

Pay & Stewardship:

How to Get Employees to Own Results



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

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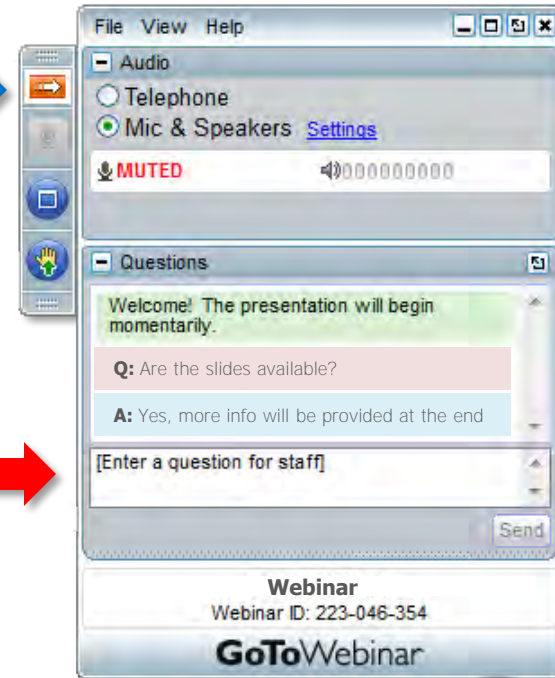
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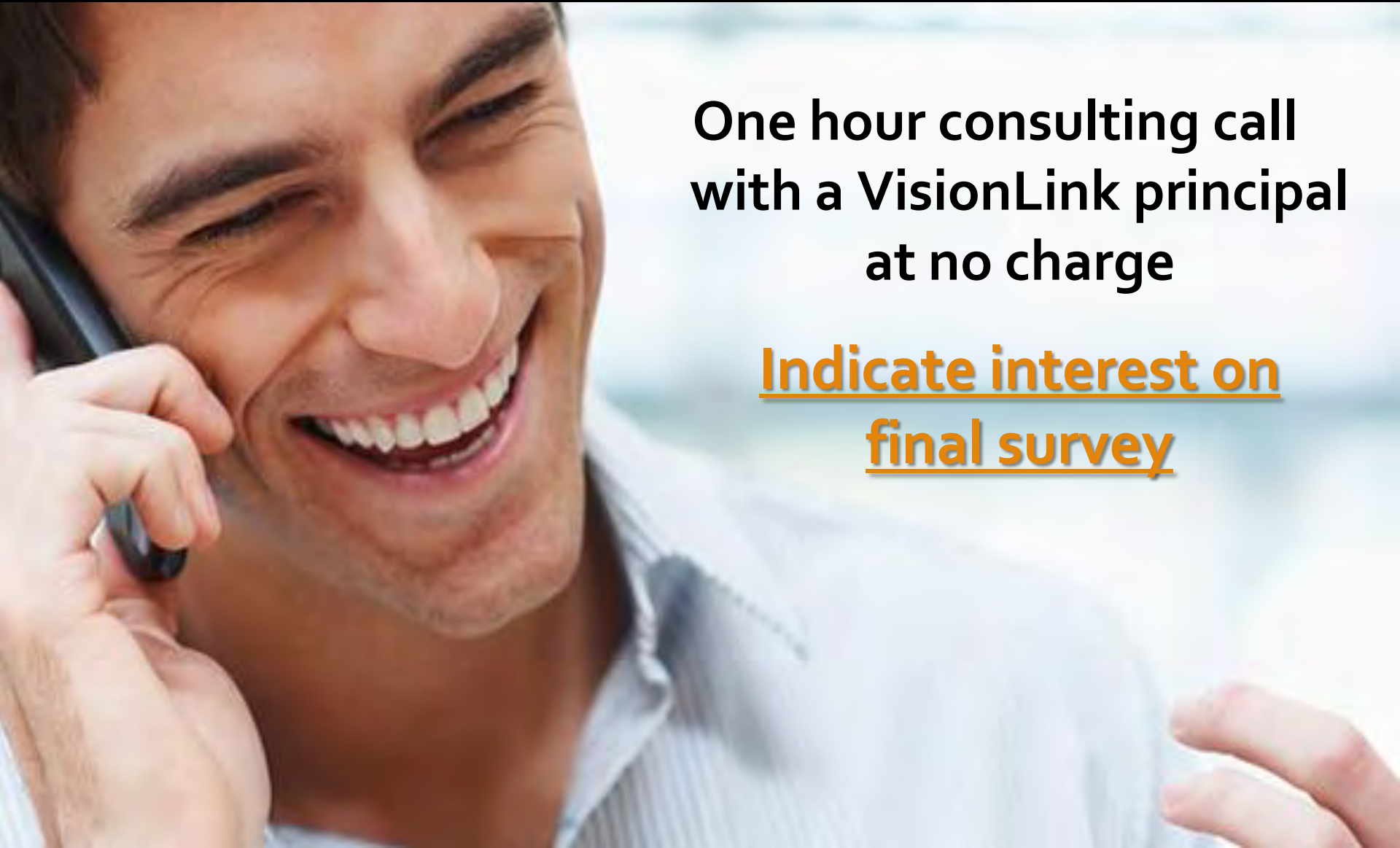
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Don't Miss It!**





- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth

Vision: Help You Become a Wealth Multiplier Organization

**Transform the way you use
compensation to share value with
employees.**



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.



Core Issues



**Stewardship...instead of
what?**

**Ownership of what
results?**

What kind of pay?

Stewardship instead of What?

Entitlement



Signs of an Entitlement Mentality



- Value creation not understood
- Expectations of salary increases
- Requests for equity participation
- Bonus payments without performance
- Tenured mentality

What Results?

Value Creation



What kind of Pay?



