

The CEO's Role in Building a Pay Strategy



THE VISIONLINK
ADVISORY GROUP





THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



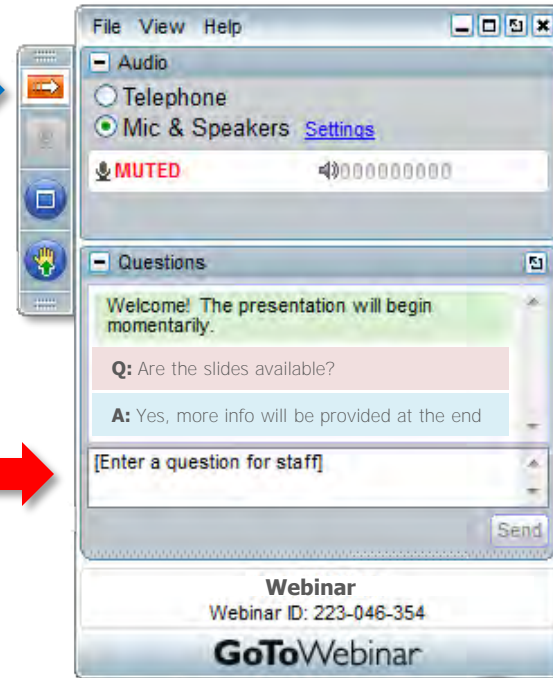
We're happy to provide a copy of today's slides.
Information will be provided at the close
of the presentation.

**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



Take our
SURVEY



For Webinar Participants



**One hour consulting call
with a VisionLink principal
at no charge**

Indicate interest on final survey



- Founded in 1996
- Over 450 Clients throughout North America

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

Vision: Help Businesses Build and Sustain a Performance Culture

Accelerate performance capabilities by designing 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.



A Sea Change

CEOs used to be able to delegate compensation issues to HR.



Issues Only CEOs Can Properly Address


Determining the Value Proposition's impact on:

- Attracting and retaining key producers
- Alignment: vision, business model and strategy, roles and expectations and financial rewards
- Performance accountability
- ROI on the compensation investment
- Nurturing a high performance culture
- Driving the company's wealth building multiple
- Establishing the employer brand

strategy



Talent Trends

A close-up photograph of a person's hands and forearms. The person is wearing a dark suit jacket over a light blue shirt. They are holding a black pen in their right hand, poised to write on a white document. Their left hand is resting on the document. The scene is reflected in a dark, glossy surface below, creating a clear mirror image of the person's hands and the document.

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 fizzles and ideas spark into life. If they can't be found, they must be created.

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


Key Prediction

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)



Employee Empowerment

A woman with long brown hair, wearing a dark grey blazer over a white shirt, is looking down at a white smartphone in her right hand. She is holding a blue folder under her left arm. The background is a blurred outdoor setting.

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

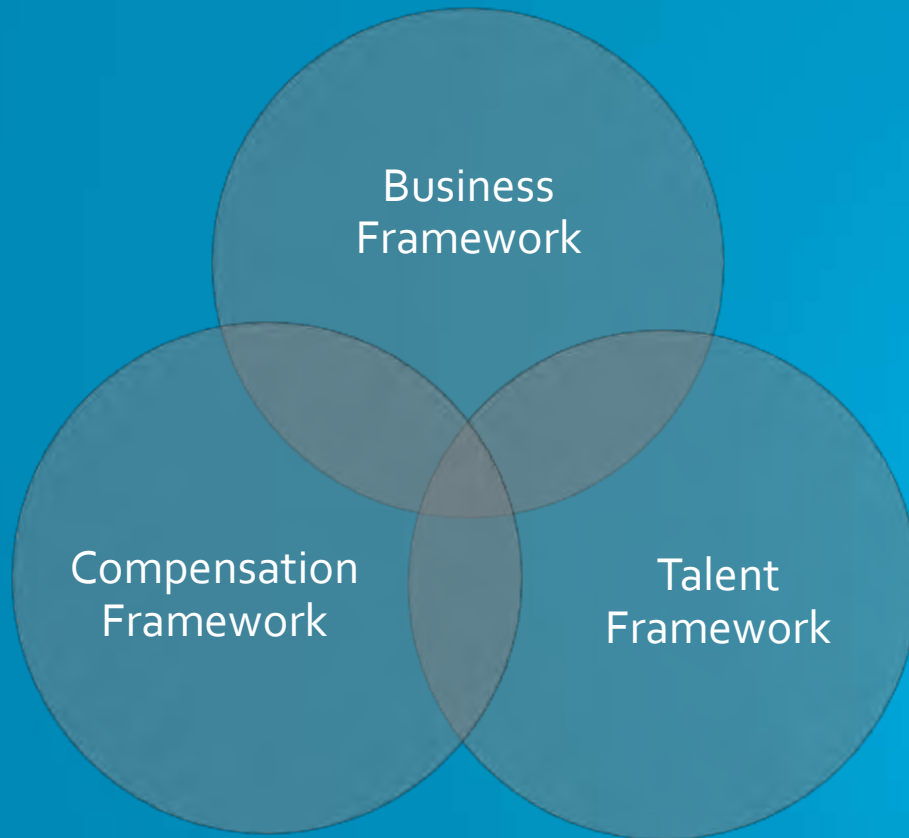
Pay the least amount you can
“get away with” to attract the
best talent available and drive
the maximum performance
possible.



