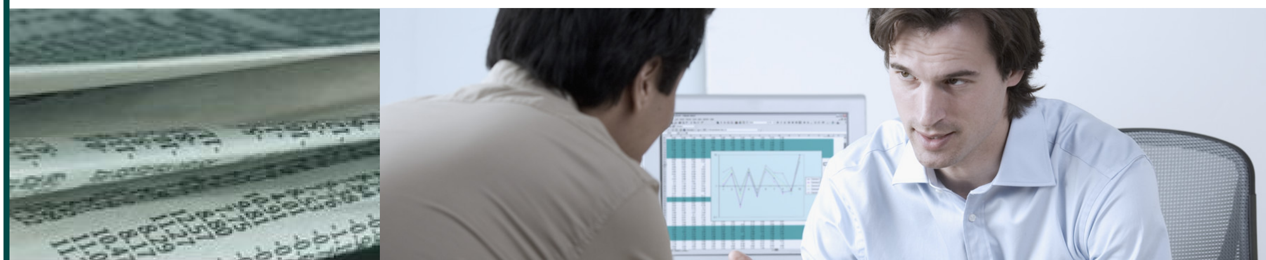
THE VISIONLINK ADVISORY GROUP

"Long-Term Incentives: Which is Right for Your Company"



Overview

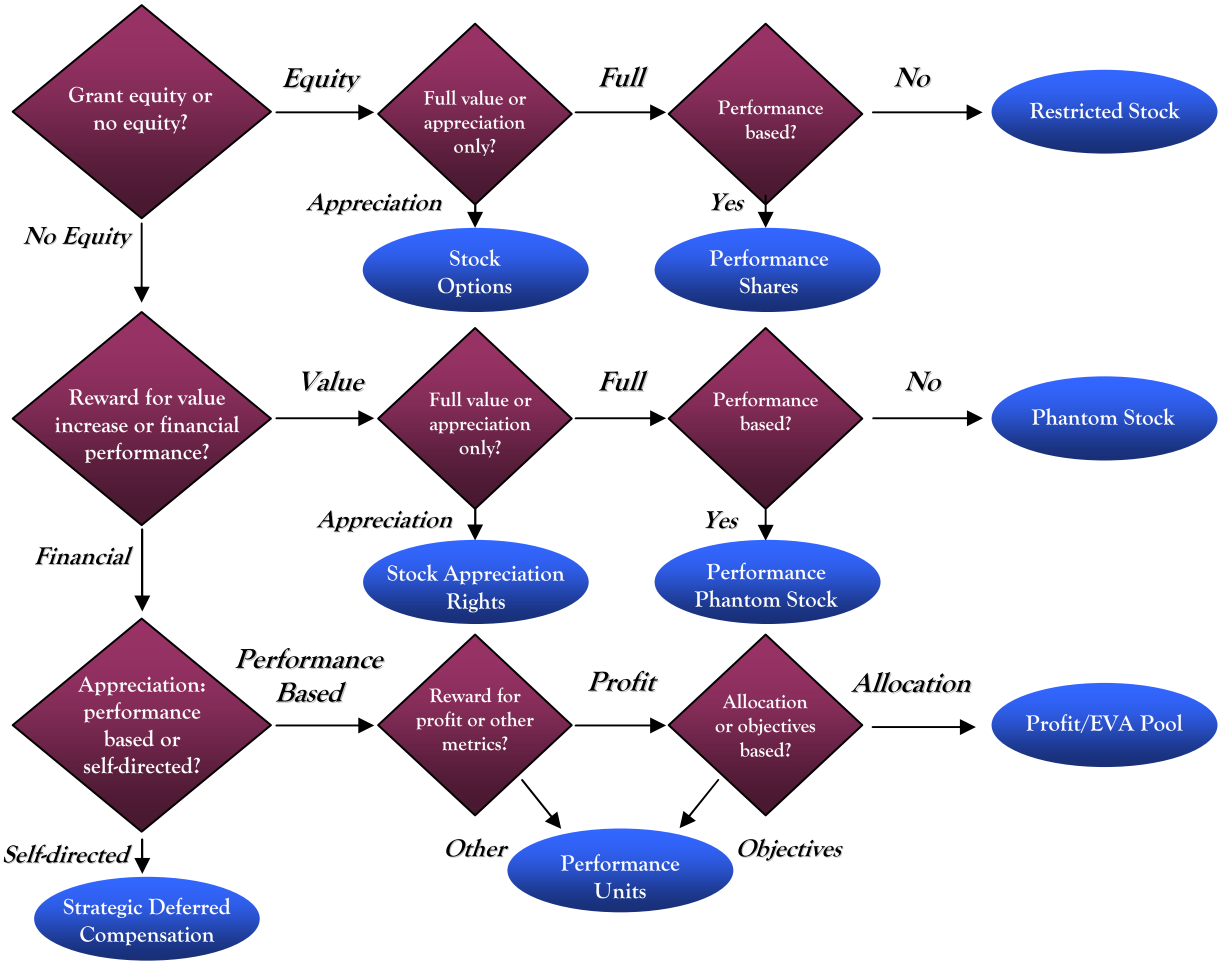
Any company that has a plan for growth should have a long-term incentive plan that strategically communicates that goal to employees. In our work with client companies, we find this to be the most common compensation ingredient missing. An effectively designed long-term incentive plan can focus key employees on the performance factors that will drive the growth of the business while simultaneously helping to retain that talent. That said, there are a myriad of incentive plans that can be considered. A company needs to know how to determine the one that best suits the ends it needs to achieve and promotes the behavior desired. The seminar helped attendees chart that selection process through something called the "Long-Term Incentive Decision Tree."

