Pigs Get Fat; Hogs (Should) Get Slaughtered

As a compensation consultant, I will from time to time encounter...greed.

I suspect that you, gentle reader, are shocked. That’s fine, we can pause for a moment so you can pick yourself up off the floor. I suggest you find a comfortable chair for this next part, because specific examples are forthcoming.

It’s not unhealthy for an executive to be curious about “What’s in it for me?” And a well-designed compensation plan should provide a straightforward answer, generally along the lines of “The more value you create for the shareholder, the greater your reward.”

But certain behaviors could be indicative that an executive is placing self-interest well ahead of competing priorities. There is an opportunity cost to compensation, and executives who are consistently guilty of the following will create an environment where there are simply not enough resources left (in terms of either dollars or board time after addressing the behaviors) to grow the enterprise:

1. **Move the goalposts.** Your greedy executive may point to success with respect to top-line growth when your investors (and your incentive plans) are focused on margin expansion. Or question why revenue is given greater weighting than operating income when selecting peers for benchmarking purposes. Or raise any of a thousand other objections which all boil down to: “Measure me on the areas where I perform well, not the areas you deem important.”

2. **Benchmark by anecdote.** Your greedy executive may bring you a proxy filing of a competitor who pays their own similarly-titled executive more, without doing the homework to understand which is the anomaly—your greedy executive’s pay or the pay of this supposed peer. Questions arising from this type of behavior are a weekly occurrence in my work. But I have never heard of an executive asking for explanation as to why a competitor is paid less than s/he.
3. **Pay me twice.** Following a multi-year period of strong performance, the greedy executive asks whether some form of supplemental award is in order. In almost all cases, there is sufficient leverage in the incentive plans such that the executive has already reaped several years of above-target payouts with respect to both cash bonuses and performance shares earned, and equity-denominated vehicles are now much more valuable than what was expected on date of grant (due to accompanying run up in stock price). The executive has already been paid for the performance.

4. **I’d like the reward, you can keep the risk.** The greedy executive is eager to sign up for a program that will provide extraordinary rewards for extraordinary performance, but questions the fairness of having similar downside risk in the program. "If we meet these aggressive goals, it is most likely evidence that the management team has executed flawlessly against a well-conceived strategic plan…but if we fail, it’s most likely due to exogenous factors. Since those factors are out of our control, we ought not be held accountable for failure to perform.” Or, more succinctly: “Heads I win, tails you lose.”

5. **I didn’t like Mom’s answer, so I’ll go ask Dad.** The greedy executive attempts to circumvent his/her CEO and go directly to a board member with concerns over his/her pay. This may be exacerbated by a weak CEO inadvertently (one would hope) encouraging this behavior with a "my hands are tied" approach to communicating a pay decision.

Make no mistake, consistent greed from an executive team member can and will infect your organization. What you tolerate—not what you celebrate—will dictate your organization’s culture. So, what are the antibiotics (or even better, the inoculations) for this greed infection? Starting points include:

1. **Foster transparent processes.** Executives should have a solid understanding of who the company considers to be competitors, what the company understands to be its opportunities relative to those competitors, and how those opportunities translate into specific performance objectives. There should also be an understanding of how rewards will toggle up or down depending on success relative to those objectives. This is an eminently fair ask from executives. If the executive is not shown a governance process, it is more difficult to criticize him/her for not respecting that process.

2. **Conduct fulsome modeling.** Programs should be modeled using not only “stable”, “strong”, and “stellar” scenarios, but also “disasters.” Executives should have an opportunity to review and stress-test these models. It is more difficult for reasonable people to ask that exceptions be made to payouts when they are offered the opportunity at the beginning of the process to fully understand the plan parameters and downside risk.

3. **Be open to discussion.** A foolish consistency is indeed the hobgoblin of little minds, and a stubborn adherence to formulae can doom compensation committee chairs. There is no perfect algorithm for determining executive compensation, so from time to time executives and board members must admit that corrections are in
order. But there is also a continuum in terms of useful debate vs. self-interested negotiation. In general, questions early in the process are more valid than complaints after the performance period has ended, and probing on design parameters is better than bickering on amounts paid.

4. **Have a strong bench.** Greedy executives are surprisingly transient. They are coin-operated, and always on the lookout for someone with a larger roll of coins. But it is unacceptable to be held hostage by a greedy executive simply because you have failed so badly at succession planning that you have no other choice. The greedy executive will always perceive that s/he is worth more than you are paying, and the sad reality is there is almost always someone willing to pay a higher price. Eventually the greedy executive will leave. Do not allow your company to be a victim twice—first when you pay your greedy executive too much, and second when your greedy executive chooses to leave at a time that is disruptive for you. Always be building the bench.

To be clear, the greedy behaviors described in this post are far from universal. I am pleased to report that most of my interactions with executives are positive, and in general my experience is that most of the leaders of corporate America are motivated by factors other than self-interest. And yes, they are also well paid! They eat well.

It’s a shame that a subset of the population eats too well.

These hogs should be slaughtered.
About the Author

Jim Heim began his career working in the human resources departments of OneBeacon Insurance, The Gillette Company, and EMC Corporation, performing roles of increasing responsibility and focusing on the design and management of executive compensation programs. Since joining Pearl Meyer in 2004, he has worked extensively with clients in the technology, life sciences, manufacturing, and aerospace & defense industries. Much of his work focuses on the customization of incentive programs to shifting strategic priorities and business stage, and his current clients range from Fortune 500 firms to pre-IPO start-ups.

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