

# TOTAL SHAREHOLDER RETURN

IN EXECUTIVE  
COMPENSATION

A COMPLETE GUIDE

## 2025

Prepared by  
Michael Ketz CEO, ShareForce



[www.shareforce.net](http://www.shareforce.net)

# INTRODUCTION

## OVERVIEW OF TSR IN EXECUTIVE COMPENSATION

Total Shareholder Return (TSR), a metric that measures the total growth in a company's share price, has garnered widespread attention and adoption within the realm of corporate performance management, driven by an increasing demand from stakeholders for compensation models that not only incentivise immediate success but also ensure sustainable growth and value creation over time, thereby aligning the interests of executives, shareholders, and employees.



### **Michael Ketz** **CEO at ShareForce**

Notably, companies such as Apple, Chevron, Pfizer, Microsoft, Johnson & Johnson, and many other publicly traded companies have incorporated TSR into their executive compensation frameworks, directly tying the payoff of rewards to the company's market performance or that of comparable peers.

Implementing TSR-based incentive plans is a complex task. The dynamic nature of peer groups, the intricacies of plan administration, and the need for clear communication strategies all underscore the intricate balance required to leverage TSR effectively as a tool for executive compensation. Moreover, these TSR plans require sophisticated calculations (such as ranking and percentile ranking) to measure and compare peer performance effectively. These challenges highlight the importance of strategic plan design and the innovative use of technology to ensure the complexities are overcome, ensuring effectiveness, fairness, and transparency.

# OVERVIEW OF TSR IN EXECUTIVE COMPENSATION

As we delve into the role of TSR in executive compensation and the intricacies of its application in long-term incentive plans, this document aims to provide a comprehensive understanding of TSR's strategic importance, the methodologies for measuring and comparing it, the challenges it presents (including administrative complexities), and the perspectives of various stakeholders.

Ultimately, we seek to equip readers with the insights needed to navigate the complexities of TSR-based share incentive plans, enhance stakeholders' understanding of TSR's significance in driving corporate success and guide the effective use of TSR in performance incentive plans.

## TSR SHARE INCENTIVES

1

Are a powerful tool that directly links the reward to the company's market performance or comparable peers' performance.

2

They are used to align a company's aspirations with the expectations of its shareholders.

3

These plans not only foster a culture of accountability and shared success but also have the potential to propel executives and employees towards exemplary performance.



## HISTORICAL CONTEXT AND EVOLUTION

TSR has emerged as a pivotal metric in executive compensation, reflecting a significant shift in how companies evaluate and incentivise their top leadership. This evolution in compensation strategy is deeply rooted in the broader trends of corporate governance and shareholder rights that have unfolded over the past few decades.

In the late 20th century, as markets globalised and shareholder bases expanded, there was a growing demand for transparency and accountability from executives. Initially, executive compensations were largely tied to short-term financial metrics such as quarterly earnings or revenue growth. However, these metrics often encouraged short-term thinking and risk-taking and did not necessarily align executives' actions with long-term shareholder value.

By the 1980s, as corporate scandals and financial market crashes underscored the need for a longer-term view in corporate governance, TSR began to gain traction. TSR offers a comprehensive measure of a company's performance as it includes both share price appreciation and dividends, providing a fuller picture of shareholder returns.



It naturally aligns the interests of executives with those of shareholders by linking compensation to the real, realised returns of the company's share.

Regulatory changes and growing investor activism in the 1990s and early 2000s further fueled the widespread adoption of TSR. Organisations like the Securities and Exchange Commission (SEC) in the United States and the Financial Reporting Council (FRC) in the UK began to advocate for remuneration policies that directly connect pay with performance, further solidifying TSR's role in executive compensation plans.

Moreover, the financial crisis of 2008-2009 was a turning point, leading to an increased scrutiny of executive bonuses and a call for more robust and aligned incentive structures. In response, many companies, including ExxonMobil and General Electric, started integrating TSR into their long-term incentive plans, using it as a primary measure to ensure that executive rewards were closely tied to the creation of genuine shareholder value over time.

## CURRENT TRENDS

Today, TSR is considered a best practice in designing executive compensation, particularly for publicly traded companies. It is viewed as a balanced approach that mitigates risks of rewarding poor performance or purely speculative gains, encouraging executives to focus on sustainable growth and robust corporate health.

*The adoption of TSR as a performance metric has marked a significant shift towards aligning the rewards of top executives with the broader objectives of shareholders and the long-term health of the company.*



# UNDERSTANDING TSR

## TSR CALCULATION

TSR is a metric that quantifies the total returns an investor realises from a company's share on a listed exchange (capital gains or losses), including the effect of dividends paid and capital events (i.e. dividends are reinvested in the share). Defined as the sum of share price appreciation (or depreciation) and dividends, TSR is expressed as a percentage of the initial share price.

This metric serves as a critical indicator of a company's effectiveness in creating shareholder value, offering a clear view of share performance over time or in comparison with peers listed on an exchange.

## THE FORMULA FOR CALCULATING TSR IS AS FOLLOWS:

$$\text{TSR} = \frac{(\text{Ending Share Price} - \text{Beginning Share Price} + \text{Dividends Received}) \times 100}{\text{Beginning Share Price}}$$

### ENDING SHARE PRICE

is the share price at the end of the measurement period.

### BEGINNING SHARE PRICE

is the share price at the start of the measurement period.

### DIVIDENDS RECEIVED

include all dividends paid to shareholders during the measurement period.

# TSR vs SHARE PRICE RETURN

When assessing companies' performance, especially in comparison with their peers, TSR stands out as a more holistic and insightful metric than mere share price return. Here's why TSR is increasingly the go-to metric for those looking to gauge the actual value a company brings to its shareholders:

**01**

## **CAPTURES THE FULL PICTURE WITH DIVIDENDS**

Unlike simple share price return, TSR factors in dividends, a crucial element of total returns, particularly for those investing in high dividend-yielding companies or investors with a keen eye on income generation. Share price return alone might miss out on this vital aspect, potentially skewing the perception of a company's performance.

**02**

## **ADJUSTMENTS FOR CAPITAL CHANGES**

TSR smartly adjusts for capital changes like share splits or special dividends, ensuring comparisons across companies remain equitable and consistent, no matter their individual capital adjustment histories.

**03**

## **A COMPREHENSIVE VIEW OF VALUE CREATION**

By including both dividends and share price appreciation, TSR offers a full spectrum view of how a company creates value for its shareholders. This is particularly important when comparing companies with diverse strategies for value delivery, be it through growth or income.

**04**

## **LEVELS THE PLAYING FIELD**

The inclusion of dividends in TSR allows for a fairer comparison among companies with varying dividend policies. This means a company might show lower share price returns but could be delivering superior value through generous dividend payouts.

**05**

## **LONG TERM PERSPECTIVE**

TSR favours a long-term perspective by rewarding companies that consistently provide value, not just through immediate share price increases but also through sustained dividend payments.

## TSR vs SHARE PRICE RETURN

In essence, using a company's total shareholder return is superior to simply looking at share price changes in evaluating a company's success in enhancing shareholder value. It ensures a comprehensive assessment by accounting for all forms of return, presenting a fuller, more accurate picture of company performance within any given peer group.



