

The View from Level VII™

STRATEGIC PERFORMANCE MANAGEMENT

THE ESSENCE OF INNOVATION

1. Innovation starts when people convert problems to ideas. New ideas are born through questions, problems and obstacles. Therefore, in order for the innovation process to flourish, it needs a climate that encourages inquiry and welcomes problems.

Innovation needs a system. All organizations have innovation systems. Some are formal, designed by the leadership, and some are informal, taking place outside established channels. Informal channels are untidy and inefficient, yet innovation is always associated with them.

2. Passion is the fuel, and pain is the hidden ingredient. Ideas do not propel themselves; passion makes them go. Passion, in addition to talent and skill, is a valuable company asset. Passion is what transforms other resources into profits, but it never shows up on a balance sheet. Unfortunately, there seems to be some universal law that says when pursuing a passion or following a dream, pain is part of the process. Innovation leaders need to take the pain with the passion and learn to manage both effectively.

3. Co-locating drives effective exchange. Co-location refers to physical proximity between people. It is a key for building the trust that is essential to the innovation process. It also increases the possibility for greater exchange of information, cross-fertilization of ideas, and stimulation of creative thinking in one another and critique of ideas during their formative stage.

4. Differences should be leveraged. The differences that normally divide can be a boon to innovation. When differences are used constructively and people move beyond fear, suspicion, mistrust and prejudice, differences can be leveraged to enhance and sustain the innovation process.

Adapted from: Making the Invisible Visible by Robert B. Rosenfeld

Stone & Associates stands ready to assist with performance measurement systems, or any of our other Strategic Performance Management, Financial Management Consulting or Business Performance review services.

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HUMAN RESOURCES

VARIABLE PAY: ONE SIZE NO LONGER FITS ALL

A steel manufacturer based in Charlotte, North Carolina, has had a performance based pay plan in place for 30 years. Employees are eligible for weekly bonuses – ranging from 80 – 150% of base pay- depending on the productivity of their work group. The company's turnover rate is negligible, and it has shown a profit for the past 130 quarters.

Aflac, the Georgia based insurance company, is trying to keep base salaries at or below market rates but has recently pumped more money into spot cash awards and short-term incentive plans. Aflac's approach, too, seems to be working: there are almost 100 candidates for every job opening the firm advertises.

At Cisco Systems, management decided that it was putting too much of its employees' pay at risk. Merit increases have been reinstated, and money is being shifter from incentives back into base salaries. There strategy also seem to be working Revenue was up 27% last year.

The rule concerning fixed versus variable pay these days is simple: There is no rule. "Customized" and "flexible" are the key words. Every company must examine its own situation and come up with the "mix" that will help it achieve its goals.

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In this and/or future issues you will find short, yet meaningful articles regarding:

- Strategic Performance Management
 - Human Resources
 - Risk Management
- Executive Compensation & Benefits
 - Employee Benefits

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EMPLOYEE BENEFITS

HEALTH PROMOTION

Many local employers offer various Health Promotion activities and resources for their employees. The time, effort, and dollars devoted to Health Promotion have a positive impact on medical insurance costs, paid time off costs, and workplace productivity. In addition to positive financial outcomes, there are positive "attitude" outcomes for employees who appreciate these employer initiatives. While the positive outcomes take time to develop, the long term advantages can be significant.

Some popular Health Promotion activities and resources are:

- Worksite programs (sometimes with participation incentives) that emphasize healthy diet, healthy body weight, physical activity, heart health, stress management, and smoking cessation
- Quarterly newsletters that provide Health Promotion education in an attractive, easy to read format
- Health risk assessment tools (electronic or paper) that help employees identify their unique "lifestyle based" health risks
- Worksite screening of blood pressure, cholesterol, and glucose to identify health issues that employees may not be aware of.

Medical insurance carriers can provide some activities and resources at minimal or no cost. There are also local Health Promotion management firms that provide customized programs.

Employers normally survey employees to help identify the activities and resources that employees feel would be helpful. We would be happy to provide a brief, sample employee survey form on request.

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EXECUTIVE BENEFITS

DEFERRED COMP CONTRIBUTION LIMIT!

The Senate Finance Committee has recently submitted a proposal which would add a new provision to 409A that would limit the amount of deferred compensation that can be deferred in nonqualified plans.

The proposal limits the annual amount deferred to the lesser of \$1 million or the 5 year average annual compensation for the executive. Earnings on amounts deferred after December 31, 2006 would be included as an amount deferred for purposes of applying the limitation.

In addition, with the current legislation, compensation in excess of \$1 million paid to the top 5 employees of public companies would not be deductible. The new Senate proposal would expand this definition to include any employee who was ever in the top 5 (beginning after the 2006 tax year).

Violations of the rules would constitute a violation of 409A, which triggers taxation and possible penalties on the entire plan and its participants.

While these limits may seem high, when one considers the compounding effect of the deferred assets it may not take long to reach the limits.

Naturally this proposal faces tremendous opposition from many different perspectives. Deferred Compensation as a foundational and fair element of planning for executives. Accordingly, we do not envision such a proposal to be enacted into law. Of course if it does, we will continue to help companies find one of the 409A alternative plan designs to attract, reward, retain and retire their key people.

We will keep you informed of this issue as it develops!

Weir Financial Resources, LLC is a financial advisory firm offering information, ideas and solutions in Executive Benefits, Business Succession and Private Wealth Planning.

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