5 Areas of Focus

1. Establish a performance framework
2. Define value creation
3. Communicate a partnership
4. Measure ROI
5. Market an employer brand

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



Rewards to Results

RESULTS

 **EXECUTION**

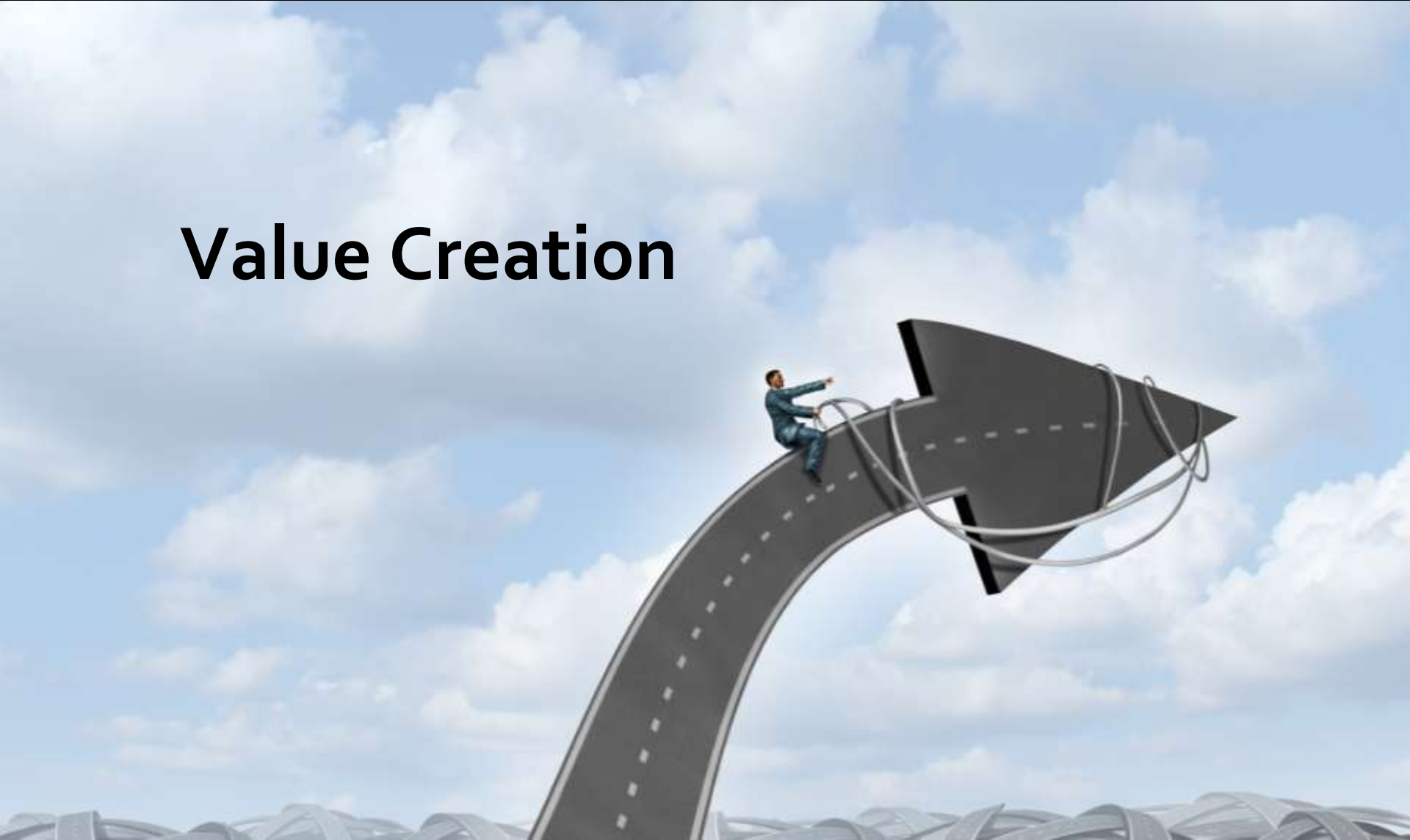
FOCUS

Rewards



What Results?