The Stewardship Evolution

Know

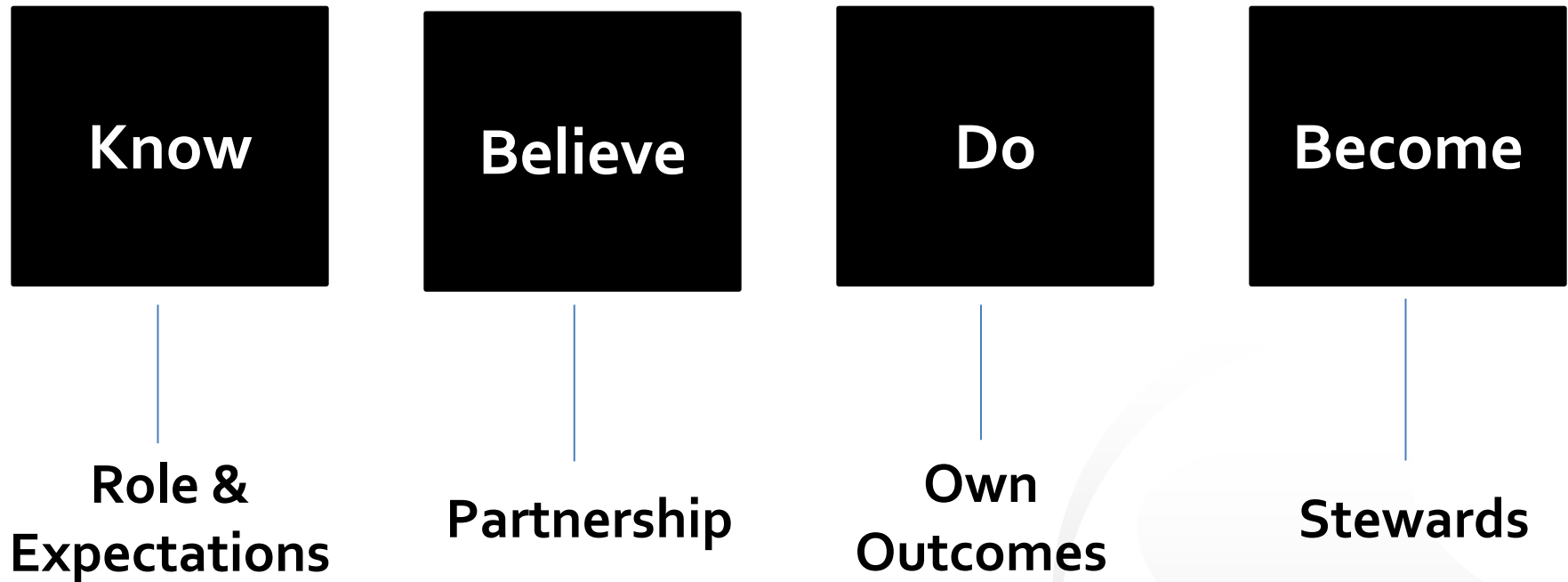
Believe

Do

Become

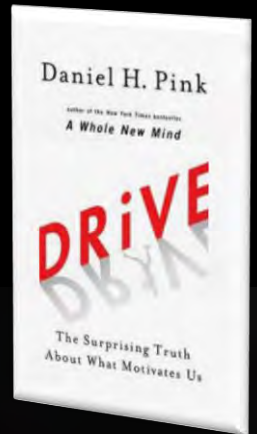
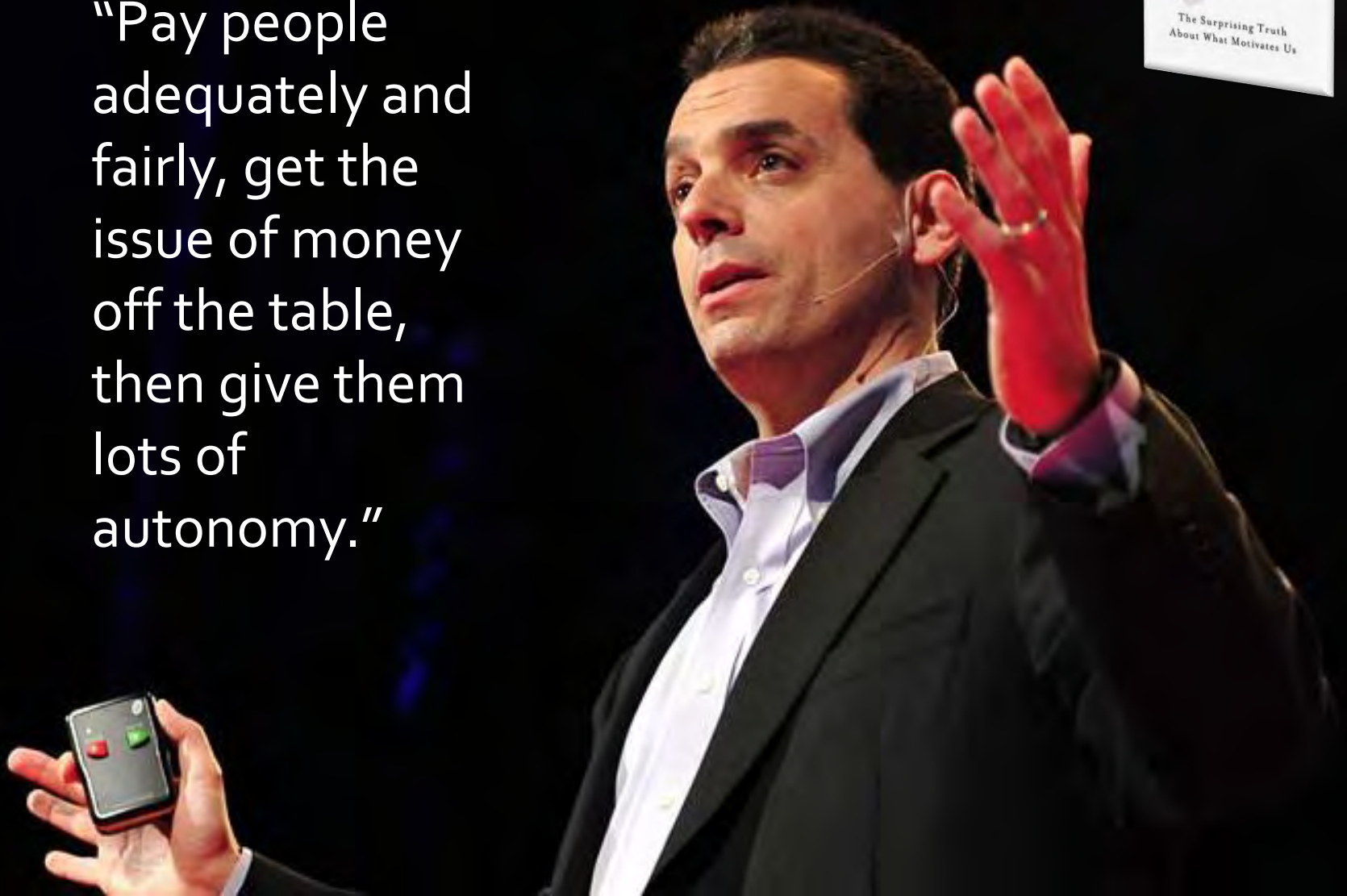


The Stewardship Evolution



Drive

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

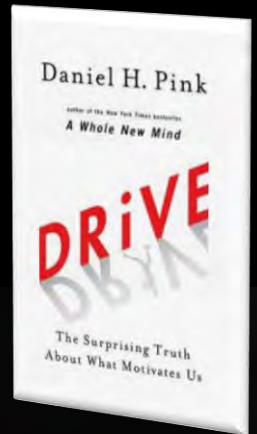
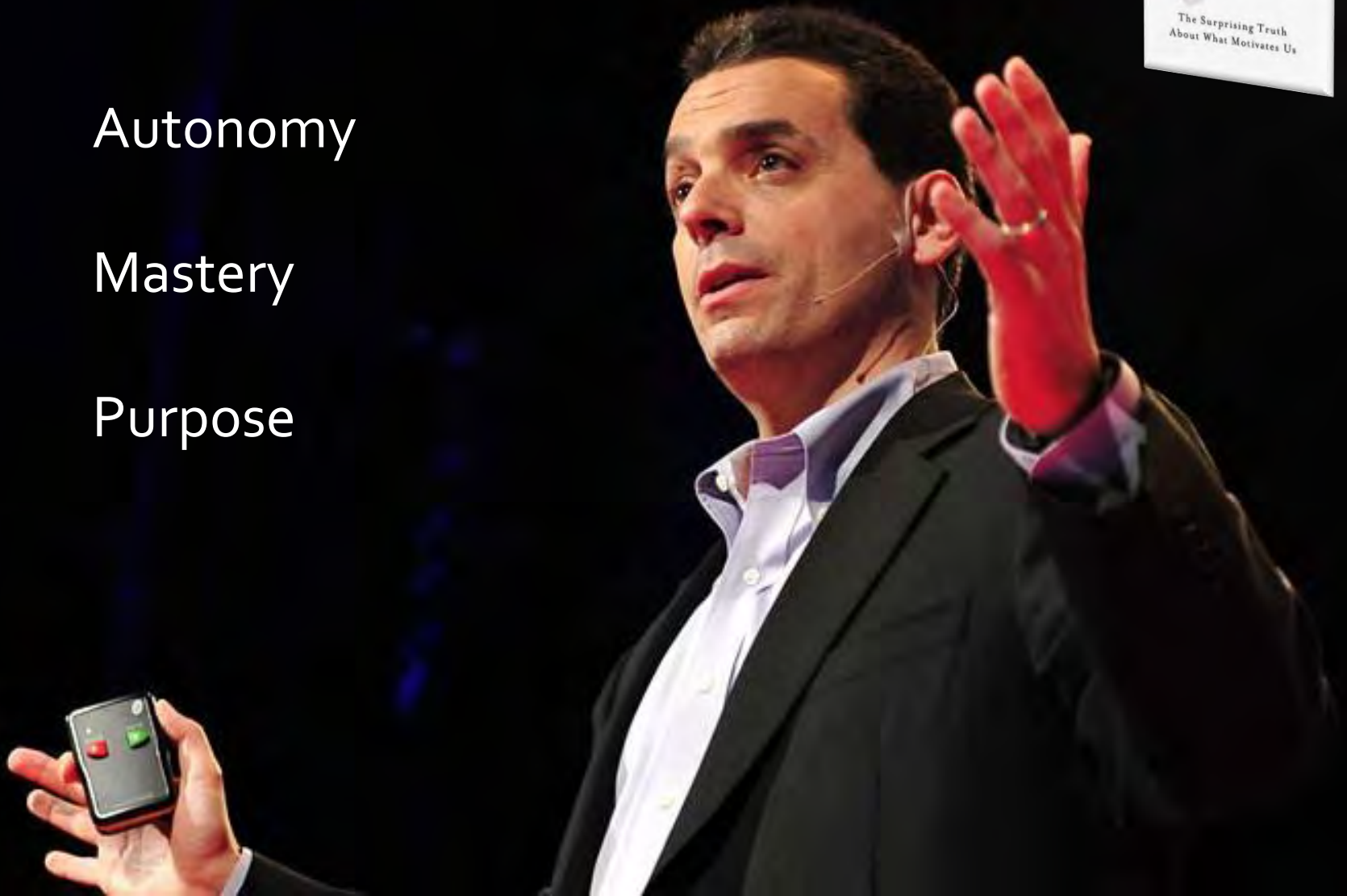


Drive

Autonomy

Mastery

Purpose



Total Rewards Approach



Total Rewards Approach

Compelling Future
Purpose

Positive Work
Environment
Autonomy

Opportunities for
Personal and
Professional Growth
Mastery & Purpose

Financial Rewards
Partnership

1. Compelling Future

- I like the direction the company is headed.
- I embrace the company's values.
- I believe the company can achieve its growth goals.



