



**Compensation Committee | Compensation Strategy**

November 11, 2003

**Components of the Balanced Incentive Portfolio**

By Donald P. Delves

An excerpt from **Stock Options & The New Rules of Corporate Accountability: Measuring, Managing, and Rewarding Executive Performance** (McGraw-Hill, October 2003)

Clearly options need to be balanced going forward with other forms of incentives and have features to make them more performance based.

How, then, can a company establish a balanced incentive portfolio? The best approach is to use a performance matrix. Across the top are short-term, medium-term, and long-term time frames. Listed along the side are a variety of possible criteria.

Figure 8-1 Performance Matrix

**Indicate relative importance of each measure by placing "Low, Medium, or High" in the related box**

Performance Measures	Short Term	Medium Term	Long Term
Earnings Performance			
Return (on Assets, Investment, Equity, etc.)			
Stock Performance Measures			
Marketing Performance Measures			
Employee Satisfaction/Development			
Community Citizenship			
Environmental Stewardship			

Using this matrix companies can determine their top priorities for the short term, medium term, and long term. While each of the criteria is important, not all of them can be targeted for each time frame. To identify priorities, ask the following questions:

- Which criteria have the highest priority?
- Which ones have the greatest potential impact for improvement?
- Which ones have the greatest impact on the bottom line, shareholder value, etc.?
- Which ones do not have a short-term impact on the bottom line but are essential for the future of the company?
- Which measures may be negatively impacted in the short run as a trade-off for higher performance in the long run?
- Which ones are the company willing to pay for and willing to pay the most for?

By answering these questions, patterns and overlaps will emerge. The result will identify the top priorities for the company on a short-term, medium-term, and long-term basis.

After company-wide targets and priorities have been established, the next question is which people, functions, and jobs in the company are the most responsible for executing each aspect of the performance matrix.

*Donald Delves has over 20 years of consulting experience. Prior to founding The Delves Group, Mr. Delves started and managed the Chicago office of iQuantic. Prior to that, he was a Senior Consultant at Sibson and Company and an executive compensation consultant with Towers Perrin. He has also served as a manager in personal financial planning and taxation with Arthur Andersen & Co., and as a financial consultant to middle market companies for Harris Bank.*

*A recognized expert on performance measurement and value creation, he writes and speaks regularly on these subjects. Mr. Delves holds an M.B.A. degree in finance from the University of Chicago, a B.A. summa cum laude, in economics from DePauw University, and is a Certified Public Accountant. He is also highly trained in organizational behavior and leadership development at the Wright Institute for Lifelong Learning of Chicago.*

**For Further Information:** [www.delvesgroup.com](http://www.delvesgroup.com)