

Pay's Role in a Performance Culture



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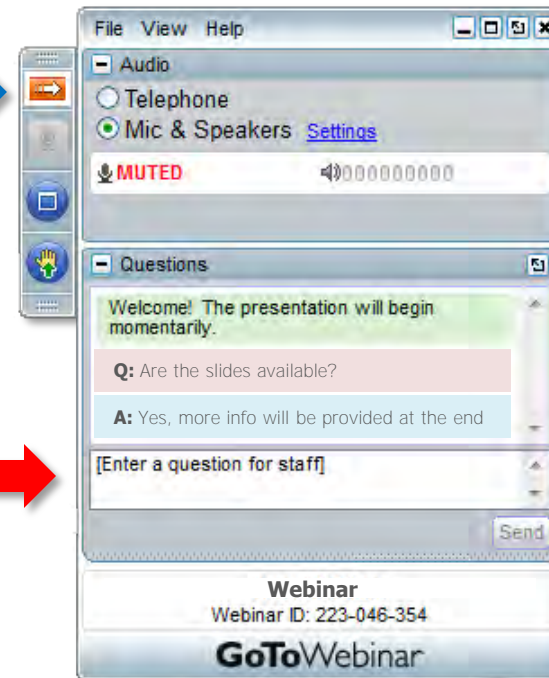
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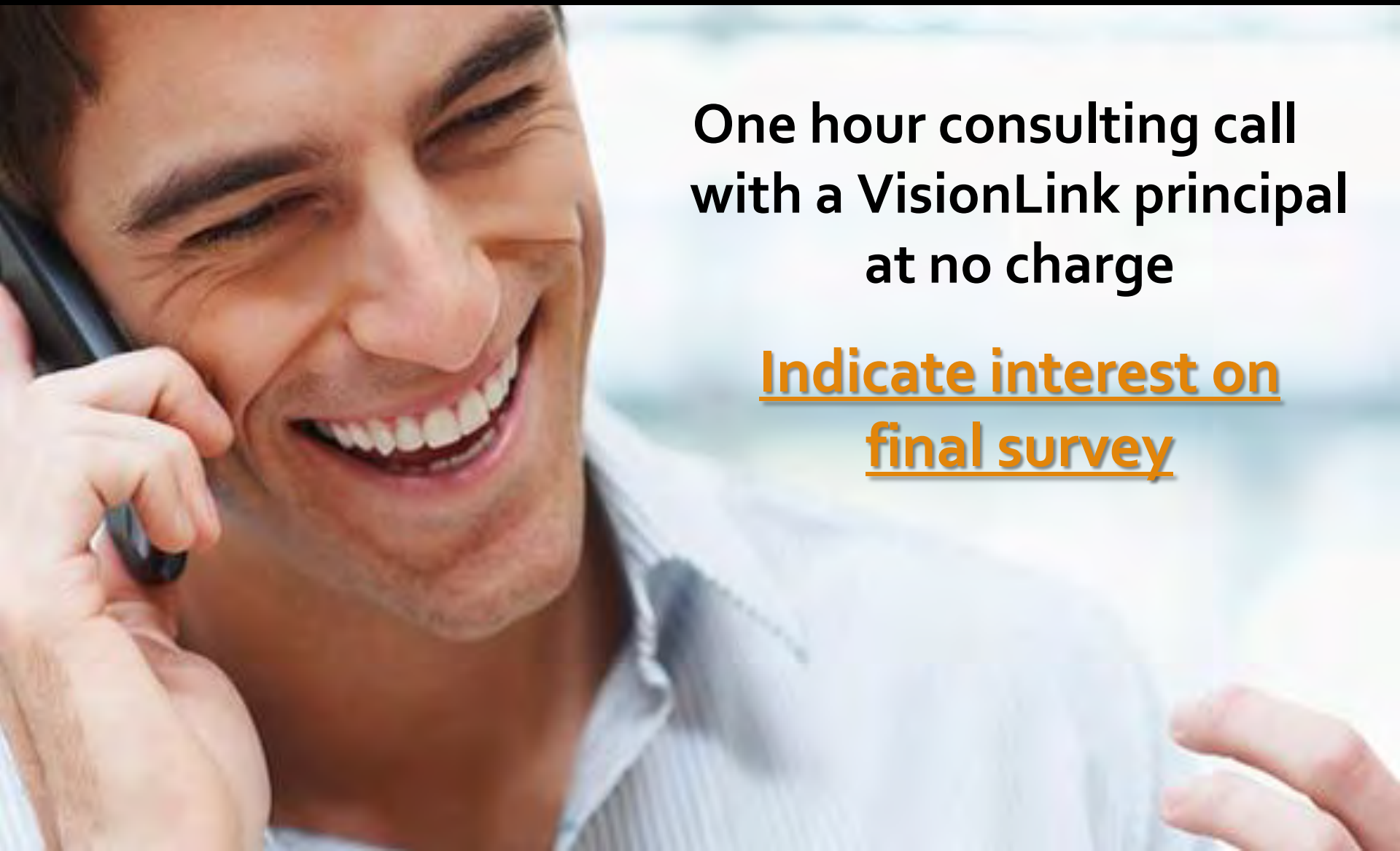
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End of the Presentation



- 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.



Our Focus



- Defining “Performance Culture”
- Pay’s Influence
- Who Benefits
- Key Principles

What is a Performance Culture?

- Focus
- Execution
- Sustained Success
- Patterns
- Consistent Wins
- Confidence



Rewards to Results

RESULTS



FOCUS

Rewards



What Results?

Value Creation



Who Benefits?

Shareholders

- Magnet for premier talent
- Perpetuate growth
- Increased business value
- Accelerated wealth accumulation
- Legacy of opportunity

Stakeholders


- Associated with a winner
- Positive work environment
- Personal and professional development
- Financial rewards

Performance 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 kind of Pay?



