
the control panel:** →  
Click the red arrow

**For questions during  
today's presentation:** →  
Use the question area  
on your control panel



# Consultation Offer & Survey



Take advantage of one-hour consulting call with a VisionLink principal at no charge.

Indicate interest on final survey

Request a copy of our slides  
and complimentary  
consultation

We value your input.

Take our  
**SURVEY**





# THE VISIONLINK ADVISORY GROUP

- Headquartered in Irvine, CA
- Founded in 1996
- Over 450 Clients throughout North America

7700 Irvine Center Dr., Ste. 930  
Irvine, CA 92618  
(888) 703 0080  
[www.vladvisors.com](http://www.vladvisors.com)  
[www.phantomstockonline.com](http://www.phantomstockonline.com)  
[www.bonusright.com](http://www.bonusright.com)

# VisionLink's Focus: Help Business Leaders Build and Sustain a High Performance Culture

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





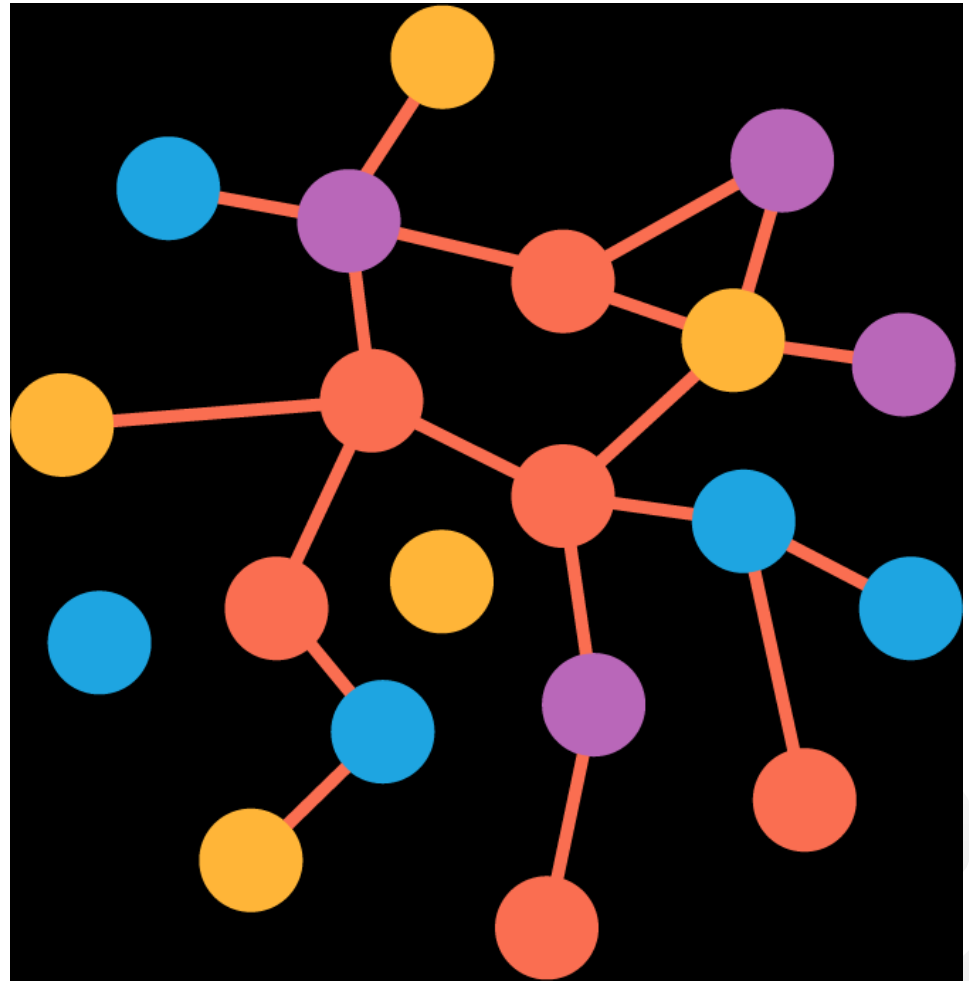
# If you do that...

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



# Accountability—Word Association

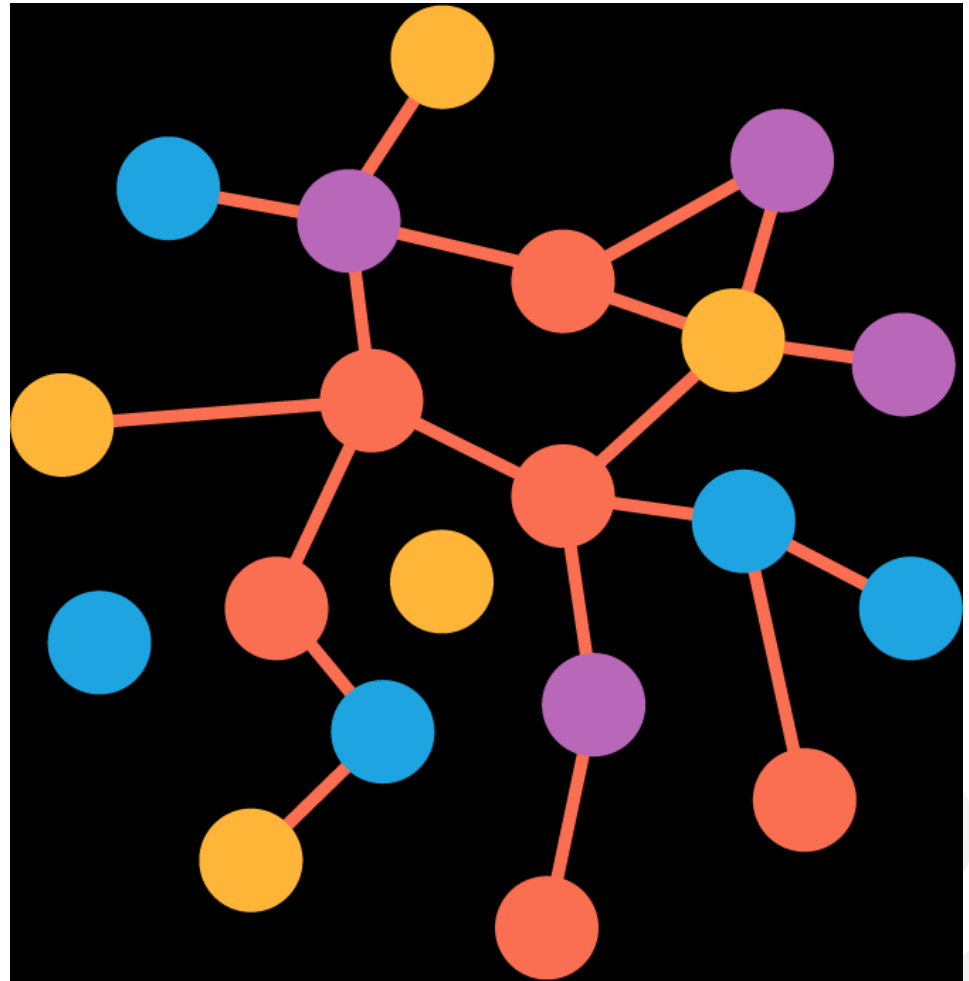
- Stewardship
- Performance
- Engagement
- Ownership
- Responsibility
- Results
- Outcomes





# Accountability—Word Association

- Stewardship
- Performance
- Engagement
- Ownership
- Responsibility
- Results
- Outcomes



# A Sense of Stewardship



# The Stewardship Evolution

**Know**

**Believe**

**Do**

**Be**



# The Stewardship Evolution

**Know**

**Role &  
Expectations**

**Believe**

**Partnership**

**Do**

**Own  
Outcomes**

**Be**

**Stewards**





# Stewardship Grows Out of Line of Sight



# What is Line of Sight?

The ability of employees to see the relationship between:

- Company Vision
- Business Model & Strategy
- Roles & Expectations
- Rewards
- Employee Vision



# Fruits of Line of Sight

- Employees have an ownership mindset.
- Employees are committed to their roles.
- Employees' focus is aligned with company shareholders.
- Employees believe in the company's purpose.
- Employees perform at a high level.
- Employees advocate for the for the employer brand.



# How Do You Measure Line of Sight?



Ask employees to answer four questions:

- What is the company's vision and purpose?
- What is the company's business model and business strategy?
- What is your role in our business model and what outcomes are you responsible for?
- How will you be rewarded for fulfilling those outcomes?



# Culture, Engagement & Line of Sight

## Culture

The self-sustaining patterns of behaving, thinking, feeling and believing that determine how things are done within a company.

## Engagement

A measure of how committed employees are to their roles and how satisfied they are with their experience within the company.

## Line of Sight

Level of alignment there is between ownership and employees regarding purpose, strategy, roles and expectations.

