

# In Pursuit of Continuous Improvement: Danaher + TSR

Integrating Radford's *PeerTracker* tool with Fidelity NetBenefits® may help increase transparency of performance-based plans and motivate senior executives.

## INTRODUCTION

Over the past several years, performance-based incentive awards have increasingly become a common fixture within a majority of corporate equity compensation programs. This growth in performance-based awards is a reflection of shareholders' increased demands for a stronger linkage between pay and performance.

There seems to be little disagreement that aligning executive compensation with actual performance is in shareholders' best interests. The trend toward performance-based awards has created new challenges for employers and equity compensation plan participants as to how best to balance performance alignment in the design with clarity for participating executives. Because these awards are inherently more complex, many participants find it difficult to understand and track the potential value of their performance-based awards.

The connection between equity awards and performance criteria creates a need for companies and their employees to understand how performance is trending. Complex performance metrics and a lack of transparency regarding progress against goals can create a disconnect that may cause companies to fall short of their objectives with performance awards, disappointing shareholders and senior executives alike.

In an effort to address these challenges, many companies are focusing on improving their communication and education programs. Through the use of interactive content and tools, employers are working to demystify these complex instruments and help employees understand their value. These efforts to improve communication and education can help ensure the effectiveness of performance-based equity plans.



Additionally, to simplify the process of tracking the value of performance-based awards, and as an alternative to complex internal metrics, many companies have migrated toward the use of Relative Total Shareholder Return (Relative TSR) metrics in recent years. Using Relative TSR, final award payouts are pegged to the relative stock price returns of a peer group or a stock market index, such as the S&P 500® index or an industry-specific index. More than 800 U.S. companies have adopted Relative TSR plans since 2005, and nearly 50% of the companies in the S&P 1500 now use Relative TSR plans.<sup>1</sup>

## Communications and Performance

Research conducted by Aon Hewitt<sup>2</sup> revealed that companies with performance-oriented cultures that match results with rewards tend to have higher levels of employee engagement. Highly engaged employees who receive frequent performance award updates, such as those available through *PeerTracker*, are correlated with stronger stock price performance and higher payouts.

*PeerTracker* is a customized Web-based tool that provides executives with the ability to quickly determine the current status of their performance awards based on a variety of metrics, including EPS Growth and Relative TSR. It provides instant access to current and future payout scenarios. Using *PeerTracker*—which can be integrated directly into the Fidelity NetBenefits® website—participants can track their performance awards daily.

The study also found that communicating performance monthly or more frequently was the difference between above-target (average of 110%) and below-target (average of 89%) payouts. This does not necessarily suggest that frequent updates cause higher payouts. However, it may be indicative that a company's approach to engagement and performance equity often correlates to higher performance.

Another Aon study found that employers with the most highly engaged employees drove additional returns to shareholders.<sup>3</sup> In fact, companies with highly engaged employees achieved a TSR that was 57% higher than the TSR of companies even in the top quartile of engagement.

"Given the focus on performance equity in today's marketplace, concise but impactful education and constant performance updates are necessary to ensure that your equity plan achieves its objectives," notes Terry Adamson, Partner, Aon Equity Services. "We are pleased that *PeerTracker* can help make it easier for companies and their plan participants to track their progress."

## Danaher's Pursuit of Continuous Improvement

Danaher Corporation is a global science and technology manufacturer with a workforce of 71,000 associates worldwide. In the late 1980s, Danaher became one of the first North American companies to apply the principles of kaizen, a Japanese word that means "continuous improvement." These principles form the basis of the Danaher Business System, which today is embodied in virtually every aspect of Danaher's strategic planning and operations processes.

It was this ongoing pursuit of improvement that recently led Danaher to adopt a Relative TSR performance award plan. In Danaher’s case, the new TSR plan replaces certain performance-based Restricted Stock Units (RSUs), with performance tied to internal objectives. The current Danaher long-term incentive mix for senior executives now includes stock options, performance-based RSUs, and the new TSR plan.