Accountable Pay

The Performance Evolution

Know

Believe

Do

Become



The Performance Evolution

Know

**Role &
Expectations**

Believe

Partnership

Do

**Own
Outcomes**

Become

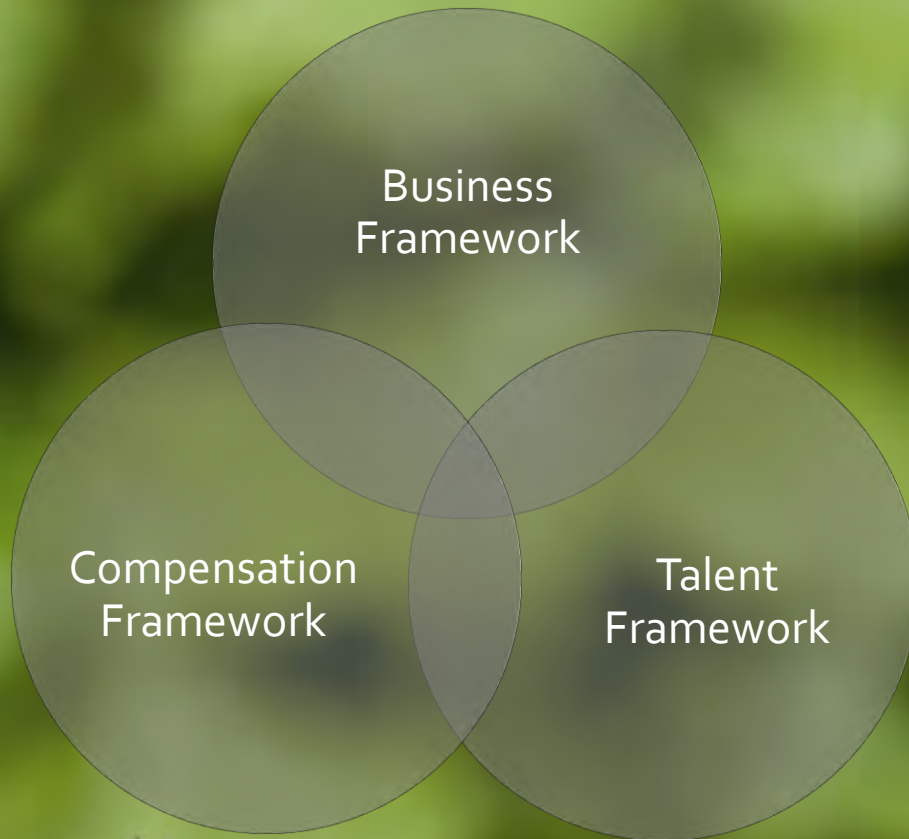
Stewards

Key Principles

1. Establish a Performance Framework
2. Define a Clear Compensation Philosophy
3. Commit to Becoming a Wealth Multiplier
4. Focus on Alignment
5. Replace "Incentives" with "Value-Sharing"
6. Measure Your ROI on Pay
7. Define and Communicate a Financial Partnership



1. 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

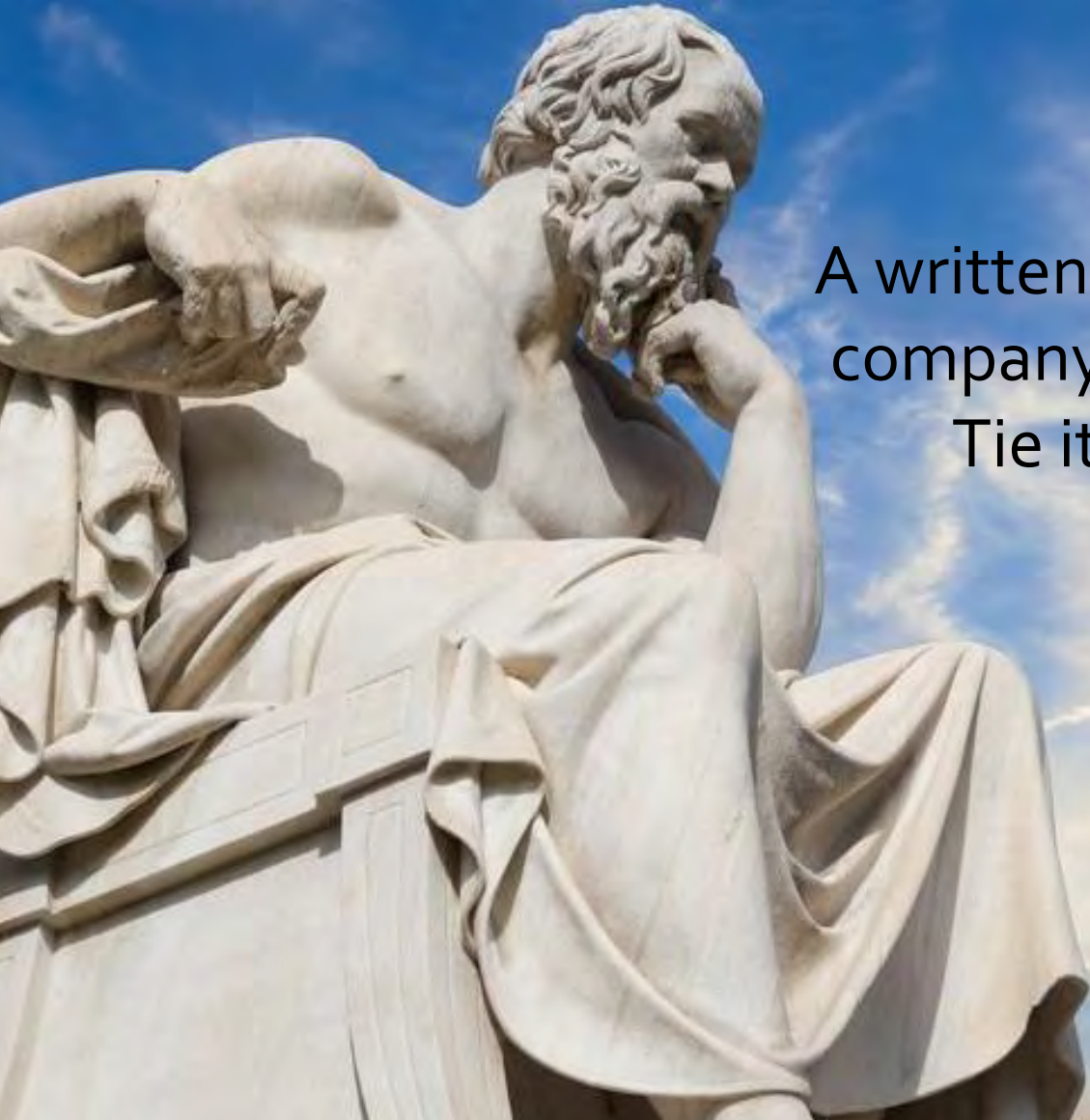
Phase Three

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




Talent
Framework

2. Establish a Clear Pay Philosophy

A marble statue of a bearded man, likely a philosopher, sitting in a thinking pose. He is shirtless, with a long, curly beard and hair. He is resting his chin on his hand. The background is a bright blue sky with wispy white clouds.

A written statement of what the company is willing to “pay for.”
Tie it to value creation.

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.

Spell it Out



- Value creation occurs beyond an appropriate return on shareholder capital (12%).
- We believe value should be shared with those who help create it.
- We believe value-sharing should be split 50/50 in rewarding short-term and long-term performance
- We believe in being at the 45-50th percentile with guaranteed pay but in providing unlimited upside earnings through value-sharing

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?