### INFOGRAPHIC

**Peer Selection in TSR Plans**  
*Ensuring fair and relevant benchmarking*

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## METHODOLOGIES FOR MEASURING TSR CONDITIONS

Several methods are available for creating and measuring TSR-based performance metrics, each striking a balance between the complexity of implementation and the achievement of objectives.

Generally speaking, TSR performance conditions assess a company's share price (on a total return basis) either on an absolute basis or relative to the performance of a peer group. In this section, we explore four common approaches for evaluating TSR performance.

Each of these methodologies has its advantages or drawbacks, which are explored further below.

# ABSOLUTE TSR TARGET LEVELS METHODOLOGY



## DESCRIPTION

This metric evaluates a company's TSR against predetermined absolute targets that specify exact performance thresholds. While easy to communicate, these targets may not reflect broader market or industry shifts. They require the company to exceed a certain level of total return, meaning merely outperforming poorly performing peers is insufficient. This ensures that investors achieve at least a minimum performance level. For example, the company's TSR must be at least 5% higher per annum for the awards to vest.



## ADVANTAGES

The advantages of this method include its directness and clarity, offering a straightforward way to measure absolute growth and beat targets. This transparency in setting easy-to-understand growth targets provides motivational clarity, which can encourage the development of focused business strategies. By defining explicit performance benchmarks, companies can align their objectives more effectively, ensuring that all efforts are geared towards achieving specific, quantifiable outcomes. This not only simplifies the evaluation process but also motivates teams to aim for these well-defined targets, potentially leading to more deliberate and strategic business decisions.



## LIMITATIONS & DRAWBACKS

The method, while straightforward, has its limitations, particularly in terms of market sensitivity. It is highly susceptible to overall market conditions, which can significantly distort the accuracy of performance measurements. For instance, during industry-wide downturns, even well-managed companies might appear to underperform when judged against absolute targets. This could lead to potentially punitive outcomes, unfairly penalising companies for broader economic factors beyond their control. Such scenarios underscore the need for a more nuanced approach that takes into account the economic

# RELATIVE TSR COMPARISON METHODOLOGY



## DESCRIPTION

This methodology evaluates a company's TSR by comparing it against the TSR of a selected peer group or index, focussing on performance relative to the group's average or a weighted average. The approach focuses on how a company's returns surpass those of its peers, ensuring that incentives are aligned with broader market conditions, including an overall market downturn. Relative TSR conditions can be applied through various methods, including rankings, percentile comparisons, market capitalization-weighted measures, and index rankings, making it an effective method for contextual performance assessment.



## ADVANTAGES

By smoothing out extremes, this method offers equitable assessments even in volatile markets, ensuring that companies are evaluated based on performance relative to their peers rather than isolated outcomes. Additionally, it emphasises consistent performance over time, encouraging companies to maintain steady growth and operational effectiveness compared to their industry counterparts. This approach not only mitigates the impact of market fluctuations but also promotes sustainable business strategies.



## LIMITATIONS & DRAWBACKS

This method may reward underperformance if the whole peer group is underperforming. On the contrary, excellent performance may be muted if all peers are doing well - even exceptional achievements might appear mediocre relative to the standards of the comparison group. Unclear tracking of targets due to complexities can lead to complacency among companies, deterring innovation and aggressive growth strategies.

# TSR RANKING METHODOLOGY



## DESCRIPTION

This methodology ranks companies within a peer group according to their TSR performance over a defined period. It establishes a clear rank order from the highest to the lowest performer based solely on TSR outcomes. This method directly links the level of incentive vesting to these rankings, creating a straightforward and transparent method of evaluating and rewarding company performance.



## ADVANTAGES

By providing a clear and easily understandable hierarchy of performance within a peer group, the ranking system allows stakeholders to see where a company stands relative to its competitors. This transparency simplifies the evaluation process and makes it straightforward for all stakeholders involved. Additionally, creating a direct competitive environment pushes executives to compete actively against their peers, fostering a culture of continuous improvement. The clear targets set by the rank ordering also serve to motivate executives, encouraging them to either improve or maintain their position within the peer group. These features make the TSR Ranking Methodology a powerful tool for enhancing performance through clear and direct incentives.



## LIMITATIONS & DRAWBACKS

The TSR Ranking Methodology, while effective in some respects, also presents several limitations and drawbacks. One significant concern is that it may promote risky business behaviours as executives push to achieve higher rankings, potentially prioritising short-term gains over long-term stability. Additionally, the effectiveness of this method depends heavily on the selection of an appropriate peer group; an ill-suited group can skew results and diminish the fairness of comparisons.

# PERCENTILE AND PERCENTILE RANKING METHODOLOGY



## DESCRIPTION

This methodology evaluates a company's TSR by comparing it with the performance of peers using percentile brackets, such as quartiles. This approach provides a detailed comparison by not only establishing a ranking order but also showing the relative distance between the performances of different companies. This granular insight helps stakeholders understand not just where a company stands but how significantly it differs from others in its peer group.



## ADVANTAGES

This method offers foster competitive benchmarking by encouraging companies to surpass a significant portion of their peers, driving them towards higher performance levels. This methodology is less affected by market volatility because it focuses on relative rather than absolute performance, providing a more stable basis for comparison. Giving a detailed view of a company's position within the distribution of peer performances. This reveals rankings and the relative gaps between the companies' performance, offering deeper insights. Furthermore, this method is particularly effective in differentiating between companies with closely ranked performances, allowing for a more refined analysis of their competitive positioning.



## LIMITATIONS & DRAWBACKS

The Percentile and Percentile Ranking Methodology, while providing detailed insights, also comes with notable limitations and drawbacks. One significant challenge is its complexity; both implementing and understanding this approach can be intricate due to the need for detailed peer performance analysis. The nuanced nature of percentile rankings may make them more difficult for executives and shareholders to interpret compared to more straightforward ranking methods. Additionally, this methodology may inadvertently promote a short-term focus as companies strive to outperform peers in the immediate future, potentially at the expense of long-term value creation. Moreover, the effectiveness of percentile rankings relies heavily on the availability of precise data on TSR performance and the analytical capabilities needed to assign companies to their respective percentiles accurately. These requirements can pose substantial challenges, especially for organisations lacking robust data processing and analysis resources.

## SUMMARY TABLE



These widely used TSR methodologies offer a wealth of benefits when it comes to measuring company performance for share incentives. Particularly, when performance is gauged in relation to a peer group, these methodologies provide a comprehensive and insightful view. By strategically selecting a peer group based on industry, size, market cap, and operational similarities, companies can ensure that TSR comparisons are not only fair but also strategically informative, empowering them with the knowledge they need to make informed decisions.

