

Making the Most of Incentive Plans

In a highly competitive job market, incentive plans need to be a part of your company's road map regardless of what stage the company is in. As employees are investing their time and talent it is critical, for retention and morale, that you appreciate their contributions and want them to invest in the company's future.

Performance Incentives

Performance incentives have evolved significantly over the past decades. In the 90s, simple stock options were the primary incentive offered to employees. In addition, golden parachutes became prevalent, with a select few benefiting their company being acquired regardless of the company's performance. As a result of these incentives, activism increased and the SEC began to take notice. Stock Option prevalence began to fade, and gave way to restricted stock awards and units, which provided more stability both for the issuer and the employee.

In the past decade, the performance-based long-term incentive (LTI) has grown most rapidly among award vehicle types - stock options and time-based restricted awards are still being used by a majority but at a rate that has leveled off. The performance-based LTI resonates in today's corporate environment; if the company is not performing at its best, employees do not receive their full award but instead a percentage. Conversely, if the company performs above expectations, employees may receive more than 100 percent of their awards. Performance has become a major tracking vehicle, especially for the C-suite.

Developing Award Plans

Following are several key elements to consider when developing an award plan:

- Recruitment and retention -- identify the best way to incorporate the element of retention into the total rewards.
- Pay for performance -- there is an increased focus to design plans around performance conditions and triggers, change in control and termination provisions.
- ISS Scorecard -- ISS has a developed approach for evaluating equity compensation plan proposals which is key for shareholder approval.
- Incentive vs. disincentive -- Compensation is not only a major expense, it is the best tool to focus employee behavior and performance.

Communication is Key

Communicating your plan to stakeholders will vary widely depending on the corporate culture. Often, multiple communication methods will come into play. In a manufacturing company, a town hall meeting may be the optimal method of communication, whereas an email would be expected at a tech company. The bottom line is that getting the information in the hands of employees is critical - and you can't over-communicate. In addition, not everyone will understand the value and importance of the award, so it is crucial to educate them about the details of the award and what it means for employees' future at the company.

Designing Plan Documents

The plan document should outline all the rules of the plan, such as:

- Type of awards
- Who is eligible
- Restricted period
- What happens at vesting and clarification as it relates to resignation, termination (with or without cause), retirement, death and disability
- Voting rights
- Tax implications
- Dividend rights/dividend equivalent rights

When it comes time to design your compensation program, take your time so you do not make mistakes you need to fix later. Look at what your peers are doing, as it will help in two ways - to ascertain whether the company's recruiting and retention practices are in line with or better than what your peers are doing, and taking that time will allow you to better communicate to employees in the future. Additionally, consulting with a professional will help make the difficult decisions.

AST Can Help You Design & Implement a Plan

Properly constructed, an incentive plan will not only benefit employees but will help ensure the strength of your company in the years ahead. We are happy to talk with you about how we can help develop a plan that best suits your organization's needs.

For more information visit www.astfinancial.com or email newbusiness@astfinancial.com.