



Compensation Committee | Compensation Strategy

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Better Questions, Better Answers

By Donald P. Delves

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Boards of directors need to take a more in-depth approach to compensation. They must be willing to make management and consultants uncomfortable with their questions. And they need to be persistent in asking questions for which there are no easy answers.

There is no reason to stop doing a thorough job of competitive analysis. But this should be the foundation of a more thorough study of executive pay against a variety of other comparative and competitive metrics. Specifically:

- Boards must take a multiyear perspective when it comes to compensation. This is particularly important with stock options, since they are not annual events but accumulate over time.
- Compensation must be examined relative to executive performance. The purpose is to determine how executives are paid and how sensitive compensation is to increases and decreases in performance.
- The company's incentive systems must be studied to determine the impact of performance on compensation. This will help determine a company's "pay for performance score," showing how compensation varies based upon specific performance measures.
- Conduct the same type of analysis for a peer group of at least 10 to 15 other companies. This will reveal how these companies' compensation practices have varied based upon performance. Using this peer analysis, a company can compare its pay for performance score to that of other companies.
- A company should also determine the pay for performance score for several different performance measures. This would include return on investment, change in profit, change in margin, change in shareholder return, change in revenue, and so forth. Once again comparisons should be made with the peer group.

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.

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