	ADVANTAGES	LIMITATIONS
<b>Absolute TSR Target Levels</b>	<ul style="list-style-type: none"> <li>• Straightforward measurement of absolute growth and targets.</li> <li>• Provides motivational clarity.</li> <li>• Aligns company objectives towards quantifiable outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• Highly sensitive to market conditions.</li> <li>• Can unfairly penalise companies during industry-wide downturns.</li> </ul>
<b>Relative TSR Comparison</b>	<ul style="list-style-type: none"> <li>• Equitable assessment in volatile markets (less sensitive to market fluctuations).</li> <li>• Promotes consistent performance over time</li> </ul>	<ul style="list-style-type: none"> <li>• May reward underperformance.</li> <li>• Mutes exceptional performance if all peers are doing well.</li> <li>• Complexity in tracking targets.</li> </ul>
<b>TSR Ranking</b>	<ul style="list-style-type: none"> <li>• A clear hierarchy of performance.</li> <li>• Enhanced transparency in evaluation.</li> <li>• Fosters a direct competitive environment.</li> </ul>	<ul style="list-style-type: none"> <li>• A clear hierarchy of performance.</li> <li>• Enhanced transparency in evaluation.</li> <li>• Fosters a direct competitive environment.</li> </ul>
<b>Percentile and Percentile Ranking</b>	<ul style="list-style-type: none"> <li>• Less affected by market volatility, focusing on relative performance.</li> <li>• Detailed insights into company positioning within peer performance distribution.</li> <li>• Differentiates closely ranked companies.</li> <li>• Encourages competitive benchmarking.</li> </ul>	<ul style="list-style-type: none"> <li>• Complex to implement and understand.</li> <li>• Difficult for executives to interpret.</li> <li>• May promote short-term strategies at the expense of long-term value creation.</li> <li>• Requires precise data and sophisticated analytical capabilities.</li> </ul>

## EXAMPLES OF METHODOLOGIES EMPLOYED BY WELL-KNOWN COMPANIES

Public companies are generally required to disclose their financial statements and remuneration reports, which include detailed explanations of executive compensation structures, such as share plans and the criteria for their vesting.

These disclosures are mandated to ensure transparency and accountability to shareholders and the broader market. As a result, the mechanisms and metrics used to measure the vesting of executive incentives are typically outlined in these publicly available documents.

This makes it relatively straightforward for investors, analysts, and other stakeholders to access and understand how executive compensation aligns with company performance. Such transparency is not only a regulatory requirement but also a critical aspect of corporate governance, allowing stakeholders to evaluate the effectiveness of compensation policies in driving the company's strategic objectives and long-term shareholder value.



Pfizer's performance conditions for executive compensation include a relative TSR condition, measured against the NYSE Pharmaceutical Index over a three-year period. The vesting structure allows for a maximum payout of 200% of the target, but this is capped at the target level if Pfizer's TSR is negative for the performance period. Pfizer's peer group, comprising major global pharmaceutical and biotech companies, was likely selected for industry-specific performance comparisons that smooth out short-term fluctuations and focus on long-term value creation.

Chevron's TSR condition for its Long-Term Incentive Plan involves comparing its TSR against a peer group that includes major energy competitors such as BP, ExxonMobil, Shell, Total Energies, and the S&P 500 Total Return Index. This incentive plan, which may lead to cash payouts, is primarily based on Chevron's relative TSR measured over a 3-year performance period. The payout of the incentive award is determined by Chevron's ranking within this peer group based on each peer's TSR performance.



Apple implemented a relative TSR percentile condition as part of its executive compensation for certain executives. Under its performance-based share incentive plan, the vesting of shares is determined by comparing Apple's performance against other S&P 500 companies over a predefined performance period. The vesting percentage is based on Apple's percentile ranking within this group, aligning executive rewards directly with the company's market performance relative to its peers.

# EXAMPLES OF APPLICATIONS

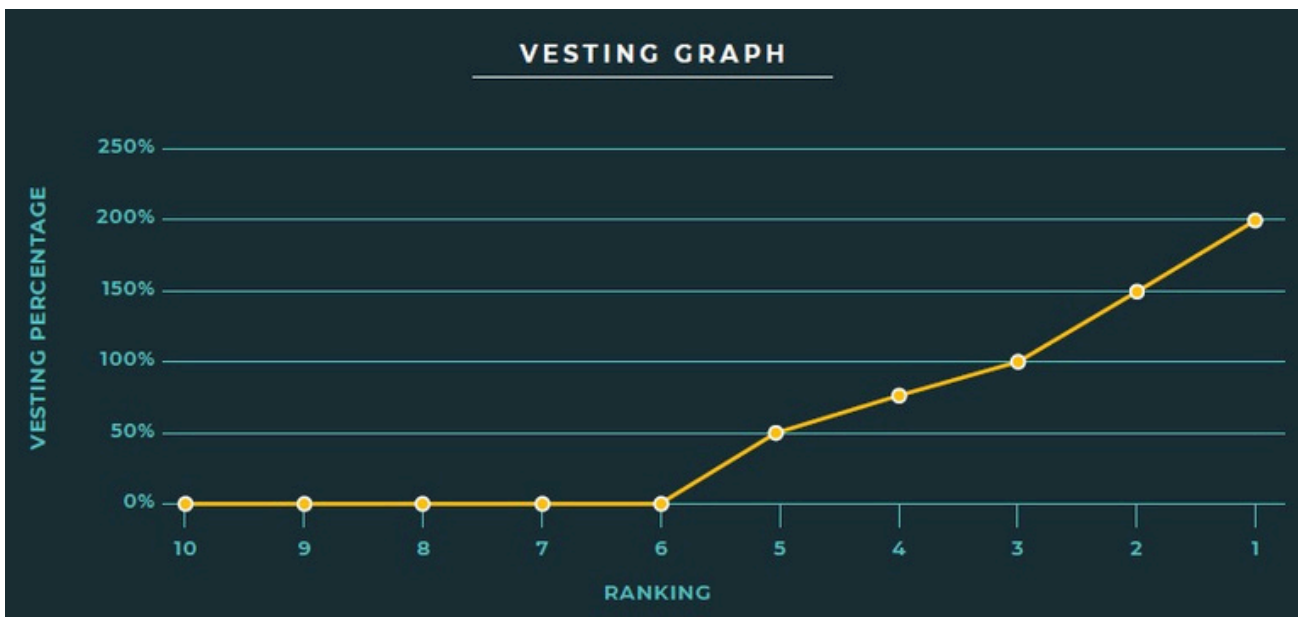
Below are two further examples illustrating how information on two publicly traded companies is depicted in their financial statements available on their respective websites, particularly focusing on their TSR conditions. This information is converted into clear graphical vesting charts, which are then used to consistently track performance until the awards fully vest.

## 1. TSR RANKING **A large, listed chemical manufacturing company based in the Netherlands describes its TSR ranking condition in its financial statements as follows:**

*“Relative TSR is considered a key financial measure to incentivize and reward long-term shareholder value delivery in excess of that achieved by comparable organizations. Relative TSR is a forward-looking measure and is aligned with the long-term sustainability of the company. It encourages the alignment of interests between our Executive Directors and our shareholders, taking into account the cyclical factors that impact our business. Relative TSR has been selected as a stable performance measure for our Executive Directors’ long-term incentive programs for many years. The relative TSR ranking against the selected peer group of 9 international fertilizer/ chemicals/gas companies will determine the vesting result of the 2023 ED PSUs:”*

1st position = 200%  
3rd position = 100%  
5th position (median) = 50%  
below median zero vesting

The peer group for the 2023 ED PSU has remained unchanged from the peer group in the 2021 PSU.



