

IROs Still Struggle to Show Executive Accountability

by Mark Van Cleef

Restoring Investor Confidence Our analysis of the S&P 500 proxy statements found that 55% of the S&P 500 companies are not measuring or paying executives for operating results beyond one year. IROs who can show pay for performance for the long term will attract the interest of battered investors.

As long as stock prices rose during the bull market of the 1990s, investors typically were not concerned with long-term executive accountability. Few investors looked in detail at the business model, the underlying economic fundamentals (e.g., Return on Invested Capital) and the sustainability of the cash flows of the companies in which they invested.

Many companies have fooled themselves into believing that standard stock options created a focus on the longer term and alignment with shareholder interests. Yet an increase in stock price can have no

correlation with operating performance over a one-to-four-year time horizon.

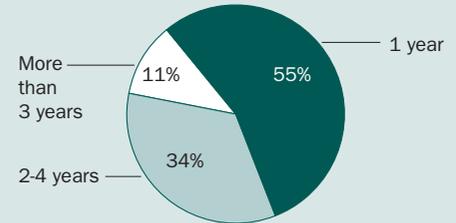
Companies have confused three-to-five-year vesting of stock options with three-to-five-year measurement of true business operating performance. They mistakenly assumed that the vesting period would focus managers on the longer term. Rather, this approach focused managers on stock price and doing everything possible to engineer quarterly EPS targets and not on creating sustainable value.

Best Practices for Long-Term Planning

The following are best practice time spans for planning and value creation. The executives' titles may not be universal with the level of work complexity and accountability design in companies.

- Director – 1-2 years
- VP/SVP – 2-5 years
- President – 5-10 years
- Group President – 10 years +

S&P 500 Longest Stated CEO Performance Measure



Source: MVC Associates International

- Global CEO – 10-20 years +

IROs who want to attract long-term investors need to demonstrate an accountability structure, requisite metrics and compensation for the enterprise beyond the next 12 to 18 months. ☒

For further research go to www.mvcinternational.com; or e-mail Mark Van Cleef at Mark@MVCInternational.com.