3. Commit to Becoming a Wealth Multiplier



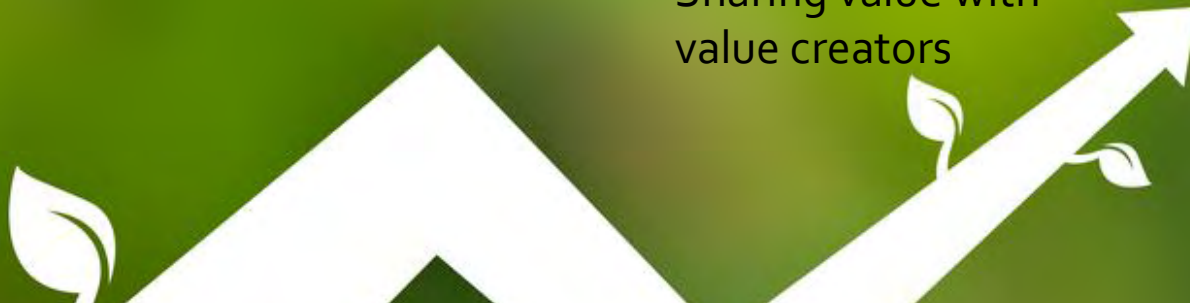
Wealth Multipliers vs. Wealth Creators

Wealth Creators

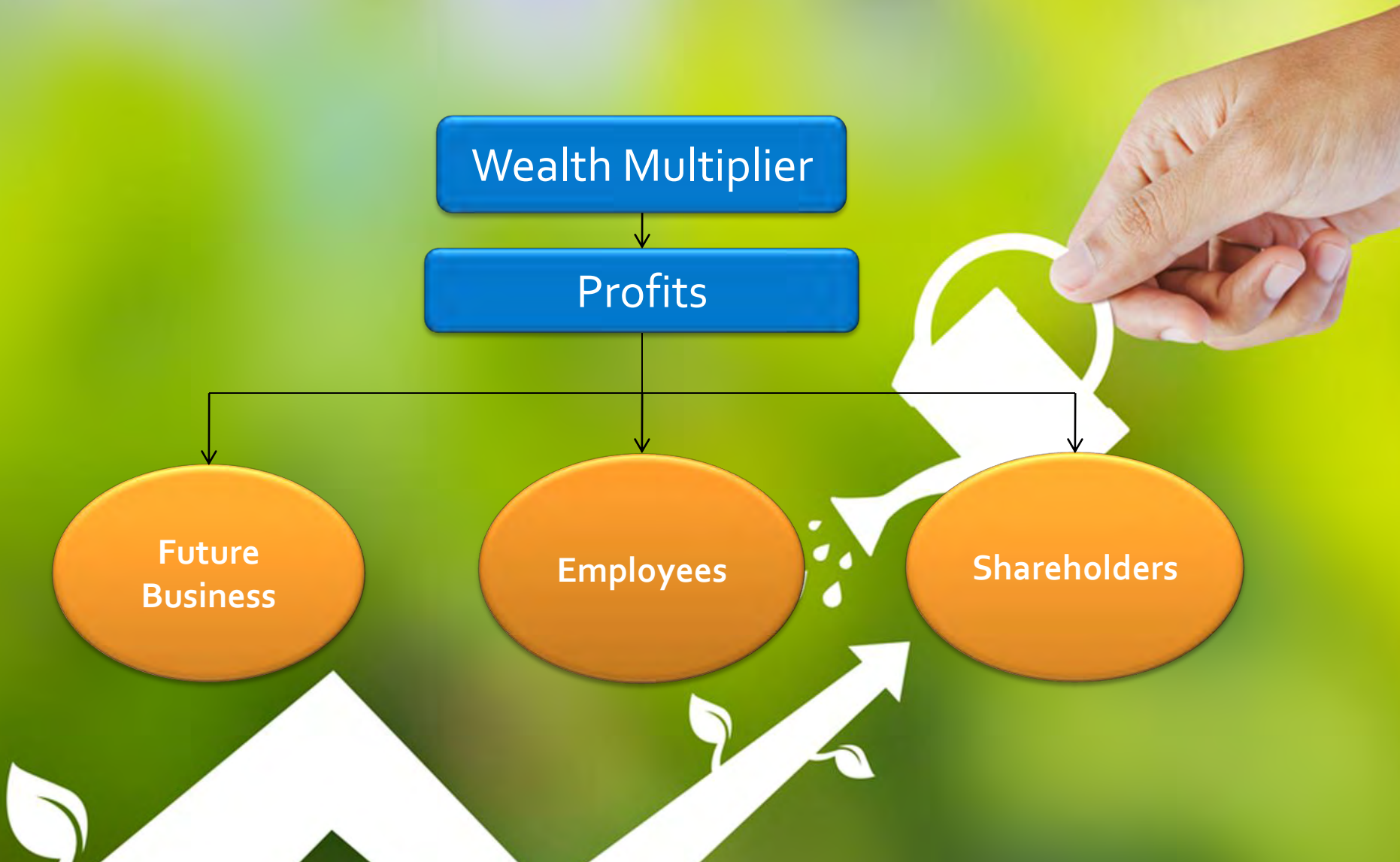
- Profitability focus
- Recruit to skills and experience
- Pay is an expense to be managed
- Salaries and total pay should be “at market”
- “Pay-for-performance”

Wealth Multipliers

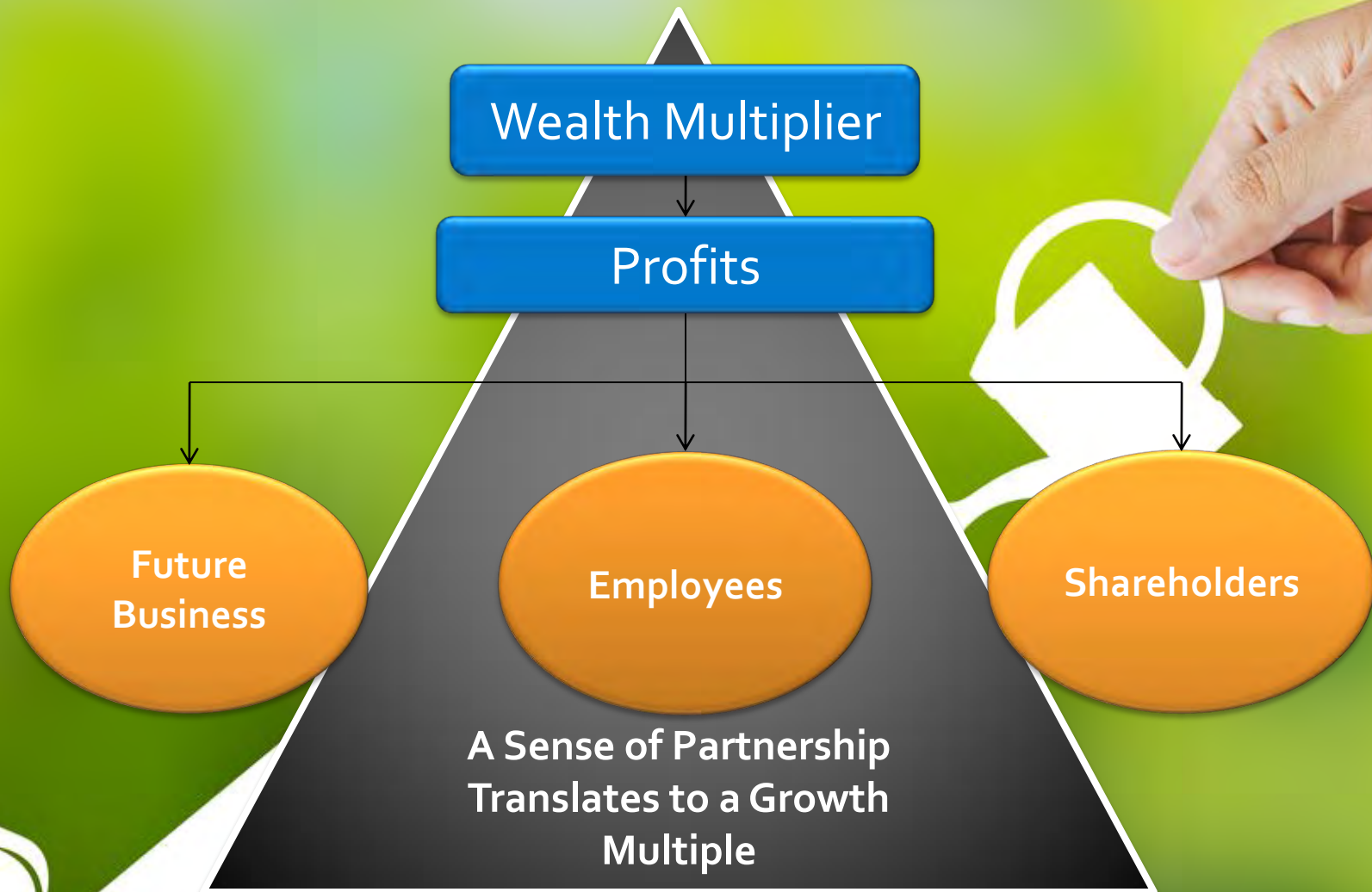
- Accelerate value creation
- Recruit premier talent that fits performance framework
- Pay is an investment that should produce a growing return
- Market pay for benchmarking but pay philosophy drive comp strategy
- Sharing value with value creators



