



Pearl Meyer



Encouraging Growth and Innovation with the Right Incentives

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- Innovation Defined
- Traditional Compensation Structures
- Value Drivers
- HR's Role in Driving Innovation

Innovation

noun in·no·va·tion \,i-nə-'vā-shən\

: a new idea, device, or method

: the act or process of introducing new ideas, devices, or methods

Source: Merriam-Webster's Learner's Dictionary

Significant positive change, a result that is adopted by others

“The Best Definition of Innovation”

Scott Berkun, *Innovation*, September 2013

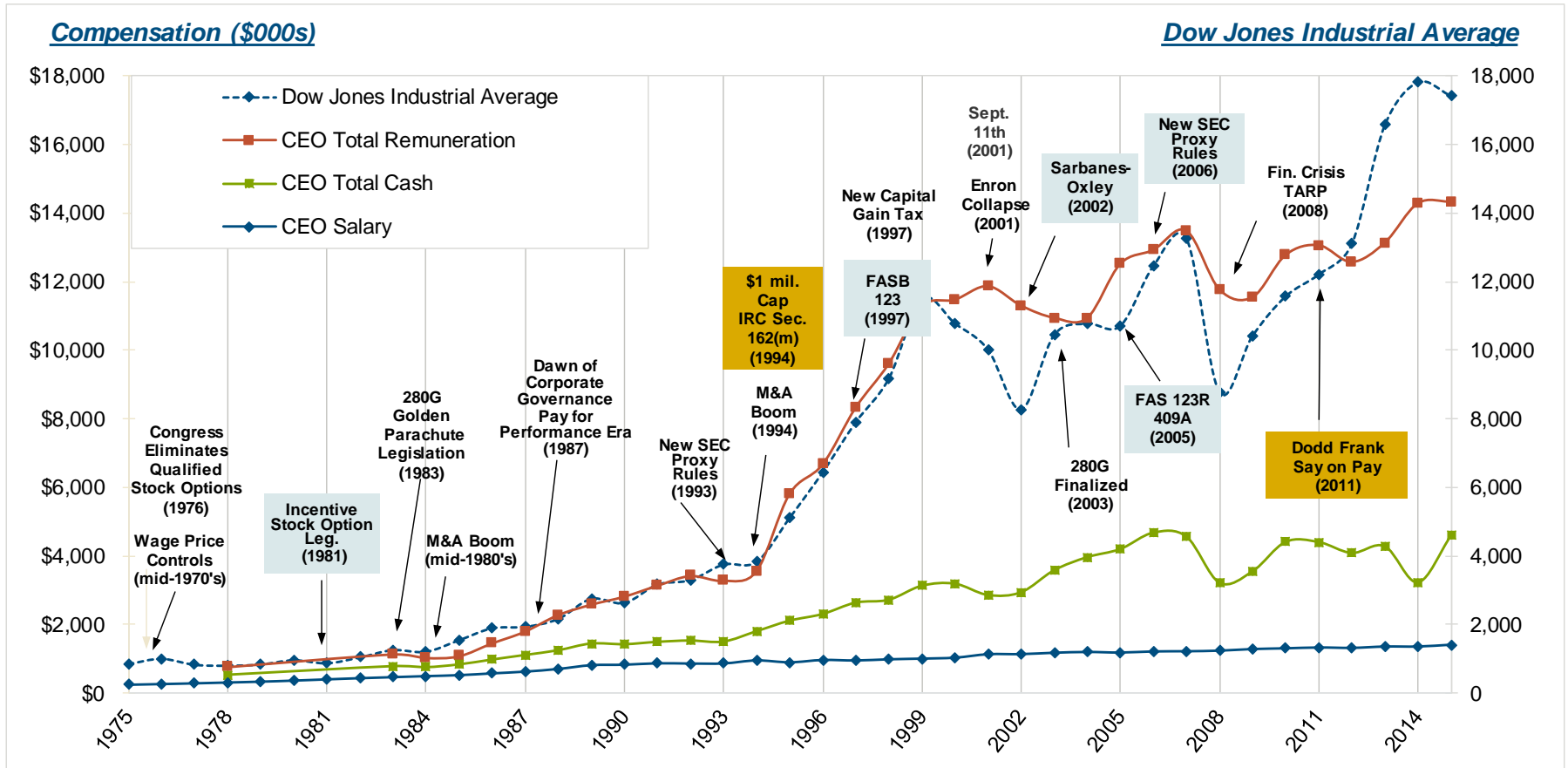
- Pay for performance might limit innovation
- What compensation components drive innovation
 - Pay for failure
 - Reward for long-term success
 - Severance

“Is Pay-for-Performance Detrimental to Innovation”
Florian Ederer and Gustavo Manso, July 2012