- I see myself in the company's future.
- I want a "seat at the table" in determining the direction of the company.

2. Positive Work Environment

- I like the nature of the work I'm doing.
- I am working within my unique ability.
- My responsibilities have strategic purpose.
- I like the team of people with whom I work.
- There are channels and processes for solving problems and decision making.



3. Personal and Professional Development

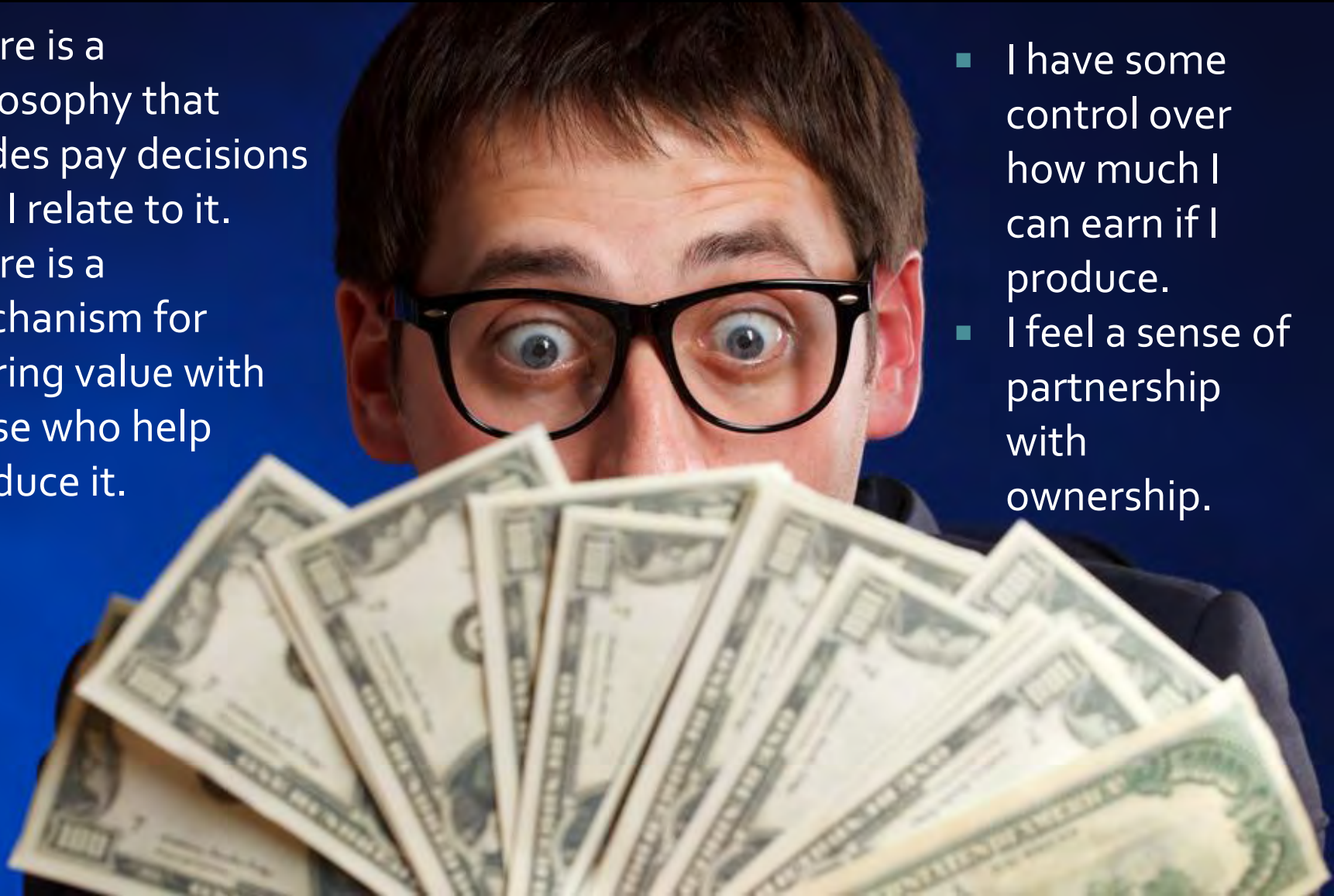
As a result of my immersion in the culture and resources of this organization, my unique abilities will improve—and I will experience personal and professional fulfillment.



4. Financial Rewards

- 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.



Link Company & Employee Goals

Employee “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

Wealth Multipliers vs. Wealth Creators

Wealth Creators

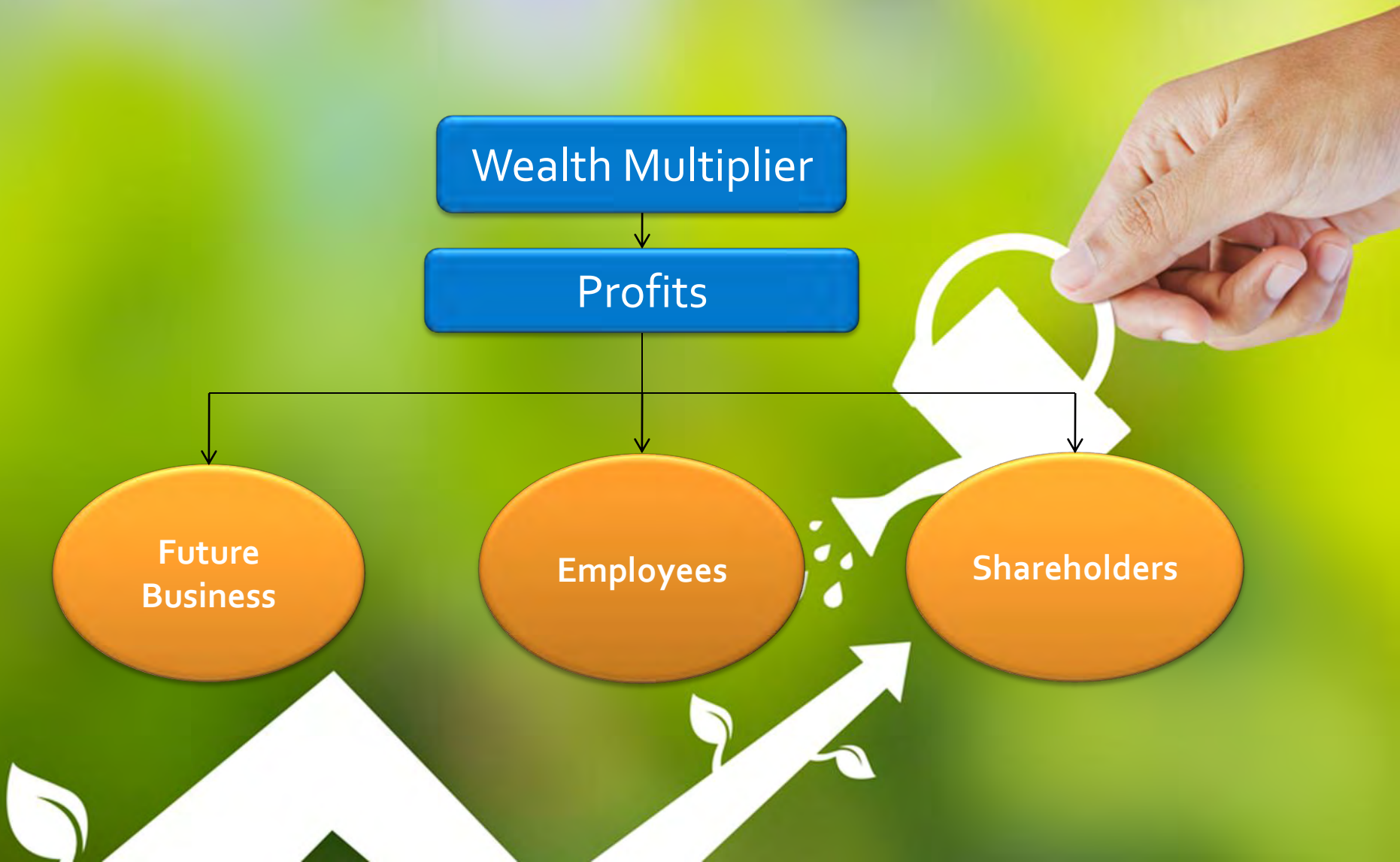
- Profitability focus
- Recruit to skills and experience
- Pay is an expense to be managed
- Salaries and total pay should be “at market”
- “Pay-for-performance”

