



ADI Aubrey Daniels International

PERFORMANCE MEASUREMENT AND INCENTIVE PAY

SYSTEM COMPONENT OVERVIEW

performance matrices • performance feedback • leadership & implementation support • profit-indexed performance pay

Overview

ADI's Performance Measurement and Incentive Pay System has been refined over a twenty-five year period to become the most advanced and effective system available for maximizing and sustaining employee performance and organizational profitability. Based on the principles of applied behavior analysis and extensive research, this approach provides your company with a powerhouse performance system that effectively communicates organizational strategy to all levels within the company and equitably distributes incentive pay based on objective, results-driven performance improvement.



System Components

Performance Matrices

Performance matrices are developed at each level in the organization to pinpoint key employee results and ensure alignment to departmental, divisional, and organizational strategy.

Performance Feedback & Diagnostics

Monthly performance data are plotted against each measure's Min and Max for up to 12 months. Performance trend lines are shown to help pinpoint improvement opportunities.

Profit-Indexed Performance Pay

Incentive pay opportunities are indexed to company profitability. Employees share in this opportunity based on the score they earn on the performance matrix.

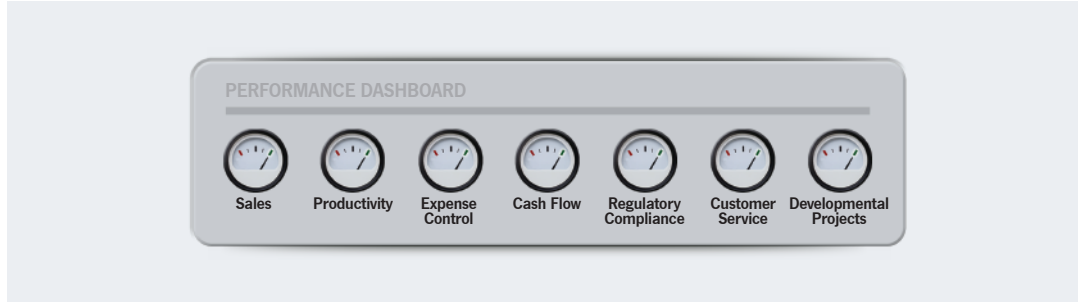
Total System Administration & Support

ADI provides implementation and ongoing monthly support to our clients. From leading the scorecard design process to processing performance data and generating reports, to providing comprehensive system audits, we'll help ensure your system is a success.

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Performance Matrices

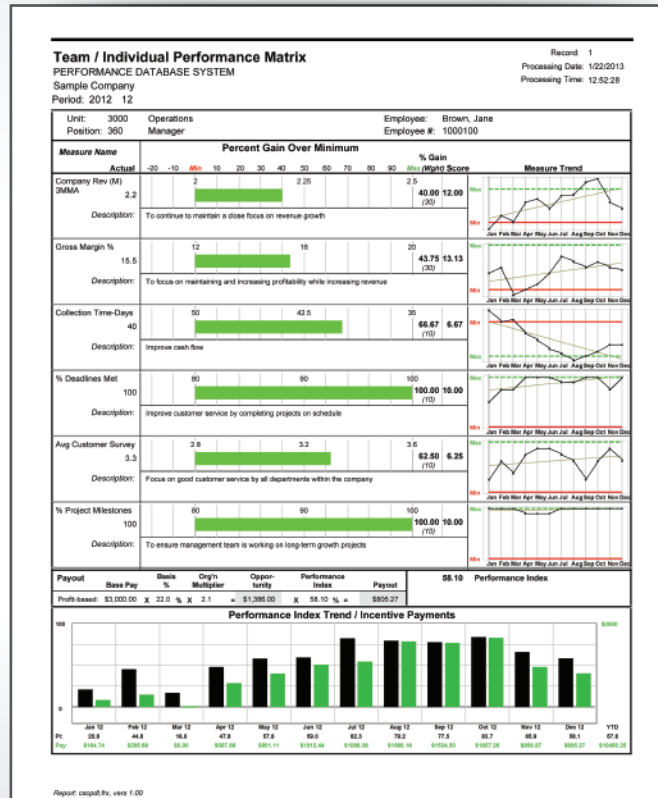
The first step in designing a successful measurement and incentive pay system is creating a foundation of objective performance measures that drive organizational success. The design process begins with the company's Strategic Matrix. By analyzing each of the seven key profit driver categories, measures are developed to establish and clearly communicate the company's goals. Using the method of cascading objectives, matrices are designed and cascaded down throughout each division to ensure that the contributions of every position are aligned with team, departmental, and ultimately, strategic objectives.