# EXAMPLES OF APPLICATIONS

## 2. TSR PERCENTILE

A large energy company listed on the Australian Stock Exchange describes its TSR condition in its financial statements as follows:

*"The LTIP consists of two equally weighted measures: 1. the absolute TSR and 2. the relative TSR of the Company against a comparative group of Australian resources companies.*

*The FY23 relative TSR comparative group consists of 19 ASX listed entities...*

*The composition of the group reflects the Company's entrance into production phase and market capitalisation. The group will be reviewed for relevance and amended annually as appropriate."*

MEASURE	WEIGHTING	DEFINITION	HURDLES	VESTING %
Absolute TSR	50%	The Company's absolute TSR calculated as the vesting date.	<ul style="list-style-type: none"> <li>Below 10% p.a.</li> <li>10% to &lt;15% p.a.</li> <li>15% to &lt;20% p.a.</li> <li>20% to &lt;25% p.a.</li> <li>Above 25% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>0%</li> <li>25%</li> <li>50%</li> <li>75%</li> <li>100%</li> </ul>
Relative TSR	50%	The Company achieves a TSR relative to a comparator group of companies over a three-year performance period.	<ul style="list-style-type: none"> <li>Below 60th percentile</li> <li>60th percentile</li> <li>61st to 75th percentile</li> <li>&gt;76th percentile +</li> </ul>	<ul style="list-style-type: none"> <li>0%</li> <li>60%</li> <li>61% - 99%</li> <li>100%</li> </ul>



# STRATEGIC IMPORTANCE OF TSR

By including both share price appreciation and dividends, TSR shifts the focus of executives from short-term financial metrics to long-term value creation. Additionally, incentives linked to TSR motivate executives and employees to adopt strategies that boost the company's market valuation and dividend yield. This direct linkage between executive compensation and shareholder returns ensures that executive decisions are consistently oriented towards enhancing shareholder value.

Incorporating TSR into executive compensation strategies has been a transformative development in corporate governance. Driven by investor demands for greater transparency and accountability and reinforced by regulatory backing for performance-linked pay practices, TSR incentives have become essential in remuneration structures as a way to closely align executive pay with shareholder value. Particularly prominent among S&P 500 and FTSE 250 companies, it's estimated that half of these companies utilise TSR in their incentive plans, and this metric has proven effective across diverse sectors, from Energy and Utilities companies to REITs. The broad adoption of TSR highlights its crucial role in promoting a way to incentivise executives based on their relative or absolute total shareholder performance. The strategic relevance of TSR performance plans is explored further below.

## LONG-TERM VALUE VS SHORT-TERM FOCUS

The strategic implementation of TSR metrics in executive incentive plans serves as a highly effective mechanism for ensuring that executive actions align with the long-term interests of shareholders, contributing to the sustainable growth and enduring success of the company.

Focusing solely on short-term performance can have detrimental effects, as demonstrated by New Century Financial and Countrywide Financial during the financial crisis. These firms prioritised rapid growth through high-volume mortgage sales without adequate quality control, leading to their ultimate downfall when market conditions shifted. Furthermore, evidence suggests that companies with a short-term focus tend to attract similar investors, perpetuating a cycle of volatility and increased financial risks.

Unlike short-term mechanisms to motivate staff, TSR performance conditions encourage a balanced, long-term strategy that considers both capital growth and dividend payouts, promoting a more equitable and performance-oriented compensation model and supporting sustained shareholder value creation.

## FOSTERING COMPETITIVE PERFORMANCE

Beyond motivating individual performance, TSR's role extends to cultivating a competitive culture. By systematically benchmarking executive compensation and overall company performance against industry peer groups, TSR ensures that both individual and corporate achievements align with the highest industry standards. This benchmarking not only highlights performance gaps but also sets a benchmark for operational excellence and strategic leadership within the sector.

By comparing a company's TSR with that of its peers, the targets are naturally calibrated to market realities, pushing the organisation to strive not just for improvement but for industry leadership. Performance goals are not insulated from external market conditions but rather interconnected with the dynamics of the broader industry.

The use of TSR as a benchmark motivates executives to transcend typical internal goals and rival the performance of peers, embedding a culture where market leadership and continuous operational improvement are standard. This environment is conducive to innovation as it rewards executives for surpassing standard expectations and encourages them to implement creative strategies and solutions that foster long-term success.

### PROVIDING OBJECTIVE PERFORMANCE MEASUREMENT

One of TSR's strengths is its ability to offer an objective and transparent measure of company performance. By providing an unbiased yardstick for evaluation, TSR aligns performance benchmarks adjust for

compensation with actual market performance, which is crucial for maintaining transparency and fairness in executive remuneration. This objective measurement helps eliminate potential biases and ambiguities that can arise from more subjective assessment methods, ensuring that executive rewards truly reflect their contribution to company success.

### INTEGRATING TSR WITH OTHER PERFORMANCE METRICS

While TSR is a powerful metric for measuring shareholder value creation, it is most effective when used as part of a broader set of performance measures within share incentive plans.

Performance conditions that are not tied to the share price (referred to as non-market conditions or internal targets), such as financial and operational metrics, are designed to incentivise financial and operational performance, while TSR market variability to encourage out performance. By incorporating the right mix of non-market financial and operational metrics, such as EBITDA growth, revenue targets, and operational milestones, alongside TSR conditions, companies can provide a balanced view of performance, promoting both immediate results and sustainable growth, which ultimately benefits shareholders.

Additionally, by recognising the inherent limitations of each type of TSR metric, companies can adopt a nuanced approach within their Long-Term Incentive Plans. They can integrate various TSR and internal conditions and assign different weightings to each to effectively balance their strengths and weaknesses, helping to mitigate the impact of market volatility and keep incentives aligned with the company's actual operations.



## STRATEGIC IMPORTANCE OF TSR

*Read how incentive plans play a role in motivating employees.*

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The strategic blend of conditions allows for a focus on maintaining market competitiveness while also striving for absolute performance, fostering a well-rounded approach to business growth, and ensuring incentives reflect both market value and operational excellence.

## DESIGNING PRINCIPLES FOR TSR PLANS

Effective TSR-based incentive plans are founded on a bedrock of crucial design principles that ensure these plans are fair and objective. The following core principles should be considered when designing and implementing a TSR Plan to ensure there is an alignment between executive and employee efforts and shareholder value creation:



### TRANSPARENCY

A clear view of the TSR performance conditions, how they are measured, and the periods they cover is essential in ensuring stakeholders, including participants, fully understand the plan and its objectives.



### STRATEGIC ALIGNMENT

TSR-based plans should closely align the employee's incentive with the company's long-term objectives and shareholder interests to foster sustainable growth and value creation.



### BENCHMARKING AND ACHIEVABILITY:

The TSR plan includes setting challenging yet achievable targets that are benchmarked against appropriate industry peers, ensuring that the performance metrics are competitive and relevant.



### FAIRNESS AND BALANCED METRICS:

The plan must incorporate a range of fair and objective metrics. TSR metrics are only one market component, but other financial, operational, and strategic goals can balance long-term objectives and support value creation.