Wealth Multipliers

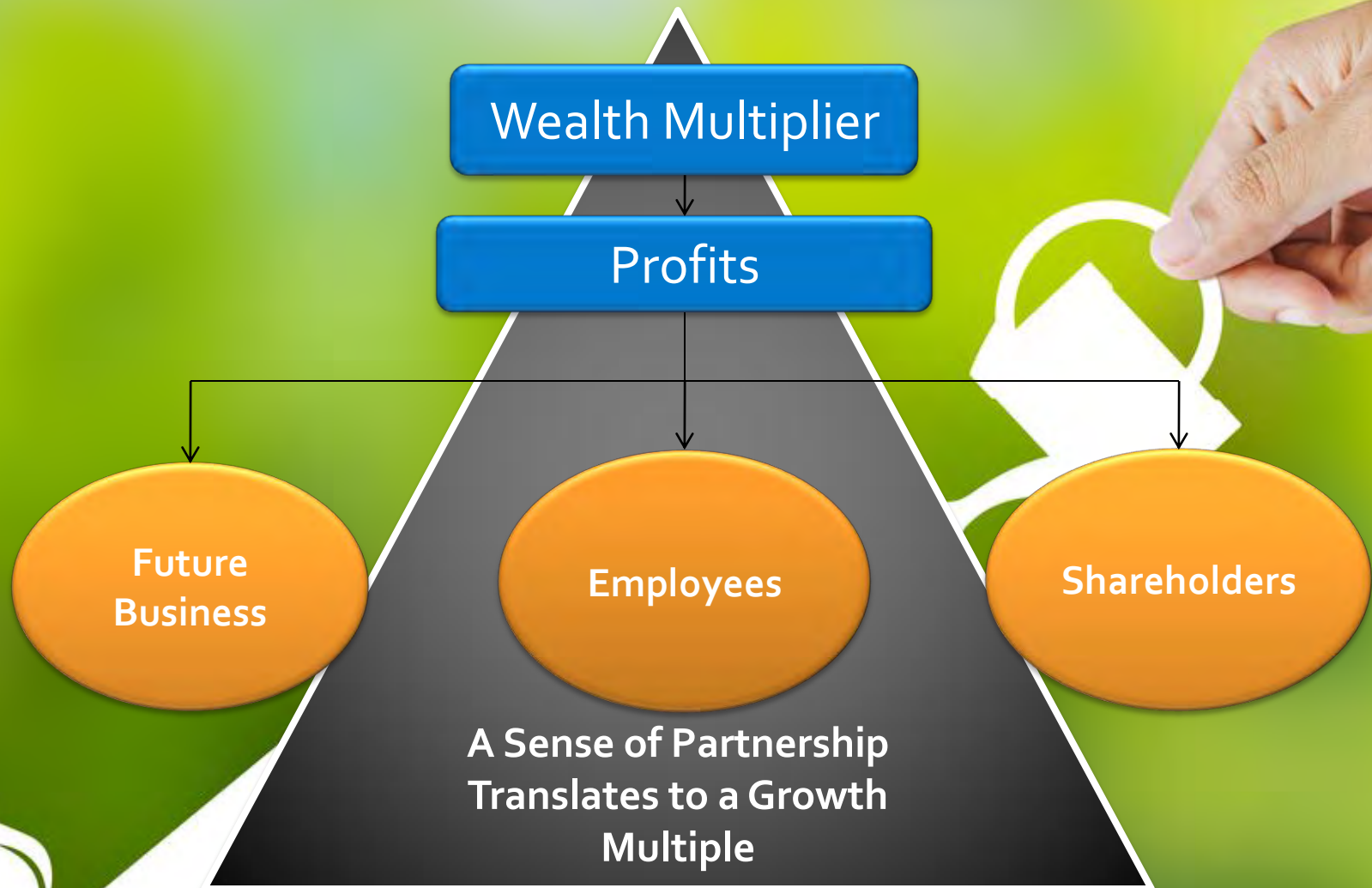
- Accelerate value creation
- Recruit premier talent that fits performance framework
- Pay is an investment that should produce a growing return
- Market pay for benchmarking but pay philosophy drive comp strategy
- Sharing value with value creators



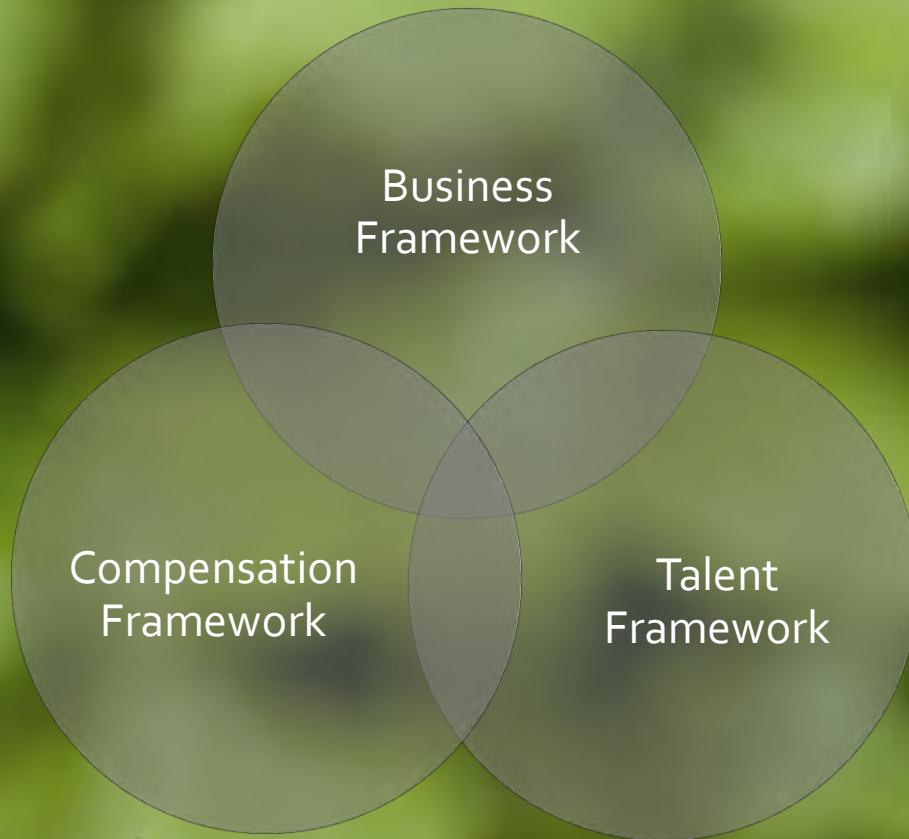
The Value of Profit



The Value of Profit



Establish a Performance 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"