Top 200 Pay Trends

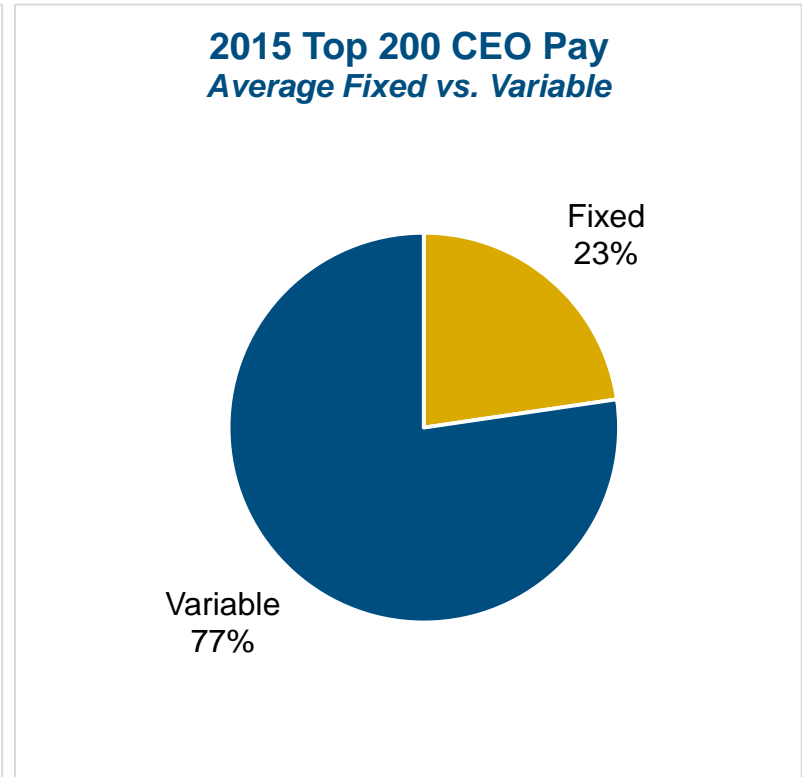
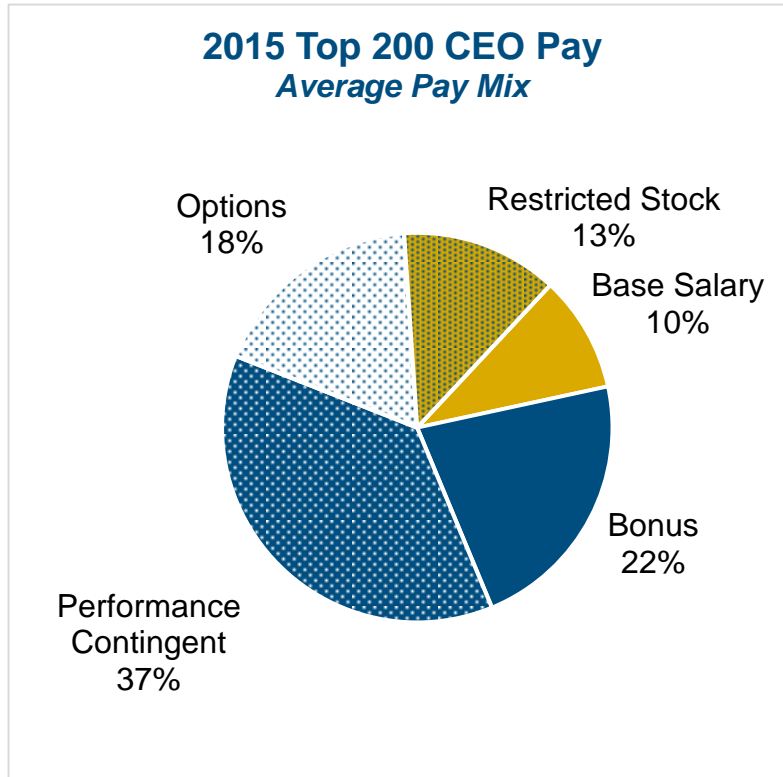
History CEO Compensation 1975 - 2015



Relationship of Dow Jones Industrial Average to CEO Total Remuneration - $r^2 = 0.96$

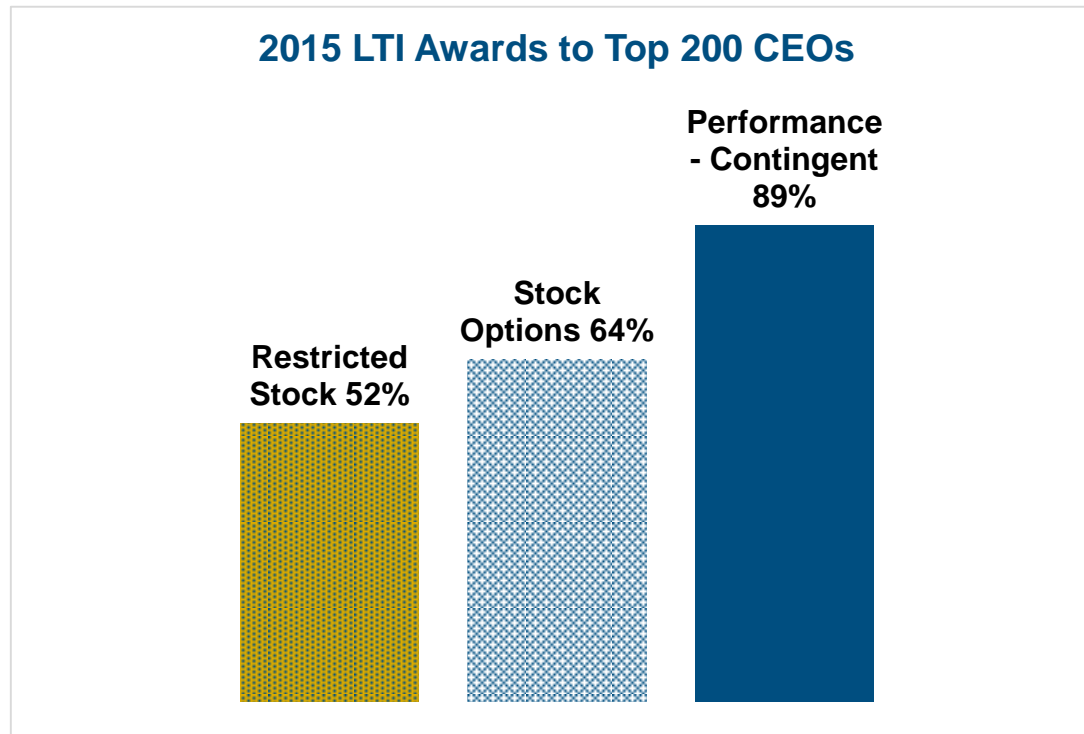
* Based on Pearl Meyer & Partners survey of compensation among the Top 200 U.S. Companies (1996 to present) and 50 U.S. Companies (prior to 1996).