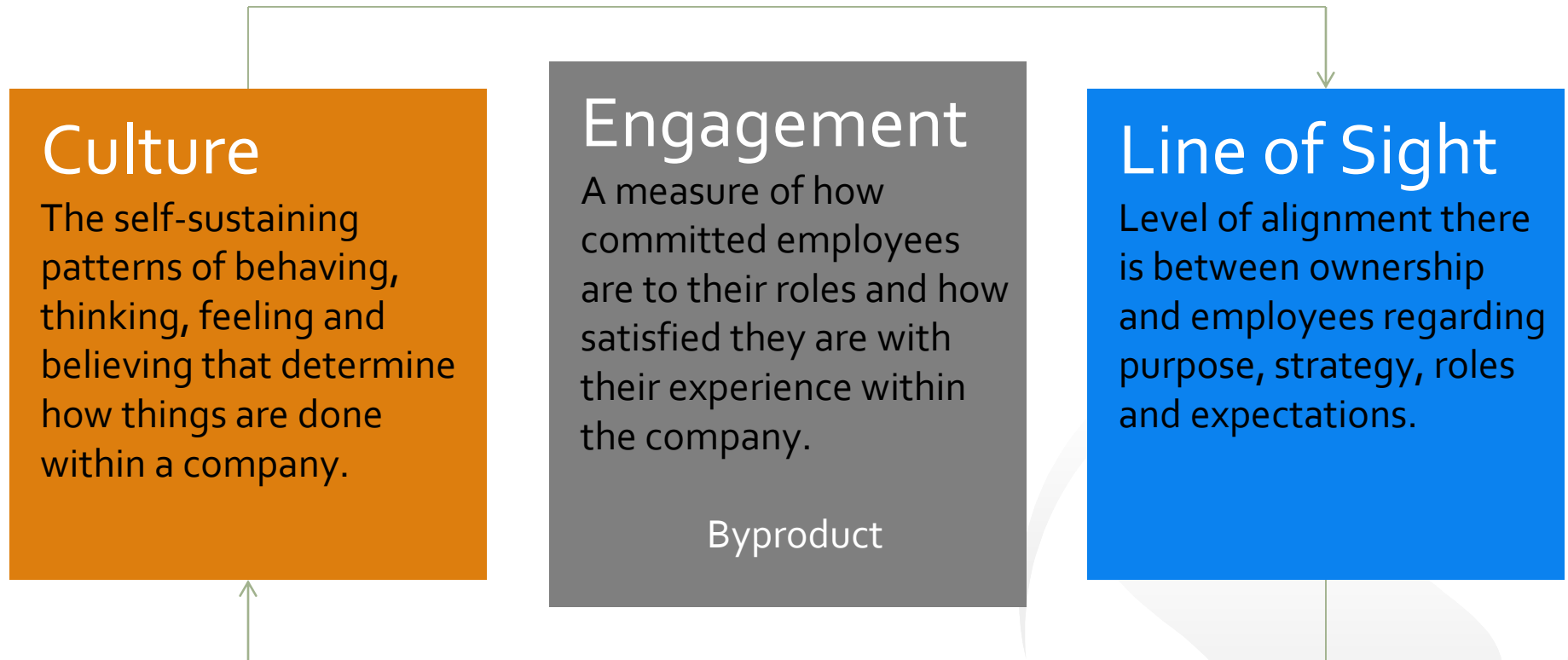
# Align Company Culture to Business Priorities



We've learned through our work at Katzenbach that the key to unlocking performance via organizational culture is to align company culture to business priorities. This requires the selection of a "critical few" behaviors that enable the desired business outcomes. When these behaviors are coupled with structural and process changes that support them, the entirety of these changes have an impact on the employee experience...Employee engagement should be regarded as a byproduct of culture evolution efforts rather than a tangible goal of them.

"Improving Company Culture Is Not About Providing Free Snacks,"  
Strategy+Business, July 31, 2017, Alice Zhou  
(Ms. Zhou is with Strategy+Business and part of the Katzenbach Center)

# Culture, Engagement & Line of Sight



# Key Questions About Compensation



Does the pay strategy--

- ...help or hinder the company's business model?
- ...clarify or confuse roles and expectations?
- ...reward outcomes or behaviors?
- ...encourage stewardship or entitlement?
- ...reinforce or undermine a high performance culture?



# Therefore, What?

Make pay a line of sight  
asset instead of a  
*liability*.



# Start with the Employee View



Everything you do in your organization gives your employees clues about two things:

1. What you value
2. Where they fit

# Clue Taken from Pay Strategy



"Does my employer understand why I care about my compensation?"