# DESIGNING PRINCIPLES FOR TSR PLANS



## FLEXIBILITY AND COMPLIANCE

A TSR plan should be adaptable to changing business and market conditions while strictly adhering to legal and regulatory frameworks to avoid compliance issues.



## APPROPRIATE INCENTIVISATION:

Incentives within the TSR plan should be strong enough to motivate desired behaviours but capped to prevent excessive risk-taking. The appropriate levels of vesting should be included, and potentially even stretch targets for outperformance with no reward for underperformance.



## LONG-TERM FOCUS AND PARTICIPANT ENGAGEMENT:

TSR plans should maintain a long-term performance focus in which participants are actively engaged with regular updates and educational content on their incentive outcomes.

In benchmarking TSR performance, selecting an appropriate peer group is critical for ensuring that TSR comparisons are fair, relevant, and actionable.

### Essential criteria for peer selection include:



#### INDUSTRY

Companies should be grouped with peers in the same industry or sector to ensure that the comparisons account for industry-specific opportunities and challenges.

#### SIZE

Similar company sizes, in terms of revenue, market capitalisation, or employee count, help ensure that performance comparisons are between entities operating at comparable scales.



#### MARKET CAPITALISATION

Matching companies by market capitalisation can align peers more closely, reflecting similar investor expectations and market perceptions.

#### OPERATIONAL SIMILARITIES

Companies with similar business models, geographic footprints, or customer bases can provide more meaningful comparisons as they face comparable operational challenges and opportunities.





# THE CHALLENGES THAT COME WITH TSR CONDITIONS

## TSR IMPLEMENTATION CHALLENGES

While strategically advantageous, implementing TSR-based incentive plans comes with its set of challenges ranging from the constitution of peer groups to the complexities inherent in administering such plans and ensuring comprehensive transparency for stakeholders and participants alike.

Understanding the challenges is the first step toward effective management and optimisation of TSR-based incentive schemes.



While the challenges are significant, proven solutions and best practices can help navigate the complexities of implementing TSR-based incentive plans effectively. Technology plays a crucial role in overcoming the administrative challenges of TSR-based plans. Automated solutions can handle the complex calculations required for tracking TSR, facilitate changing peer groups, and streamline data management.

**Michael Ketz, CEO, ShareForce**

COMPLEXITY	CHALLENGE	SOLUTION
<p><b>CHANGING PEER GROUPS</b></p>	<p>The competitive landscape in which companies operate is continually evolving. Mergers, acquisitions, bankruptcies, and market shifts can dramatically alter the composition and relevance of a peer group over time, potentially impacting the fairness and accuracy of TSR comparisons.</p>	<p>It is essential to review and update the composition of peer groups regularly. Incorporating flexibility in the incentive plan design and rules to adjust for significant market changes ensures that the peer group remains relevant and reflective of the current market landscape.</p>
<p><b>ADMINISTRATIVE COMPLEXITIES</b></p>	<p>Calculating, tracking, and managing TSR data is complex, requiring access to accurate and current market data, dividend records, and historical share prices. Additionally, communicating these details in an understandable way to plan participants adds another layer of administrative burden.</p>	<p>Leveraging automation and specialised software can significantly reduce the administrative load. Automated systems streamline the process of calculating TSR, tracking performance against peers, and generating reports, making the process more efficient and reducing the likelihood of errors.</p>
<p><b>TRANSPARENCY ISSUES</b></p>	<p>For TSR-based plans to be effective, it's crucial that all participants understand how TSR is measured, how it influences their incentives, and how their actions contribute to improving TSR. Without clear communication, there may be a disconnect between the incentive plan's intent and participants' perceptions.</p>	<p>Implementing robust communication strategies, including regular updates, detailed explanations of TSR calculations, and a system that provides live tracking capabilities and graphical representations, can enhance transparency. Clear communication ensures that participants are informed and engaged.</p>

COMPLEXITY	CHALLENGE
<p><b>MEASUREMENT COMPLEXITIES</b></p>	<p>Although TSR is a comprehensive metric, its calculation involves various complexities that make measurement challenging:</p> <p><b>Measurement periods:</b> Accurate measurement requires consistent start and end dates (performance measurement periods) for tracking share price changes and dividend payments.</p> <p><b>Dividends:</b> Reinvested dividends need to be precisely accounted for using the actual dates and yields.</p> <p><b>Corporation Actions:</b> Adjustments for share splits and mergers are crucial as these events affect the share price and the number of shares issued.</p> <p><b>Currencies:</b> For shares listed in multiple currencies, accurate currency conversions are essential.</p> <p><b>Negative Returns:</b> Including negative returns is also vital for an accurate analysis.</p> <p><b>Return Calculation:</b> It is necessary to distinguish between cumulative TSR over the entire period and annualised returns, as they use different calculation formulas. TSR specifically uses the geometric mean to factor in the compounding effects of returns, contrasting with the arithmetic mean used in other metrics.</p> <p><b>Benchmark:</b> It is critical to choose an appropriate benchmark for comparison, and using an incorrect benchmark can lead to misleading conclusions.</p>
	<p style="text-align: center;"><b>SOLUTION</b></p> <p>To overcome these challenges, plan administrators should seek guidance from financial professionals who can provide expertise in complex TSR calculations. Additionally, employing robust financial software can significantly enhance accuracy and efficiency in computations. These tools are designed to handle intricacies such as dividend reinvestment, share event adjustments, and currency conversions. By leveraging professional advice and specialised technology, administrators can ensure that their TSR calculations are reliable.</p>



## MANAGING PEERS THAT DELIST

While strategically advantageous, implementing TSR-based incentive plans comes with its set of challenges ranging from the constitution of peer groups to the complexities inherent in administering such plans and ensuring comprehensive transparency for stakeholders and participants alike.

Addressing these delistings demands transparency and thorough communication with stakeholders to ensure that all involved parties grasp the ramifications of these changes on the company's relative performance.

It's crucial for share plan terms to incorporate provisions for the possibility of delistings to prepare for and mitigate their impacts effectively. Below are some established practices for managing delisted peers within TSR conditions aimed at keeping performance metrics fair and relevant despite market volatility and unpredictability.



### **DISCRETIONARY MEASURES:**

The Remuneration Committee or a designated representative of the Board often has the discretion to decide how to address the delisting of peers (if provided for in the terms). This flexibility allows for tailored responses that suit the specific circumstances surrounding each delisting event.



### **EXCLUSION FROM PEER GROUP:**

When companies are delisted from the exchange, one of the most common treatments is to exclude them from the peer group used in performance evaluations.



### **ASSUMPTION OF WORST PERFORMANCE:**

An involuntary delisting is often a sign of poor financial health, mismanagement or inability to meet the listing requirements. Under this treatment, the peer is treated as having the worst performance in the peer group and is relegated to the bottom of the peer group ranking table (commonly applied with ranking measurements). This approach is similar to how companies might treat entities that enter bankruptcy. This, however, is not always true, as some companies might choose to delist for strategic reasons, such as becoming privately traded following a sale, in which case a partial measurement up to the delisting date may be more suitable.