Value Creation



2. Defining Value Creation

Value attributable to the productivity and performance of human capital.



Case Study



Keith Williams

- Assumed leadership of UL in 2005
- Company carrying considerable debt
- Losing market share
- Low employee morale
- UL had become bureaucratic and “siloed”



Core Changes

Shift from “Incentives” to “Value Sharing”

- Took away local measurements driving management incentive plans—all paid on same metrics
 - “We live together and we die together”
- Aligned everyone behind company success
 - “I call it ‘pay the company first.’ ”



Pay the Company First

“Basically, up to the company’s operating profit target, all of the profits go to the company; and only after that target is met, do we start funding the incentive pool.”

Example: If UL’s target is \$80 million--

- 100% of first \$80 in profit goes to company
- The next \$20 million goes to the incentive pool
- From there on, 50/50 between company & incentive pool

Pay the Company First

Once value creation is defined, compensation can follow a formula for sharing value in a way that aligns key producers with the company's business plan and priorities.



What kind of Pay?



Choose a Pay Strategy

- 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



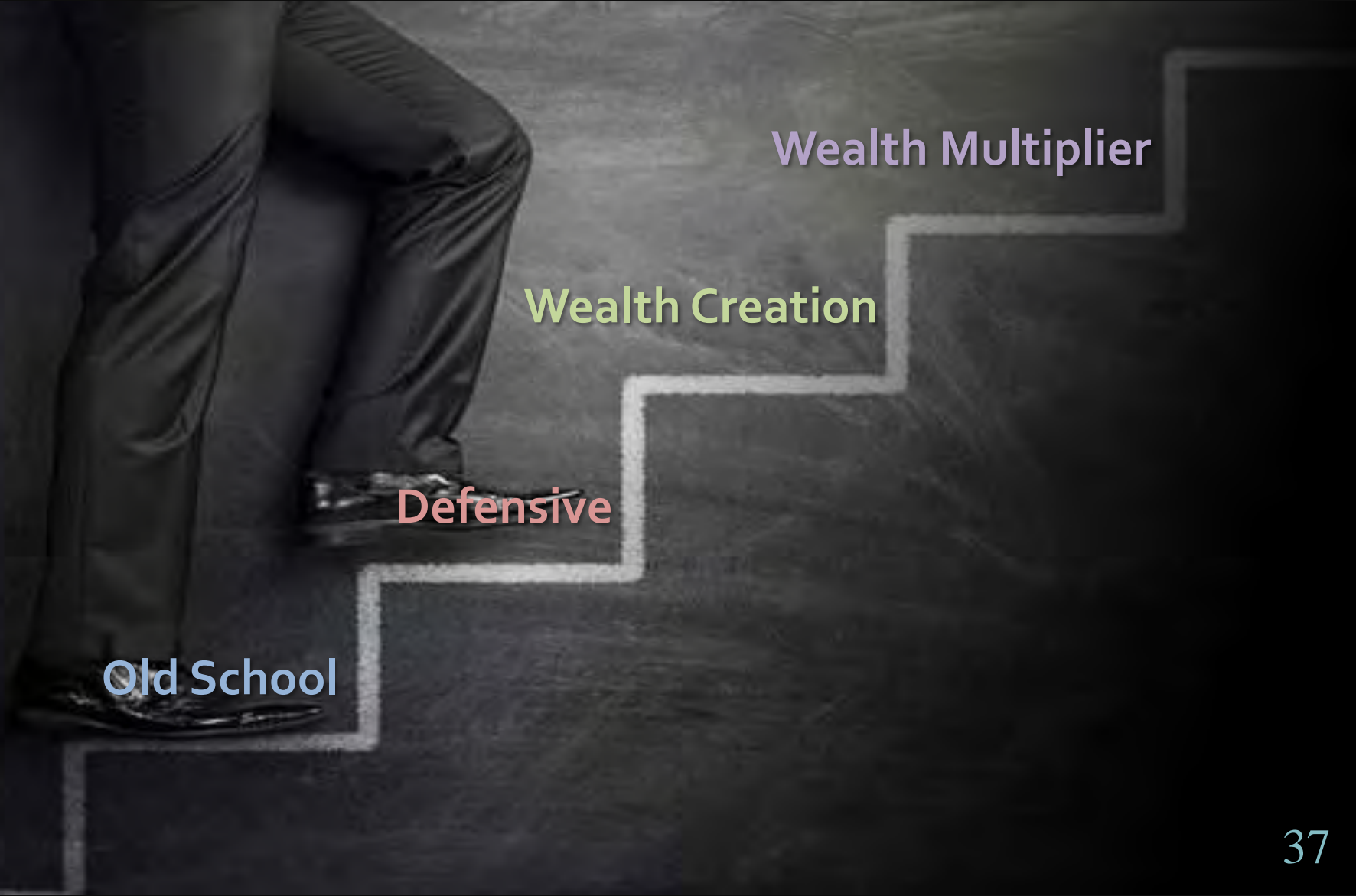
Which approach makes the most sense?