THE PERFORMANCE MATRIX format is used to establish balance and focus among the measures that are defined for a job position. Each measure is priority weighted relative to the degree of controllability and the impact of the result on overall strategic objectives.

A Min and a Max are set for each measure and are used to evaluate performance improvement. The Min is typically set at the minimum acceptable or average level of performance, while the Max is set to the desired level of performance.

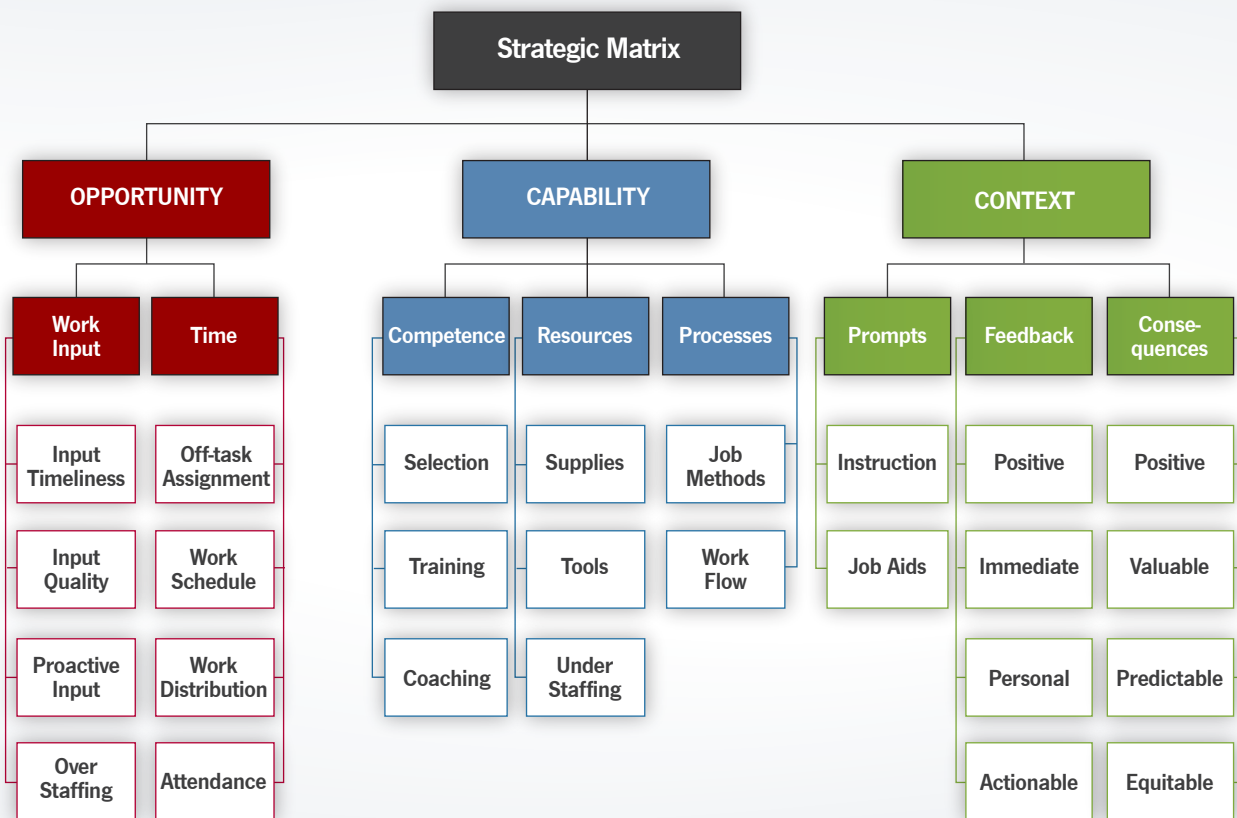
The Percent Gain is computed and multiplied by the measure's weight to determine the measure's weighted score. All measure scores are then summed to compute the matrix's overall Performance Index, which is used in the incentive pay calculation.



Performance Feedback & Diagnostics

The performance matrices serve as a feedback mechanism for managers to share with their employees in monthly performance discussions and action planning. By viewing the current month's performance and the performance trend lines over the past twelve months, both employees and their managers are able to use this powerful information to pinpoint improvement opportunities. Using performance diagnostic tools and processes, such as the Performance Analysis Map, managers can help employees unlock performance constraints which will help employees reach their performance goals and increase their incentive opportunities.