### **PERFORMANCE MEASUREMENT UNTIL DELISTING DATE:**

Another method measures the delisted peer's performance from the start of the performance period to the date of delisting, but still remaining part of the peer group. This treatment assumes that the performance of the delisted peer, regardless of the reason for delisting, is adequately reflected by its performance from the performance start date to the delisting date. Although this approach may cater for various types of delistings, including privatisation, this method might not entirely reflect accurate market volatility or performance of the delisted entity due to the truncated performance period.



### **RESERVE LIST METHOD:**

Companies can prepare for the possibility of delistings by maintaining a reserve list of peers. If a peer is delisted, it can be replaced by another from this pre-specified list, helping maintain the integrity and comparability of the performance evaluation.

# MEASURING AND REPORTING TSR SHARE-BASED PLANS

Financial reporting standards, such as the International Financial Reporting Standards (IFRS) and the Generally Accepted Accounting Principles (GAAP), play a pivotal role in governing how companies account for and value share plans that include TSR conditions and dictate how TSR-based share plans are valued, recognised, and disclosed.

Specifically, IFRS 2 and ASC 718 govern share-based payments, ensuring that the financial implications of such plans are transparent, consistent, and reflective of the company's economic realities. They help maintain market integrity and enhance the credibility of financial reporting, which is vital for maintaining investor confidence and market stability.

We examine some key aspects of how these standards influence the management of TSR-based share plans.



## READ OUR BLOG

**HOW TO MAKE COMPLYING  
WITH IFRS 2 EASIER FOR SHARE-  
BASED PAYMENTS**

## READ OUR BLOG

**SHARE-BASED PAYMENTS:  
IFRS VS GAAP COMPARISON**

# MEASUREMENT AND RECOGNITION OF EXPENSES

## FAIR VALUE AT GRANT DATE

Both IFRS and GAAP require that share-based payments, including those with TSR conditions, be measured at fair value at the time of the grant. This initial valuation sets the basis for how the expense related to the share-based payment is recognised over time.

## EXPENSE RECOGNITION

The total fair value of the equity instruments granted is recognised as an expense over the vesting period. This recognition is aligned with the service period during which employees earn these incentive awards, ensuring that the cost recorded in the financial statements matches the economic benefits derived by the company over time.

## MARKET CONDITIONS

TSR conditions are classified as market conditions as their value is tied to the company's share price. Financial reporting standards stipulate that these conditions should be included in the calculation of the fair value of equity instruments at the grant date. TSR conditions influence the number of equity instruments expected to vest, which impacts the expense recognised. Under these standards, the fair value of TSR-based awards is not adjusted post-grant for actual outcomes. This approach helps mitigate volatility in financial reports caused by fluctuations in market conditions, leading to more consistent and predictable financial statements.

## VALUATION TECHNIQUE

Financial reporting standards require the use of appropriate valuation techniques that reflect all factors and assumptions that knowledgeable, willing market participants would consider. For TSR conditions, this often involves complex models like the Monte Carlo simulation, which can estimate the likelihood of achieving specified market conditions and thereby determine the fair value of the awards. Such models ensure that all entities report under comparable conditions, enhancing the transparency and reliability of financial statements.

## DISCLOSURE REQUIREMENTS

Under financial reporting standards, entities must disclose comprehensive details that can influence investor and stakeholder decisions about their share-based payment arrangements, including the nature and terms of such arrangements, how their fair values were determined, and the impact of these arrangements on the financial statements. This requirement helps stakeholders understand the true economic cost of share-based payments and the extent to which TSR conditions might affect the company's financial outcomes.

# FAIR VALUE MEASUREMENT USING MONTE CARLO

Due to several unique attributes of this type of performance condition, the Monte Carlo simulation model is particularly useful for accurately modelling TSR market conditions in share plans. The model can simulate a wide range of scenarios using complex, stochastic processes that accurately model TSR conditions in share-based payment plans. This model enhances the reliability and accuracy of financial reporting, helping companies manage their compensation strategies effectively while ensuring compliance with accounting standards.

## HERE'S WHY A MONTE CARLO MODEL IS NECESSARY:



### CAPTURING RANDOMNESS AND VOLATILITY

TSR conditions inherently involve elements of randomness and market volatility. The Monte Carlo simulation is designed to handle such complexities by using random sampling to simulate multiple possible future outcomes of share prices (for both the company and peer group) based on historical volatility and other market parameters.



### PATH DEPENDENCY

The value of TSR-based awards and their likelihood of vesting depend on the path that the share price and its peers' share prices take over the vesting period, not just the beginning and end values. The Monte Carlo model can simulate various correlated paths the share prices might take, considering continuous market changes and their cumulative effects.



### HANDLING DIVERSE VARIABLES

Various factors, including share price changes, dividend reinvestments, share splits, and market conditions, influence TSR. The Monte Carlo model can integrate all these variables into its simulations, providing a comprehensive analysis that reflects the intricate dynamics of financial markets.



### ESTIMATING VESTING PROBABILITIES

A key advantage of using the Monte Carlo simulation is its ability to estimate the probability of various outcomes, such as achieving specified TSR thresholds that determine vesting levels. This probability-based approach is crucial for valuing TSR-based awards accurately under financial reporting standards and estimating the probability of vesting.



## ALIGNMENT WITH FINANCIAL REPORTING STANDARDS

Financial reporting standards require that valuation techniques for share-based payments, including those with market conditions like TSR, be consistent with generally accepted valuation principles. The Monte Carlo simulation is widely recognised and accepted for its robustness and precision in financial modelling, making it a preferred method in compliance with these standards.



## STRATEGIC DECISION-MAKING

By providing estimates about possible future vesting outcomes, the Monte Carlo simulation enables strategic decision-making regarding the design and implementation of TSR-based compensation plans.

## SHORTCOMINGS OF OTHER MODELS FOR TSR PLANS

The Black-Scholes and Binomial models, while foundational in the realm of financial derivatives pricing, are not sufficiently equipped to handle the intricacies of TSR conditions due to their underlying assumptions and methodological constraints. Both models were originally designed for simpler financial instruments like European or American options, which do not account for path-dependent features typical of TSR plans.

The Black-Scholes model's continuous-time framework and the Binomial model's discrete-time setting do not easily adapt to the dynamic and often non-linear, path-dependent influences seen in TSR valuations.

Both models lack the flexibility needed to effectively incorporate the multifaceted elements of TSR plans, such as peer correlations, which can significantly affect their valuation. As a result, more robust and adaptable modelling techniques, such as Monte Carlo, are required to capture the full spectrum of factors impacting TSR-based compensation plans.



## READ OUR BLOG

### VALUING COMPLEX SHARE INCENTIVES USING THE MONTE CARLO METHOD

# CASE STUDIES

This section delves into a series of case studies that explore the practical application and nuanced outcomes of TSR within long-term incentive plans across different industries. Through the experiences of companies across various sectors, we uncover how TSR metrics are integrated into executive compensation structures, the challenges these industries face, and the strategic lessons learned. These real-world examples provide insights into the effectiveness of TSR as a tool for aligning executive actions with shareholder interests, highlighting both the successes and the complexities encountered in different market environments.