Compensation Philosophy Statement

- 
- A close-up photograph of a person's hand holding a silver ballpoint pen, poised to write on a white sheet of paper. The background is blurred, showing what appears to be a desk and some office equipment.
- 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.

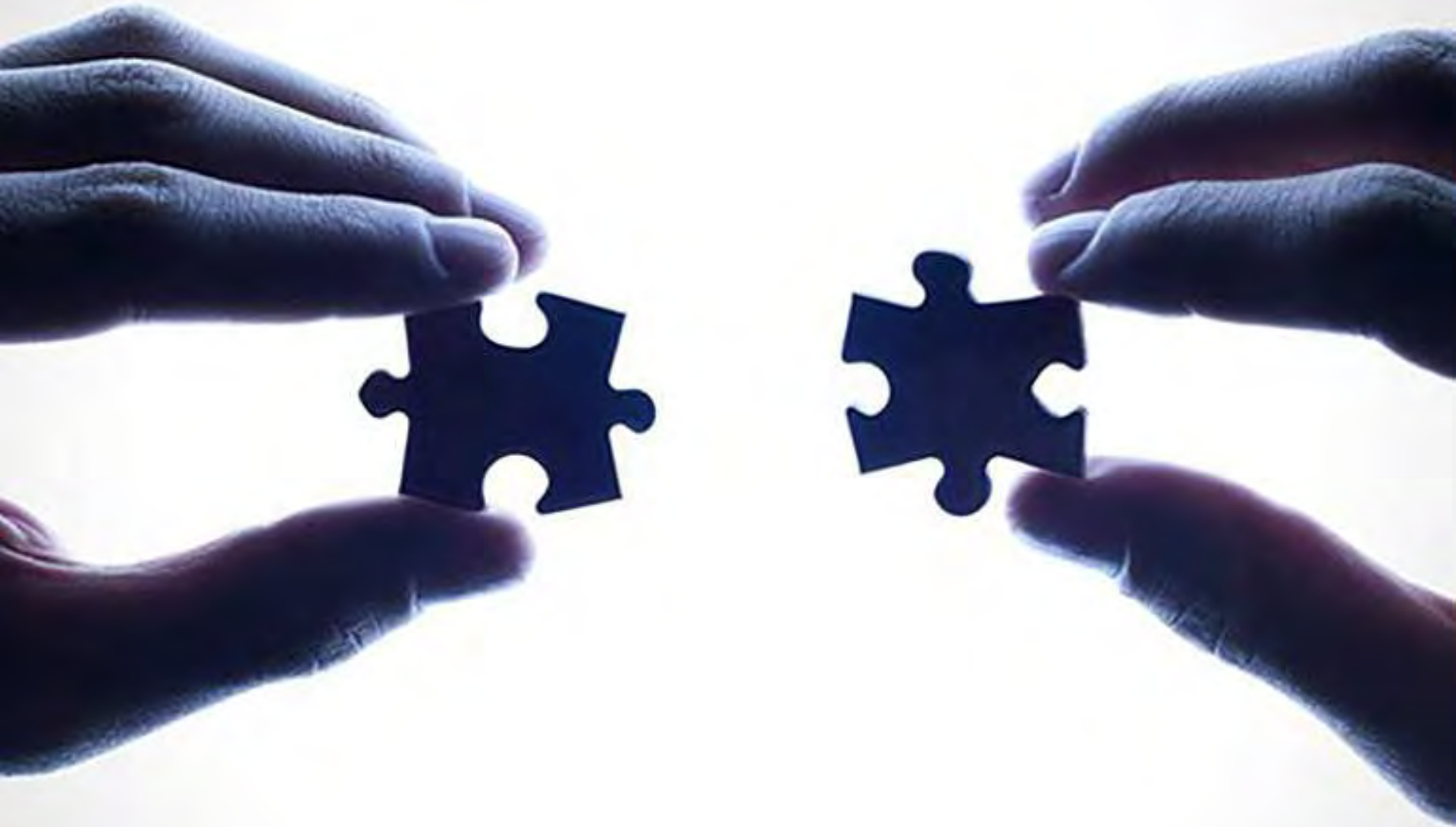
Long-term Incentives (quasi-equity)

Viewed by top performers as the most meaningful part of their rewards program.