Business 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



Compensation Framework

Talent Framework

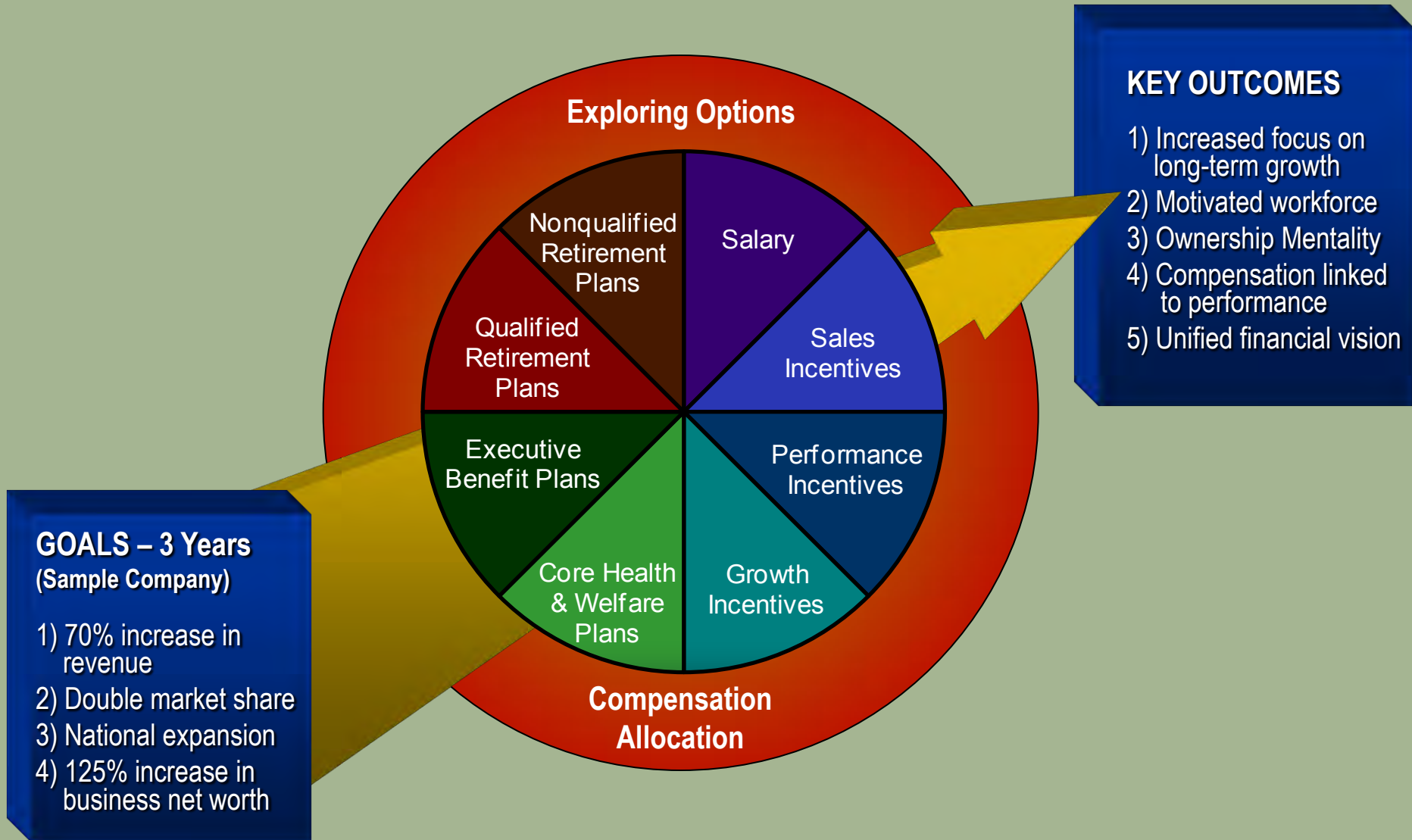
Phase Three

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



Talent
Framework

Examine Alternatives



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?

Measuring the Return on Compensation

ROTRI™

Return on Total Rewards Investment™

Defining value creation and then measuring the return on your compensation investment



How much is the Total Rewards Investment?

- Salaries
- Commissions
- Bonuses
- Deferred award accruals (LTIP)
- Core benefits
- Executive benefits
- Retirement contributions
- Payroll taxes



What return do you get on that investment?

____%



ROTRI™ Example:

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%

($\text{ROTRI}^{\text{TM}} = \text{Productivity Profit} / \text{Total Rewards Investment}$)

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

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%

Why Long-Term Value Sharing Matters



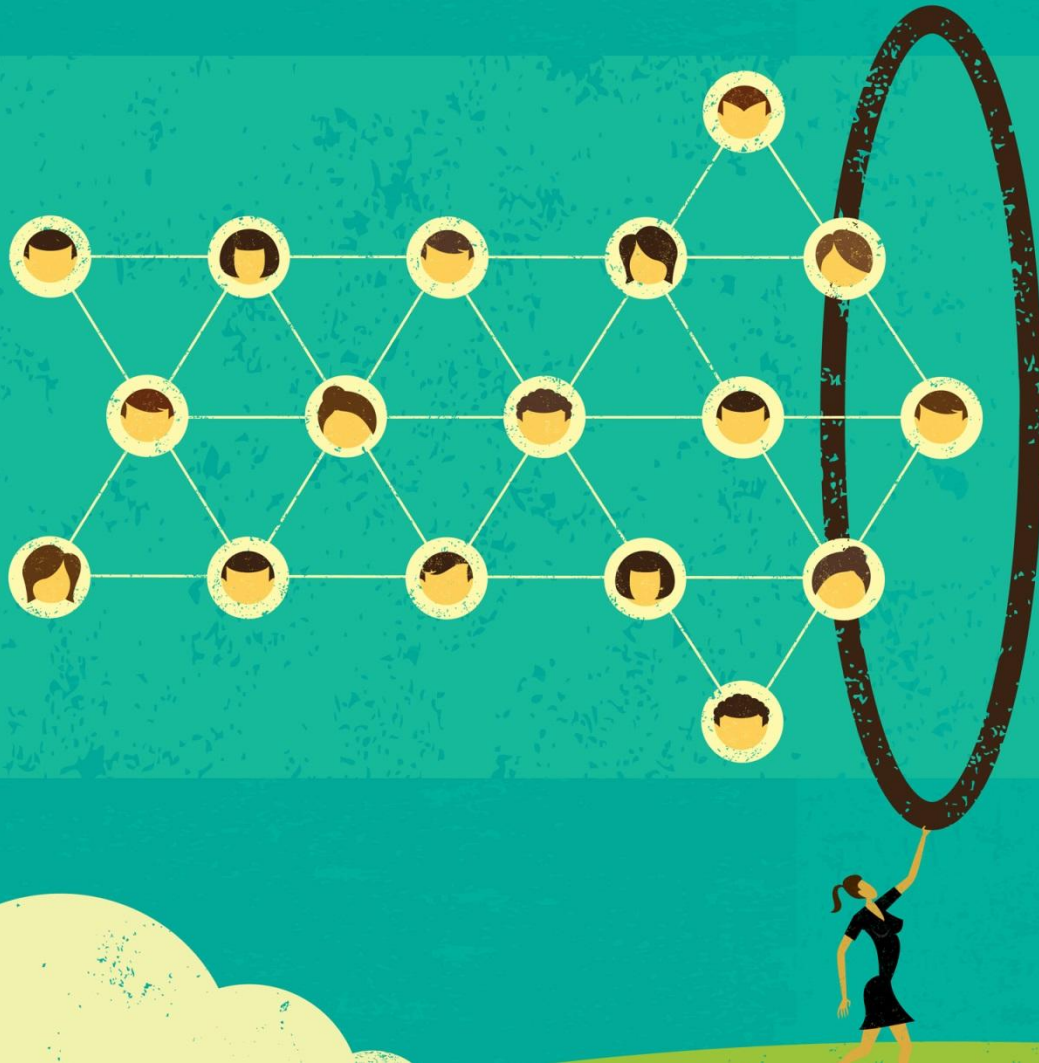
Why Long-Term Value Sharing Matters

#1 Value sharing attracts and retains the best talent and magnifies results

- Keeping the “right” people
 - Willing and able to compete
 - Assume stewardship role in safeguarding shareholder interests
 - Willing to share in risks and rewards of value creation
 - Seek mini-entrepreneurial experience



Why Long-Term Value Sharing Matters



#2: Value sharing plans reinforce the company's business model

- Virtuous cycles
- Leverage points
- Reinforce roles and expectations

Why Long-Term Value Sharing Matters

#3: Value sharing protects against bad profits and promotes good profits

- Everyone has an interest in good profits if everyone's wealth multiplier rises or falls on the ability of the company to sustain the right kind of profitability.



Why Long-Term Value Sharing Matters

#4: Value sharing promotes an ownership mindset

- Communicates “what’s important.”
 - Keep performance engine working *while* moving the company forward towards growth goals
 - Define priorities the same way ownership does



Why Long-Term Value Sharing Matters

#5: Value sharing builds trust and accelerates results

- Turn key people into “partners” in building the future business
 - Value sharing communicates a sense of fairness
 - Validates your trust in their unique abilities
 - Create a unified financial vision for growing the company