**Company:**  
Procter & Gamble Co. (P&G)  
**Location:**  
Cincinnati, Ohio, USA



**Company:**  
Huawei Technologies Co., Ltd.  
**Location:**  
Shenzhen, China



**Company:**  
Novo Nordisk A/S  
**Location:**  
Bagsvaerd, Denmark



## READ OUR BLOG

TOTAL SHAREHOLDER  
RETURN: A COMMON  
PERFORMANCE METRIC  
FOR SHARE INCENTIVES



# Procter & Gamble Co. (P&G)

Cincinnati, Ohio, USA



P&G incorporated TSR into its executive compensation strategy in 2014 as part of a broader initiative to enhance accountability and align executive incentives with shareholder returns. The plan assesses both absolute TSR and relative TSR against a peer group of leading consumer goods companies globally.

## OUTCOMES

### CHALLENGES

Managing the balance between short-term operational targets and long-term TSR goals posed challenges, particularly in a competitive and rapidly evolving consumer goods market. External factors such as economic fluctuations and consumer trends also impacted TSR, requiring ongoing adjustments to the strategy.

### POSITIVE

Since implementing TSR, P&G has seen a marked improvement in market performance and shareholder value. The company reported a significant rise in its share price, coupled with steady growth in dividend payouts, reflecting a direct correlation between executive performance and enhanced shareholder wealth.

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### LESSONS LEARNED

This case underscores the necessity of maintaining flexibility in TSR implementation, allowing for adjustments in response to market conditions and operational realities. P&G's experience highlights the importance of transparent communication with shareholders about the goals and mechanisms of TSR plans to ensure continued investor support and understanding.



# Huawei Technologies Co., Ltd.

## Shenzhen, China



Huawei integrated TSR into its long-term incentive plan in 2013, focusing on aligning its employees' interests with long-term shareholder and company growth. The plan emphasises both absolute TSR and relative TSR compared to leading global technology firms.

## OUTCOMES

### CHALLENGES

Navigating the complexities of international markets and varying regulations proved challenging, particularly with U.S. sanctions impacting the company's TSR.

### POSITIVE

Since the implementation, Huawei has observed a significant enhancement in innovation and international market expansion, contributing to a compound annual growth rate (CAGR) in revenue of approximately 20% from 2013 to 2018.

### LESSONS LEARNED

This case underlines the necessity of adapting TSR metrics to consider geopolitical and economic factors that might affect multinational companies operating in high-stakes industries.



In 2016, Novo Nordisk adopted a TSR-based compensation plan as part of its strategy to enhance alignment between executives' actions and long-term investments in drug development and market expansion strategies. The TSR was calculated relative to a European pharmaceutical index.

## OUTCOMES

### CHALLENGES

The long-term nature of pharmaceutical R&D posed difficulties in demonstrating short-term TSR gains, occasionally leading to tensions with short-term investors.

### POSITIVE

Focusing on TSR has encouraged sustained investment in R&D and innovative diabetes treatments, leading to significant advancements in drug effectiveness and patient outreach, ultimately enhancing the company's market share and TSR.

### LESSONS LEARNED

The case emphasises the importance of balancing TSR measurements with realistic expectations for R&D cycles in the pharmaceutical industry and communicating these plans effectively to investors to maintain support for long-term strategies.

# GENERAL OBSERVATIONS FROM CASE STUDIES

The case studies presented reveal several key themes that underscore the complexity and efficacy of implementing TSR in executive compensation plans.

One significant insight is the importance of industry-specific considerations; each sector presents unique factors that can influence the suitability and effectiveness of TSR-based plans.

Additionally, the process of benchmarking and peer selection is critical, as choosing the right benchmarks is essential for ensuring that TSR calculations are both fair and motivating.



**Lastly, these case studies demonstrate that TSR plans, when thoughtfully implemented, are capable of aligning executives' motivations with the long-term interests of shareholders.**

However, achieving this alignment necessitates meticulous planning to address the specific cycles and challenges inherent to each industry, ensuring that the strategic goals of the company are met effectively.



# STAKEHOLDER PERSPECTIVES

TSR incentive plans are designed to align the interests of executives, shareholders, and employees with the long-term success of the company. However, each group of stakeholders has its unique perspective and concerns regarding the implementation and effectiveness of TSR plans. Understanding these viewpoints is crucial for designing TSR plans.

## EXECUTIVE VIEWPOINT

From an executive viewpoint, TSR plans are often seen as an effective mechanism for aligning leadership activities with the overarching aim of enhancing long-term shareholder value. These incentive structures are particularly valued for their potential to motivate top-level management to make choices that improve the company's share performance and, consequently, its market valuation. By tying a significant portion of executive compensation to the performance of the company's shares relative to industry peers and market indices, TSR plans ensure that executives have a vested interest in the company's success, fostering a culture of accountability and long-term strategic thinking.

However, there are notable concerns regarding the fairness and efficacy of TSR plans. One major issue is the influence of external factors—such as market volatility—that lie beyond an executive's control. These elements can significantly distort the reflection of an executive's performance in TSR outcomes, leading to potential discontent among leaders who feel their efforts are not justly recognised. Furthermore, the broader market trends can unduly impact TSR, making it a less reliable measure of an executive's strategic decisions or operational effectiveness. Such concerns highlight the need for careful design and implementation of TSR plans to ensure they fairly and accurately reflect executive performance, balancing motivation with reasonable assessment of uncontrollable market forces.





## SHAREHOLDER VIEWPOINT

Shareholders typically view TSR plans favourably, as these plans are designed to directly enhance shareholder value. By linking executive compensation to the performance of the company's shares, including dividends, TSR plans effectively ensure that the interests of executives are closely aligned with those of the shareholders. This alignment is seen as crucial for motivating top executives to prioritise actions that boost the company's market valuation and, consequently, benefit the shareholders. As such, TSR plans are widely supported within the shareholder community as they provide a clear and direct incentive for executives to drive the company's financial success.

Nevertheless, shareholders often have specific expectations and requirements for the structure and execution of TSR plans. A key expectation is the need for clear and transparent target setting within the plans. Shareholders are particularly keen on ensuring that the targets are both ambitious enough to promote substantial growth and realistic enough to be achievable under normal market conditions. Additionally, the transparency of TSR plans is of utmost importance. Shareholders demand thorough disclosure regarding how peer companies are chosen for comparison and the exact metrics used to measure performance. Such transparency is vital for building shareholder trust and confidence in the fairness and rigour of the plans, reinforcing their overall efficacy in aligning executive actions with shareholder interests.



## READ OUR BLOG

ELEVATING CORPORATE  
PERFORMANCE WITH TOTAL  
SHAREHOLDER RETURN (TSR)



## EMPLOYEE VIEWPOINT

For non-executive employees, TSR incentive plans may seem more abstract compared to direct performance incentives that clearly delineate rewards for specific achievements. Despite this, these employees must grasp how their individual roles and contributions influence the company's TSR and, subsequently, how this affects their personal rewards. Understanding this connection is vital for maintaining their motivation and engagement. When employees see how their daily tasks and long-term projects help enhance the company's share performance and overall market valuation, it not only clarifies their contribution but also fosters a deeper sense of purpose and alignment with the company's goals.

