



INVESTOR ALERT

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You Can See the Carrots, But Where's the Stick?

Everyone normally focuses on the upside and the maximum amount that can be paid if performance is above target. Few focus on the downside pain if the executive team doesn't accomplish target. And this is an important omission.

More often than we would like to see, we find that the executive team doesn't feel much financial pain on the downside below target performance. It involves more than just having high base salaries, and low thresholds on the incentive programs. It may be the constant overlapping vesting of the restricted stock "retention" program, or other similar programs.

If there is no pain, then it reminds me of maxim that a frog sitting in a slow pan of water brought to a boil won't jump out, but will end up dying. Management, if they don't feel any real downside pain, will not do the hard, but necessary work of fixing the problem.

If there is a lack of performance make sure there is a stimulant in the total reward architecture that "get's um off their ass" and gets them to do some fundamental soul searching before it's too late for the money you have invested.