

Simplify Executive Deferred Incentive Pay Build A Plan That Works!

3% of stock option owners made money in 2002. The rest of them had options that failed to perform. With this dismal performance as a background, compensation professionals are scrambling to find alternative designs for rewarding executives. Many fail to learn by experience and are moving toward the use of restricted stock.

The more astute professionals are looking away from equity and toward plans that emphasize increase in the intrinsic value of the company...its ability to produce profitable growth. As any Merger & Acquisition executive will tell you, much of the worth of a company is determined by its strong history of earnings growth.

A retailer with revenues well in excess of \$600 million chose to use a performance unit plan in lieu of an equity based plan to balance their executive pay package. This plan, called LeaderShare[®], offers a defined dollar incentive for attainment of a long term (10 year) profitable growth objective. Executives *earn* performance units (called Deferred Compensation Units) based on aggressive annual performance objectives. The unique design element of this plan allows these DCUs to *appreciate* based on the company's long term profitable growth.

Stock market be damned. If the company grows in intrinsic value, the executives are rewarded. No reward for failure and no failure to reward when results are delivered. Into their sixth year of the plan, the company has used this executive wealth-building mechanism to attract new management talent and to create a high degree of focus and teamwork among the leadership group.

Companies that are using performance unit deferred incentive plans are finding that cash is, indeed, king. We may never again see a bubble in the stock market like we did with the Dot Coms. However, all indicators point to an emerging economic recovery within the next twelve to eighteen months. The power of a performance unit plan put in place at the start of a recovery can be a strategic competitive advantage.

The best executive talent (those that know they can deliver,) with worthless options and no potential improvement within sight, will be attracted to a plan that will pay for results. Will your executives be focused on developing momentum, or will they be developing momentum for someone else?

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