The Value of Profit



The Value of Profit

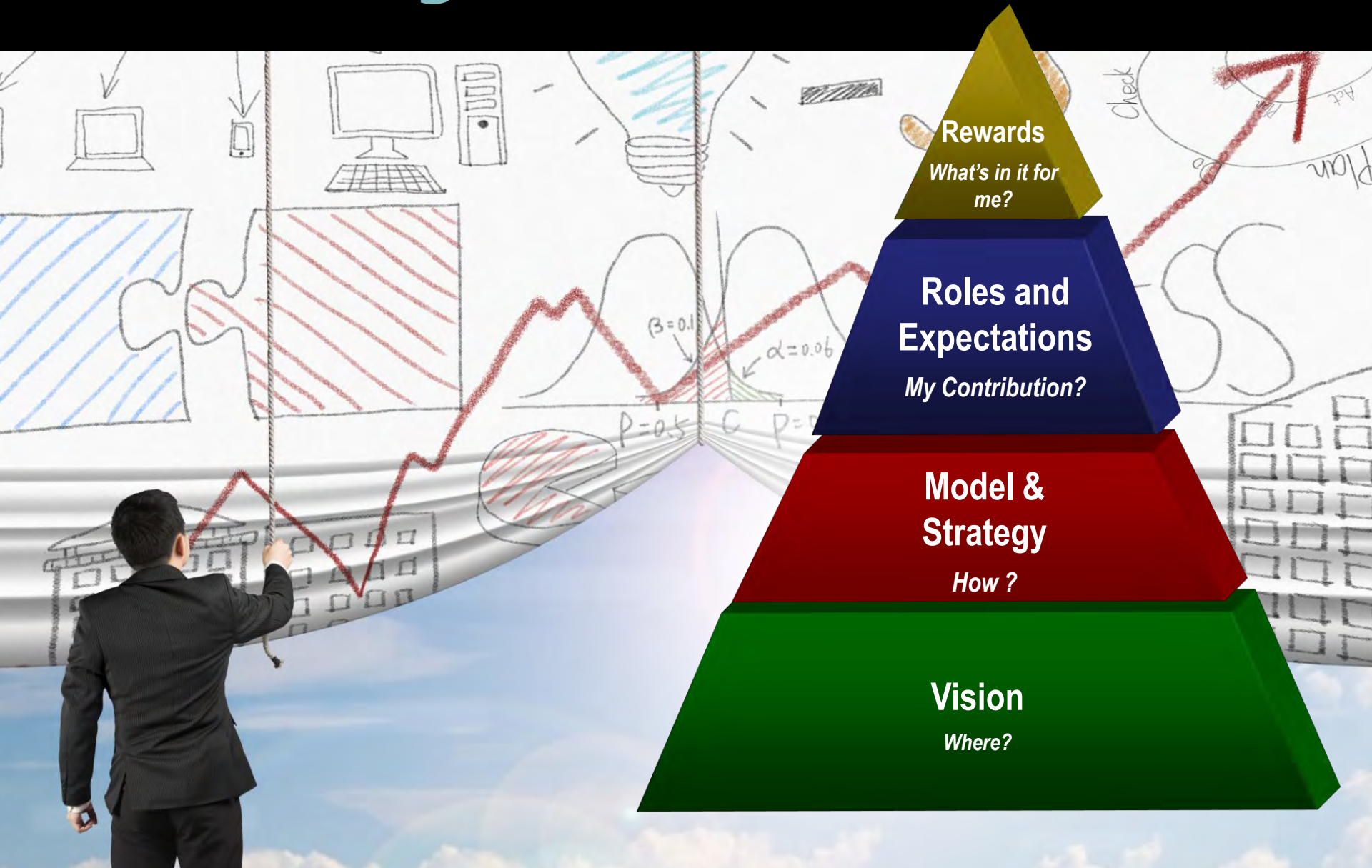


4. Focus on Pay Plan Alignment

Pay should turn employees into growth partners.



Line of Sight



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%

The Ultimate Purpose of Pay

Create a Unified Financial Vision for Growing the Business



5. Replace “Incentives” with Value Sharing

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



Force

This is the behavior that's expected and rewarded.

Do these things whether you like them or not (they're a necessary part of the job).

Our bonuses are reflective of our "market pay" analysis for your job classification

Bad profits

Reinforce

These are the results that are valued and rewarded.

Assume stewardship for the outcomes we're striving for, determine the best ways to get them done. Here are our standards, patterns, expectations.

Our bonuses reflect the way we share value that you help create.

Good profits

Line of Sight

My Job Responsibilities

Product Improvements

Cost Improvements

Customer Satisfaction

Productivity Improvements

Quality Employee Retention

Sales Growth

Margin Improvement

\$ New Value \$

Value Sharing



Growth Incentives (Value Sharing)

