Pearl Meyer

Video Transcript: Focus on What's Best for Your Organization

Steve Van Putten:

I think one of the most important things you can do is look at executive pay through the lens of what's best for your company, because that's really the key aspect of what should drive executive compensation. I note here or suggest that you don't allow your design or your structure or the delivery of executive pay to be defined by what others do or what others want you to do. I think that's an important consideration. I think it should inform the design and delivery of executive compensation but not necessarily drive executive compensation.

Very often, when you look at executive compensation, you look at what the marketplace does, peer prevalence statistics, and you may look at your peer group and see that EPS is the predominant measure in your incentive program. That doesn't necessarily mean that EPS is the *right* measure for your organization, but a lot of companies default that way, and when we do these studies we find that consistently throughout various industries that they all tend to use the same metric. It's that move to conformity that you really need to be careful of.

My suggestion is to evaluate programs through the lens of what you're trying to accomplish from a business and leadership strategy. From a business standpoint, that could be a mix of metrics. Really focus on what metrics are leading metrics, what are going to drive the value of your company, things like gaining market share, growing revenue outside the US, developing new products, pushing products through the pipeline, as well as more accountability or outcome-type metrics. That could be financial metrics, it could be TSR; it could be a variety of metrics.

The most important thing you're doing here to simplify executive compensation is your narrowing the focus, You're refocusing on what makes sense for your organization, as opposed to what others prescribe as best practice, because once you take into consideration what others do, which is important to reflect on, but if you allow that to drive your program design then it could be inconsistent with what you're trying to accomplish as an organization, what you're trying to do as a board of directors to reinforce strategy and leadership objectives. It's not just business but it's also the leadership strategy itself, too, in terms of what type of talent are you trying to attract and retain, what competencies do you want them to exhibit, and how should that be reflected in paid programs, really refocusing things through the lens of what's best for the organization.