# 6 Reasons Employees Care About Pay

## Personal

1. Lifestyle & Wealth Accumulation
2. Career Measurement
3. Contribution Ambitions

## Business

4. Roles, Expectations & Priorities
5. Partnership
6. Continuity & Fairness





# Reason # 1 Standard of Living



# Financial “Hierarchy of Needs”

Wealth Multiplier Commitment

4

Wealth Accumulation

Short & Long-Term Incentive Plans

3

Retirement Planning

Qualified & Executive Retirement Plans

2

Security

Comprehensive, Flexible Benefits Plan

1

Cash Flow & Living Standard

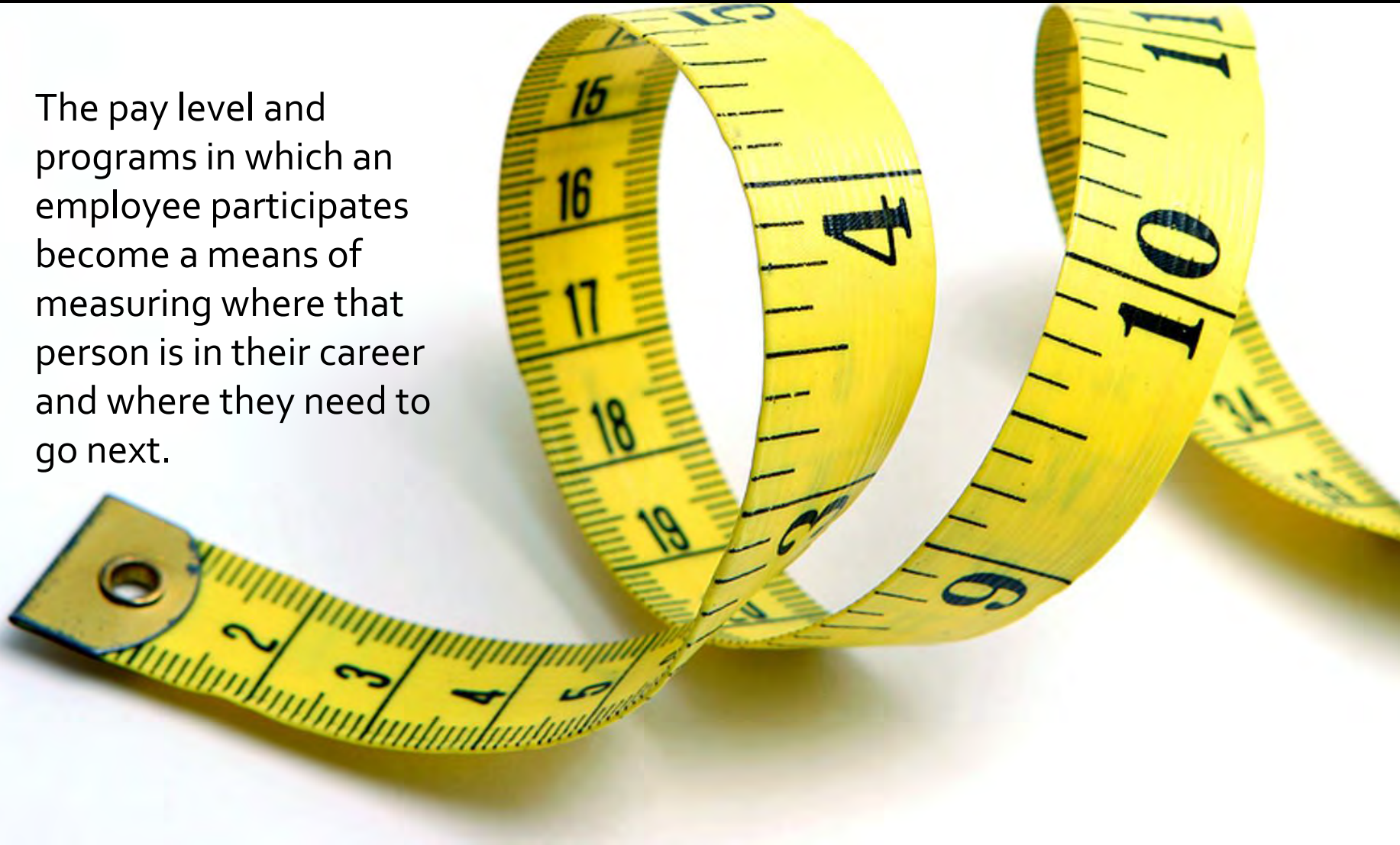
Salary & Bonus

Clear Pay Philosophy



## Reason # 2 Career Measurement

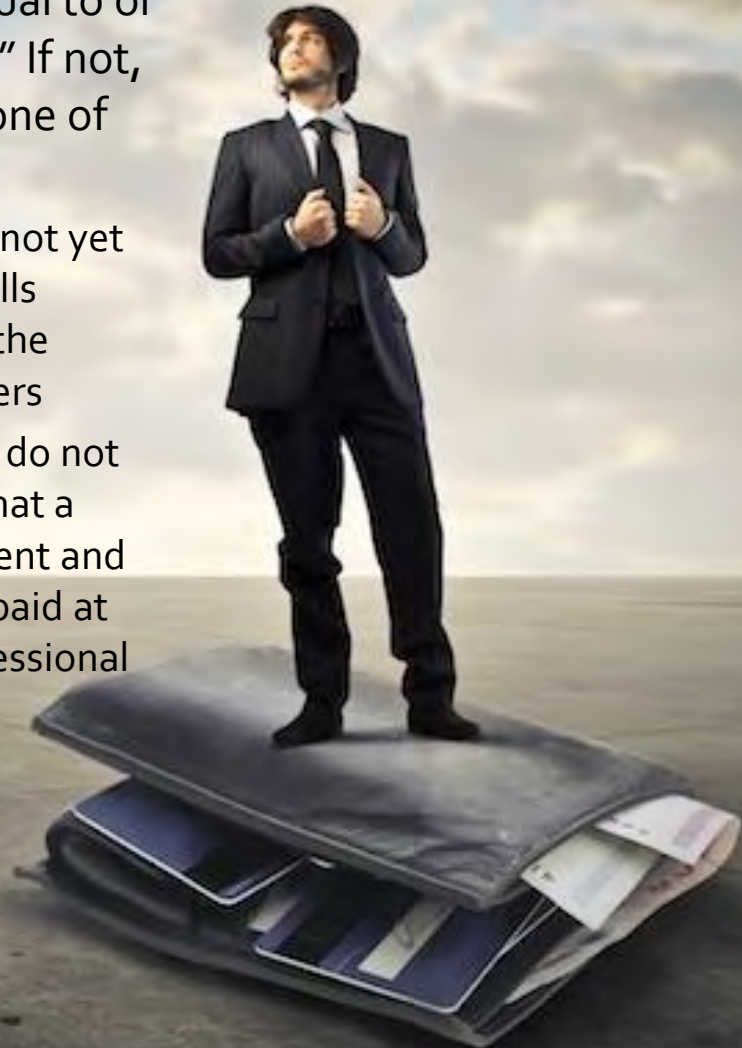
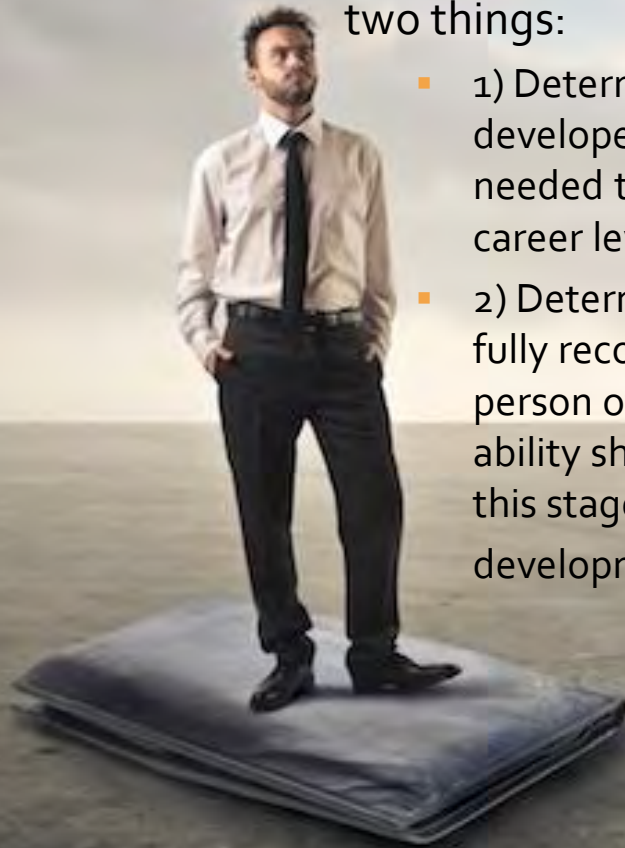
The pay level and programs in which an employee participates become a means of measuring where that person is in their career and where they need to go next.



# A Comparative Exercise

"Is my pay offering equal to or better than my peers?" If not, the employee will do one of two things:

- 1) Determine has not yet developed the skills needed to attain the career level of peers
- 2) Determine you do not fully recognize what a person of that talent and ability should be paid at this stage of professional development.



# Reason # 3 Contribution Ambitions

## Personal Vision

- Most growth-oriented people aspire to make certain contributions in their personal and professional lives.
- The ability to achieve their contribution goals is the source of their motivation.





# Contribution Ambitions

## Different for Every Individual

- Causes and Charities
- Children's Education
- Family Well-Being
- Freedom to Build Something
- Control Over Time & Commitments

Vary by generation.

Vary by career stage.



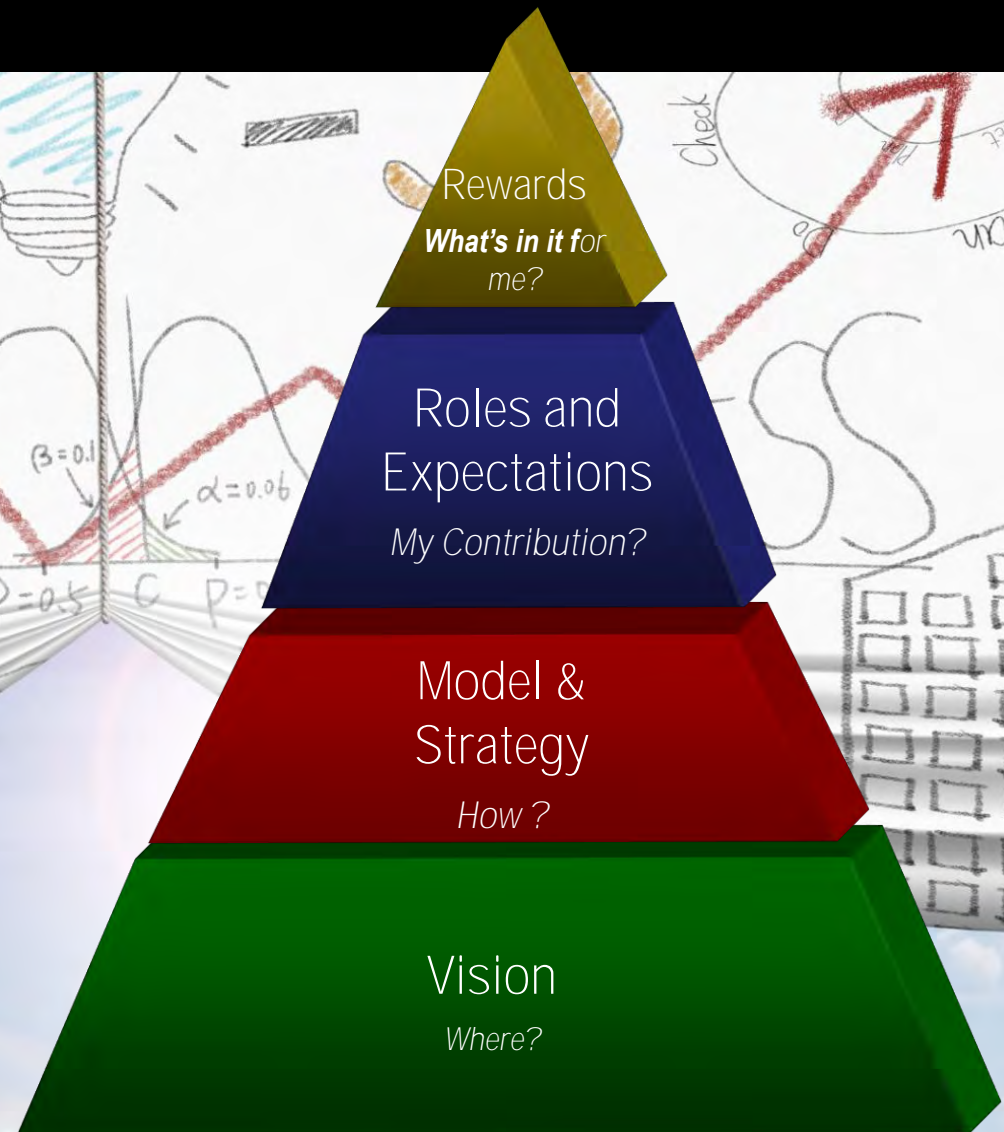
# Contribution Ambition Fulfillment

Every contribution ambition has an economic requirement or driver.