“Top 200” Companies – CEO Pay Mix



- Greatest emphasis on variable and long-term pay
- Largest portion of long-term pay is performance-contingent equity

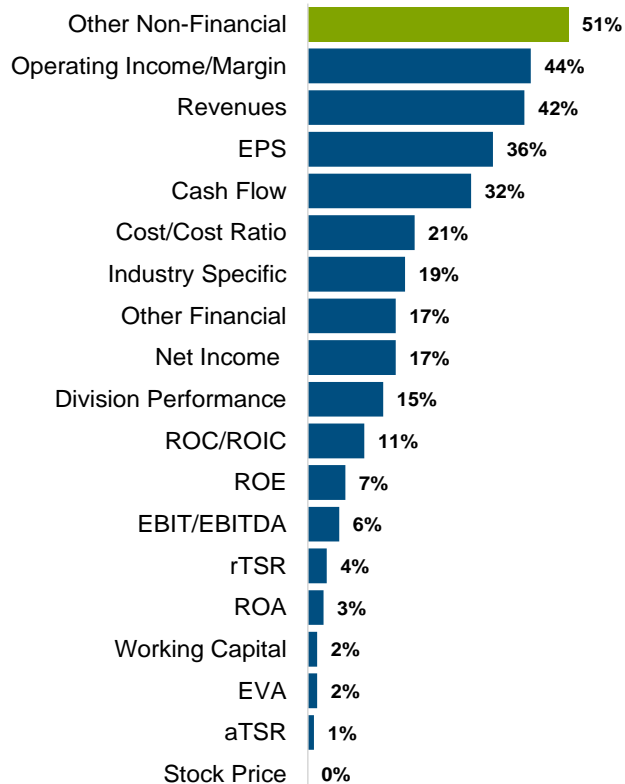
“Top 200” Companies LTI Vehicle Prevalence



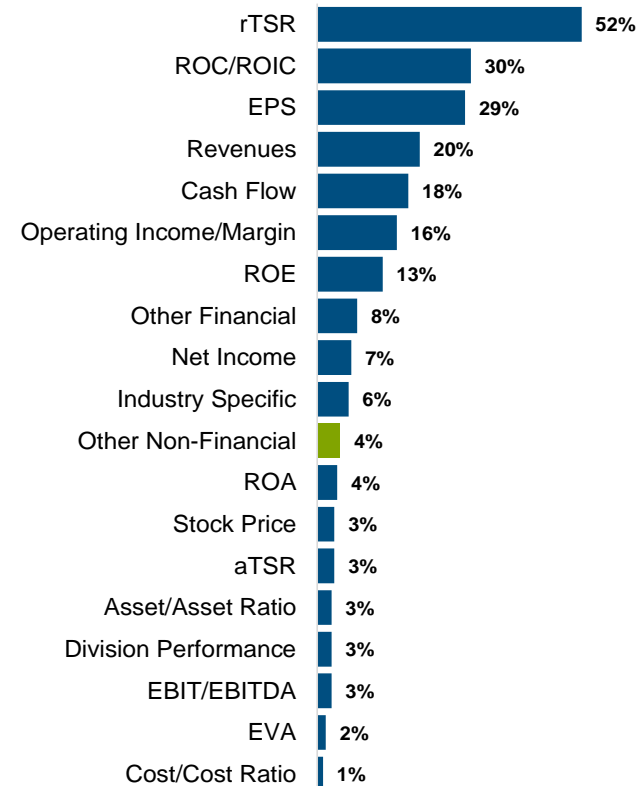
- Nearly 90% of CEO received equity awards contingent upon achievement of prospective performance goals
- With the majority receiving restricted stock and / or stock options in addition to performance-contingent awards

Annual Incentive Plans focus on Non-Financial Performance Long-term Incentive Awards focus on relative total return

**Annual Incentive
Performance Metrics**
Top 200 Companies <n=163>



**Long-term Incentive
Performance Metrics**
Top 200 Companies <n=180>





- Phillip Morris
 - 20% of Performance Contingent Equity tied to achievement of product innovation targets