Why a Long–Term Incentive?

Compensation is one way company leadership has of communicating where the company is headed (vision), how it's going to get there (strategy/key initiatives), what it needs its key people to do (roles and expectations) and how it will reward that effort (incentives). Long-term incentives are an effective way of rewarding those who create value that contributes to company growth. It requires a business to envision what the future company will look like and the key elements that need to be transformed for that growth to occur. The long-term incentive plan is then built around the behaviors and results that need to be achieved if that future company vision is to be realized. As a result, compensation plans of this type should not be viewed as an additional expense. Rather, they represent an investment—and one that is only paid out if additional value is created. It is from that additional value that the incentive is paid.

The Decision Tree

Ultimately, there are about nine different types of long-term incentive plans that a company could consider implementing—with potential variations on each of them. The one most suitable for a given organization depends on the answers to certain key questions. Knowing the right questions to ask can very quickly lead a company to conclude which incentive plan will most effectively create the focus wanted and provide rewards for performance that are within the organization's financial comfort zone.



The Key Questions

The LTIP Decision Tree takes you through a logic pattern to arrive at a solid conclusion by process of elimination. For example, if you don't want to share equity, then certain plans are automatically eliminated from consideration. On the other hand, you may be willing to share equity, but want to base the reward on an increase in the company's value as opposed to its present value. This helps narrow down the kind of stock sharing arrangement that should be considered.

With that in mind, here are some of the questions one would find as he or she navigates the "Long-Term Incentive Plan Decision Tree"—together with some of the plans that correspond with their answers.

- Do you want to grant equity? If yes, do you want it based on full value or appreciation only (stock option)? If full value, do you want it performance based (performance shares) or with limitations (restricted stock)?
- If you don't want to grant equity, do you still want to find a way to reward based on

company value increase or financial performance? If the answer is company value increase, do you want to reward full value or appreciation only (stock appreciation rights – SAR)? If full value, will it be company financed (phantom stock) or employee financed (deferred stock units)?

- If you don't want to grant equity but you want to reward based on financial criteria, will it be performance/appreciation based or self directed (strategic deferred compensation)? If performance based, will you reward for profit/cash flow or other metrics (performance units)? If profit/cash flow centered, will it be allocation based (profit/EVA pool) or objectives based (performance units)?

As you can see, this series of questions helps build criteria that can be useful in determining the kind of long-term incentive plan that will best fit the profile of your company. Such an analysis is important in determining the compensation strategies that will best fuel growth within the financial parameters ownership wants to consider.

In Conclusion

Developing a long-term incentive plan that will focus employees on long term key performance factors should be an important part of most companies' total rewards investment. The right plan can help engender an ownership mentality on the part of key employees, will help to attract and retain the right kind of people into the organization and ultimately leads to enhanced economic value for both shareholders and participants. The key is to develop a plan that is synchronized with the vision, strategy, roles, expectations and financial parameters of the business.

VisionLink is a national compensation consulting firm focused on helping companies envision, create and sustain compensation strategies that will be key drivers of results and increase the productivity of employees.

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