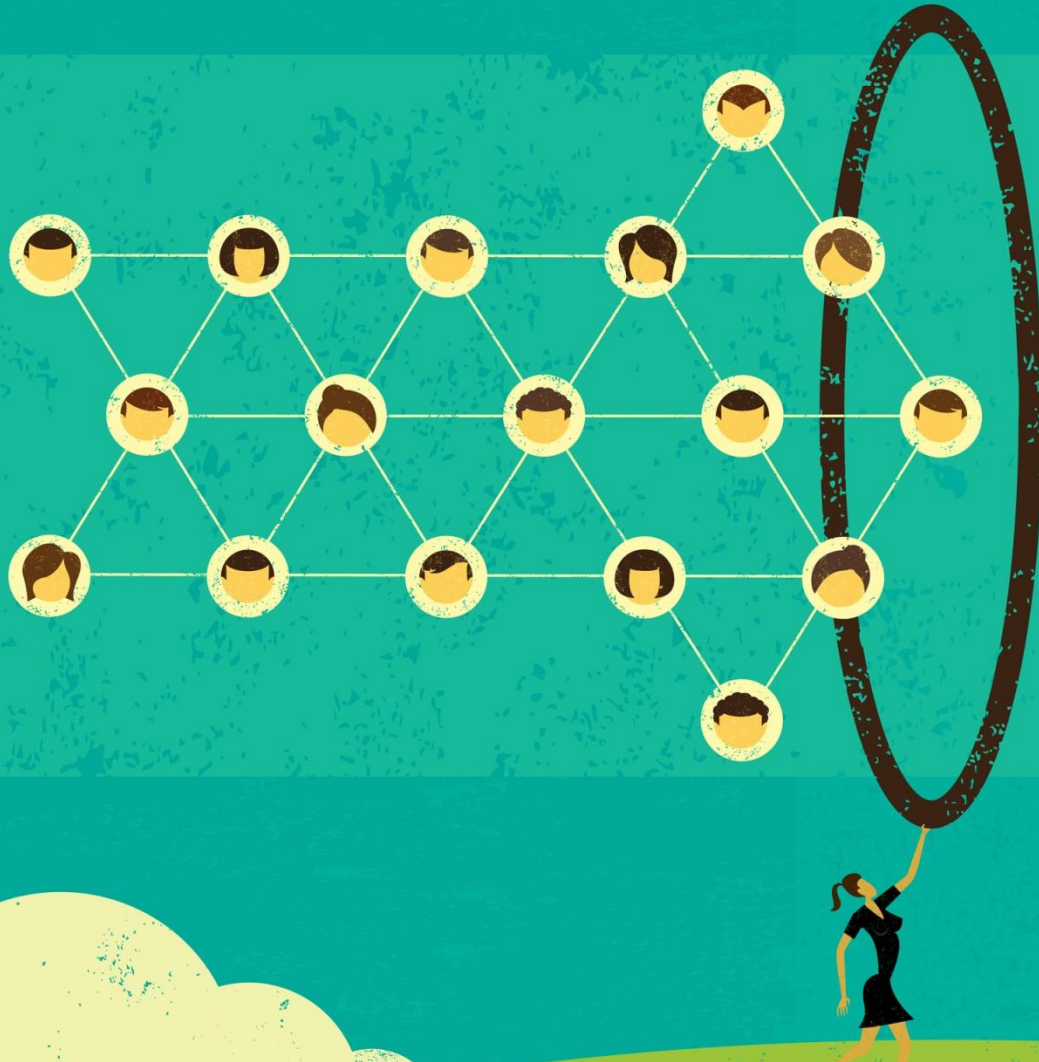


Why Long-Term Value Sharing Matters

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



Why Long-Term Value Sharing Matters



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



Why Long-Term Value Sharing Matters

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



Why Long-Term Value Sharing Matters

#4: Value sharing promotes an ownership mindset



Why Long-Term Value Sharing Matters

#5: Value sharing builds trust and accelerates results



Select the Right Plan Type

Phantom Stock
Option

Restricted Stock

Performance Shares

Profit Pool

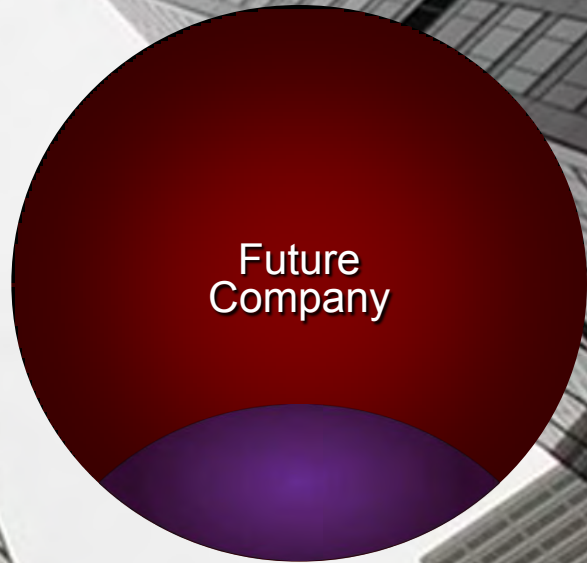
Phantom Stock

Performance
Phantom Stock

Strategic Deferred
Compensation

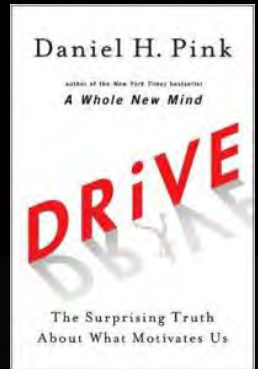
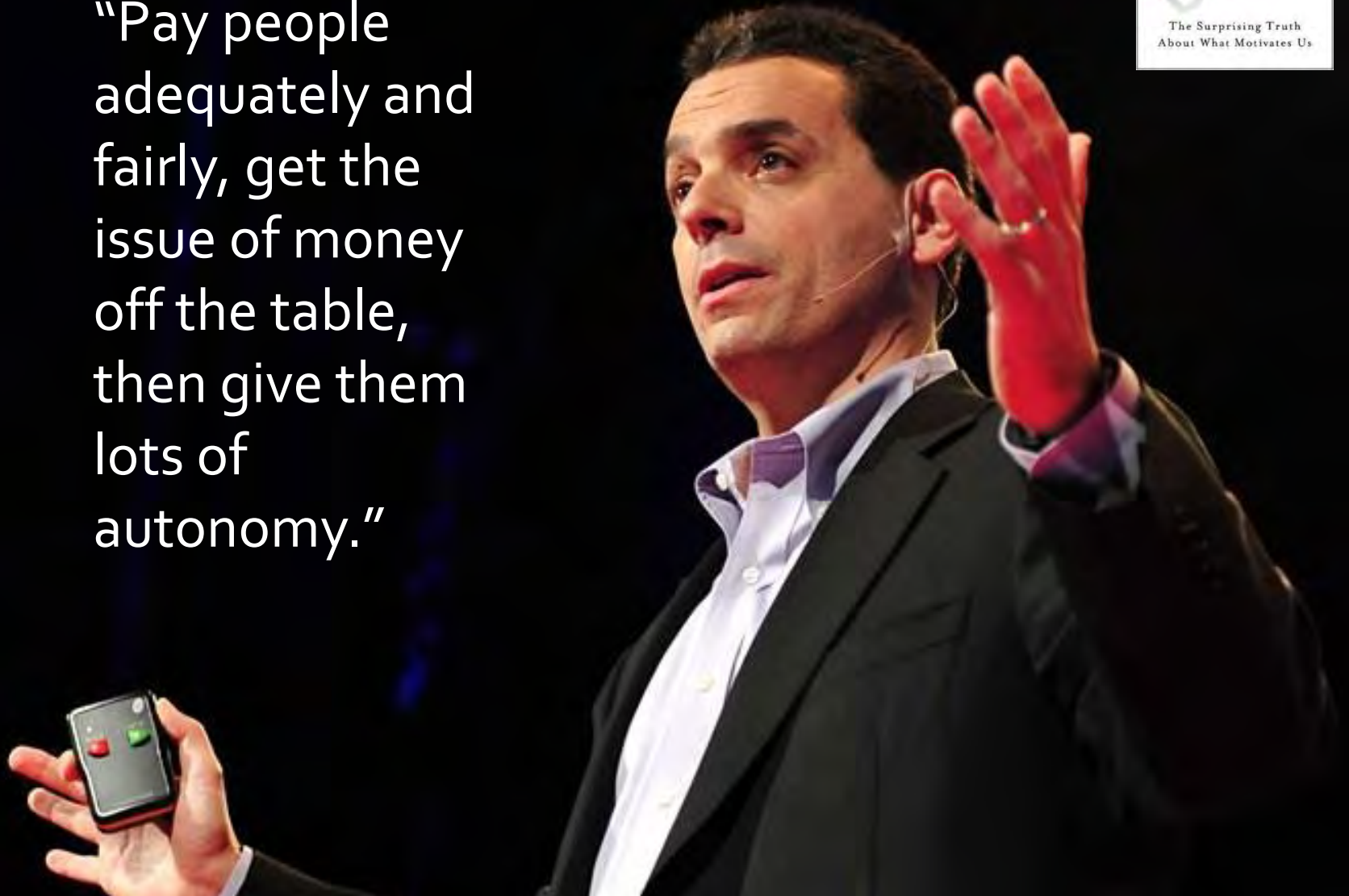
Stock Option