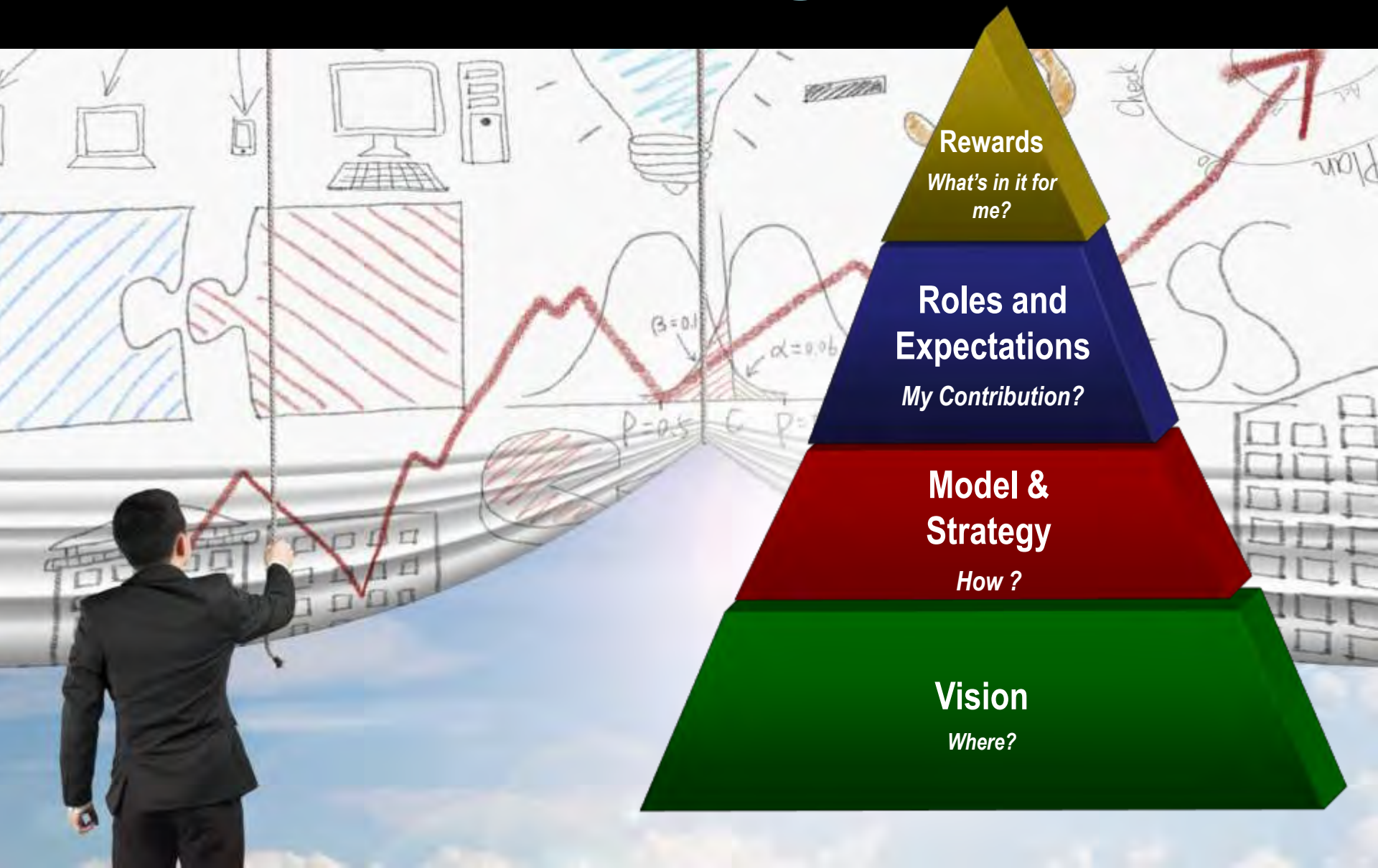
Results

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.

