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A White Paper

EXECUTIVE DEVELOPMENT REWARDS TALENT FOR THE FUTURE

Development rewards allow an executive to develop and grow in a way that will positively impact his ability to perform. Performance management, career pathing, succession planning, special training, and mentoring are all examples of development rewards.

Any good total executive reward program recognizes the importance of development rewards including performance management, career pathing, succession planning, special training, and mentoring. Executives who are given access to education, training, and mentoring programs often better understand a company's vision, mission, and values, which is critical to the company's success. Executives who are better trained to do their jobs perform better, and when executives perform better, company performs better as well.

THE NEW NORMAL

Executives understand that they will be allowed to keep their jobs only if investors find their performance acceptable. Performance management is certainly a viable non-cash way of motivating executives to get the job done. Today's executives are motivated to perform *just so they can hold on to their jobs*.

Governance reforms are doing exactly what they were intended to do. Boards are keeping their finger on the pulse of regulatory pressure, and are being more responsive to shareholders who are looking for results. Boards are now managing the CEOs.

THE MYTH OF THE “REPEAT CHIEF”

A company that decides to recruit an executive with experience, a so-called “repeat chief,” often has to pay big bucks to get top talent. At the highest levels, the deal has to be pretty sweet—not only when it comes to salary, bonuses, and stock options, but executives are usually compensated for any unvested options they leave behind. Hiring executives from the outside costs a lot of money.

While repeat CEOs are expensive, they might not give an organization the most bang for its buck since they face difficult challenges like leading an unfamiliar company. A study showed that while outside CEOs tend to start off well, they lagged behind inside CEOs as their tenure grew longer. In addition, companies in trouble who hire outside CEOs tend to get themselves into even deeper trouble.

Inside executives have a better understanding of the company’s vision, mission, and values, as well as the specific challenges it faces. They know the issues affecting the company and the needs of key stakeholders. They have watched others succeed—and sometimes fail—before them. In many cases, inside executives are put on a specific career path or are mentored by other executives, and they may have received specific industry training to give them a better shot at success.

WHO’S NEXT?

With age comes wisdom, but unfortunately so does retirement.

The challenge, of course, comes when it’s time to name a successor to an executive who has had a long and successful career with an organization. Sometimes these long tenure executives are so key to the culture of a company, it’s very difficult for anyone to imagine anyone filling their shoes.

It is up to Boards to ensure that a good, solid succession plan is in place. To wing it when the time comes isn’t good for the company, isn’t good for the shareholders, and can cause divisiveness among top-level executives. Hiring executives and then grooming them for the top position can ensure a smooth transition for the organization.

Succession plans are not only good for the company and the shareholders, they are good for executives as well. An executive being groomed for the top position is going to be motivated to perform, and also going to have good knowledge of the inner workings of the company and its challenges long before he’s standing at the helm.

KEEPING ALL YOUR HORSES IN THE RACE

Internal succession battles can be draining on a company, but a thoughtful reward system can minimize the damage. Once appointed, it's up to new chief to retain the top talent. Positioning rivals in new and challenging roles, providing education and training that allows them to succeed and grow, and setting them on a career path all send the message that the executive is important to the organization, and has a bright future.

GOOD STUFF ROLLS DOWN HILL TOO

An organization is only as good as its leadership. The example that the CEO sets will be the one that other executives follow. The CEO typically sets the cultural and values norms. We believe there are three important steps to structuring a reward system for good leadership.

First of all, an executive must be aware of their own behavior, specifically how investors, auditors, the general public, and other stakeholder groups perceive their various leadership skills.

Second, you must give them a reason to develop their leadership skills. