

Case Study

Executive Incentives and Retention: Pharmaceutical Services

The company hadn't made its numbers in several years, share prices were dropping, and Board members were worried about the possibility of executives leaving over low (or no) bonus payments.

We helped develop a successful incentive plan focused on executive performance—that also improved shareholder confidence and share prices.



A mid-market pharmaceutical services company was in the midst of a strategic re-direction and had not met financial goals in several years. As a result, there had been no, or very low, bonus payments during that time, and the board was concerned about retention.

Board members felt that the leadership team, many of whom were fairly new, was critical to the successful turnaround. At the same time, the board was also concerned about the optics of an award paid despite continued poor financial results and declining share price.

An Insightful Solution

We worked with the Compensation Committee of the board and company management to develop a short-term incentive plan based on improving results, even if the company was not profitable at the end of the year. The plan was intended as a one-year solution to a specific situation that would revert to a more traditional profit-based approach in the future.

The recommended incentive plan included two components, one financial and one based on the achievement of strategic milestones critical to the turnaround. The financial component (60% weight) was based on a specific net income target linked to a funded incentive pool. To the extent that the company performed below this target,

the incentive pool was reduced on a dollar-for-dollar basis so that the net income target would still be achieved. If the net income target was exceeded, there was a modest upside, but much less than a traditional design, as the company would still be in a loss position.

The two strategic milestones (20% each) were based on the turn-around plan and were designed as all or nothing objectives. We helped influence discussions between management and the Committee, and the Committee agreed to fund an incentive pool despite the negative income position in exchange for management accepting a plan with limited upside (all-or-nothing) and a higher risk (no award for partial achievement).

Real-World Results

The company was able to retain all members of the executive team and far exceeded the targeted net income level, although still at a loss. Both strategic milestones were also achieved, and the company is now well positioned to return to profitability with increased investor confidence and share price.

Want to know more?

For more information, contact our Career Practice consulting team at **1 866.355.6647** or hrservices@conduent.com.

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