3. Communicate a Partnership



Reinforce 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

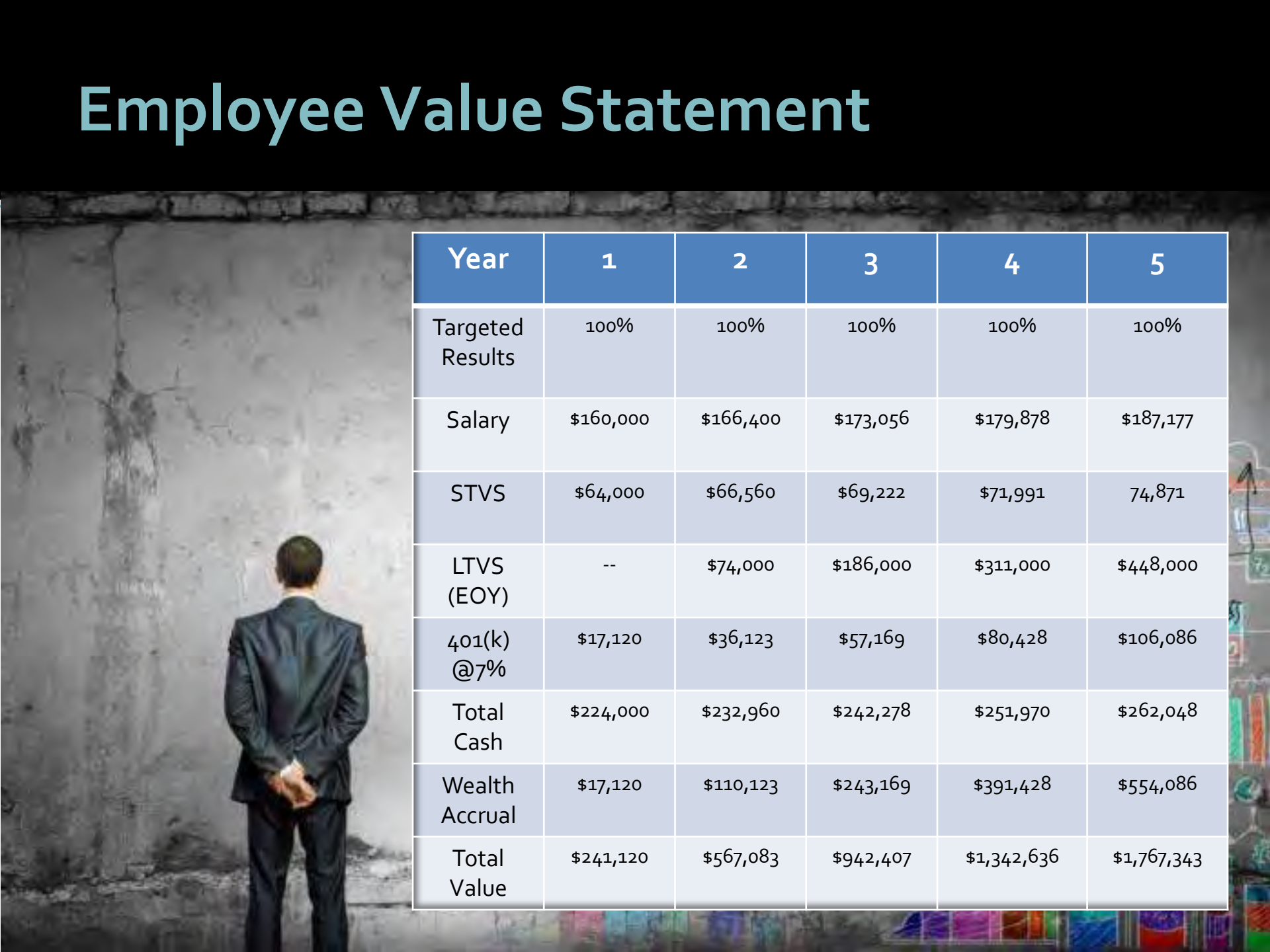


Market a Future that's Relevant

- 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

4. Measure ROI

Calculate Your
Productivity Profit



ROTRI™ 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
*Productivity Profit	\$7,600,000
Total Rewards Investment	\$25,000,000
ROTRI™	30.4%

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

(ROTRI™ = Productivity Profit/Total Rewards Investment)

5. 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 that.

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*.



Key Issues

- Culture
- Value Proposition
- Messaging



Culture



- Mission, Vision, Values, Standards
- Unique Attributes
- Expectations
- Experience

Messaging

Develop themes that:

- Promote the partnership
- Promote this year's priorities



Themes to Promote the Partnership

Powering
growth & success
through our people.

we win
together

The quality of
our work
depends on
the quality of
our people.