Performance Analysis Map



Profit-Indexed Performance Pay

Profit-Indexed Performance Pay was developed to create an incentive structure that protects companies from paying incentives when they cannot afford to and equitably distributes profits based on employee performance.

ADI assists the client in defining the profitability threshold, the share ratio (the percent of every dollar over threshold allocated to incentive funding and the percent the company retains), and employee opportunities (the maximum amount of incentive pay an employee can earn).

Using the following formula, employee incentive opportunities are determined by company profitability, and the amount they earn is determined by the Performance Index from the Performance Matrix.



If the client's strategy is to reduce the ever-increasing, fixed-expense payroll, the performance pay system can be used to replace annual pay increases and for voluntary base pay reductions. If the client's strategy is to expand employee skills and implement cross-utilization, the system can be used to encourage and reward these activities.



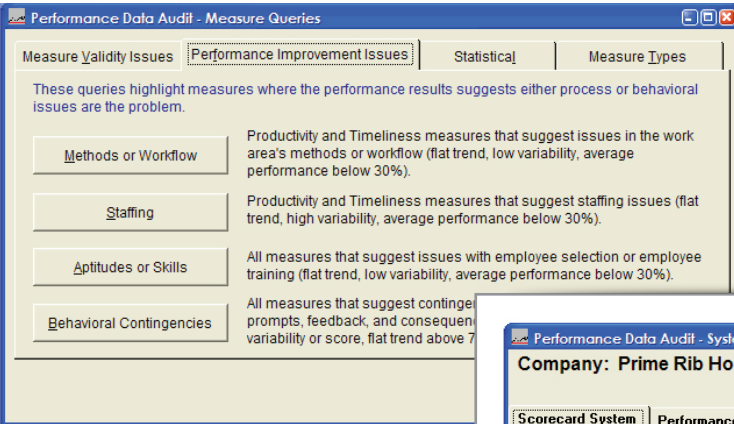
Total System Administration & Support

ADI provides long-term, outsourced reporting and administration for our clients. Clients use ADI's PerComm software to compile their performance data and maintain their performance system's employee file. In many cases, a majority of the performance data that the client is required to submit can be automated by developing import processes from existing databases. After the performance data have been entered into PerComm, the data are compressed into a file that the client emails to ADI for processing. ADI generates all performance reports including the performance matrices, the trend feedback graphs for each measure, and the performance pay calculations for every employee.

Throughout each month, clients continue to receive follow-up consulting support for troubleshooting measurement issues, addressing improvement opportunities, and redesigning performance matrices as needed. This **ongoing follow-up support is a critical implementation component** that sustains the integrity of the system and facilitates the analysis and use of the performance data to drive performance improvements.

In addition to providing monthly support, ADI also conducts semi-annual audits on the client's system to ensure and maintain the integrity of the system. The audit evaluates the validity of performance measures and goals, identifies high-value performance improvement opportunities, and reviews performance-pay return on investment and payout fairness.

Measure Queries



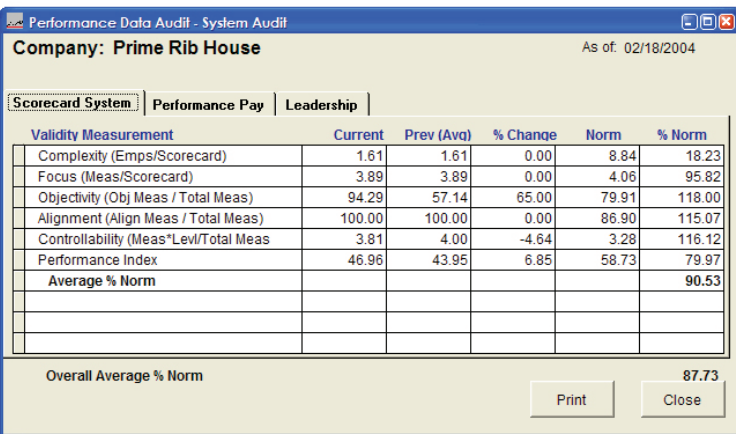
Performance Data Audit - Measure Queries

Measure Validity Issues | **Performance Improvement Issues** | Statistical | Measure Types

These queries highlight measures where the performance results suggests either process or behavioral issues are the problem.