# Reason # 4 Roles, Expectations & Priorities

Line of Sight

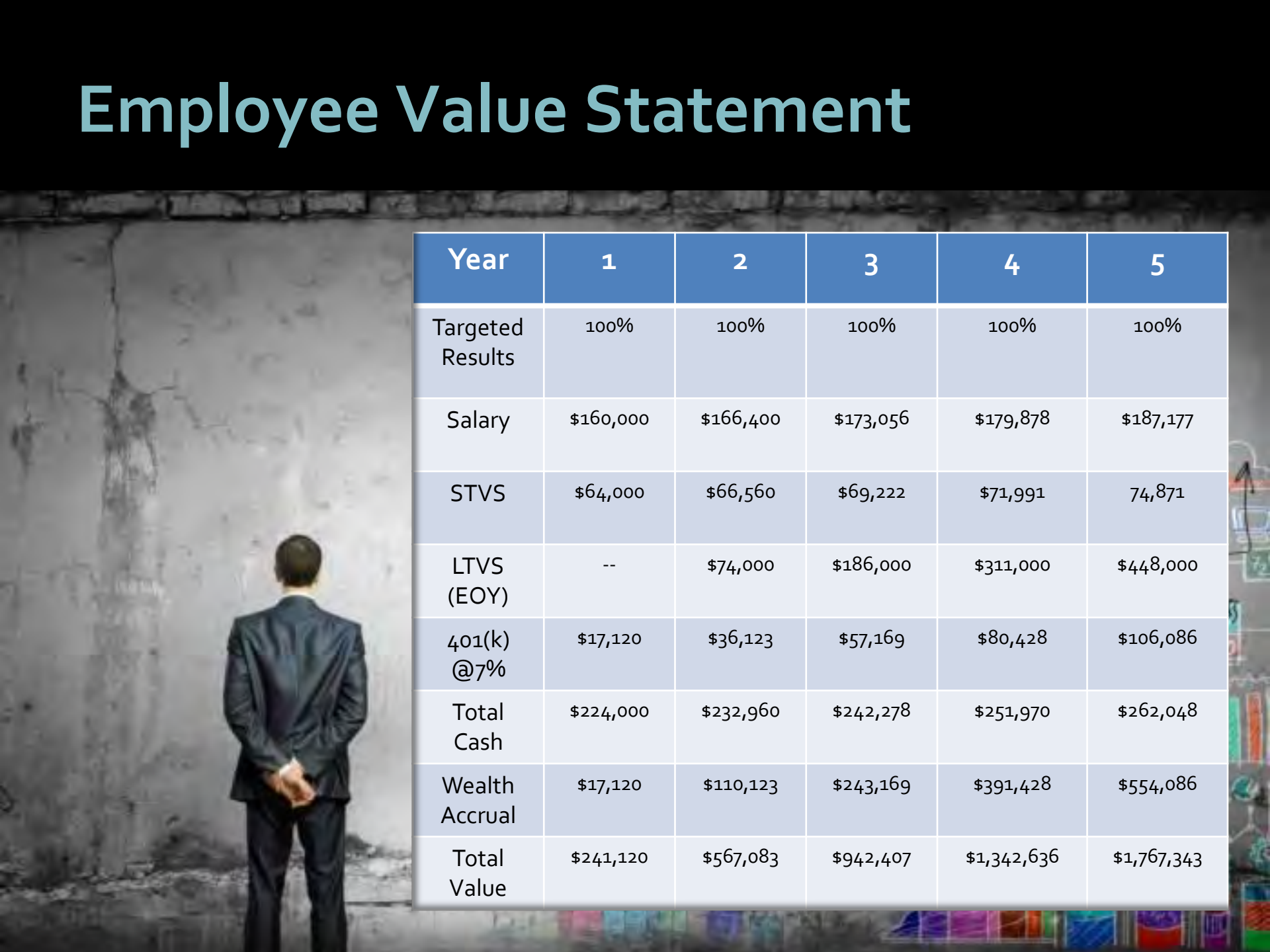


## Reason # 5 Partnership





# 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



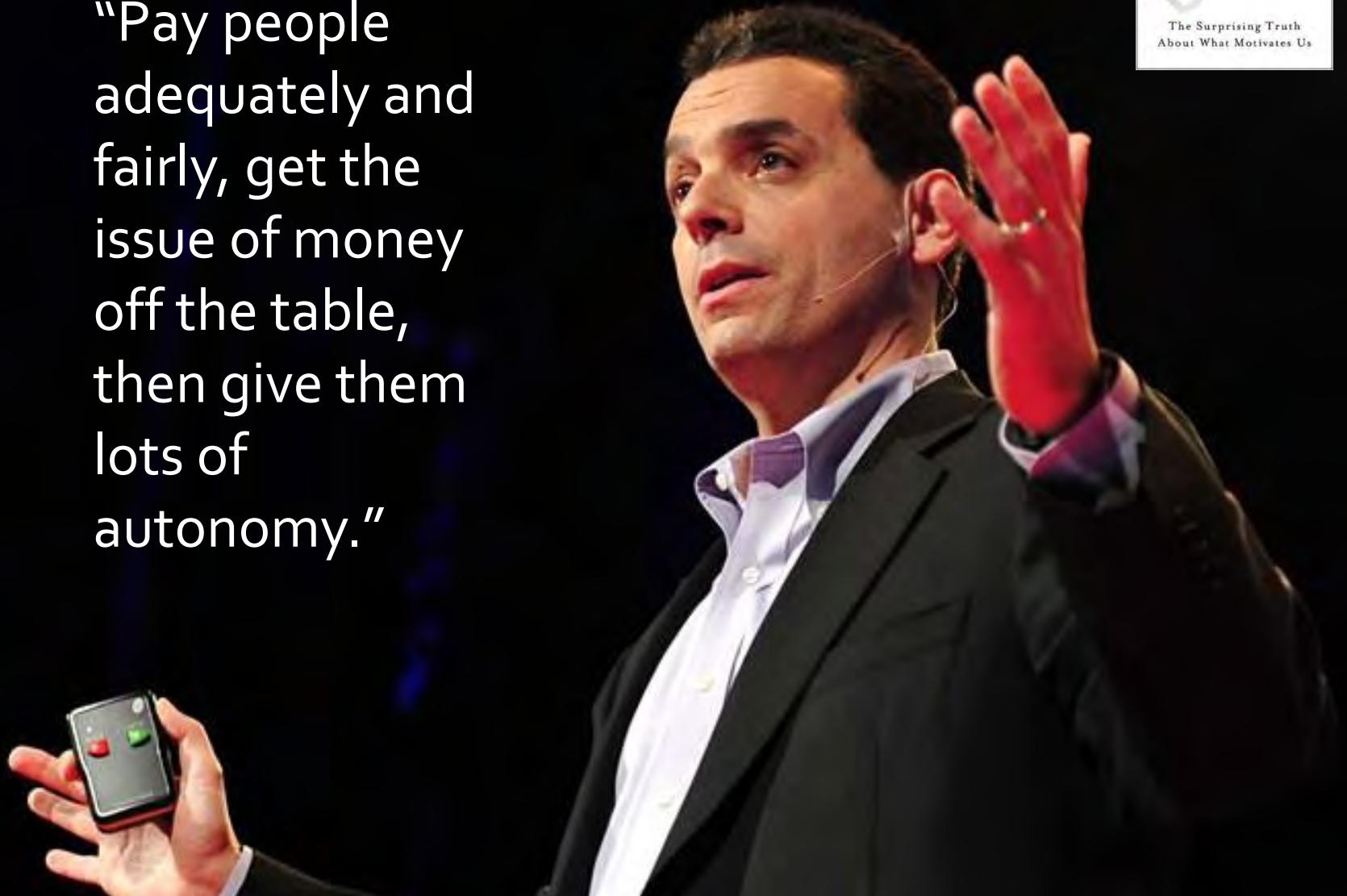
# Reason # 6 Continuity & Fairness

Is there operational integrity between mission, vision, strategy, roles, expectations, results and rewards?



# Drive

“Pay people adequately and fairly, get the issue of money off the table, then give them lots of autonomy.”