- MasterCard
 - CEO's individual annual incentive goals include innovation

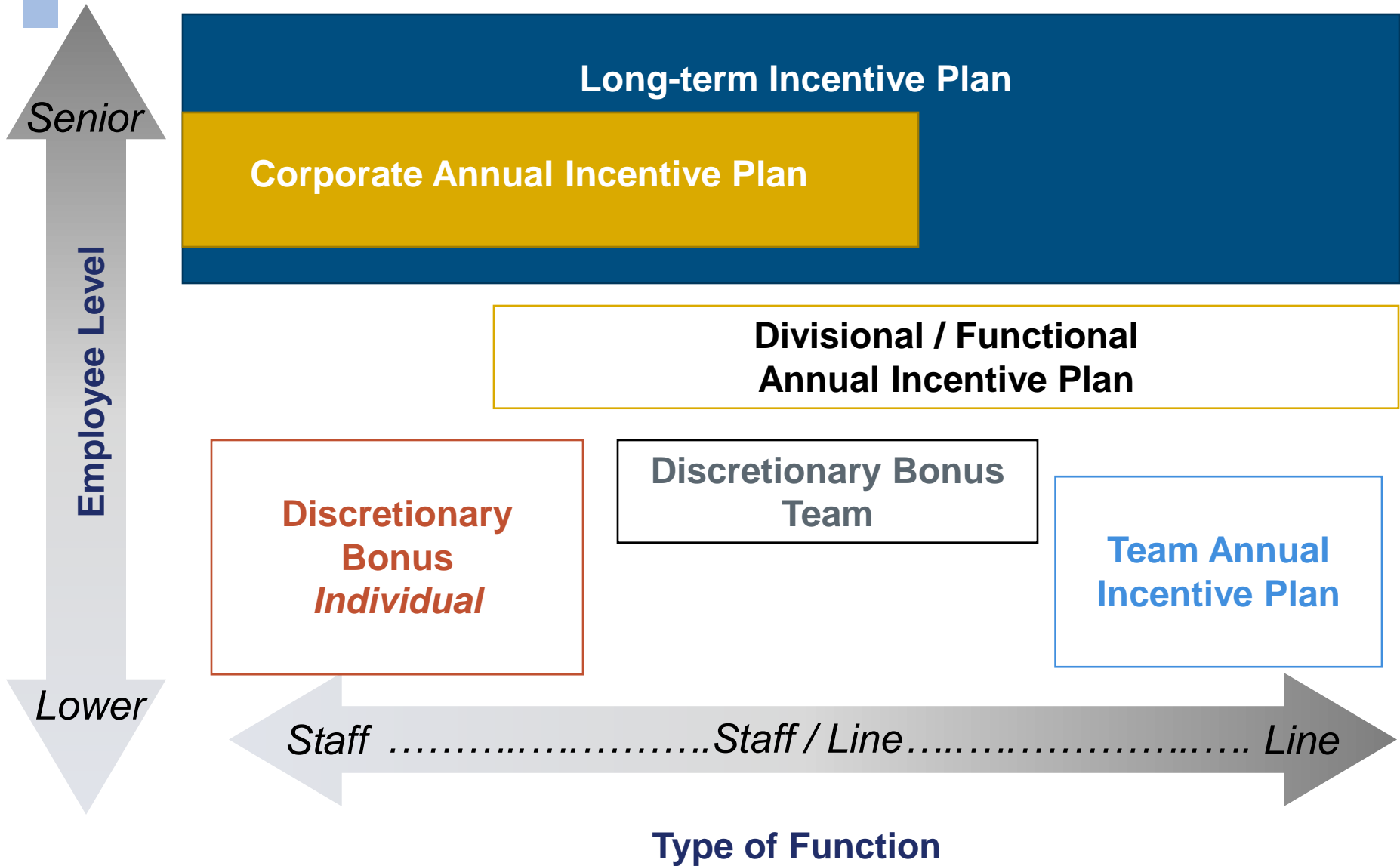
- 3M
 - Eliminated its focus on new product development, focusing only on metrics aligned with the company's stated financial objectives
 - 20% of performance awards were tied to new product development

Market

Total Remuneration	Perquisites	Clubs Cars Contracts
	Benefits	Retirement Health & Welfare Time Off
	Total Direct Comp.	Stock Options Restricted Stock Performance Stock Long-term Cash
Cash	Short-term Variable	Annual Incentives Annual Bonus Commission
	Base Salary	Base Salary

Compensation Programs should facilitate the recruitment, retention and engagement of employees, with consideration of market, regulator and investor pressures

Component Variation by Level and Function



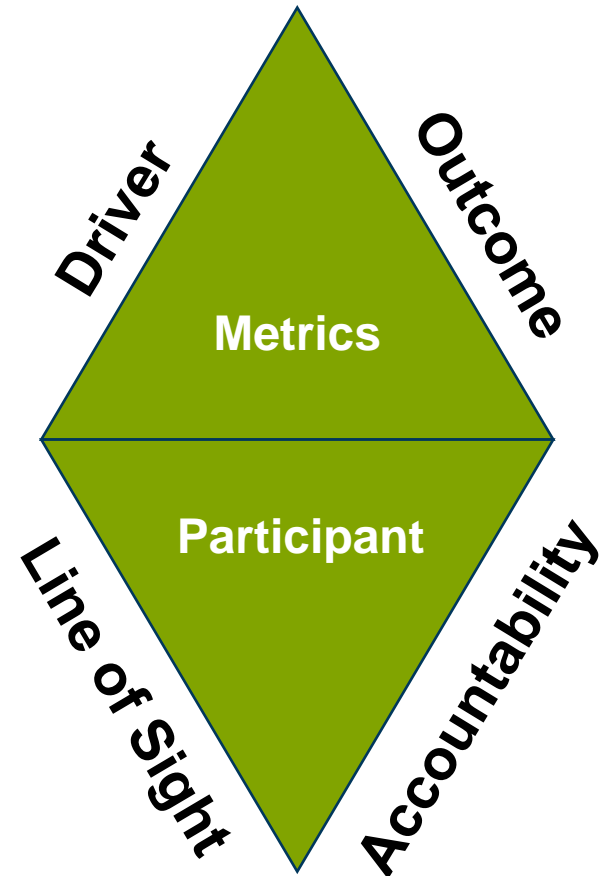
- Support overall corporate objectives
- Are simple and focused
- Incorporate balanced performance metrics
- Set realistic targets
- Avoid entitlements