Communication and clarity are, therefore, essential components in leveraging TSR plans for broader employee engagement. Employees need straightforward and frequent updates on how their work directly affects the company's TSR and, by extension, its financial health and sustainability. Moreover, it is equally important for them to understand how improvements in TSR translate into tangible benefits for them. This clarity can significantly boost their sense of involvement and investment in the company's financial achievements. By ensuring that non-executive employees are well-informed about these aspects, companies can enhance workforce motivation and encourage more committed participation in initiatives that drive shareholder value, creating a cohesive and aligned organisation.

# OUTLOOK ON TSR



## INCREASED TRANSPARENCY

TSR is likely to continue evolving, particularly as companies and regulatory bodies respond to the changing financial landscape and the increasing demand for transparency and accountability in executive compensation. Therefore, one should expect further regulatory requirements around the disclosure of TSR calculation methodologies and outcomes. This could include more detailed reporting on peer group selection and the rationale behind specific TSR targets.



## INTEGRATION WITH ESG GOALS

With the rising importance of Environmental, Social, and Governance (ESG) factors, TSR might be increasingly combined with sustainability targets. This would not only cater to the growing demand for responsible investing but also align executive compensation with broader societal goals.



## BROADER ADOPTION ACROSS GEOGRAPHIES

As global markets become more integrated, companies in emerging markets may increasingly adopt TSR-based compensation strategies to attract international investors and align with global best practices.



## TECHNOLOGICAL ADVANCEMENTS IN DATA ANALYSIS

The use of advanced software solutions, such as ShareForce.net, could enhance the precision of TSR calculations and the fairness of comparisons by allowing more sophisticated modelling of potential future scenarios and peer group dynamics.

## REGULATORY CHANGES

Upcoming regulatory changes, particularly in major markets like the EU and the US, may redefine what constitutes acceptable practices in executive compensation. For instance, there could be caps on executive pay linked to TSR or mandatory clawback provisions if later restatements of earnings impact previously calculated TSR.

## GREATER STAKEHOLDER INVOLVEMENT

Expect more proactive shareholder involvement in setting and approving TSR-based compensation plans. This might include shareholder votes on executive pay packages and direct consultations during the formulation of compensation strategies.

## STRATEGIC RECOMMENDATIONS

To effectively navigate the dynamic changes in market conditions and regulatory environments, companies should adopt a series of strategic recommendations.

Firstly, maintaining agility is crucial; firms must adapt their compensation strategies to align with both current market conditions and regulatory demands.

Secondly, continuous engagement with shareholders is essential to ensure that TSR-based plans not only meet evolving expectations but also sustain shareholder support.

Lastly, investing in robust data management and analysis capabilities is critical. Enhanced data capabilities will improve the accuracy and credibility of TSR measurements, providing a more reliable foundation for executive compensation decisions. These strategic actions will help companies stay competitive and responsive to both external challenges and internal goals.



*The strategic importance of TSR in executive compensation is likely to grow. By embracing transparency, aligning with global trends, and incorporating technological advancements, companies can ensure that TSR remains a vital tool for aligning executive incentives with long-term shareholder value, thereby fostering a culture of performance and accountability.*

# ABOUT SHAREFORCE



ShareForce revolutionises incentive plan management by transforming complex valuation models, including TSR models and procedures, into user-friendly, automated technology. This technology facilitates the integration of all share or cash incentive tasks onto a single online platform, simplifying the entire process. By providing a centralised platform, ShareForce makes these processes more accessible and efficient, eliminating the need for excessive inhouse or consulting costs or heavy reliance on key individuals. With capabilities for setting up a variety of performance conditions for grants, ShareForce empowers companies to manage their incentive plans effectively.

## SHAREFORCE'S ADVANCED TRACKING AND VALUATION CAPABILITIES

ShareForce offers sophisticated tracking and valuation capabilities, utilising real-time market data to analyse TSR against peers and manage performance targets efficiently. Its advanced valuation engine performs instant complex plan valuations, catering to both listed and unlisted entities worldwide. The platform generates audit-ready, IFRS or GAAP-compliant valuation and vesting reports at the click of a button, ensuring maximum transparency and compliance with accounting standards. These features make ShareForce an invaluable tool for companies looking to optimise their incentive plan management, including TSR plans, while adhering to rigorous financial regulations.

# MANAGING TSR PLANS WITH SHAREFORCE

ShareForce stands out as the premier tool for tracking, managing, and TSR conditions due to its comprehensive integration of advanced technology and user-centric design.

## COMPREHENSIVE TRACKING CAPABILITIES

ShareForce enables companies to track and manage TSR conditions in real-time. Its platform is designed to monitor TSR performance against peers using a variety of metrics, such as percentile, ranking, or relative TSR. This functionality allows companies to continuously assess performance and make informed decisions based on up-to-date data, ensuring that incentive plans align with the company's strategic goals.

## AUDIT-READY COMPLIANCE AND REPORTING

ShareForce provides IFRS and GAAP- compliant reports that are ready for audit. The platform not only generates detailed valuation reports but also prepares vesting reports for in-flight or vested awards. These reports are designed with maximum transparency in mind, detailing methodologies, inputs, assumptions, and the rigorous valuation methodology used.

## USER-FRIENDLY INTERFACE

Despite its complex functionalities, ShareForce is designed to be intuitive and easy to use. The user-friendly interface simplifies the process of managing TSR conditions, making it accessible to users without deep technical knowledge. This ease of use enhances efficiency and reduces the likelihood of errors, contributing to better incentive plan management.

## ADVANCED VALUATION ENGINE

The heart of ShareForce's effectiveness in managing TSR lies in its sophisticated valuation engine, which utilises live market data to perform complex plan valuations instantly using models such as Monte Carlo. This engine supports a range of valuation requirements, from simple grant issuing to intricate calculations involving taxable gains at vesting or exercise. For both listed and unlisted companies, this means accurate and timely valuations that are crucial for maintaining compliance and maximising the value of incentive plans.

## GLOBAL FLEXIBILITY AND ACCESS

With ShareForce, multiple users worldwide can access the platform, sharing expertise and resources without the need for significant in-house investment. This global accessibility, combined with the ability to handle complex rules of IFRS 2 and GAAP, including cash or equity-settled plans, makes ShareForce a versatile tool suitable for multinational corporations managing diverse and geographically dispersed incentive plans.

# GAINING ACCESS TO SHAREFORCE



To explore and utilise ShareForce for managing incentive plans, you can initiate the process by setting up a demonstration with ShareForce. During this demo, specialists will highlight the platform's comprehensive features and functionalities, illustrating the effective management of your incentive plans. ShareForce offers hands-on support, simplifying the entire process from issuance and vesting to settlement and reporting, ensuring that managing share plans internally is straightforward and efficient.

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For partner companies specialising in Rewards, Compensation, and Finance, ShareForce extends its expertise by collaborating with a diverse network of global professionals in the industry. This collaboration helps partners deliver top-tier services by leveraging strategic partnerships. By choosing to partner with ShareForce, you can enhance your service offerings, benefiting from its broad industry reach and specialised support.

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## CONTACT US :



UK: +44 73 9967 6222



RSA: +27 10 143 4430



[info@shareforce.net](mailto:info@shareforce.net)



[shareforce.net](https://shareforce.net)