Daniel H. Pink

author of the New York Times bestseller  
*A Whole New Mind*

**DRiVE**

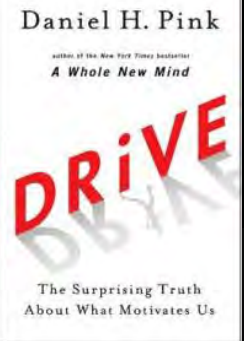
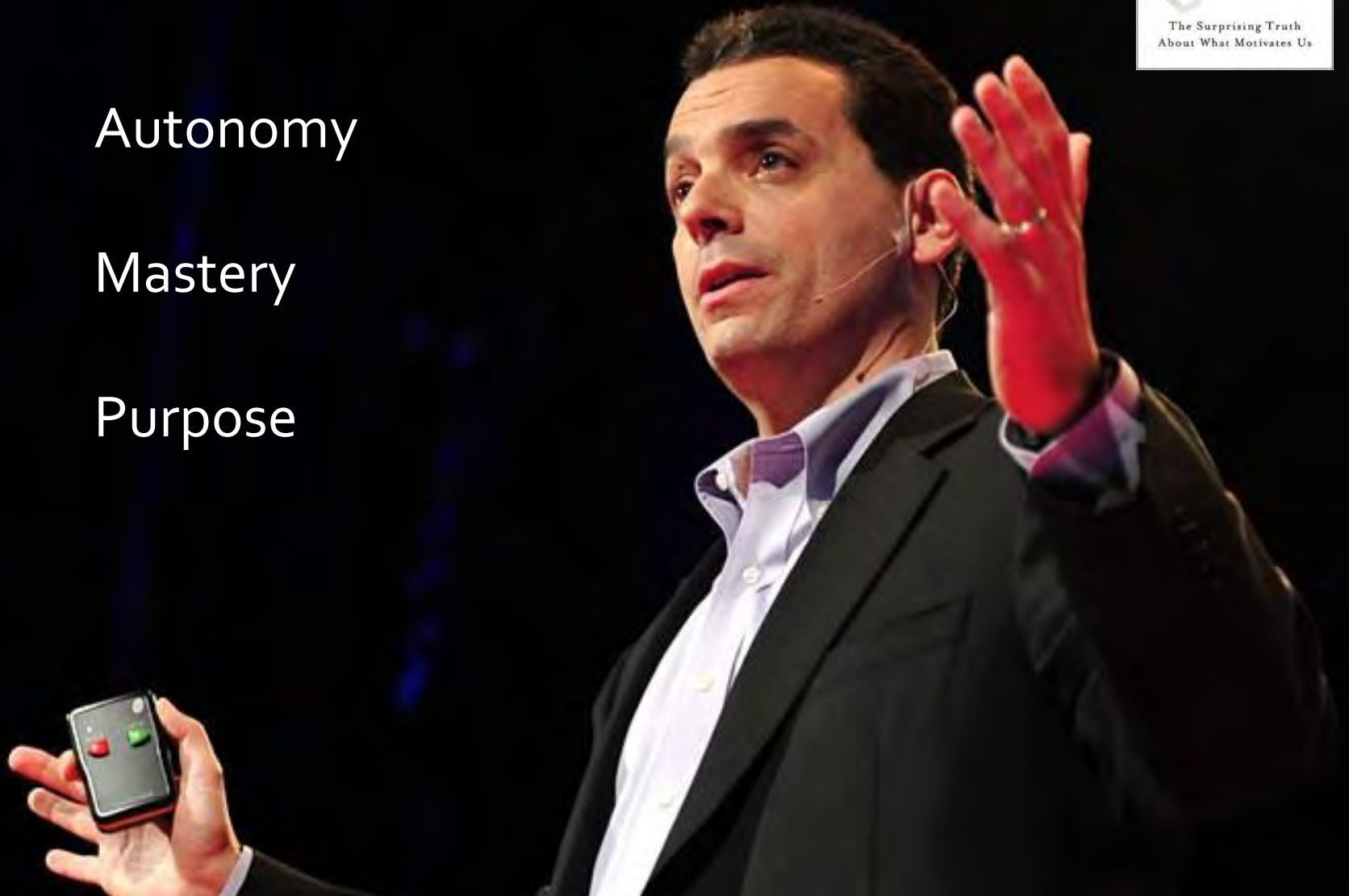
The Surprising Truth  
About What Motivates Us

# Drive

Autonomy

Mastery

Purpose



# Total Rewards Approach

Compelling Future

Positive Work  
Environment

Opportunities for  
Personal and  
Professional Growth

Financial Rewards

# Total Rewards Approach

Compelling Future  
Purpose

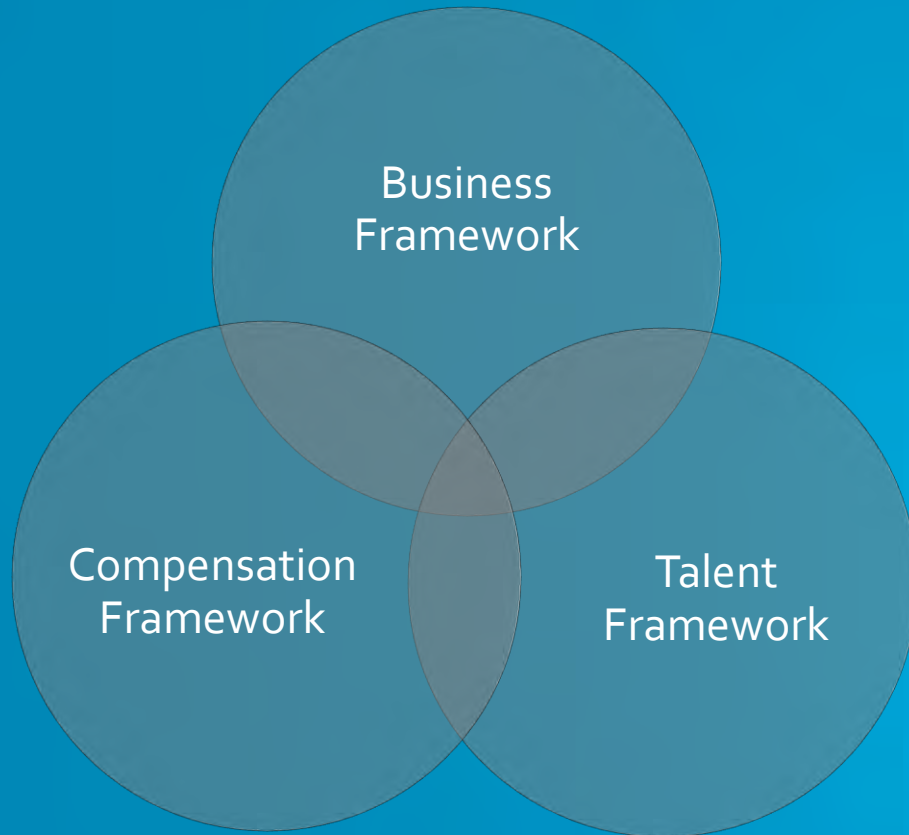
Positive Work  
Environment  
Autonomy

Opportunities for  
Personal and  
Professional Growth  
Mastery & Purpose

Financial Rewards  
Partnership



# Accountability & Your 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



# Define Value Creation

Value attributable to the  
productivity and performance of  
human capital.





# 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
Cost of Capital	12%
Capital Charge	\$2,400,000
Operating Income	\$10,000,000
<b>*Productivity Profit</b>	<b>\$7,600,000</b>
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)

# Eight Components of Pay

## Benefits

- Core benefits
- Executive benefits
- Qualified retirement plans
- Supplemental retirement plans

## Compensation

- Salary
- Performance incentives
- Sales incentives
- Growth incentives

Incentives should be in the form of value sharing.



# An Aligned Compensation Strategy

## Salaries

Competitive with market standards?  
Tied to strong performance management process (merit)?  
Managed within a flexible but effective structure?

## Performance Incentives

Tied to productivity gains?  
Clear, achievable and meaningful?  
Self-financing?

## Sales Incentives

Challenging yet achievable?  
Reinforcing the right behaviors?  
Differentiating your offering?

## Growth Incentives

Linked to a compelling future?  
Supporting an ownership mentality?  
Securing premier talent?

## Core Benefits

Responsive to today's employee marketplace?  
Allocating resources where most needed?  
Evaluated to eliminate unnecessary expense?

## Executive Benefits

Flexible enough to address varying circumstances?  
Communicating a unique relationship?  
Reducing employee tax expense?

## Qualified Retirement Plans

Giving employees an opportunity to optimize retirement values?  
Operated with comprehensive fiduciary accountability?  
Avoiding conflicts and minimizing expenses?

## Nonqualified Retirement Plans

Optimizing tax-deferral opportunities?  
Aligning long-term interests of employees with shareholders?  
Structured to receive best possible P&L impact?

