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Executive Total Reward Strategy Components

Chapter 8 Abstract

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Over the years much of the executive compensation debate has centered on how much money should be paid to executives. While money is an important component of the executive total reward strategy, it is far from the most important component when building an effective executive total reward strategy.

The major components of an executive total reward strategy and their subcomponents are numerous enough to be able to provide key messages to executives. We believe that the *real* power in developing an executive total reward strategy lies within these key messages. But it is not “one size fits all”.

The remaining chapters in this book are devoted to diving deep into each of the components of total reward strategy. Here we will define and review each of the components.

BASE SALARY: Base salaries for most executives are usually \$500,000–\$1,000,000 per year. Too many organizations seem to have given up on the message carrying effect of base salary by eliminating the annual performance review for senior executives and especially for CEOs. And we think this is a serious mistake. The annual performance review provides an invaluable opportunity for an organization to enhance an executive’s understanding of the organization’s fundamental value system..

SHORT TERM INCENTIVES: These incentives address efforts that are less than or equal to one year of performance and can be tremendously powerful when it comes to motivating executives. Short-term incentives can be structured creatively, focusing on individual performance, business unit performance, or organizational performance. Additionally there is not a morass of federal rules and regulations to follow when it comes to short-term incentives.

MID-TERM INCENTIVES: Mid-term incentives are absolutely integral for any company that needs to focus on increasing organization effectiveness or business plan execution over a three to five-year period. Mid-term incentives are positioned to increase operating effectiveness. Project-based incentives, challenge grants, milestone incentives, success fee incentives, development or royalty incentives, and turnaround incentives can all be leveraged and used to meet non-ongoing business goals.

LONG TERM INCENTIVES: Long-term incentives address a 5 to 10 year performance period, and are the main driver to communicate a company's business strategy to senior executives. Long-term incentives are the most important portion of an executive compensation program. But historically they have been prone to abuse (think of backdating stock options) and organizations must carefully structure their long-term to avoid adverse outcomes and bad press. However, long-term incentives—when used thoughtfully—are the foundation of any total executive reward program.

WEALTH ACCUMULATION: Wealth accumulation is a fairly new rewards component, and it's an important one. Used correctly, these plans are highly motivating and retentive. It's our belief that there is far too much of an executive's wealth accumulation in the form of Supplemental Executive Retirement Plans which are not performance-based. A better alternative is the grahall Performance-Based Wealth Accumulation and Retention Program—or gPB-WARP. This plan consists of a relative measure of performance sustained on a long-term basis, which creates a deferral in the form of a defined contribution amount for the executive. This plan calls for long-term career vesting, with severe penalties for voluntary termination.

EXECUTIVE BENEFITS: Executive benefits are those plans that restore the benefit above the “qualified” limits. We break this category into subcategories of income protection, income replacement, savings and retirement income, and holidays and vacation. While the executive benefits component is not generally performance-based, it is an important way to attract and retain top-notch executives.

EXECUTIVE PERQUISITIES: Executive perquisites are valuable when they are structured in a way that is designed to help the executive achieve better business results that make sense for all stakeholders. Companies must review perks carefully and if the perk is not helping the executive reach company goals, then it's simply not good business sense to keep it.

SUMMARY

There is a large number of permutations and combinations that can be made from the many total reward strategy components. These can be used to send appropriate messages to executives regarding performance, obligations, and business imperatives—and a good total executive rewards program is the conduit that gets that message across. It's up to the corporate executives, the board of directors, and the reward consultants to develop programs that reflect the organization's current circumstances and future business requirements—and to be brave enough to cancel or redesign portions of the strategy that no longer cut it.