Performance Unit



Incentives & Motivation

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

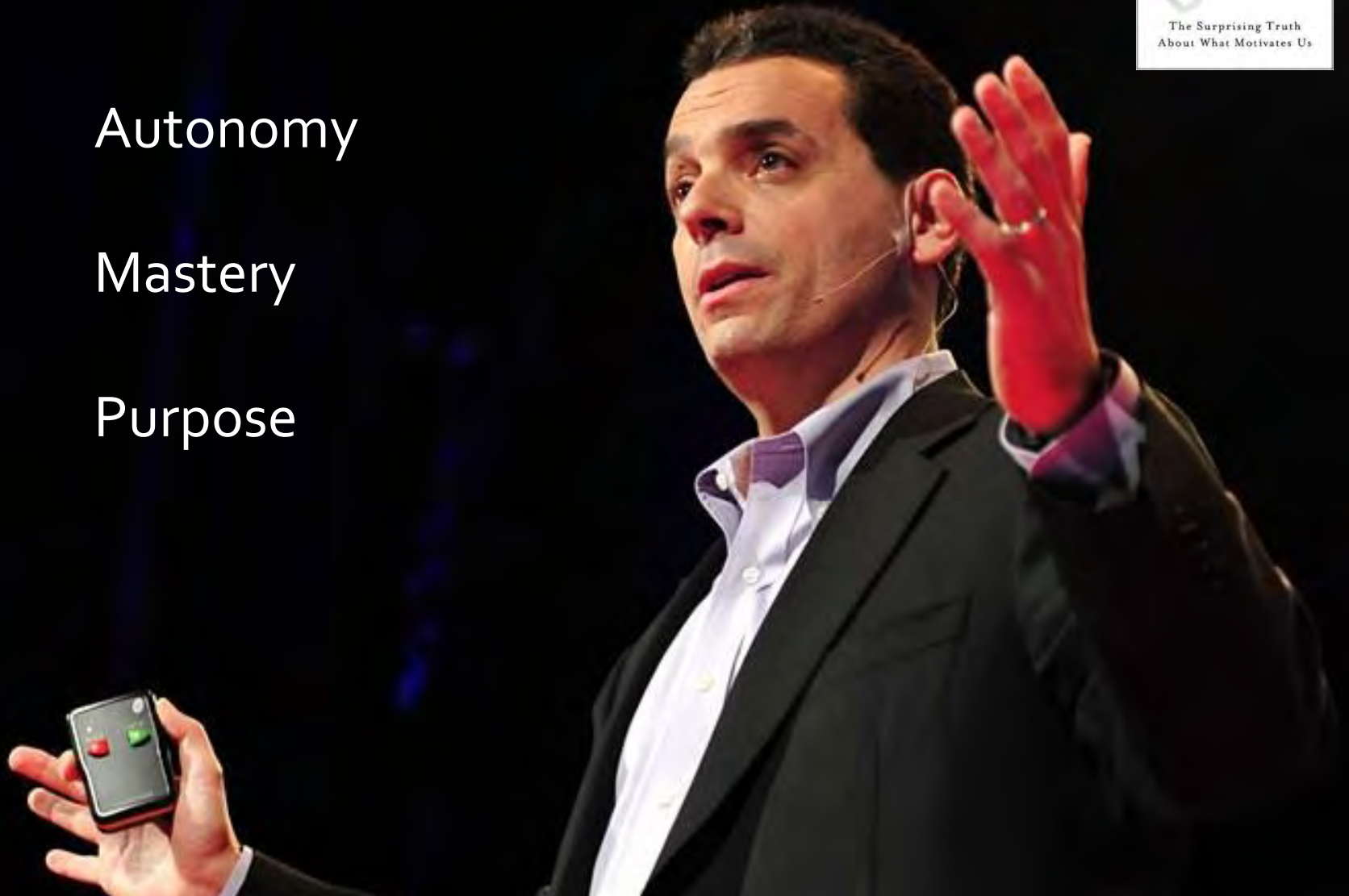


Key Motivational Factors

Autonomy

Mastery

Purpose



Daniel H. Pink

author of the New York Times bestseller
A Whole New Mind

DRIVE

The Surprising Truth
About What Motivates Us

Total Rewards Approach

Compelling Future

Positive Work Environment

Opportunities for Personal and Professional Growth

Financial Rewards

Total Rewards Approach

Compelling Future
Purpose

Opportunities for
Personal and
Professional Growth
Mastery & Purpose

Positive Work
Environment
Autonomy

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.