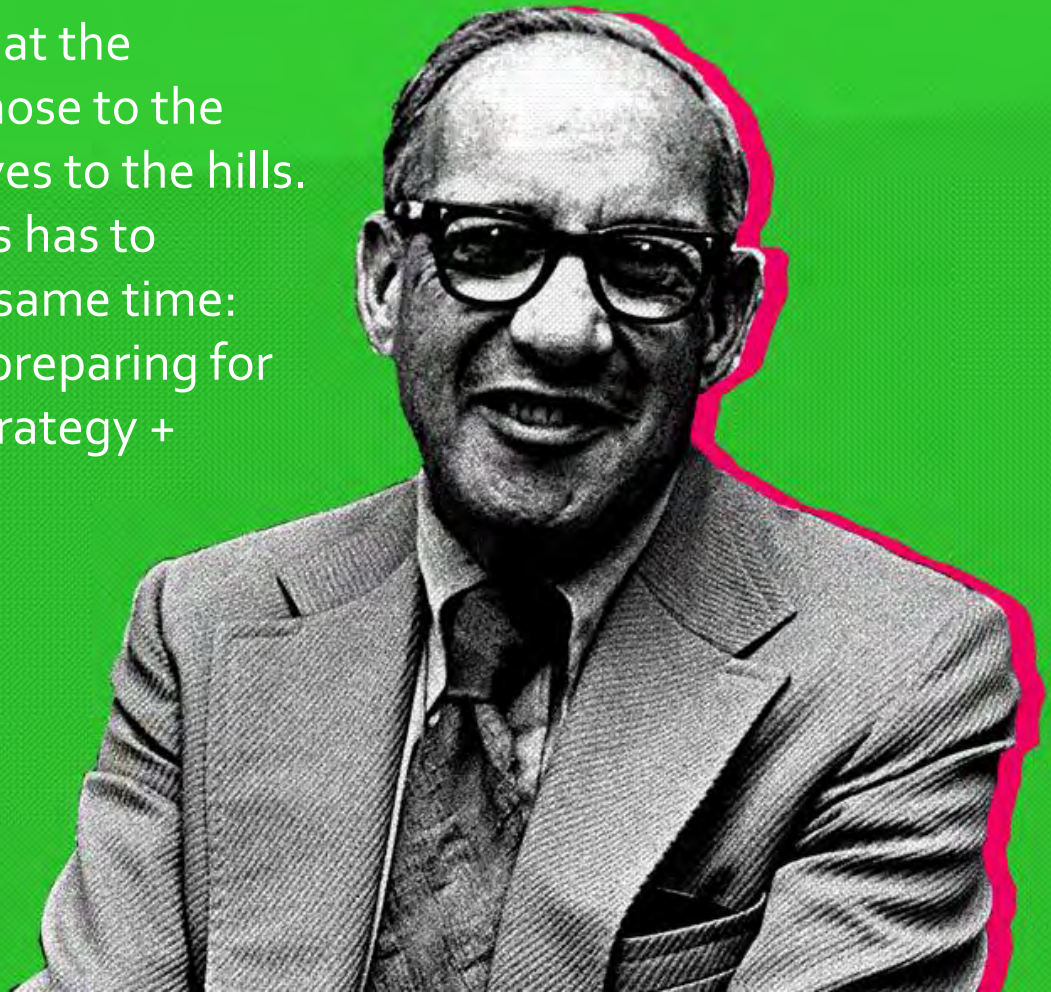




Form of Pay	Purpose	Standard	Investment	ROI
Salaries	Provide for the current cash needs of our executives	40-50th percentile for peer group	\$500,000	Achieve ROA standard of 0.75%
Short-term Incentives	Enhance current cash payments to executives for achieving top and bottom line annual goals	30-40% of base salary	\$168,000 (Target)	15% revenue growth and 12% margin
Long-term Incentives (Cash)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Long-term Incentives (Equity)	Retain execs; focus them on long-term earnings growth; align with shareholder interests; meet wealth accumulation needs	15-20% of base salary	\$84,000 (Target)	Long-term growth in earnings (double earnings = share 13% of new value)
Core Benefits	Meet basic security needs of the executives	50th percentile for peer group	\$25,500	ROA of 0.75%
Executive Benefits	Enhance basic security needs and meet market standards for perquisites	50th percentile for peer group	\$24,000	ROA of 0.75%
Qualified Retirement	Provide wealth accumulation opportunity for executives	40th percentile (3% of salary)	\$15,000	ROA of 0.75%
Supplemental Retirement	Strengthen rewards value proposition to help recruit and retain executives; meet wealth accumulation needs	30th percentile compared to banks that have plans	\$135,000	ROA of 0.9%

# Balancing Incentives

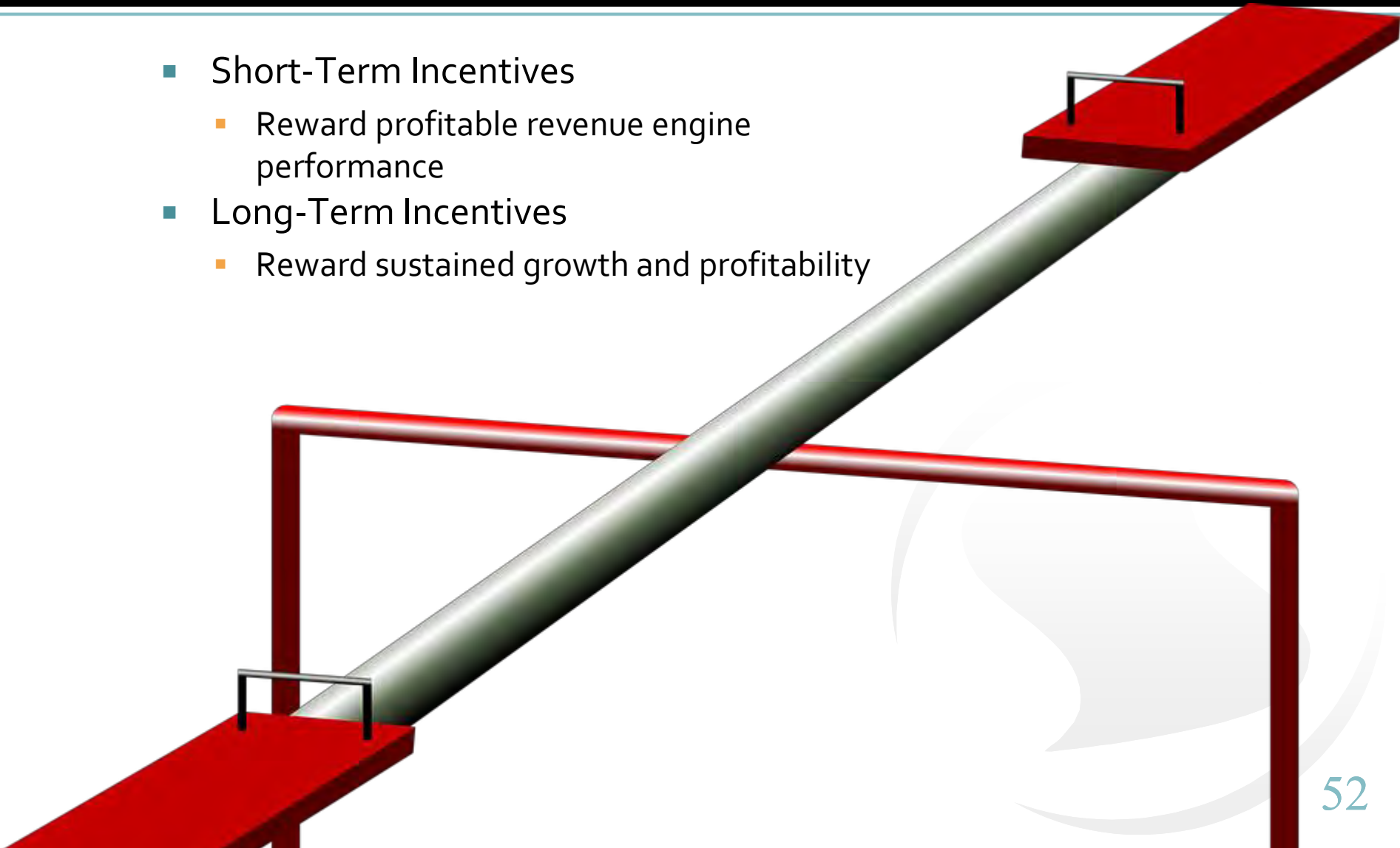
"Peter Drucker once wrote that the manager's job is to keep his nose to the grindstone while lifting his eyes to the hills. He meant that every business has to operate in two modes at the same time: producing results today and preparing for tomorrow." (Ken Navarro, Strategy + Business)





# Balancing Incentives

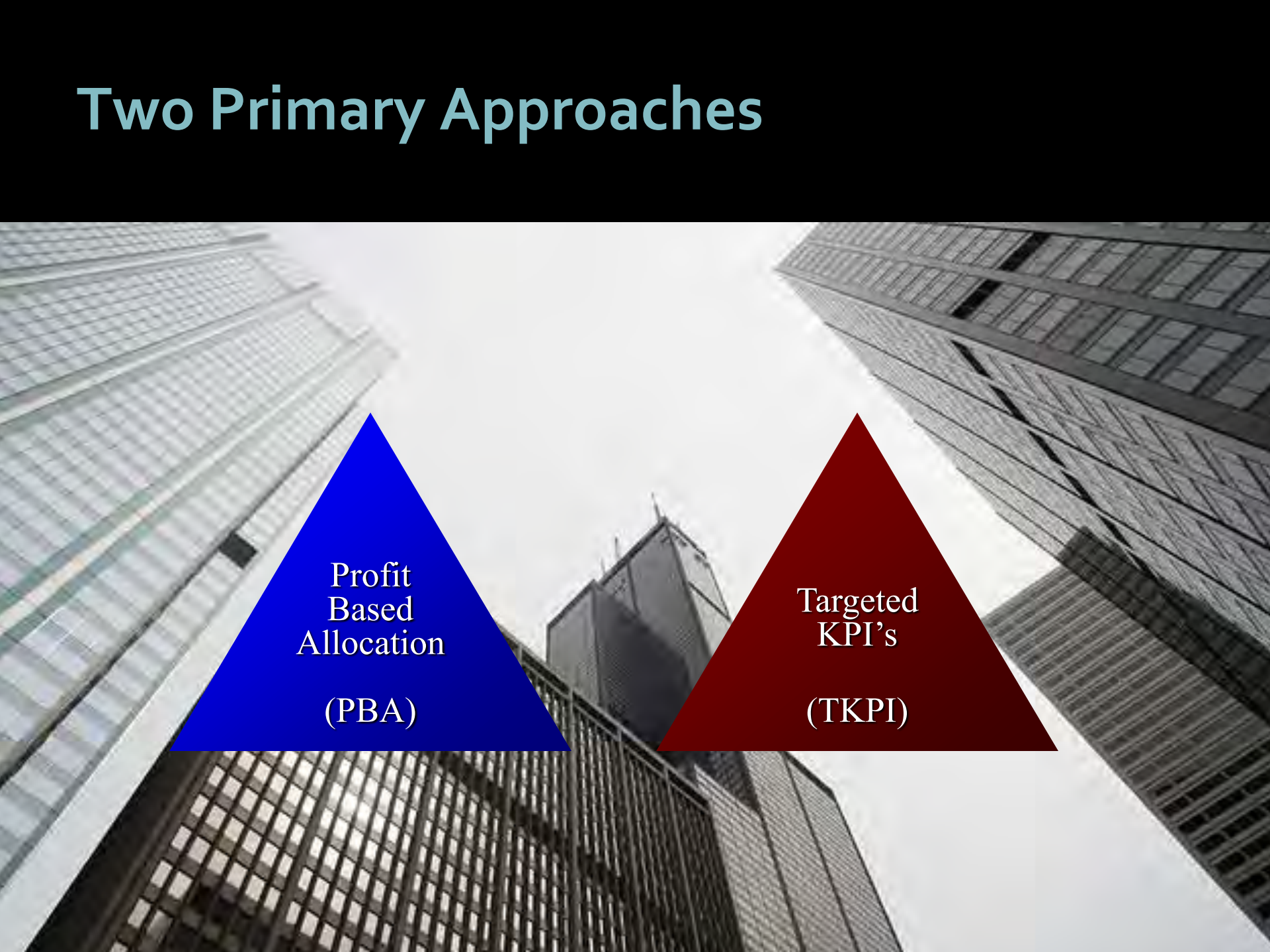
- Short-Term Incentives
  - Reward profitable revenue engine performance
- Long-Term Incentives
  - Reward sustained growth and profitability