Do our performance metrics drive shareholder value?

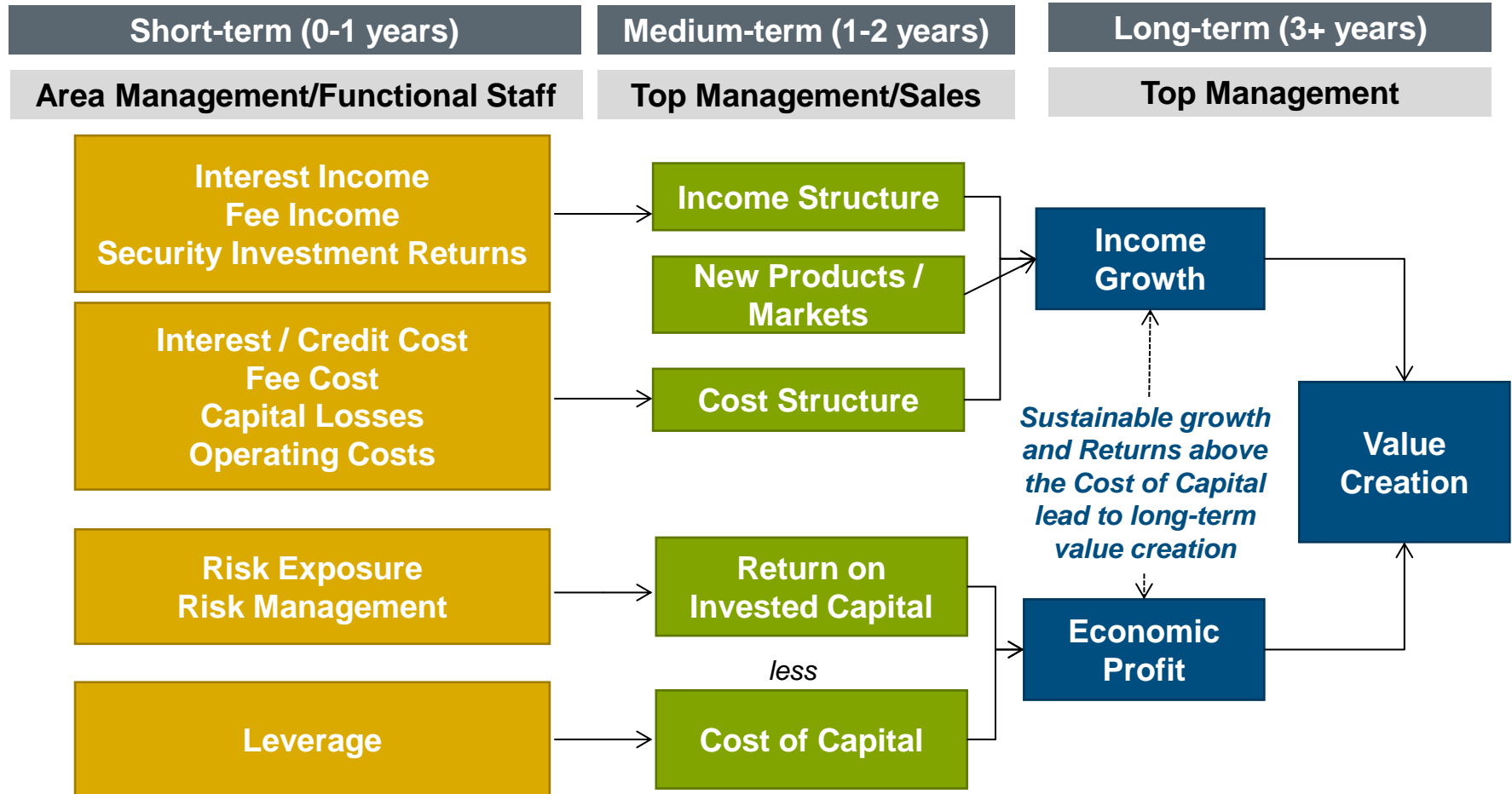


Value Drivers

1. Driver and Outcome metrics
 - Driver (“Lead”): strategic imperatives
 - Outcome (“Lag”): financial results
2. Line of Sight and Accountability
 - Line of sight: ability to influence
 - Accountability: absolute / relative