Themes to Promote this Year's Priorities



Employer Brand “Toolkit”

Reports

- Employee Value Statement
- Incentive Values Report
- Incentive Plan Projections

Online

- Intranet Messaging
- Slack Campaigns
- Social Media Campaigns
- Facebook Live Events

Specialty

- Videos
- Performance Milestone Events
- Recognition Events

Print Communication

- Summary Plan Description
- Plan Overview
- Letters
- Emails
- Posters
- Mailers
- Specialty Items



Education

- Webinars
- Video Conferencing
- Facebook Live Events
- Written Plan Summaries
- Pay Philosophy and Strategy Explanation
- Compensation & Benefits Handbook



Employer Brand

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)



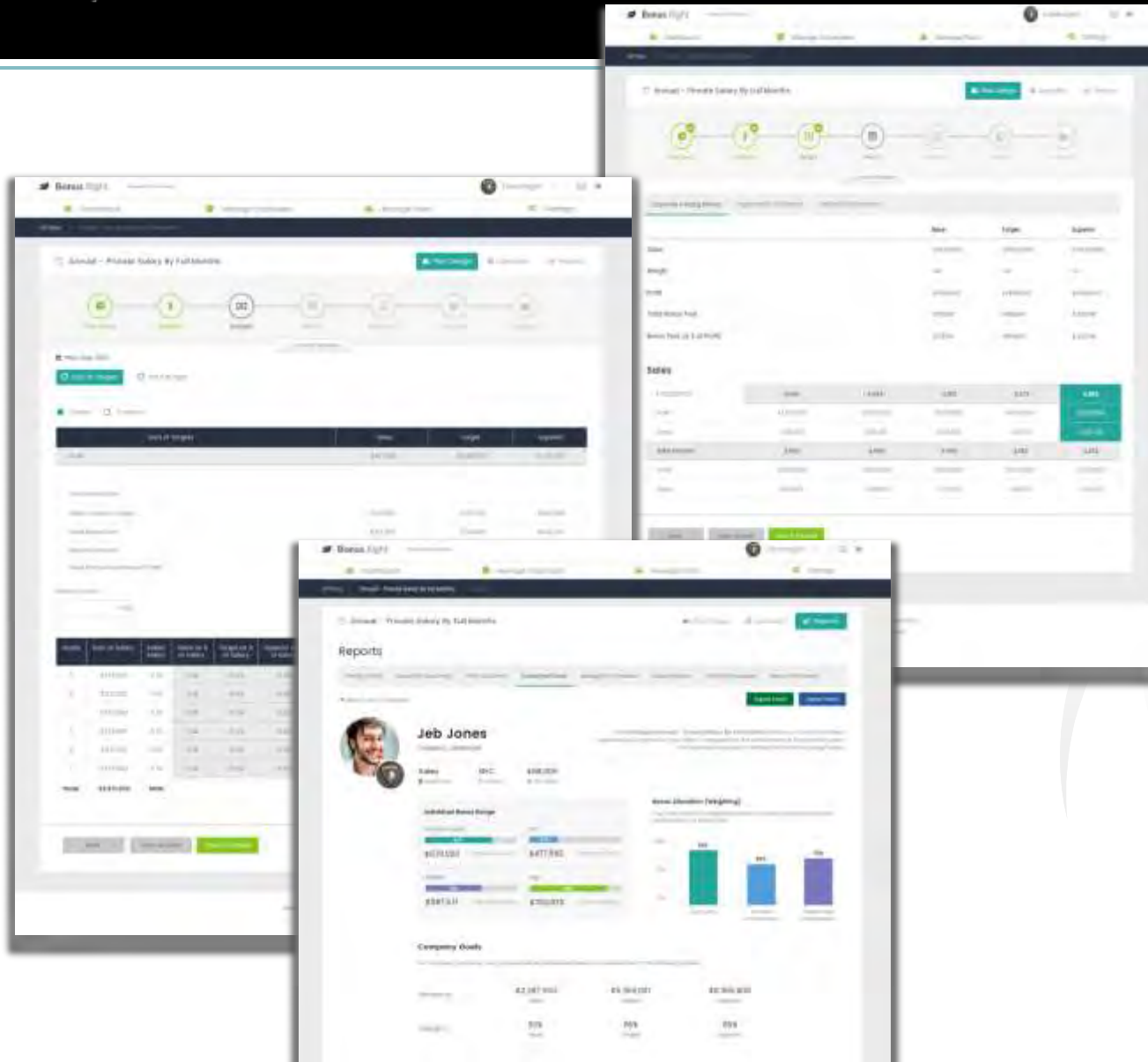
5 Areas of Focus

1. Establish a performance framework
2. Define value creation
3. Communicate a partnership
4. Measure ROI
5. Market an employer brand

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 be invited to rollout webinars.

For Webinar Participants



**One hour consulting call
with a VisionLink principal
at no charge**

Indicate interest on final survey

Take our **SURVEY**



Please complete our brief survey immediately following our presentation.

We value your input.

Request a copy of our slides, white paper, complimentary consultation, and more information on BonusRight.