# Short-Term (Performance) Incentives



# Two Primary Approaches



Profit  
Based  
Allocation  
(PBA)

Targeted  
KPI's  
(TKPI)



# Long-Term (Growth) Incentives



# Select the Right Plan Type

**Restricted Stock**

**Phantom Stock**

**Profit Pool**

**Performance Shares**

**Performance  
Phantom Stock**

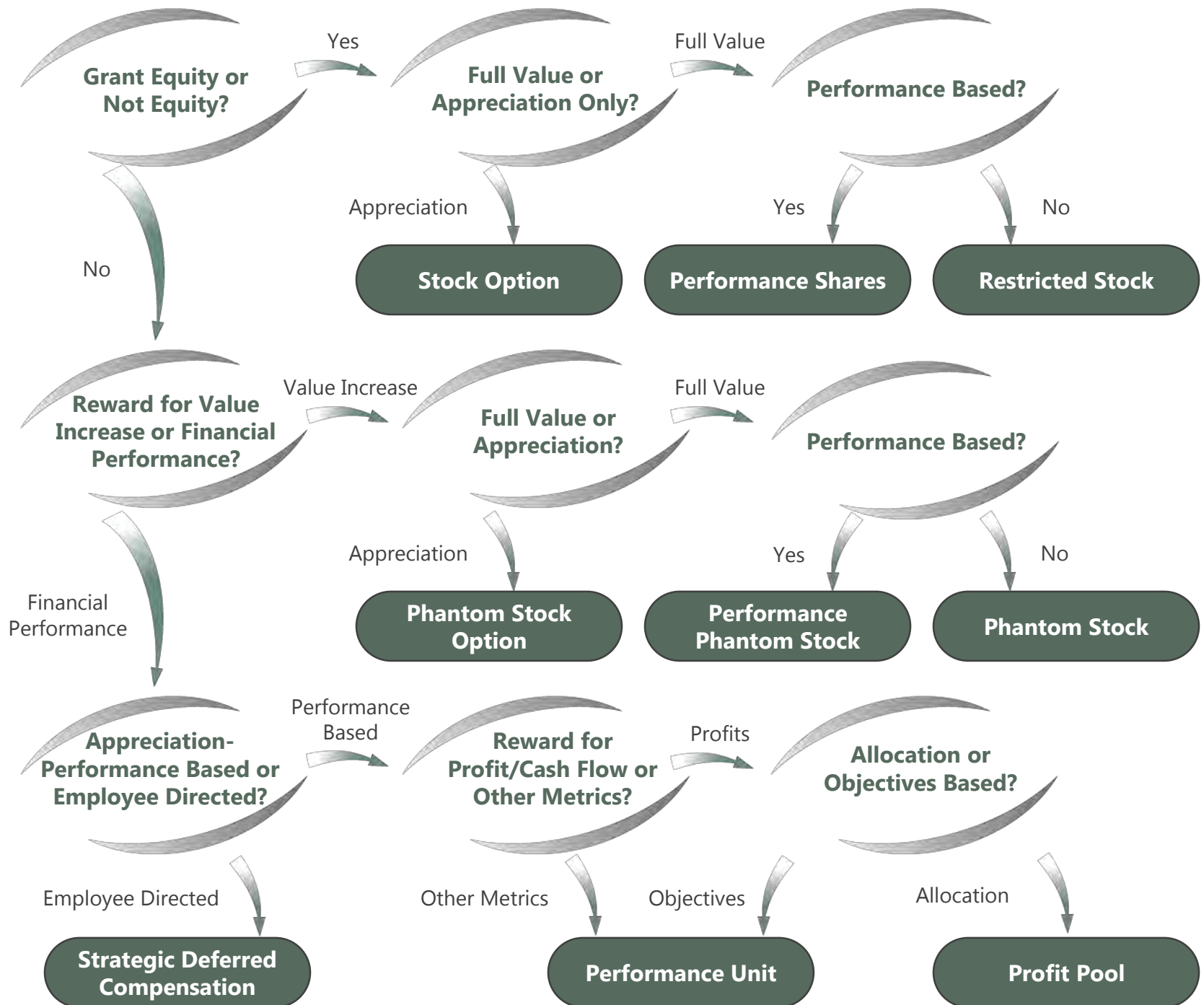
**Performance Unit**

**Stock Option**

**Phantom Stock  
Option**

**Strategic Deferred  
Compensation**





# Rules of Thumb

## ■ Senior Executives

- Short-term--50%
- Long-term--50%

## ■ Management

- Short-term--60%
- Long-term--40%

## ■ Rank and File Employees

- Short-term--75-90%
- Long-term--10-25%





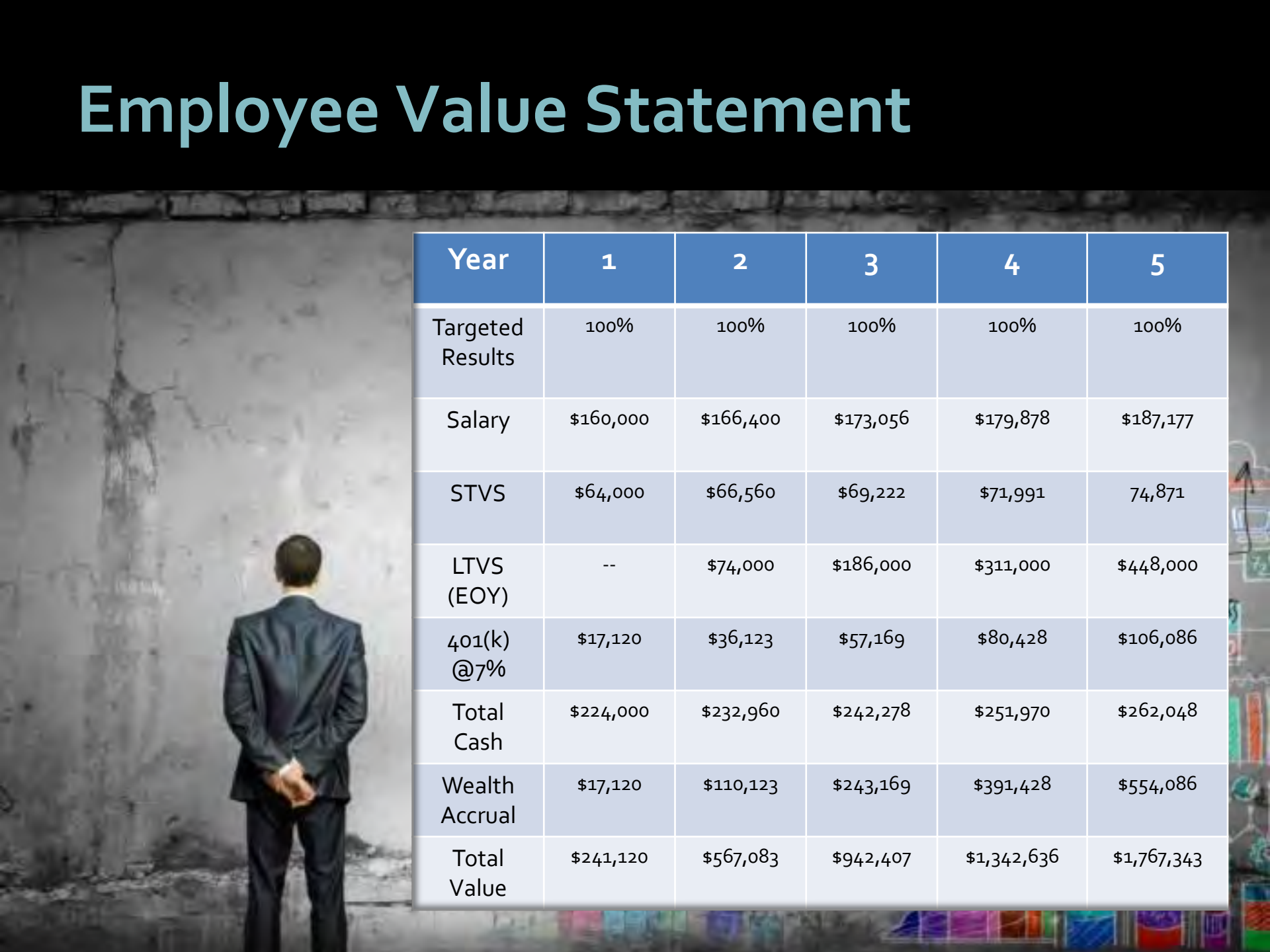


# Market a Future that's Relevant

- 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

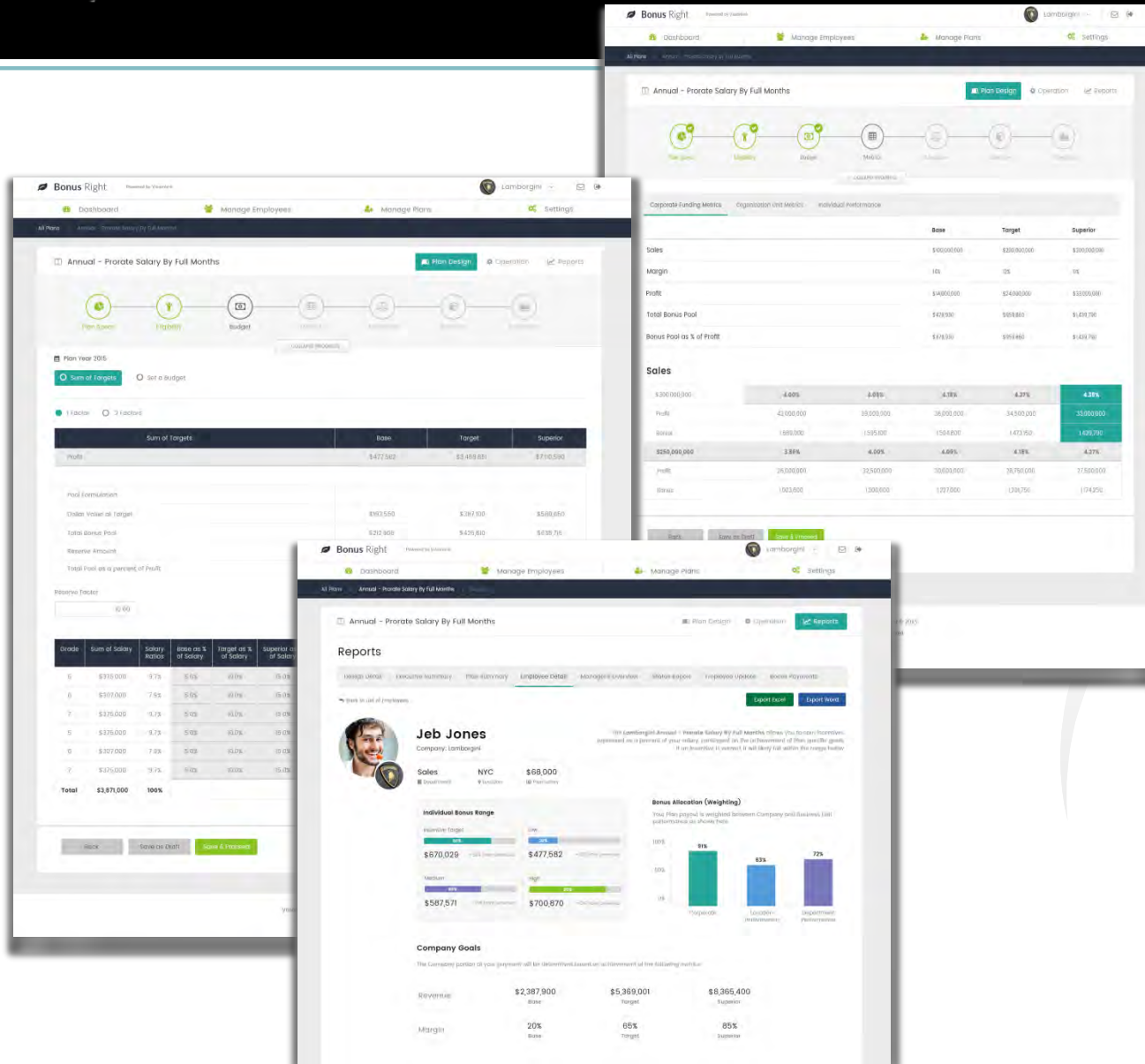
[www.bonusright.com](http://www.bonusright.com)



# DO AWAY WITH BONUS FRUSTRATION

With BonusRight, Creating, Communicating and Managing a Bonus Plan is Now a Breeze





- New SaaS tool
- Build and manage your bonus plan online.
- Indicate on survey if you would like to schedule a demo.

# Request Consultation & Take Survey



Take advantage of one-hour consulting call with a VisionLink principal at no charge.

Indicate interest on final survey

Request a copy of our slides,  
report, complimentary  
consultation and BonusRight  
demo.

