Day of Learning for Next-Generation HR Leaders

Executive Compensation
Hitting the Bull’s-Eye of Pay and Performance

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Today’s Agenda

- Confirming plan objectives
- Identifying the right performance measures
- Developing rigorous targets and ranges
- Alignment with long-term incentive (LTI) plan objectives
What has been your experience with pay-for-performance over the past year? Plan changes? Communication/disclosure? Analytics?

Complex issue as there are various viewpoints on pay and performance definitions

Perceived pay-for-performance disconnects continue to drive most ISS “against” recommendations

Lagging performance and high pay are both drivers of low say-on-pay results

Drive to align with “external viewpoints” has created possible disconnects between pay and strategy

Multiple competing stakeholders – internal and external to the organization
Confirming plan objectives

- Understand the business and the drivers of success
- Determine the purpose and objectives of each incentive plan (i.e., why do you have the plan?)
- Prioritize the objectives by employee level

Primary
- Alignment
- Retention
- Line-of-Sight

Other
- Attraction
- Market competitive
- Perceived value
- Cost effective
- Performance orientation
- Risk-leverage

What are the typical objectives for an STIP and LTIP (executives/non-executives)? How could they be impacted by changes in strategy?
Getting value for your money

How do you know whether you are getting value for your STIP spend?

- What performance measures of analysis do you use (i.e., total spend as a % of net income, historical)?

What process do you use to review whether the STIP performance measures align with the annual and longer-term business strategy?

- Who is typically involved in the process?
- When do the conversation(s) take place? Over multiple meetings?

What impact does the STIP have on executive behaviours and driving annual results?

- Are there specific measures you prefer to include in the long-term incentive plan vs. the short-term incentive plan and vice-versa?
- Are there any annual performance measures you feel uncomfortable paying for?
- Do you reward for efforts/activities, outcomes or some combination of the two?
Identifying strong performance measures

What are strong performance measures?

How to create a strong incentive portfolio?

How to identify strong performance measures?

How have you determined the performance measures in the STIP and LTIP? Any other key attributes of strong performance measures?
Developing rigorous targets and ranges

Approaches used by leading companies
- Organizations use numerous methods to set incentive plan targets, ranging from qualitative to more rigorous approaches

What type of information do you use to determine rigorous targets?
Any interesting analytical approaches to share?
Alignment with LTI plan objectives: which LTI vehicles are right for you?

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- **Fully**
- **Partially**
- **Does not**

**How do you balance the mix of LTIs with STIP?**
Pay-performance alignment

Compensation Percentile

Composite Performance Percentile

Performance rank versus peers
Questions

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