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What C-Suite Execs Want in a Comp Plan

By David Swinford

A compensation committee's first responsibility is attracting and retaining the key executives needed to fulfill the company's mission. This includes determining how to most effectively use pay to reinforce strategic priorities and satisfy investors that the company is getting the best value for those dollars.

Directors commonly assume that it is most critical to keep executives' pay in line with their internal peers and with the company's circumstances. Therefore, they tend to focus their attention on understanding market pay levels and practices. However, when senior managers consider whether they are being paid well and fairly, "keeping up with the Joneses" is actually far down the list.

To be sure, executives will ask themselves if they are being treated fairly relative to what their bosses and colleagues earn, as well as whether their pay is competitive overall. However, these peer and market pay comparisons are much less important to them than whether their total pay opportunities have increased over time and whether incremental changes reflected their responsibilities, performance and contributions in a given year. Indeed, they care more about gaining ground on their personal financial needs and goals than keeping up with their peers' pay.

If executives feel they are underpaid, they will consider whether they got the pay they deserved and, if not, why and what their prospects are for doing better. The executives may ask themselves:

- If the company has not been doing well, is performance likely to improve, and will I be able to make up for lost ground?
- If I or my function or business unit is undervalued, can I change that perception, and is it worth the effort?
- If I'm being treated unfairly, can I do anything to make things right, and is it worth it?
- If the company simply can't — or won't — pay me full market rate, are there enough other material or intangible rewards to compensate?

What executives value most is a fair and effective pay program that rewards for the right things, at reasonably competitive levels over time — neither way too little, nor way too much. Additionally, they want a program that works "as advertised," meaning that results are predictable and based on clear rules that are applied fairly and consistently throughout the organization.

Non-monetary considerations such as growth opportunities and development or a congenial work environment, while harder to measure and compare, can be even more valuable to executives than incremental changes in their paychecks.

So how is a director to know what the executive troops are thinking? It is awkward to ask, and senior managers are not likely to be candid if they are dissatisfied.

Instead of asking, start by looking at how the program has worked in recent years. This includes considering whether target compensation is reasonably competitive and if changes in realized pay correlated to changes in company performance relative to goals and to peers.

Directors also must determine whether differences in compensation can be explained by department or individual performance. They should consider whether annual payouts, such as bonuses and merit budgets, are consistent with how the company talks about performance. Then, rather than asking executives about their own pay, ask them how well the pay system is working as a tool for managing their direct reports. Directors can also discuss the executive’s opinions about the development and promotion processes available to their subordinates. Their answers will generally tell directors a lot about how executives view their own situations.

“Fairness” is a relative term, and executives consider far more than absolute dollars in their assessment. Opportunity needs to be aligned with responsibilities, incentives need to mirror business priorities, and rewards need to match performance. If a pay program is out of sync and the organization does not have much to offer employees other than their paychecks, the company is likely at a disadvantage in trying to attract, retain and grow top talent, regardless of how well it pays against the market.

About the Author

David Swinford is president and CEO of compensation consultancy Pearl Meyer & Partners. He works closely with Compensation and Governance Committees as well as Boards on linking pay with business strategy, contractual arrangements, and incentive plan design, including the development of meaningful performance standards.

About Pearl Meyer & Partners

For more than 20 years, Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. Pearl Meyer & Partners maintains U.S. offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.

Pearl Meyer & Partners
Comprehensive Compensation®

www.pearlmeyer.com

NEW YORK
570 Lexington Avenue
New York, NY 10022
(212) 644-2300
newyork@pearlmeyer.com

ATLANTA
One Alliance Center
3500 Lenox Road, Suite 1708
Atlanta, GA 30326
(770) 261-4080
atlanta@pearlmeyer.com

BOSTON
132 Turnpike Road, Suite 300
Southborough, MA 01772
(508) 460-9600
boston@pearlmeyer.com

CHARLOTTE
3326 Siskey Parkway, Suite 330
Matthews, NC 28105
(704) 844-6626
charlotte@pearlmeyer.com

CHICAGO
123 N. Wacker Drive, Suite 860
Chicago, IL 60606
(312) 242-3050
chicago@pearlmeyer.com

HOUSTON
Three Riverway, Suite 1575
Houston, TX 77056
(713) 568-2200
houston@pearlmeyer.com

LONDON
Clifford House
15 Clifford Street
London W1S 4JY
+44 (0)20 3384 6711
london@pearlmeyer.com

LOS ANGELES
550 S. Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6500
losangeles@pearlmeyer.com

SAN FRANCISCO
455 Market Street, Suite 2000
San Francisco, CA 94105
(415) 651-4560
sanfrancisco@pearlmeyer.com

SAN JOSE
2880 Zanker Road, Suite 203
San Jose, CA 95134
(408) 954-7399
sanjose@pearlmeyer.com