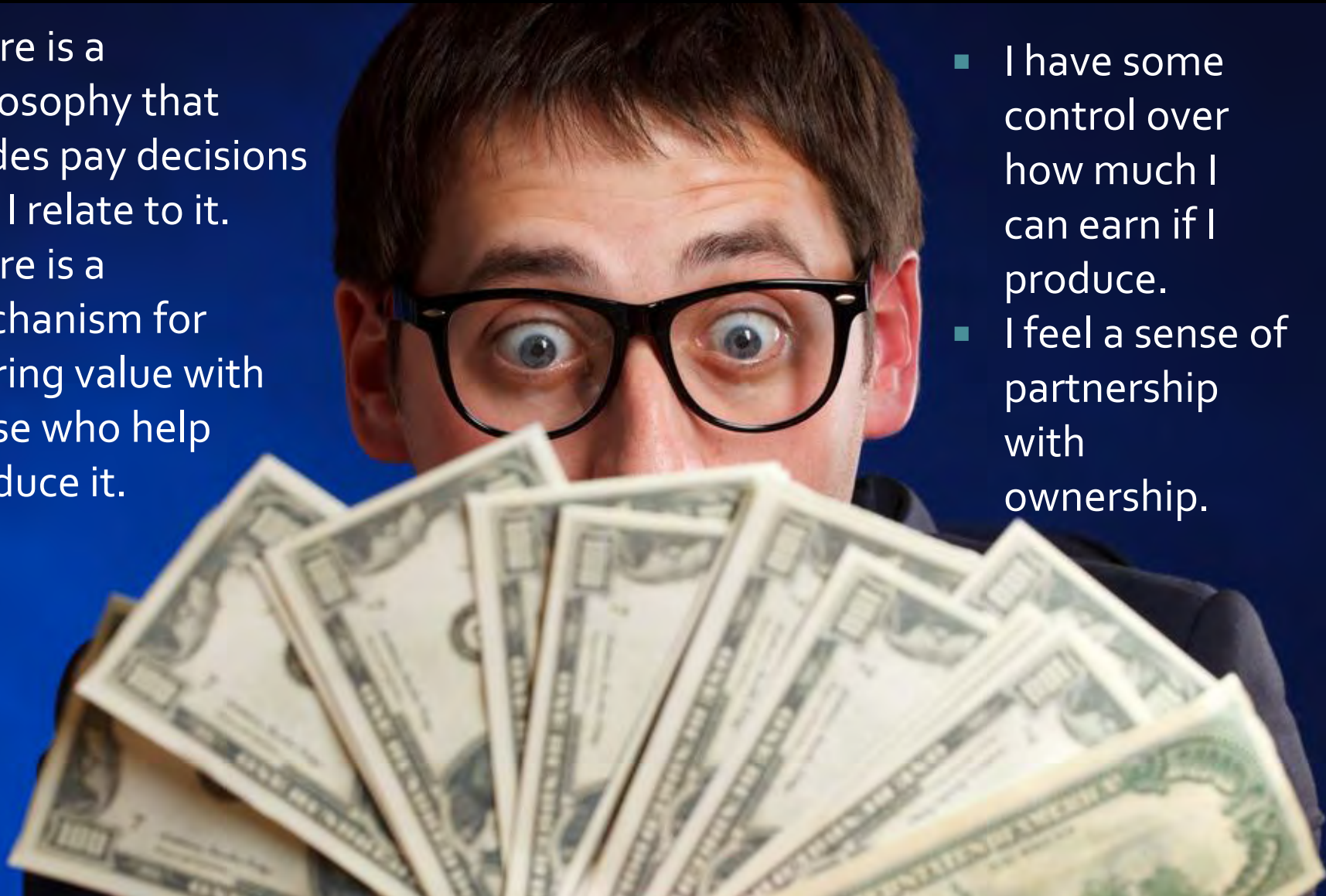
3. Personal and Professional Development

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

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

6. Measure Your ROI on Compensation

Return on Total
Compensation
Investment

ROTRI™



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:

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%
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*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)

7. Define a Financial Partnership



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

Key Principles

1. Establish a Performance Framework
2. Define a Clear Compensation Philosophy
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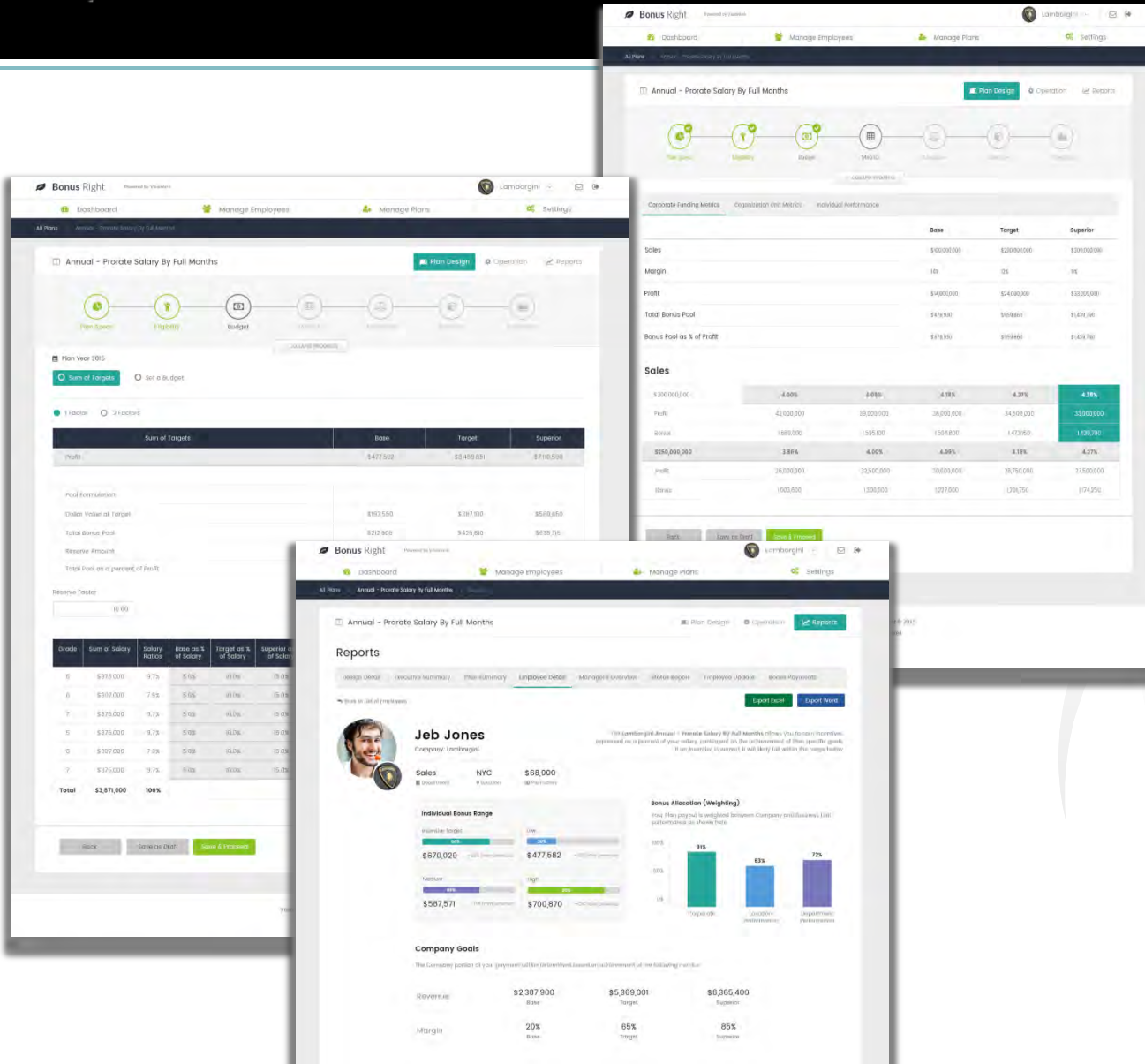


