



**PFINGSTEN
PARTNERS LLC**
Building Better Businesses

CREATE VALUE

Build shareholder value by incentivizing employees

In order to build a larger, more valuable business, a private equity firm must be able to attract, retain and develop high performance employees in its portfolio companies.

One of the keys to achieving this goal is the ability to define, develop, implement and communicate an effective employee compensation program throughout the company.

A properly designed compensation plan will encourage employees to act as shareholders while at the same time enabling them to enjoy an employment package that recognizes and rewards their contributions to the company's success through a combination of cash compensation, fringe benefits, positive work environment and career opportunities.

Proper economic alignment between the private equity firm and the portfolio company's employees builds shareholder value and enhances the compensation and benefit package available to employees. It also drives value by transforming a company from a group of individual employees into a unified team.

COMPENSATION AND BENEFITS

Every business must provide a competitive base compensation and benefits package to attract and retain top employees. As an additional incentive, successful private equity firms generally offer key employees the opportunity to purchase or earn equity in the business.

This offer can extend to more than 20 percent of the work force. When the private equity firm eventually sells the business, employees with equity are able to share in the value they helped create. Anticipation of that payout can play a role in spurring company growth.

Examples of other compensation tools that top private equity firms frequently use to stimulate peak performance from their employees include:

INCENTIVE COMPENSATION

This enables employees to earn extra cash

compensation for achieving both individual and company objectives, generally on an annual basis. These programs can also cover up to 20 percent of employees and they offer the benefit of providing a clear line of sight between employees' performance and their financial returns.

INCENTIVE BENEFIT AND 401(K) PROGRAMS

These enable employees to earn extra dollars toward benefit programs such as health insurance premiums or 401(k) contributions when the company meets predetermined goals.

A properly designed compensation program also encourages employees to participate in the business-planning process because they understand that the outcome will affect their wallets. In addition, it promotes the proper balance of individual, team and company performance.

When the employee wins, so does the private equity firm, and vice versa.

WORK ENVIRONMENT

Employee behavior can also be significantly affected by the corporate culture. One of the biggest changes often made by a private equity firm after purchasing a company is to decentralize the decision making process.

This benefits the employee and the company alike by ensuring that employees have a personal interest in business results.

Other benefits stem from enhanced communication among ownership, management and employees, including regular communication of the business's performance, and from factors such as a safer work environment, employee recognition programs and events such as lunches, picnics or celebrations. Private equity firms can build a stronger work force with a desire to perform by paying attention to these areas.



LARRY TAYLOR is Vice President at Pfingsten Partners, L.L.C., an operationally focused private equity firm located in Chicago, IL.

PROFESSIONAL DEVELOPMENT

A private equity firm typically seeks to double or triple the size and value of a company during its ownership - generally from five to seven years. A natural by product of this growth is enhanced job security and career opportunities for employees.

In addition, private equity firms generally implement generous educational assistance programs for job-related training and development that help employees build their skills.

A properly designed and administered compensation and benefit program is a highly effective tool for attracting and retaining top employees and aligning the interests of employees and shareholders.

When employees make value-enhancing decisions, they are appropriately rewarded with increased compensation, an improved work environment and enhanced career opportunities. Meanwhile, the private equity firm enjoys the benefits of happier, more highly compensated employees who are highly motivated to work as a team to increase the size and value of the firm. ■