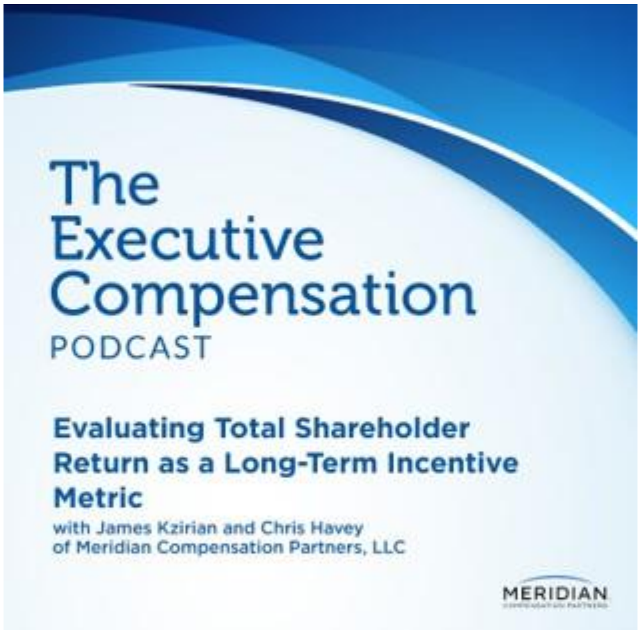
Podcast Summary —
Evaluating Total Shareholder Return as a Long-Term Incentive Metric
By: James Kzirian & Chris Havey



In this episode of the Executive Compensation Podcast, hosts Ryan Harvey, Chris Havey, and Jim Kzirian explore the use of Total Shareholder Return (TSR) as a long-term incentive metric. Total Shareholder Return (TSR) is a metric that measures a company's performance by combining stock price improvement and dividends. It is often measured relative to a peer group or an index, where a company ranks itself within that group to determine payouts. TSR is primarily used in long-term incentive plans.

TSR is a Popular Metric: Over the past 15 years, TSR has grown in popularity as a performance metric in long-term incentive plans, with over 60% of companies using it. It has become the most commonly used performance measure.

Advantages of TSR:

No Goal Setting: Relative TSR doesn't require companies to set specific performance goals, making it attractive for long-term incentive plans.

Shareholder Alignment: TSR aligns executive pay with shareholder value, promoting transparency and easy communication.

Resilience: Relative TSR remains relevant even in challenging economic conditions, making it a resilient metric.

Proxy Advisor Alignment: While not a specific preference, TSR aligns with how proxy advisors and institutional shareholders assess performance.

Challenges of TSR:

Peer Group Selection: Choosing an appropriate peer group for relative TSR comparisons can be challenging and requires business model similarity.

Accounting Expense: TSR-based incentives create a fixed accounting expense, which can be higher or lower than the actual value realized.

Lack of Control: Executives may have limited control over a company's share price, affecting TSR outcomes.

Trends in TSR Usage:

De-emphasis of TSR: Some companies are reducing the weighting of TSR in their incentive plans and diversifying performance metrics.

Absolute TSR: In certain situations, companies use absolute TSR as a metric, especially in turnaround scenarios or for special awards.

TSR Modifiers: Companies are using TSR as a modifier or kicker, adjusting payouts based on extreme TSR outcomes.

The podcast provides valuable insights into the use of TSR as a performance metric in executive compensation plans. It highlights the benefits and challenges associated with TSR and how companies are adapting to ensure it aligns effectively with their compensation strategies.

[Listen to the full podcast here.]