For Joe Cavallaro, vice president of compensation at Danaher, the shift to Relative TSR has been an essentially painless transition to date. “What made it extremely compelling for us is that once you have the plan set up there is no need for annual goal setting and no issues with maintaining a peer group over time,” said Cavallaro.

However, one challenge associated with the shift to a relative performance-based award plan is that it tends to reduce transparency, because it’s more difficult for participants to calculate the value of their awards. Knowing that transparency would be essential to the program’s success, Danaher launched Radford’s *PeerTracker* tool shortly after it rolled out the company’s new performance-based award program.

“Like the performance equity it tracks, *PeerTracker* has evolved over time, becoming increasingly more sophisticated to ensure that companies can continually address concerns around education and performance communication,” says Dan Kapinos, Global *PeerTracker* Practice Lead, Aon Equity Services. “We started with TSR-based plans, but have now adopted the ability to track most performance metrics. With this evolution, we’ve seen companies really prosper inside their performance equity plans.”

## Accessing *PeerTracker* via NetBenefits®

NetBenefits allows participants to track the various lifecycle stages of their performance awards and review awards that have been adjusted based on attainment of specific goals. *PeerTracker* provides critical visibility into how they are performing against relative goals. Together, NetBenefits and *PeerTracker* allow participants to get a clear picture of the value of their performance awards and the goals they aim to achieve. To use *PeerTracker*, participants should follow three easy steps:

### Step 1: Select Performance Award *PeerTracker*

The screenshot shows the NetBenefits interface for a performance award. The 'Performance Parameters\*\*' section is visible, with a green circle highlighting the link '2015 Performance Award PeerTracker'. Below this link is a table with performance metrics.

| Target Units | Performance Multiplier | Potential Units*** | Target Units | Performance Multiplier | Potential Units*** |
|--------------|------------------------|--------------------|--------------|------------------------|--------------------|
| 125,000      | 50.000%                | 62,500             | \$2,945.00   | 50.000%                | \$1,472,500        |
| 125,000      | 100.000%               | 125,000            | \$5,945.00   | 50.000%                | \$2,972,500        |

Step 2: View Summary of Current Awards and Select Calculation Details for More Information

FY2013



Calculation as of December 31, 2015  
Summary of Current Awards

#134 out of 1649 (92nd percentile)  
175% payout +

| Percentile      | TSR     |
|-----------------|---------|
| ABC corp.       | 178.82% |
| 75th Percentile | 83.18%  |
| 62nd Percentile | 56.18%  |
| 50th Percentile | 34.59%  |
| 38th Percentile | 13.26%  |
| 25th Percentile | -12.58% |

[FY2013 Calculator Details](#)

Step 3: View Calculation Details and TSR Results

FY2013



Calculation as of December 31, 2015  
Details

[Go to Plan Design](#)

| Calculator                       | Result      |
|----------------------------------|-------------|
| Beginning Average Price <i>i</i> | \$10.62     |
| Ending Average Price <i>f</i>    | \$29.61     |
| Dividends <i>d</i>               | \$0.00      |
| TSR                              | 178.82%     |
| Rank                             | #34 of 1649 |
| Percentile                       | 92nd        |
| Payout                           | 175%        |

| Russell 2000    | TSR     |
|-----------------|---------|
| 75th percentile | 83.18%  |
| 62nd percentile | 56.18%  |
| 50th percentile | 34.59%  |
| 38th percentile | 13.26%  |
| 25th percentile | -12.58% |

$$\text{TSR} = 178.82\% = \frac{\$29.61 - \$10.62}{\$10.62}$$

Peer TSRs

Historical TSRs

## Learn More

For additional information about Relative TSR or integrating Radford's PeerTracker with Fidelity NetBenefits, please contact a Fidelity Stock Plan Services Representative at 800-468-5521.

1. Radford research, 2015; and Equilar Equity Trends, 2015.
2. Communicating TSR Plans: Complete Results from Aon's 2015 PeerTracker Survey.
3. Aon Hewitt's 2015 Trends in Global Employee Engagement Study.

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