We value your input.

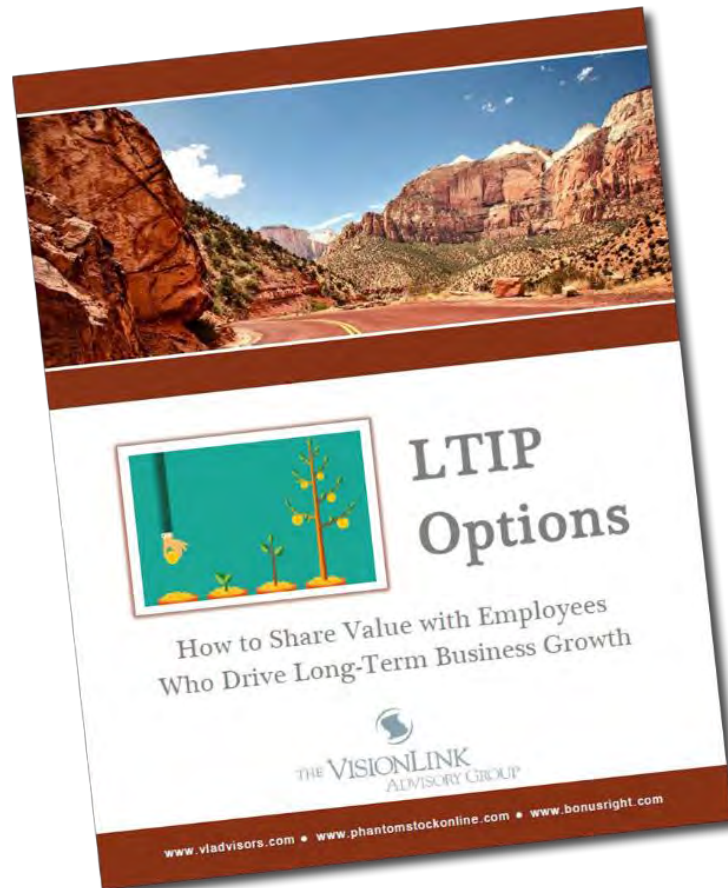
Take our  
**SURVEY**



Free VisionLink Report

# LTIP Options

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



Request your copy on the attendee survey

**www.vladvisors.com**

**www.phantomstockonline.com**

## Subscribe to our blog!

### 3 Ways Your Value Proposition is Impacting Recruiting and Retention

Tweet Share 1 Like 5 Share G+

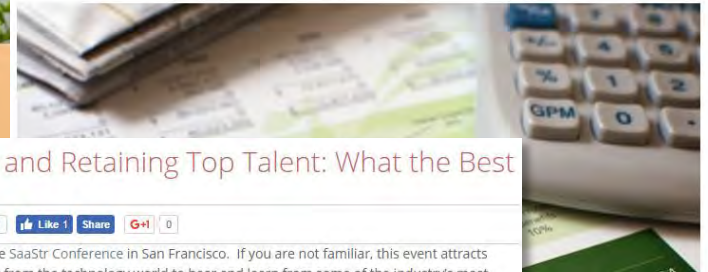
When you are speaking with a potential new employee, does the subject of compensation ever come up? Or when one of your key people announces she is taking an opportunity at another company, is pay ever mentioned as a factor? Okay, forgive the insulting questions. But with all that has been written in 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?"

Tweet Share 0 Like 2 Share G+ 0

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

Tweet Share 0 Like 1 Share G+ 0

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**



THE VISIONLINK  
ADVISORY GROUP

Today's Presenter:

**Ken Gibson**

Senior Vice President

(949) 265-5703

[kgibson@vladvisors.com](mailto:kgibson@vladvisors.com)



**Thank You!**

7700 Irvine Center Drive, Suite 930 ♦ Irvine, CA 92618 ♦ 949-852-2288

[www.VLadvisors.com](http://www.VLadvisors.com) ♦ [www.PhantomStockOnline.com](http://www.PhantomStockOnline.com) ♦ [www.BonusRight.com](http://www.BonusRight.com)