

New Paradigm For Accountability Design, Job Matching & Compensation Calibration

- **Research**
 - MVC 400 + Interviews at Global CEO, Group President, President , VP & GM levels
 - 1000's interviews over 40 years worldwide based on Stratified Systems and Level of Work research
 - 9 + studies on equitable pay - 2 times differential compensation multiplier by each Level of Work
 - Traditional Job design / evaluation methodologies don't work at the executive level
- **Accountability Design - Six Factors (complexity NOT size)
By 7 Levels of Work (including 5 General Manager Levels)**
 - Innovation Complexity
 - Planning Complexity & Decision Authority
 - Resource Complexity
 - Financial Management Complexity & Results
 - Leadership Complexity
 - Customer / Stakeholder Complexity

Level of Work Equitable Pay Multiplier

| Leadership Domain | Level of Work & Innovation | CEO to CEO comparison | Example Pay Bands \$ USD |
|---|---|-----------------------|--------------------------|
| Global Industry <ul style="list-style-type: none"> Current / Future Societies 10-20 yr + Balance Sheet Strategy, optimizing TSR and Cash-Value-Added for Societies Transform Industry Structure / Cultures Create change globally Leadership of Business Leaders Identity & Policy Control | Level 5) Global Business / Societal Innovator Creates enterprise sustainability, new industries (R&D), and wealth creation for global society, by managing the inter-dependencies between economic, environmental, social and political factors worldwide <i>(Stratum 7)</i> | 32X | \$3.84m |
| | | 16X | 2.88m |
| | Level 4) Industry Innovator Model corporate citizenship / stewardship, policy and investment strategies leveraging business models across multiple geo-political, socioeconomic, & technological boundaries <i>(Stratum 6)</i> | 8X | 1.92m |
| Business Development <ul style="list-style-type: none"> Current/Future Stakeholders 2 to 10 yr Investment Plans New Products, New Businesses & Return on Invested Capital Anticipate change nationally and globally In-Direct Leadership Strategy & Management Control | Level 3) New Business Model Innovator Transform the business model leveraging customer, competitor, regulatory, capital market, NGO's and other socio-economic factors <i>(Stratum 5)</i> | 4X | \$960,000 |
| | | 2X | 720,000 |
| | Level 2) New Product / Service Innovator Integrate and synthesize stakeholder needs resulting in development of new products, services, markets & channels <i>(Stratum 4)</i> | 2X | 480,000 |
| Operational <ul style="list-style-type: none"> Current Customers 1 to 2 year profit plan / EPS Operational & executional efficiency Respond to change locally and nationally Direct Leadership Operational Control | Level 1) Process Innovator Optimize process, technology and people to deliver a suite of products & services to meet the needs of current customers <i>(Stratum 3)</i> | X | 360,000 |
| | | X | 240,000 |
| | | X | 180,625 |
| | | X | \$120,000 |