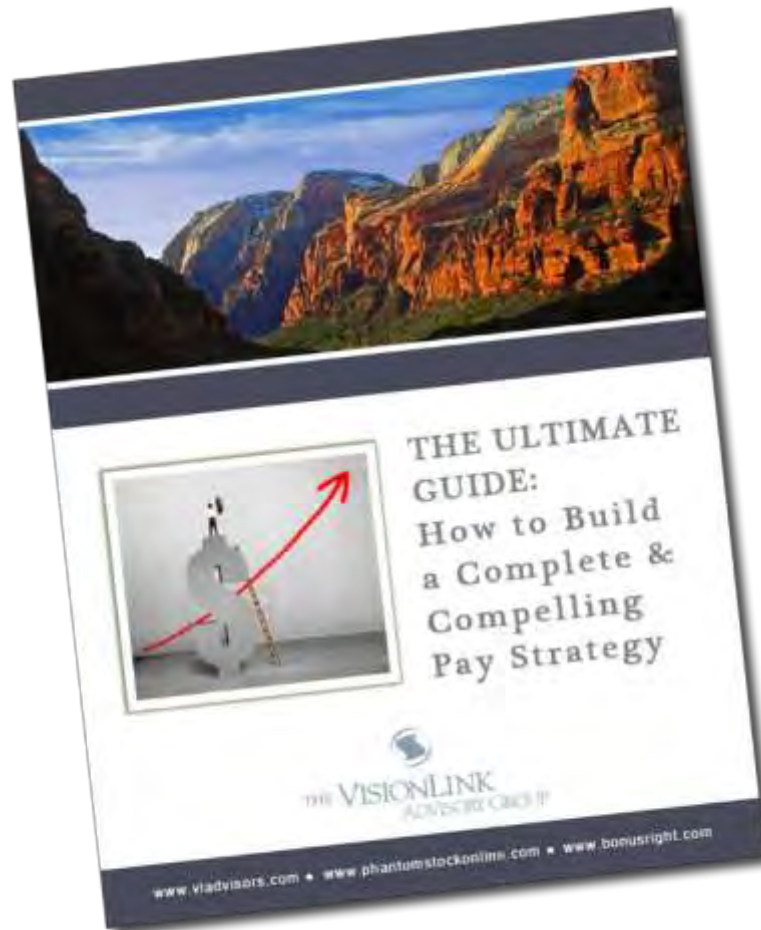
Upcoming 2017 VisionLink Online Seminars:

How to Improve “Line of Sight”—and Why it Matters	August 23rd
Why a Total Compensation Structure is HR’s Best Friend (HR Specific Webinar)	September 13 th
What is a “Successful” Pay Strategy?	September 27 th
How Should You Pay High Performers?	October 25 th
Balancing Salaries and Incentive Pay (HR Specific Webinar)	November 8 th
4 Pay Practices the Kill Employee Engagement	December 6 th

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

www.VLadvisors.com ♦ www.PhantomStockOnline.com ♦ www.BonusRight.com

The Ultimate Guide: HOW TO BUILD A COMPLETE & COMPELLING PAY STRATEGY



Express interest on the final survey

www.VLAdvisors.com

The screenshot shows the homepage of The VisionLink Advisory Group. The header includes the company logo, navigation links (About Us, Capabilities, Knowledge Center, Blog, Contact Us), social media icons (Facebook, Twitter, RSS), a Client Login button, and a phone number (888) 703 0080. The main content area features a large banner with the text "Drive Growth - Increase Value - Multiply Wealth" and a sub-header "Which Plan Is Right for Your Company?". Below this is a large image of a mountain range with the text "How Do I End Entitlements?" and a link "Click here to learn more". At the bottom, there are four colored boxes with call-to-action buttons: "Learn About VisionLink's Capabilities", "View a VisionLink Webinar", "Speak to a Compensation Expert", and "Video: Learn How VisionLink Can Transform Your Business".

THE VISIONLINK
ADVISORY GROUP

About Us Capabilities Knowledge Center Blog Contact Us (888) 703 0080

Drive Growth - Increase Value - Multiply Wealth

+ Which Plan Is Right for Your Company?

How Do I End Entitlements?
Click here to learn more

+ Learn About VisionLink's Capabilities
CLICK HERE

+ View a VisionLink Webinar
CLICK HERE

+ Speak to a Compensation Expert
CLICK HERE

▶ Video: Learn How VisionLink Can Transform Your Business
CLICK TO PLAY

You can also subscribe to our blog

www.PhantomStockOnline.com





Q&A



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

Ken Gibson

Senior Vice President

(949) 265-5703

kgibson@vladvisors.com



Thank You!

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

www.VLadvisors.com ♦ www.PhantomStockOnline.com ♦ www.BonusRight.com