- Methods or Workflow**: Productivity and Timeliness measures that suggest issues in the work area's methods or workflow (flat trend, low variability, average performance below 30%).
- Staffing**: Productivity and Timeliness measures that suggest staffing issues (flat trend, high variability, average performance below 30%).
- Aptitudes or Skills**: All measures that suggest issues with employee selection or employee training (flat trend, low variability, average performance below 30%).
- Behavioral Contingencies**: All measures that suggest contingencies, prompts, feedback, and consequences (flat trend, high variability or score, flat trend above 70%).

System Audit



Performance Data Audit - System Audit

Company: Prime Rib House As of: 02/18/2004

Scorecard System | Performance Pay | Leadership

Validity Measurement	Current	Prev (Avg)	% Change	Norm	% Norm
Complexity (Emps/Scorecard)	1.61	1.61	0.00	8.84	18.23
Focus (Meas/Scorecard)	3.89	3.89	0.00	4.06	95.82
Objectivity (Obj Meas / Total Meas)	94.29	57.14	65.00	79.91	118.00
Alignment (Align Meas / Total Meas)	100.00	100.00	0.00	86.90	115.07
Controllability (Meas*Levl/Total Meas)	3.81	4.00	-4.64	3.28	116.12
Performance Index	46.96	43.95	6.85	58.73	79.97
Average % Norm					90.53
Overall Average % Norm					87.73

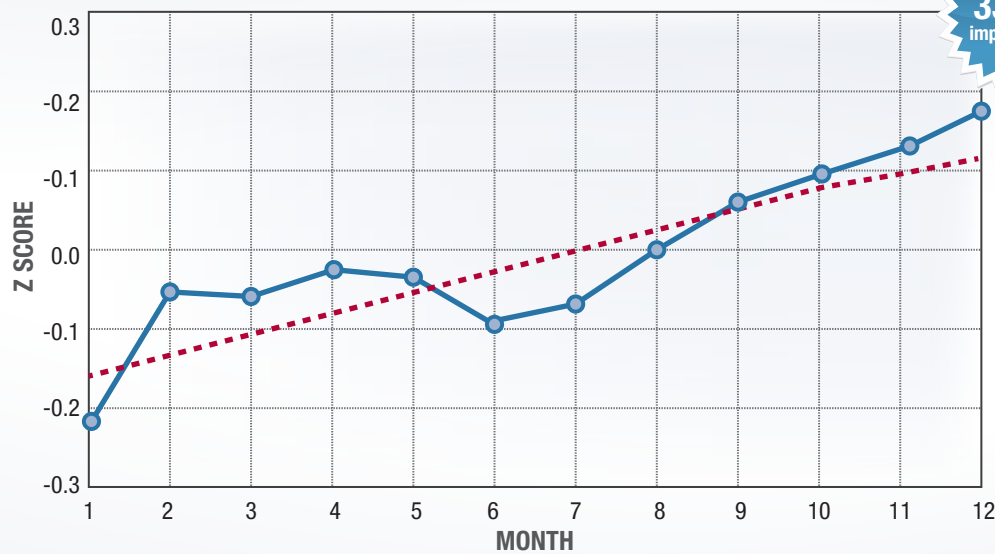
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Client Results

Within the first year of implementation, our clients have seen significant improvements across all seven of the key profit driver categories, including: sales, expense control, productivity, customer service, and regulatory compliance. Through the effective and consistent use of the monthly performance matrix, employees and managers are empowered to improve performance in key strategic areas, which improves the company's bottom-line and increases incentive pay opportunities. Regardless of industry or company-size, the implementation of ADI's performance measurement and incentive pay system will help your company achieve high and sustainable rates of success for years to come.

Summary Trend for Companies

Trend = 2.76%, Annualized = 33.12%



33.1%
improvement

Sustained performance improvements that have continued for over **18 years**

An average first-year **33.1% improvement** across all measurement categories

A minimum **3:1 return on investment** in first year

A **reduction** in employee and **under-time** of more than **30%**

Average performance improvement for a sample of 2,195 matrix measures



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Bringing Out the Best®

Regardless of your industry or expertise, one thing remains constant: People power your business. Since 1978 Aubrey Daniels International (ADI) has been dedicated to accelerating the business and safety performance of companies worldwide by using positive, practical approaches grounded in the science of behavior and engineered to ensure long-term sustainability. ADI provides clients with the tools and methodologies to help move people toward positive, results-driven accomplishments. Our clients accelerate strategy execution while fostering employee engagement and positive accountability at all levels of their organization.

To learn more about implementing a performance-based pay system call 678.904.6140 or email info@aubreydaniels.com