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Equitable Pay Research

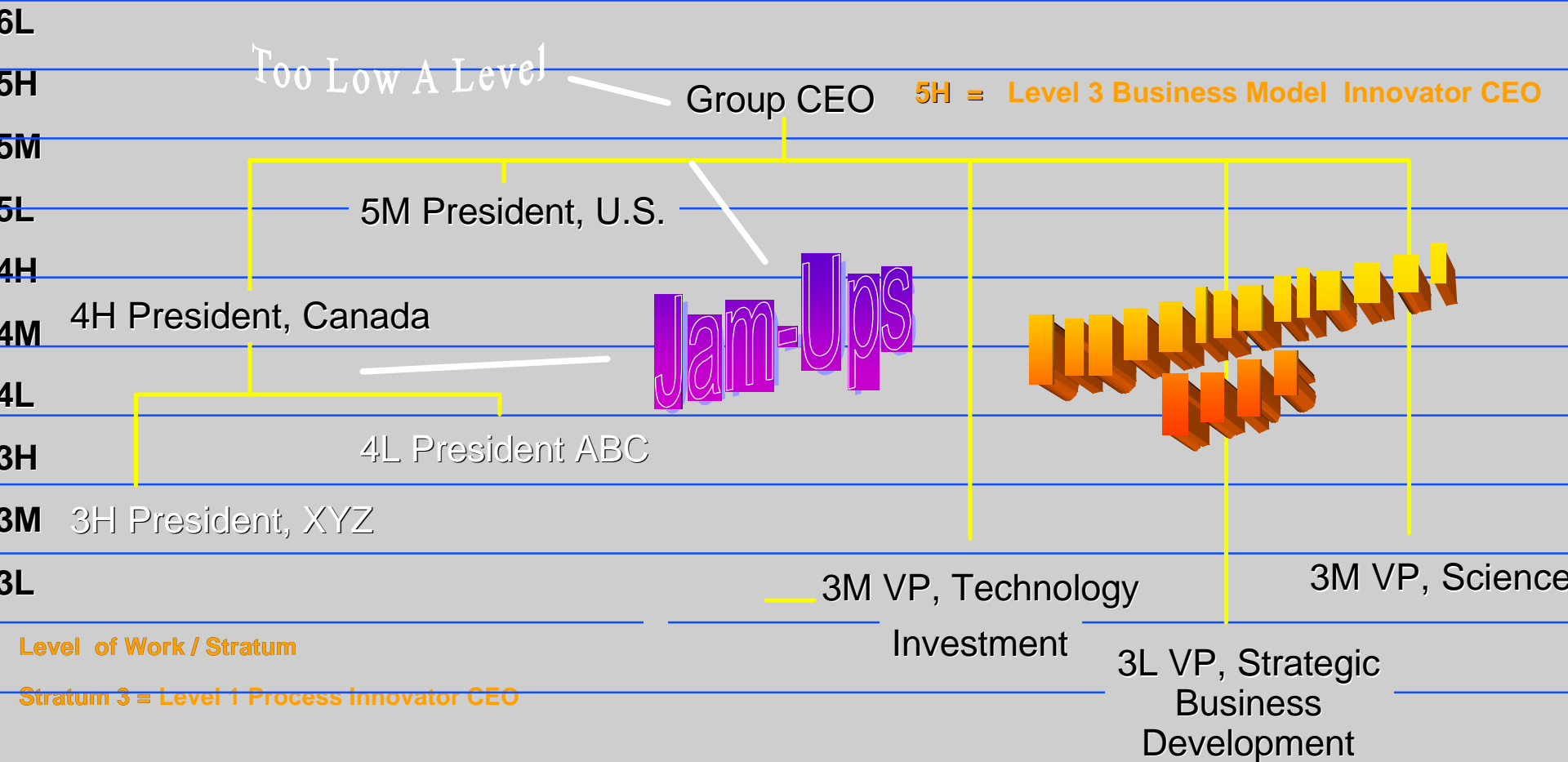
9 + Studies - found
2 times compensation
differential for each
Level of Work

Can be applied for
internal executive pay
equity check

Or

External Job Matching /
Compensation Calibrating

Titles, Reporting Lines, Revenue Size Tell Little About Level of Work Complexity



CEO / Executive Job Matching & Compensation Calibration

| | J&J | Eli Lilly |
|--|--|---|
| Business Complexity <u>Countries</u> <u>Operating Companies</u> <u>Industry Sectors</u> Pharmaceutical Consumer Medical Device & Diagnostics | 57 200 decentralized full P&L centers \$ 19.5B \$ 7.4 B \$14.9 B | 20 + 1 large global full P&L centlzd manf / R&D \$ 12.5 B |
| Innovation Complexity & Investment for Growth | <ul style="list-style-type: none"> • R&D \$ 4.7 B • full time licensing teams per sector • 60 mid and large acquisitions • JJDC - \$ 400 million venture cap | <ul style="list-style-type: none"> • R&D \$ 2.3 B |
| Accountability & Compensation <u>Proxy Disclosure</u> <u>Performance Measures</u> <u>Job Matched CEO Level of Work</u> <u>2003 Cash Comp (B&B)</u> <u>Job Calibrated Cash Comp</u> | 5 yr growth in: • Sales / EPS / Cashflow / # new products / TSR CEO Level 5 (32X) \$ 3,216,154 \$ 1,258,305 | 1 yr + growth in: • Sales / EPS / Market Value / EVA / TSR CEO Level 3 (6X) \$ 2,626,455 |

E.G:
Calibrated compensation
for the Level of Work /
Accountability is 60 % less
- a true comparable
compensation number
(material change)

Median pay un-calibrated
could be top decile
(10 %) when properly
calibrated

Evaluating the CEO / Exec Team & Integrating Pay, Performance & Level of Leadership Capability

- CEO demands 2 X Total Compensation increase based on wrong external benchmarks - comparing more complex levels of CEO work / compensation
- Board looks at the CEO role & required Level of Work / Accountability to sustain the business & targets minimum Level 3 CEO accountable role is required:
 - Planning 5 to 10 years out given changing technologies / customers
 - Need to Create New Business Model
 - Need to return company to Positive Return on Invested Capital (5 yrs negative)
- Board assesses CEO current capability as - “great operator” - CEO Level 1 capable

Board does NOT agree to compensation demands, given required Level of Work versus current CEO Level 1 Leadership capability & starts external search