Select the Right Plan Type

Phantom Stock
Option

Restricted Stock

Performance Shares

Profit Pool

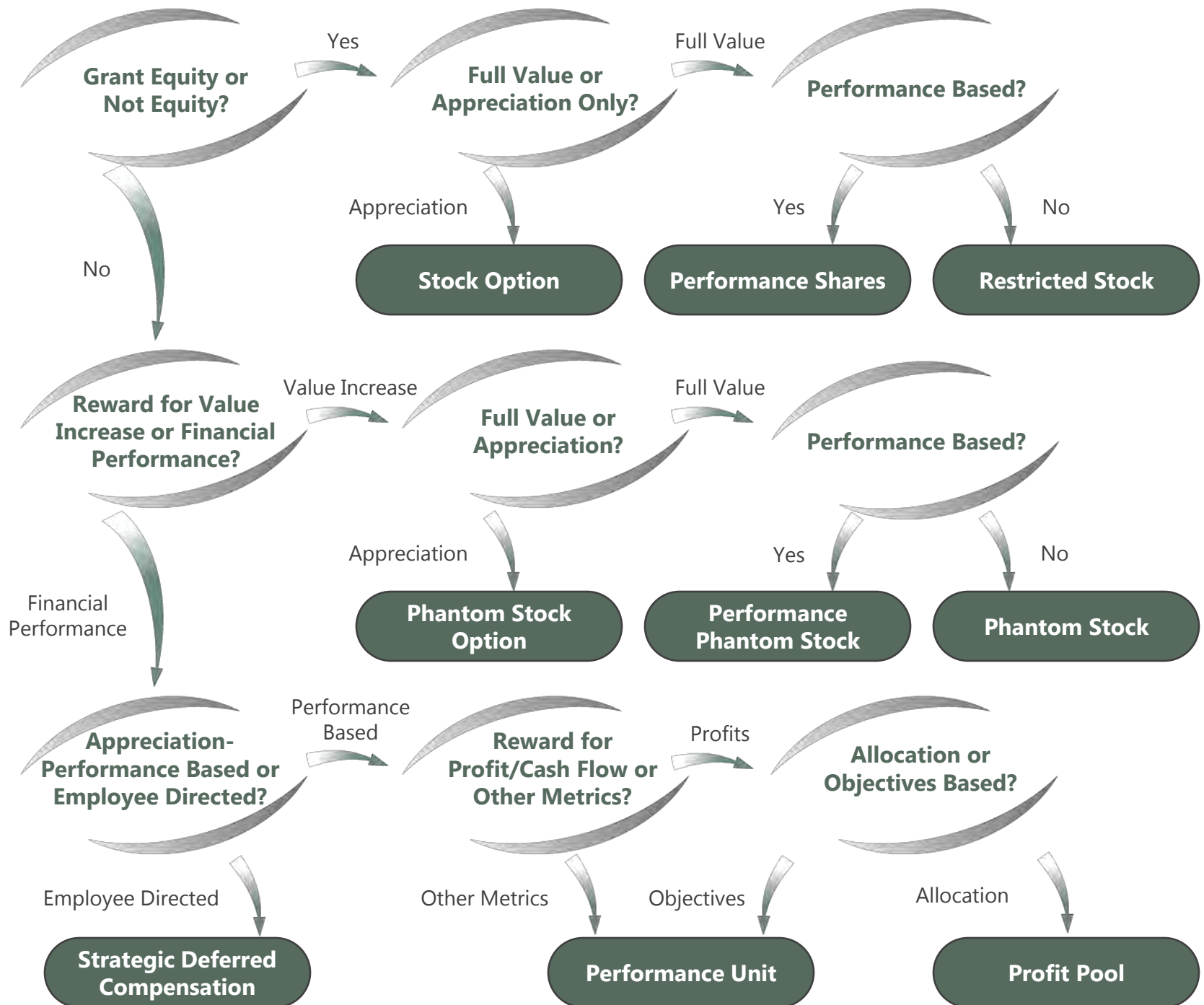
Phantom Stock

Performance
Phantom Stock

Strategic Deferred
Compensation

Stock Option

Performance Unit




Communicate and Promote the Plan

1. Explain, celebrate and reinforce the total value proposition
2. Communicate a sense of partnership
3. Project the wealth multiplier opportunity



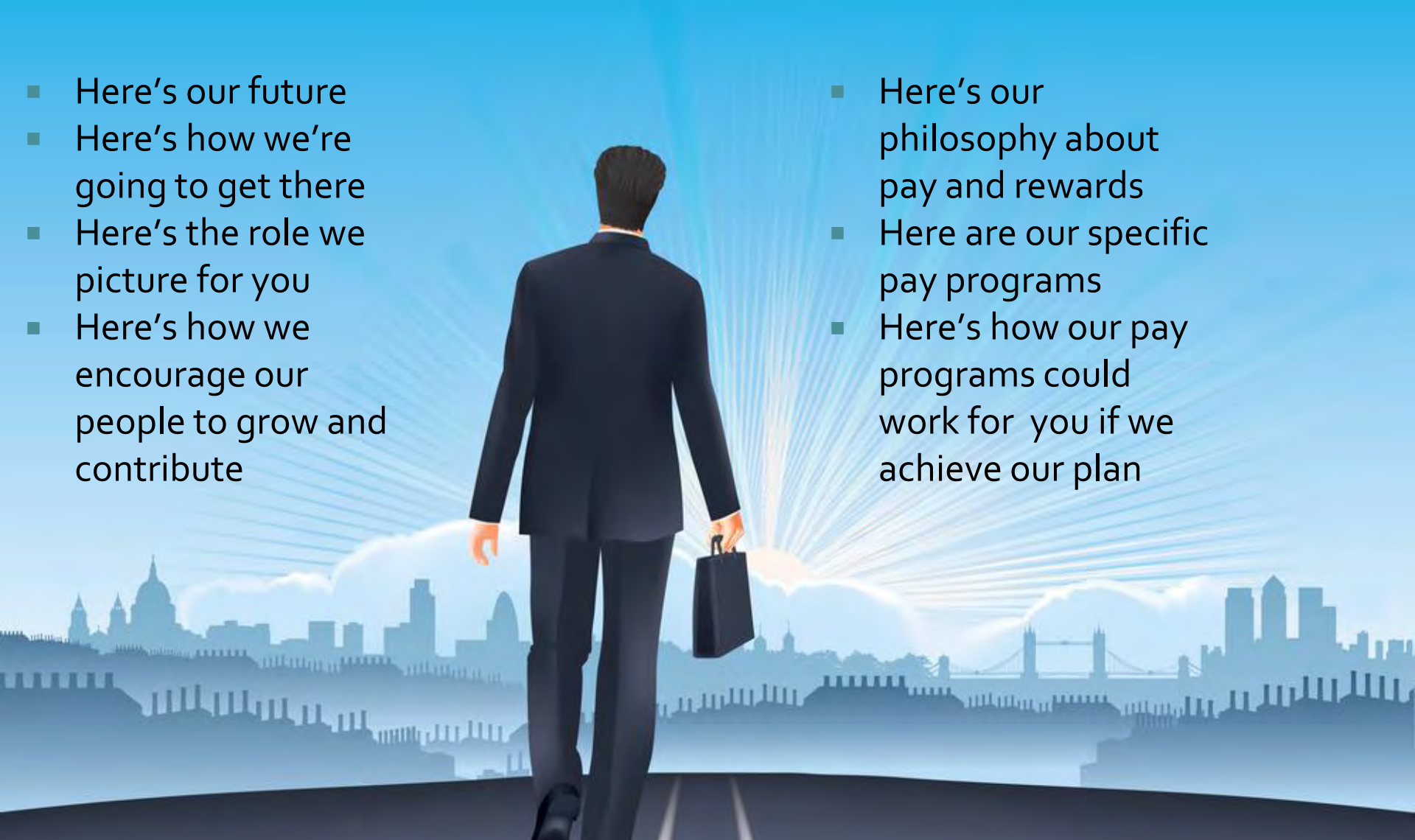
Employee Messaging (Customary)

- 
- Here's the job
 - Let's see if you qualify
 - Looks like you do...here's the pay package
 - \$160,000
 - 40% target bonus
 - Great benefits

Employee Messaging (Preferred)