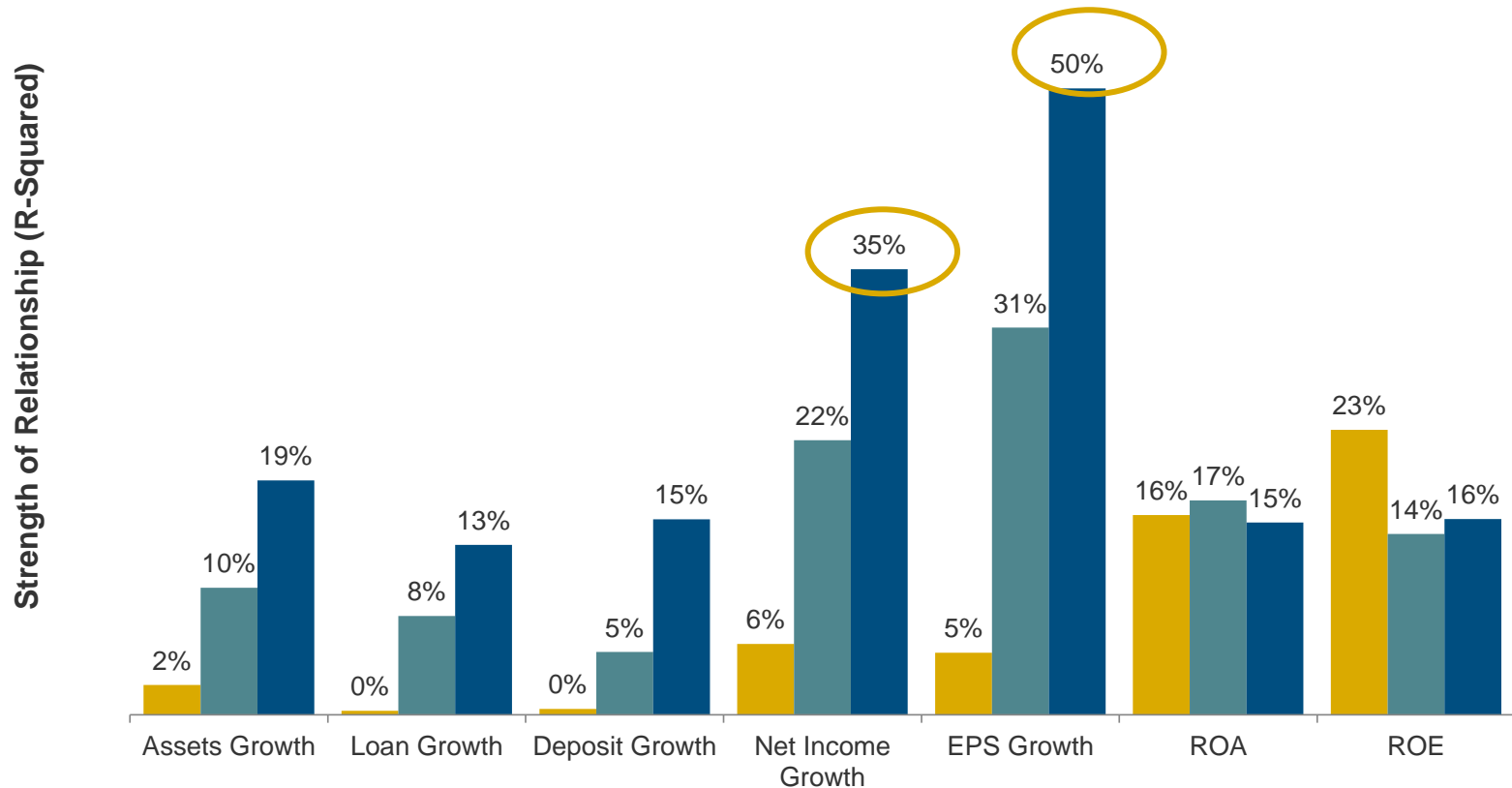


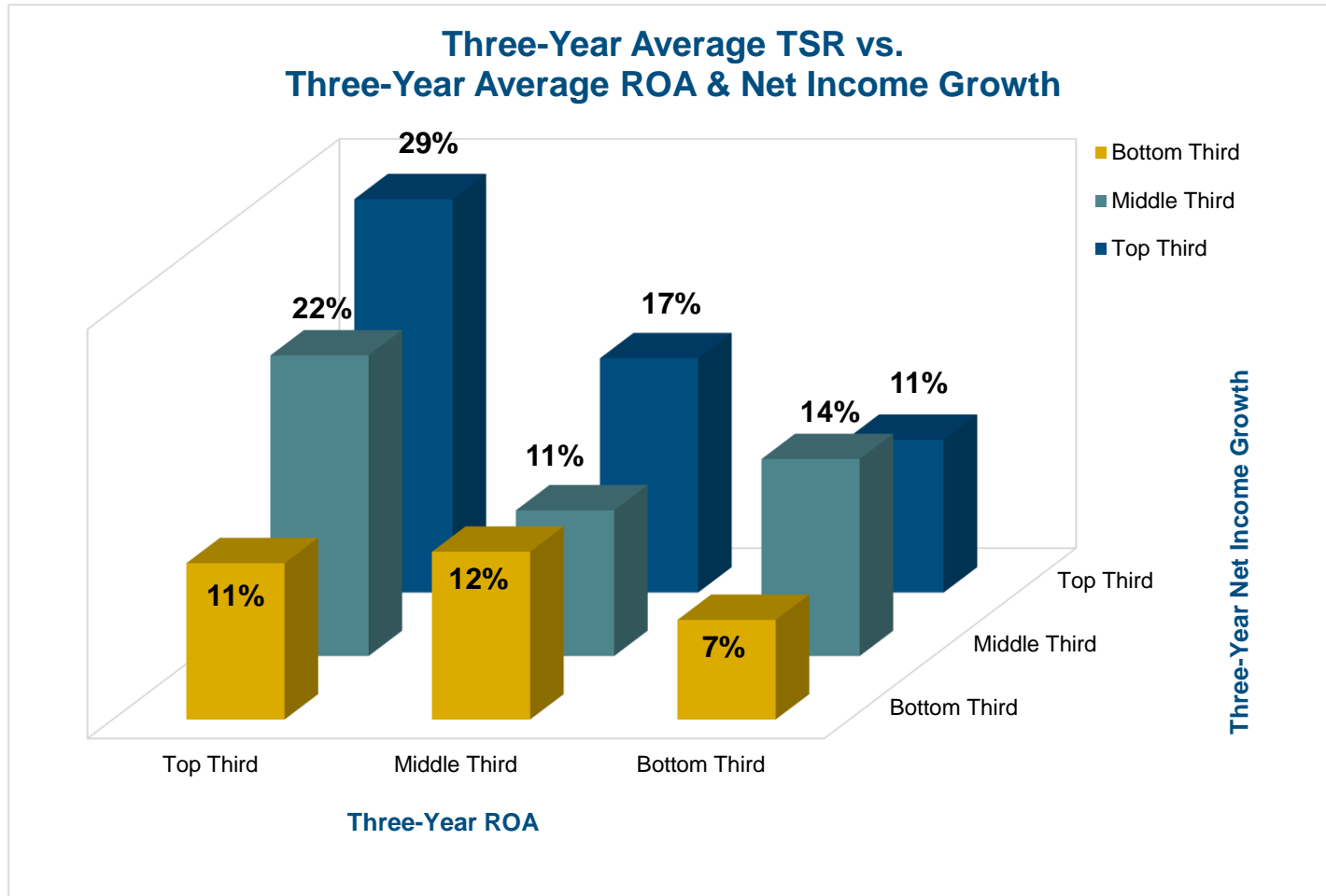
Pearl Meyer Illustrative Value Driver Tree Banking Industry



