Compensating Executives in Large Public Corporations

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Managing executive compensation, nowadays, is no easy task. Let's see…you just need to meet increasingly stringent legal and tax regulations, satisfy tough-minded board members and frustrated shareholders, and operate within diminishing budgets, while, at the same time, offering total compensation packages that are attractive to top notch executives (and their families).

In an effort to help you to be successful (and keep your sanity) while meeting the above mentioned challenges, we offer the following tips:

1. Familiarize yourself with the executive compensation- related provisions of Sarbanes-Oxley. Ensure that the Compensation Committee members of the Board are well qualified and truly independent.
2. Articulate a total compensation philosophy that delineates how you position your pay practices against comparable organizations. Make sure that your total executive rewards program helps you to attract, motivate and retain high caliber, well-suited performers, while, at the same time is cost-effective and provides a strong return on investment. Public companies should also publish a formal compensation committee charter that defines the compensation committee's purpose and role.
3. Establish a list of objectives that your compensation program should achieve. This is an important step in getting the design team "on the same page." These objectives guide the evolution of your program, while serving as a valuable frame of reference for auditing results at a later date.
4. Incorporate a simple set of executive competencies into your job descriptions or role profiles. This will ensure that you are hiring and developing your executives against standards that will help you to achieve and sustain an edge in an increasingly competitive marketplace.
5. Establish executive base pay levels at, or somewhat lower than, your relative market. Base salaries are fixed costs, and this strategy will allow you to allocate more of your total compensation dollars to performance-based short and long-term incentives.

6. Make sure that your short-term incentives (bonuses) do not become an entitlement, by ensuring that your company reaches a threshold level of performance ***before*** any bonuses are paid. Also, have an objective means of differentiating bonus payouts between good and outstanding performers, and offer "above market" rewards for superior achievement.

7. Be careful how you administer the long-term component of executive compensation. Shareholders enraged about excessive executive pay levels have expressed their disdain over mega-grants and their concerns about stock dilution. Consider establishing a long-term annual payout level that is a conservative multiple of an executive's salary. Also consider transitioning away, as appropriate, from stock options and restricted stock, toward performance-based equity. Performance-based vehicles provide an opportunity to more objectively link rewards to performance by utilizing comparable organizations or a peer index.

8. Eliminate executive perquisites that convey status differential, such as executive parking, first class air travel and country club membership. Instead, focus on perks that will enhance an executive's health, productivity and financial well being, such as physical examinations, lap-top computers, and financial counseling. Also, consider offering a well-designed nonqualified deferred compensation plan as a sensible means of accumulating capital.

9. Don't overlook the critical importance of training and communications. Make sure that the components of your executive compensation plan are well understood by those covered and that these plans are easy to administer.

10. Finally, have your plan reviewed by a well-respected, objective expert. This is a highly specialized, sensitive and dynamic area, and represents one of the most important investments a company can make in its future.

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