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Your Strategic Plan Goals Are in Place – How Does Compensation Help You Get There?

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Your corporate strategic plan is in place with strong goals over the next three, four, five or more years – now, how do we get there? Is your Executive Leadership team all rowing together toward the same port?

Ask yourself:

- Are our goals clearly defined, communicated, and understood?
- Do we have an executive compensation plan that rewards our executive leadership if goals are achieved over the short term and the long term?
- Is our executive compensation plan competitive enough to support the performance we need?

An effective executive compensation plan starts with a clearly defined compensation strategy. This strategy will include how you plan to pay your team, including the mix of pay between base and any incentives, and what level you want to target – basically how competitively do you want to pay. It should also address the overall philosophy for delivering incentive compensation.

Now ask, what type of overall philosophy does our executive compensation strategy embrace?

This overall philosophy should play a key role in your compensation planning and design decisions. There are two main schools of thought to consider:

1) rewarding for achievement of specific goals and metrics, or 2) sharing success for overall profitability and shareholder value creation.

The first approach is more goal-driven (“line of sight”) and focuses on specifically identified drivers of profitability and value creation. This approach can be effective but requires establishing clear metrics to fund the awards. These metrics can be difficult to plan especially over multi-year performance periods.

The second approach simply shares the results of profitability and value creation. It requires the executives to identify the overall strategic direction needed to create profitability and value – thus it is more entrepreneurial in nature. Both approaches serve to motivate and reward performance results.

For example:

- Let’s say your strategic plan is focused on operating performance – so rewarding for achieving specific goals tied to your strategic plan, such as through an annual and/or long-term cash-based incentive plan, may be appropriate.
- Or, let’s say your strategic plan is focused on shareholder value and your executive team is already motivated and focused on that – so allowing the team to share in annual profitability and/or to share in long term shareholder value growth, such as through an equity or phantom stock plan, may make sense.

An effective plan to achieve your strategic goals integrates both a short-term incentive plan and a long-term incentive plan. A short-term annual incentive plan rewards the team each year as they make progress toward the same port. A long-term incentive plan then rewards the team once your ship arrives at the port of call with your goals achieved.

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