Banking Industry Value Drivers *U.S. Banks Total Assets \$10B to \$50B*

■ 1-Year ■ 3-Year ■ 5-Year

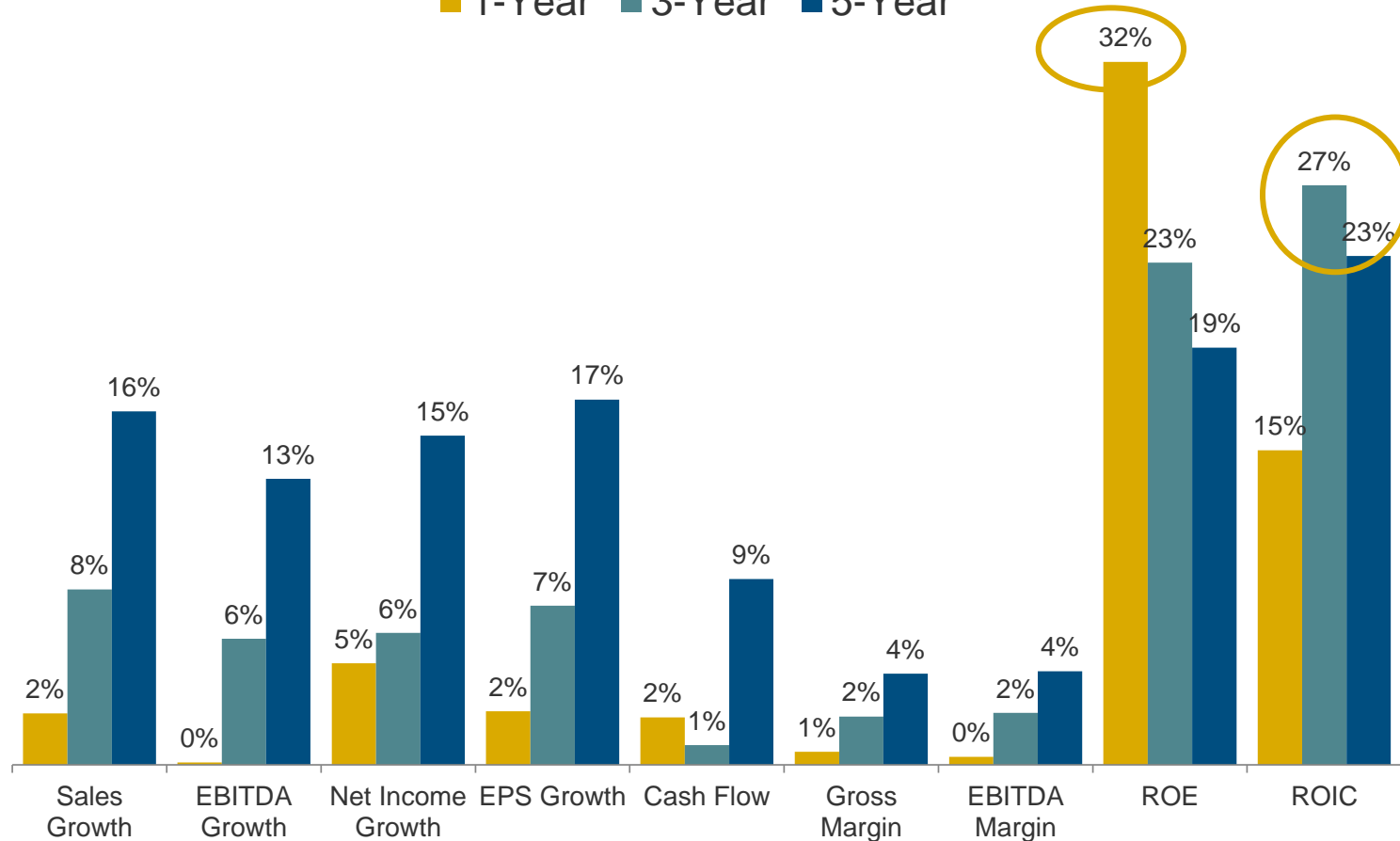


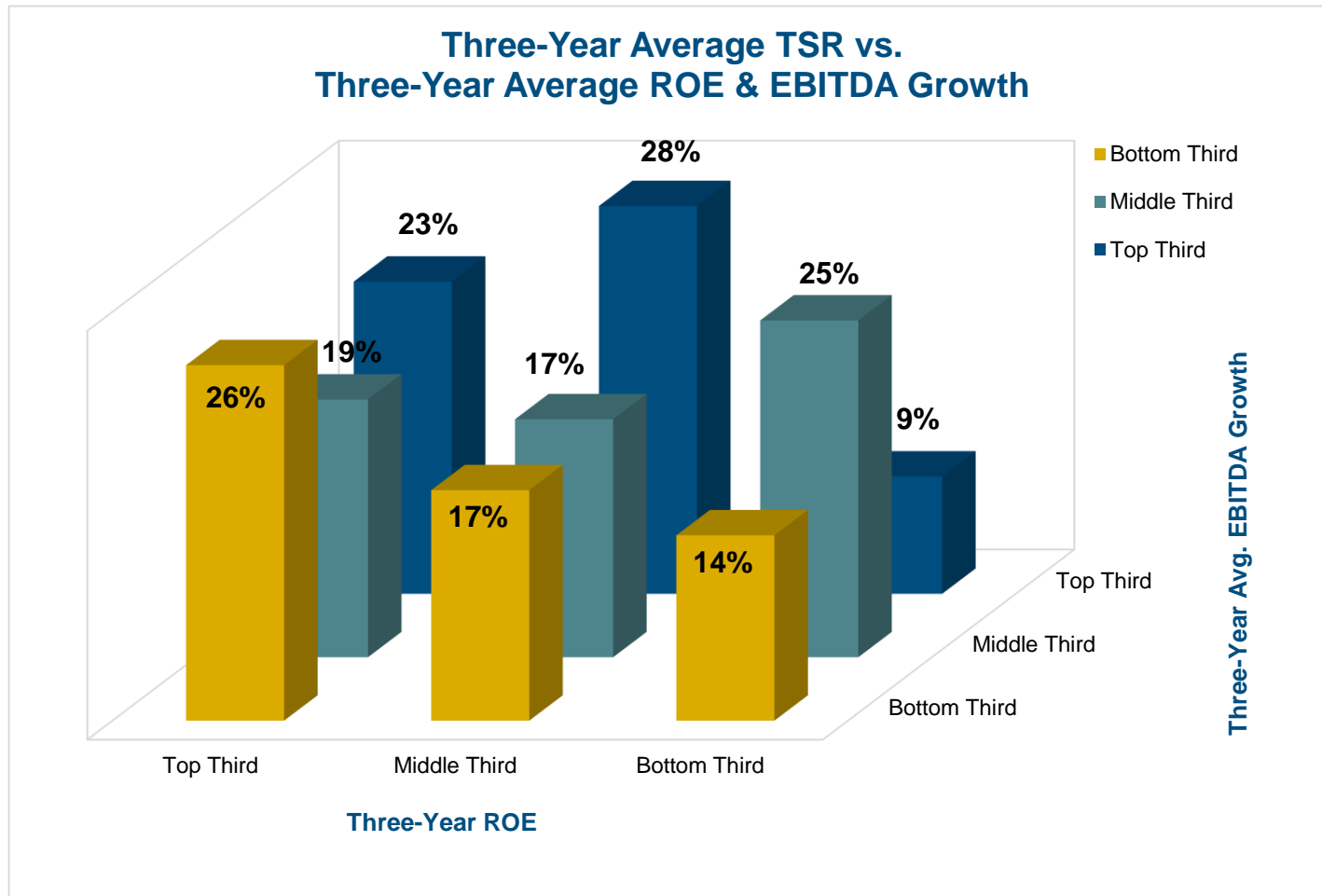


Technology Companies Value Drivers *Revenues >\$5B*

■ 1-Year ■ 3-Year ■ 5-Year

Strength of Relationship (R-Squared)







HR's Role

- **Situation**
 - Highly motivated and network driven professional, employed by a mature organization
 - Recognized the importance of external thought and perspective in the creative process

- **Initiative**
 - Brought external thinkers to organization for “Coffee & Doughnut Chats”
 - Despite Direct Manger views that external focus wasn’t necessary and not immediately noticeable in work product

- **Success**
 - HR as well as Mangers for other groups step in, reinforcing importance
 - C-suite recognized and budgeted for an organization wide creative conference



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