

# The Executive JOURNAL™



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CORPORATE L.I.F.E.  
CENTRE INTERNATIONAL INC.

## SHOW ME THE MONEY!!!!!!

*A Discussion: Executive Compensation Under Scrutiny*



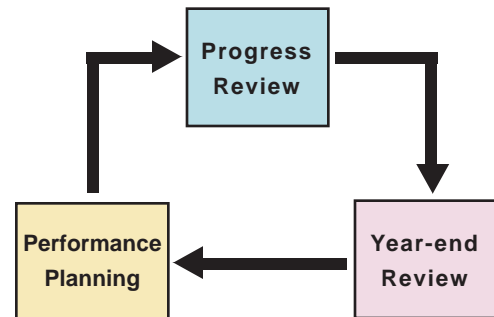
### WASHINGTON, DC (Hollywood Today / LBN) 9/19/09

As world leaders gathered for the G-20 summit this month, President Obama used his weekly radio address to tout American efforts to reign in the finance industry. Saying the U.S. "must lead, not just by word, but by example," Obama specifically took on executive compensation, an issue that's been on the table in Europe as well. "We cannot allow the thirst for reckless schemes that produce quick profits and fat executive bonuses to override the security of our entire financial system and leave taxpayers on the hook for cleaning up the mess," Obama said.

Today's businesses are faced with challenges in motivating their organizations in an ever changing environment.

Most companies are no different and have set their sights on becoming 'high performing organizations' and a vision 'to becoming the top-performing company.' In keeping with these objectives, the question is how do you keep your employees motivated and satisfied working at their fullest potential?

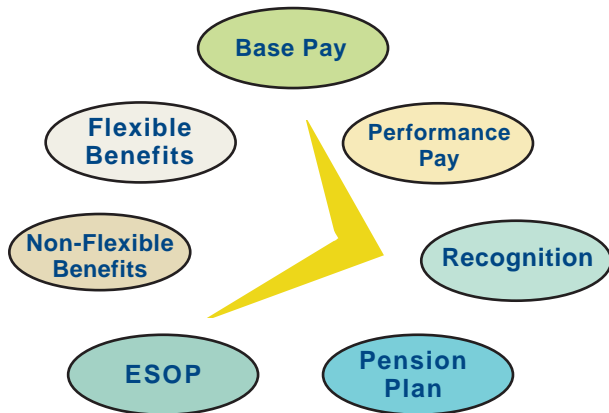
Many organizations have developed effective Organizational Motivational strategies that are in line with keeping its employees functioning throughout the organization but there are still gaps in their policies and benefits that directly impact the motivation of the organization. In particular:



- There appears to be a lack of alignment between target setting, measurement, equitably, and compensation.
- There also appears to be a disconnect between personal progression, career planning, and a tie-in between the policies & the employee's expectations.
- In addition, there appears to be a gap in matching the performance to the equitable reward.

As an organization that emphasizes Management by Objectives, it should be primarily dealing with a goal-setting process that recognizes employees through positive reinforcement and participation that eventually motivates them based on their performance. As typical series of solutions entails the following:

- A reassessment of their policies and benefits such that one recognizes the individual differences between each employee, their achievable targets, and eventually alignment of the performance to the rewards;
- Implementing a process to match the right people to the right function and individualize the rewards without biases;
- Reassessing the target setting and planning process to manage achievable objectives;
- Clarifying the relationship between effort, achievement, assessment, and equitable payout; and
- Greater involvement of the employee in the goal / objective setting processes.



## But then how do you handle the CEO or other Executives?

Companies are now being challenged on a number of fronts with respect to Executive compensation. With the most recent Financial crisis the occurred within the United States and executives taking away million of dollars when their companies become worthless.

More and more shareholders are asking the question (as per Bill Mackenzie from the Institutional Shareholder Services Canada): 'how much am I actually paying for senior management and have I received value for what I paid?'

A publication of the Institute of Corporate Directors (ICD) clarifies the first question by asking about the cost of the compensation, as executive compensation packages are becoming increasingly complex and shareholders are unwilling, unable or simply tired of trying to establish a total amount of executive compensation packages disclosed in information circulars.

Many shareholders believe that the compensation committee and the board have (or should have) already determined total compensation and they should disclose the aggregate amount in a simple-to-understand format.

ICD further clarifies the second question - value for money, which requires a comparison of the cost of management against wealth generated for the owners.

For years, shareholders have been calling for a stronger pay-for-performance link and, for years, companies have been discussing their pay-for-performance approach to compensation. Now, shareholders are beginning to say "show me." Not only do they want to know how each piece is tied into company performance, but they want the big picture, pay versus performance in the broadest terms over a number of years.

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Canadian Coalition of Good Governance (CCGG) has three basic principles of compensation:

1. Compensation packages should be developed to attract, retain and motivate excellent people who will work with others to achieve long-term shareholder value.
2. Compensation packages should provide rewards for exceptional performance in both the short and long-term with a decided emphasis on long-term returns.
3. Compensation packages should be fair to the shareholders, senior management, employees and other stakeholders.

CCGG also has five guidelines for Principles Executive Compensation:

- a. Build an Independent Compensation Committee,
- b. Develop and Independent Point of View,
- c. Test Pay to Performance Linkages,
- d. Establish Share Ownership Guidelines, and
- e. Disclose All Facets of the Compensation Regime.

## So what is the solution!!!!

**Assess, Determine, Measure, Monitor, Disclose and Ensure that Executive Compensation is tied to Performance (via predetermined targets and independent 360 reviews).**

Executive compensation should be:

- Closely aligned with the long-term interests of the corporation
- Determined by a compensation committee with the committee understanding all the aspects of the compensation package
- Require executives to build and maintain significant continuity equity investment in the corporation

Corporations should provide complete, accurate, understandable, and timely disclosure to stockholders concerning all elements of the executive compensation and related practices.

**Please Note (AP, June 11, 2009):** - *the US government unveiled plans for legislation to give capital market regulators and shareholders powers to limit bonus payments to company executives.*

*The rules could give the government new authority to become involved in compensation packages for top corporate leaders, but would not be used to set salary levels, as some had feared, except for firms getting "exceptional" bailout money..... the US would also propose legislation giving the SEC powers to ensure that committees deciding on compensation in companies were "more independent, adhering to standards similar to those in place for audit committees."*

*At the same time, compensation committees would be given the responsibility and the resources to hire their own independent compensation consultants and outside counsel.*

*It was stressed the authorities were not putting limits on salaries but wanted to develop a benchmark rewarding innovation and what he called "prudent risk taking."*