



Did You Know?

A Good Metric Is Only the Start of an Effective Performance-Based Incentive Plan

Introducing Main Data Group's Revised Plan-Based Awards Report

Short- and long-term incentive programs are intended to align the economic interests of the company and its executives. Plan designers need to ensure:

- The performance metrics are relevant to the objective;
- Each metric is appropriately weighted;
- The performance standards for each metric (threshold, target, and maximum) are based on achievable, value-creating goals;
- The metrics are measured over an appropriate time horizon; and
- The potential rewards encourage the executives to work towards the highest level of achievement.

These conditions are codependent. To be effective, the performance objectives for even a simple plan with a single performance metric must be calibrated to ensure a fair tradeoff between the performance target and the associated payout.

- **What range of performance outcomes should the plan reward?** Where should the threshold cut in, and at what point should the incentive max out?
- **At what level should the performance be measured?** Corporate or business unit?
- **How should the performance be evaluated?** On an absolute basis, or relative to a peer group?

Each additional performance metric in the mix increases the plan's complexity:

- **Collectively, does the combination of performance metrics make sense?** Do they complement each other or merely duplicate each other?
- **How do the metrics influence each other in the incentive program?**
 - Are the metrics independently arrayed, with the sum of weightings adding to 100%?
 - Is one performance objective used to increase or decrease the payout earned for another?
 - Do the results on a performance metric determine the size of the overall incentive pool?
 - Are payments of any kind triggered only if a designated metric meets or exceeds a specified performance level?

Analyzing your peers' short- and long-term incentive awards provides essential insight into the competitive landscape. Taken together, five elements—metrics, weightings, performance terms, performance threshold/target/maximum ranges, and associated payouts—provide a complete picture of each peer's incentive program. A side-by-side comparison of the peers succinctly distinguishes common from unusual features and shows how the elements interact. Ultimately, this insight can provide strong market corroboration for fine-tuning your own incentive plans.

MDG's revised Plan-Based Awards report provides a rigorous framework for analyzing your peers' incentive plan designs. It cuts through a lot of the clutter typical of CD&A descriptions to focus on the essential elements of incentive plan design:

- Each metric is identified, and metrics with business unit goals are flagged;
- Detail is provided about how the various performance criteria interact (e.g., weightings, incentive gates/funding triggers, multipliers);
- Performance ranges and the degree of "stretch" between threshold and target or target and maximum performance levels is shown;
- There are separate exhibits for short- and long-term plans; and
- The associated payouts for each level of performance is shown.

While this report will still include more granular data available for analyses, our newest version of the Plan-Based Awards report showcases the five criteria that are most essential to incentive plans. This information is presented in a display that easily permits comparison between peers and executives.

The new version can be accessed now by clicking on "Plan-Based Awards" under the Reports section of the Peer Group's Plan-Based Awards drop-down menu. Users who prefer to migrate more slowly can still access the older version under the title "Plan-Based Awards (Legacy)" in the drop-down list of reports.

About Main Data Group

Main Data Group is a provider of executive compensation benchmarking and corporate governance analytics. Its mission is to empower executive compensation professionals with comprehensive total rewards and corporate governance information in an affordable, easy-to-use online service. For more information contact us at info@maindatagroup.com or by filling out our contact form at www.maindatagroup.com.