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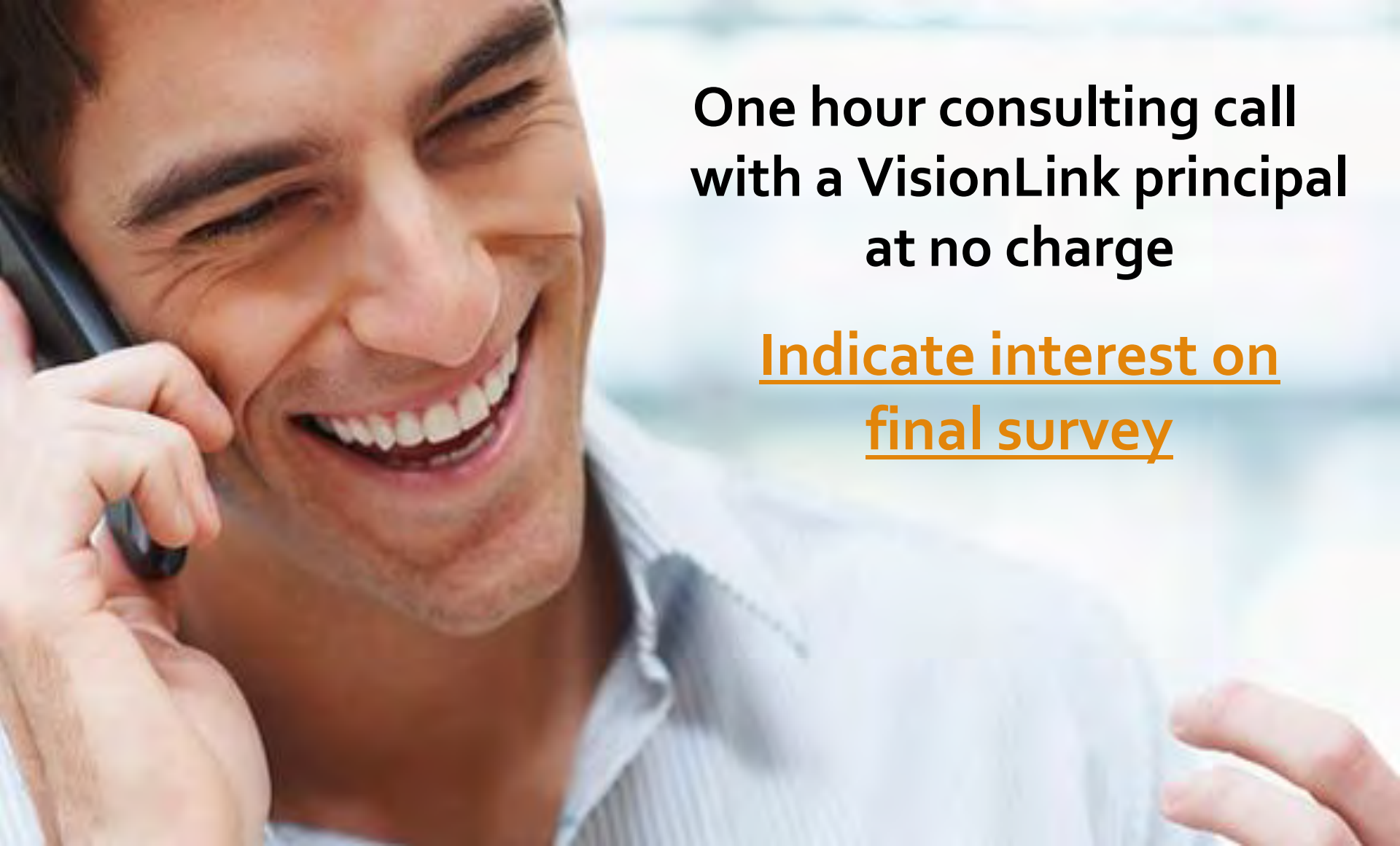
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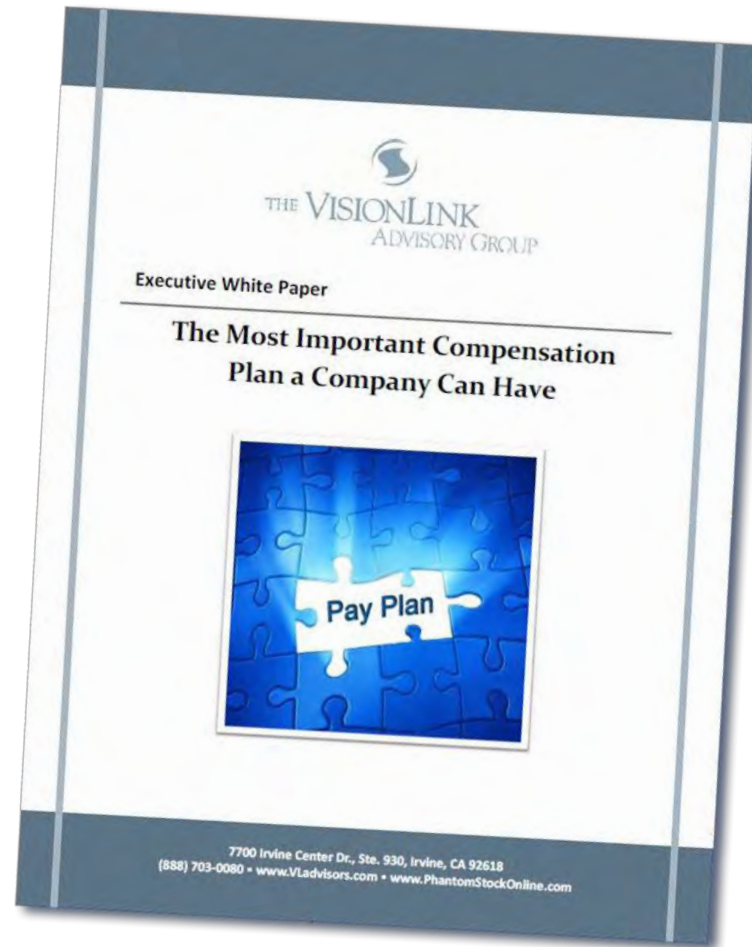
Upcoming VisionLink Online Seminars:

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
Aligning Pay to Your “Audience”: Millennials to Boomers <i>(HR Specific Webinar)</i>	September 13th
How to Transform Employees into Growth Partners	October 25th
Balancing Salaries and Incentive Pay <i>(HR Specific Webinar)</i>	November 8th
Pay Strategies that Increase Shareholder Value	December 6th

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WHAT WILL IT CHANGE?

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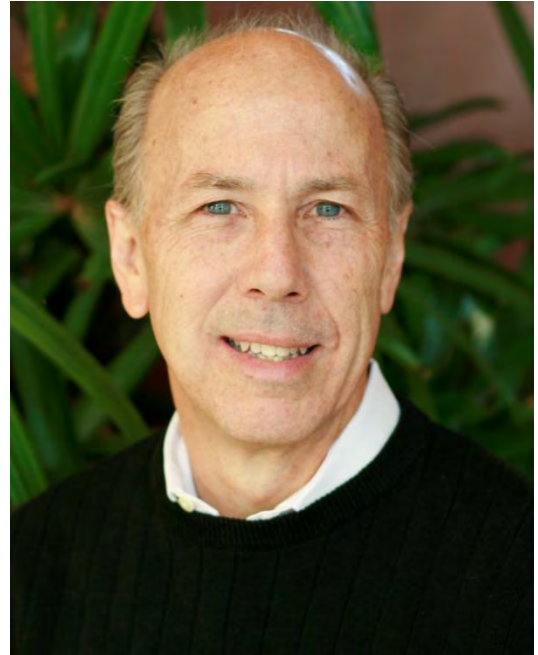


Q&A



THE VISIONLINK
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THANK YOU



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