- 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

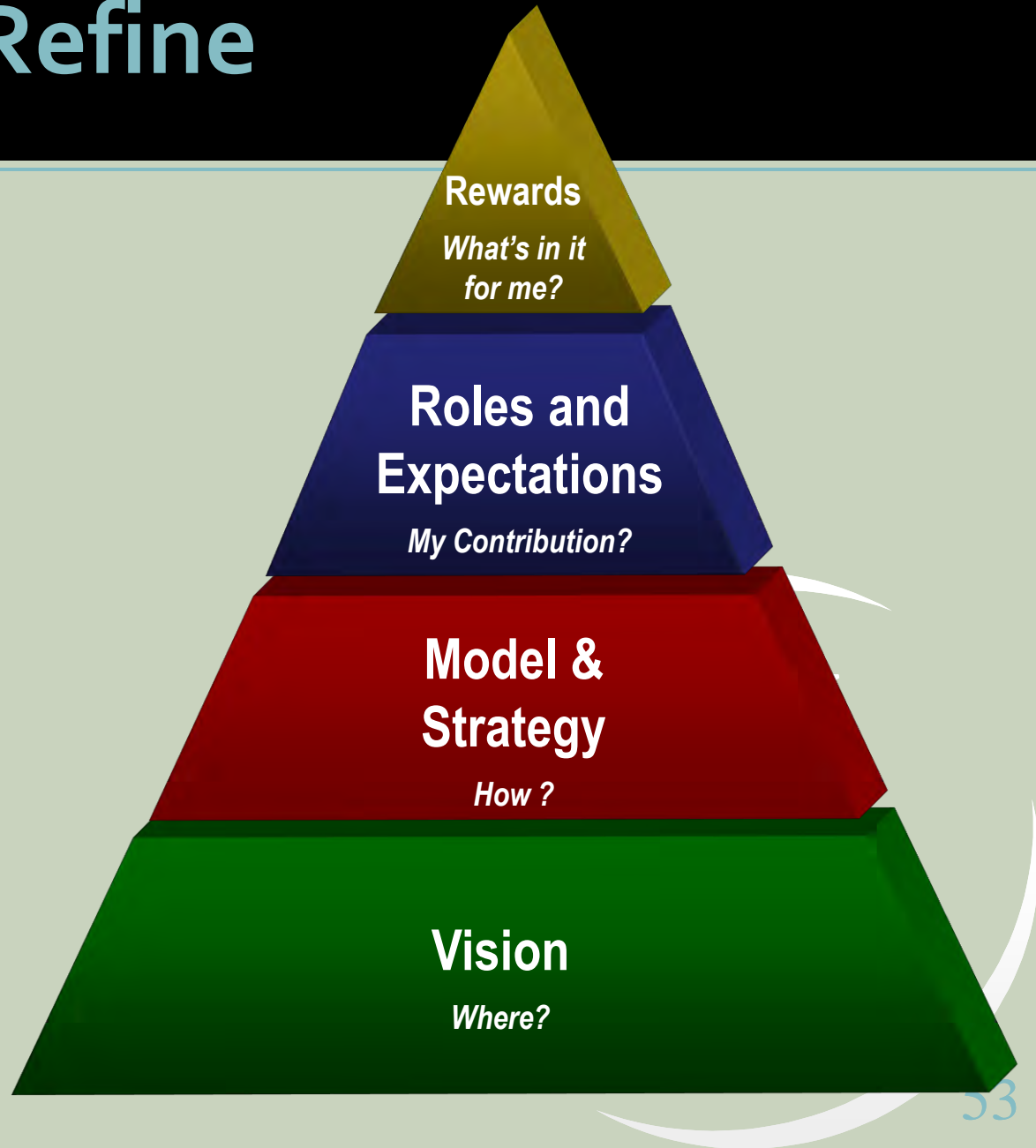


Key Producer Employee Value Statement

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

Evaluate & Refine

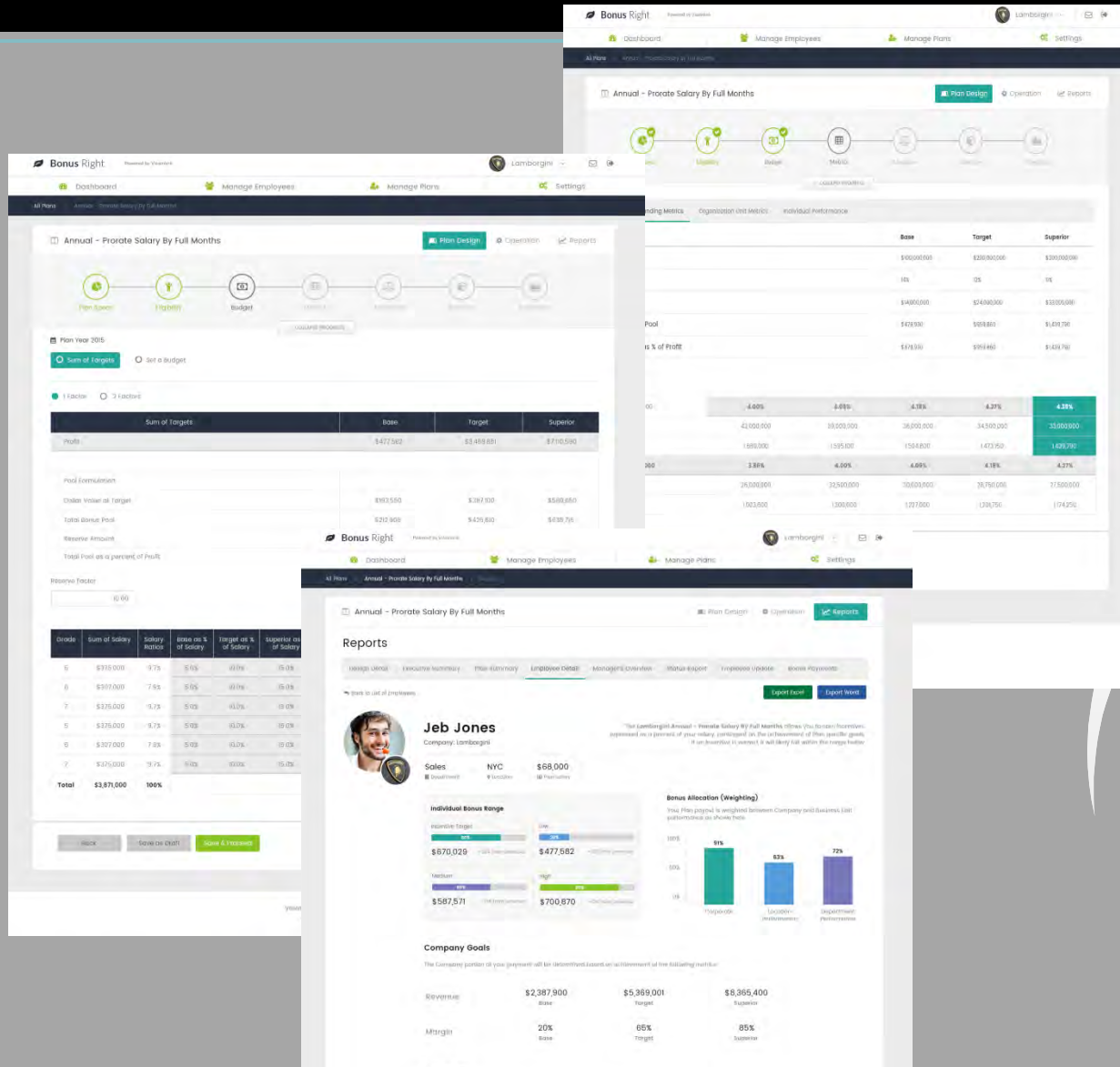
Line of Sight



**Special Offer for a
Limited Audience**

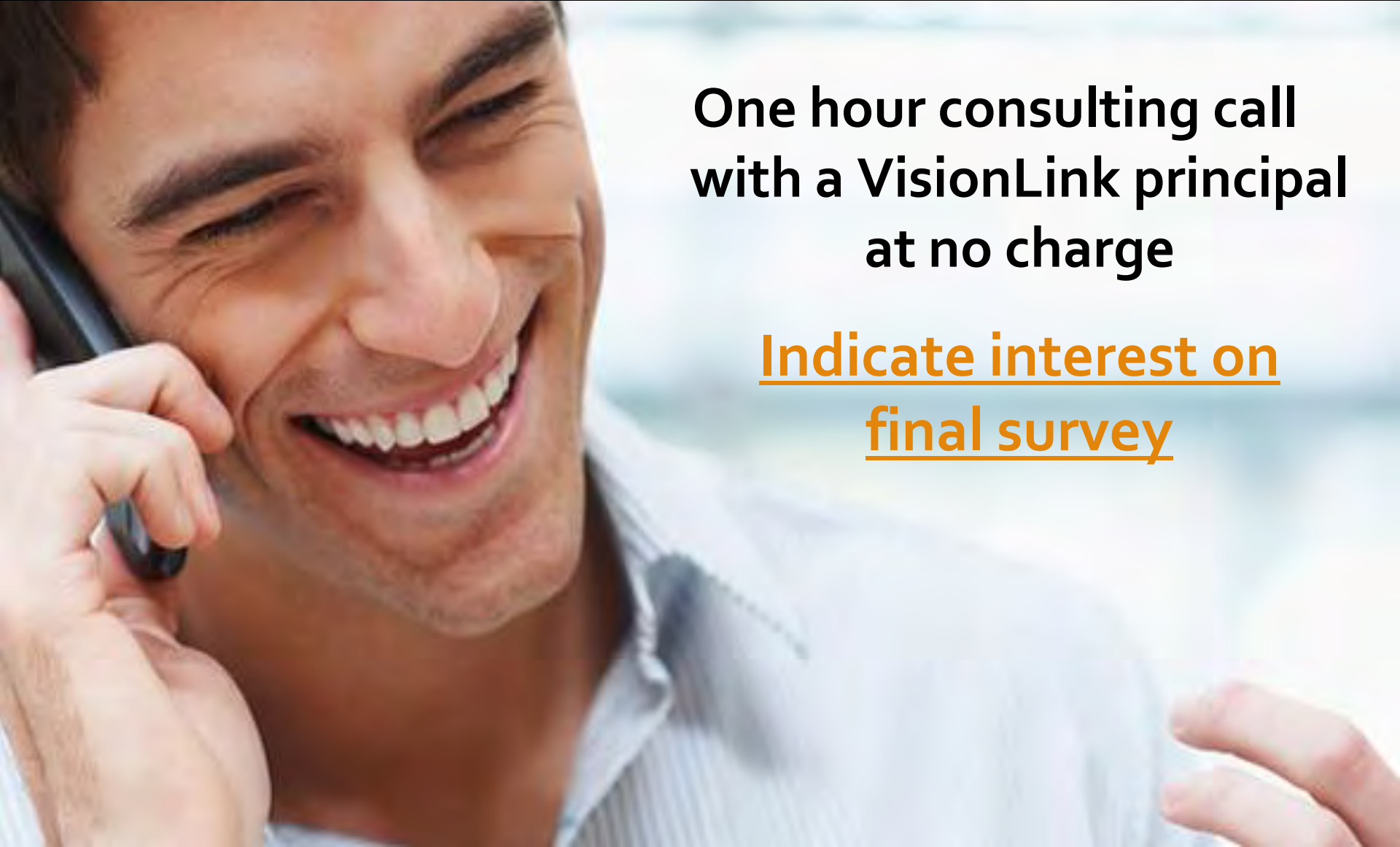


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"To Share Equity or Not to Share Equity, That is..." <i>How to Decide Whether You Should Share Stock</i>	March 22nd
Who You Should be Hiring and How to Pay Them	April 26th
Guaranteed vs. Incentive Pay: What's the Right Balance?	May 24th
Rules for Keeping Pay Competitive (HR Specific Webinar)	June 14th
Pay's Role in a Performance Culture	June 28th
What Millennials Want in a Pay Plan	July 26th
How to Share Value without Diluting Equity <i>4 Alternatives to Sharing Stock</i>	August 23rd

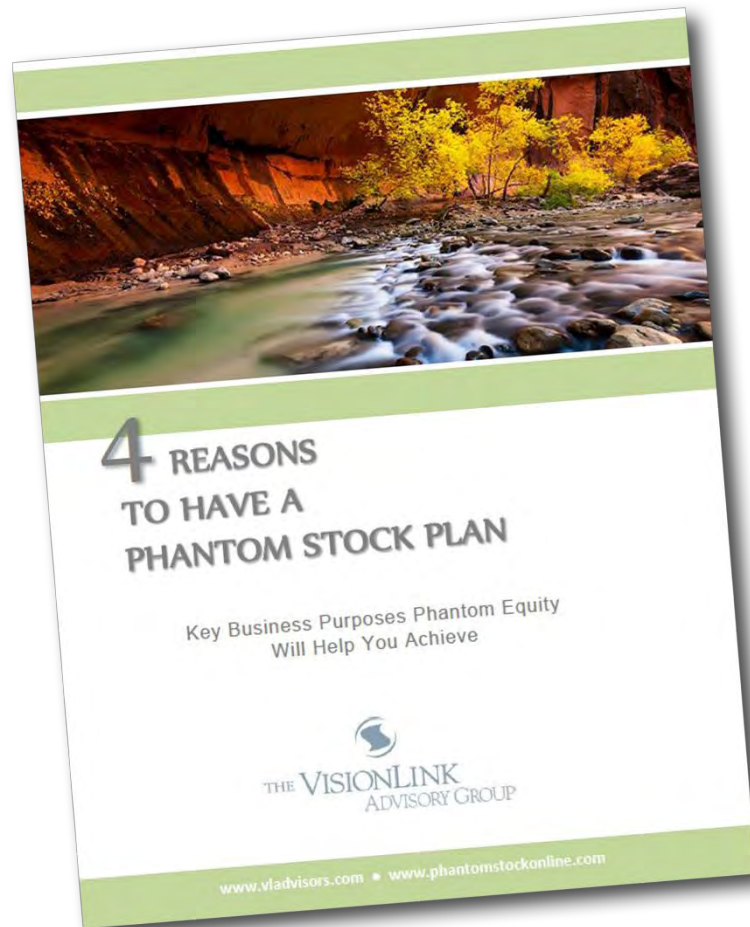
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VisionLink Report

4 REASONS TO HAVE A PHANTOM STOCK PLAN

Key Business Purposes Phantom Equity Will Help You Achieve



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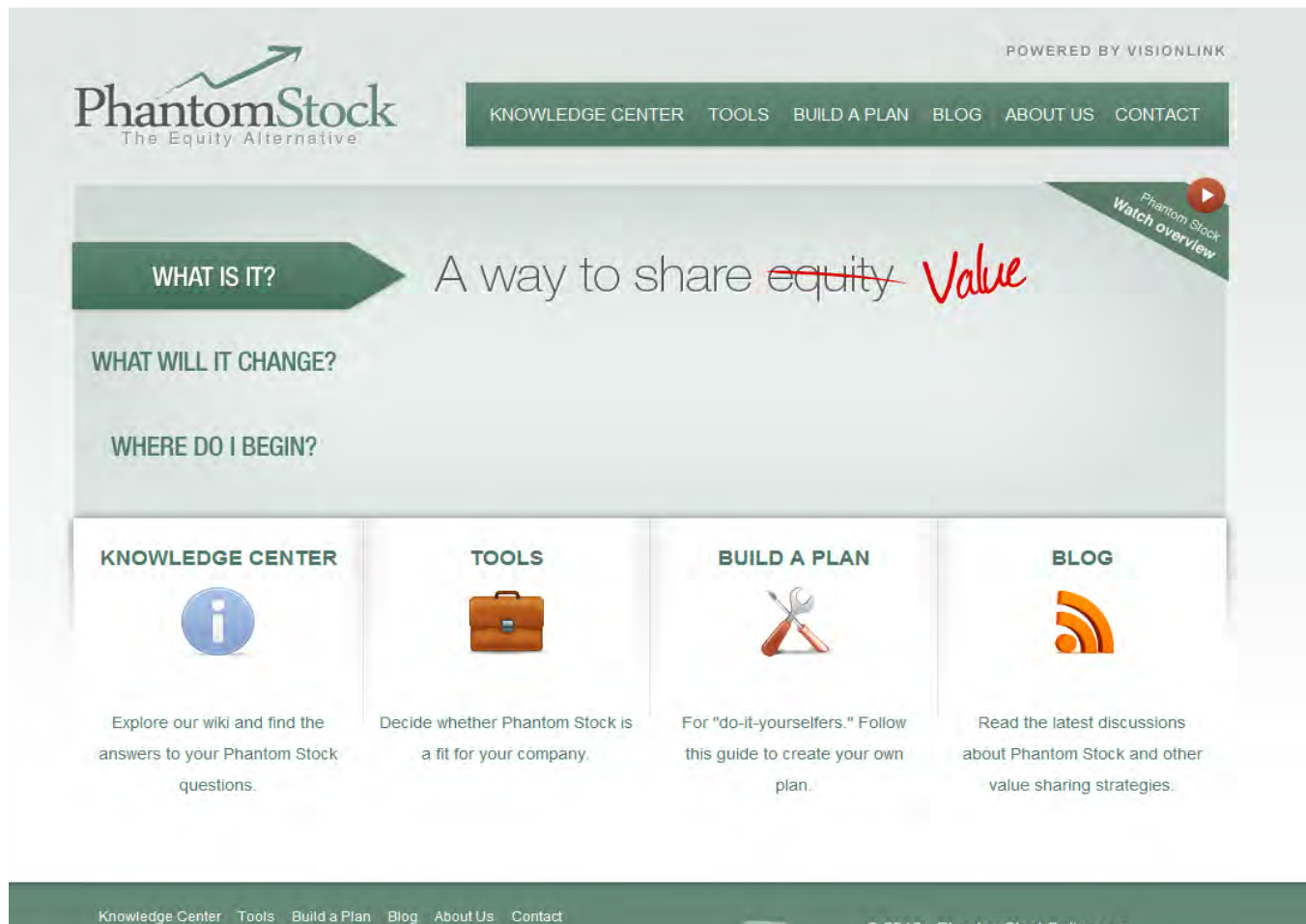
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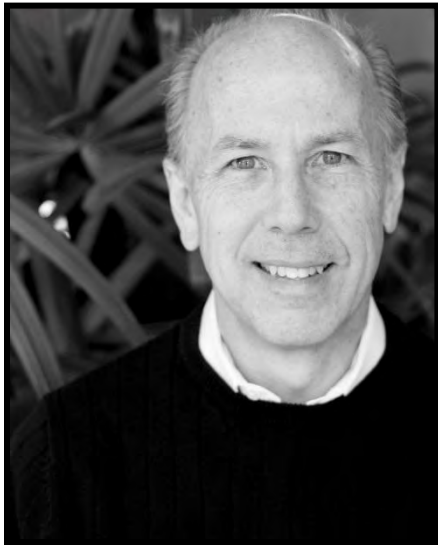




Q&A



THANK YOU



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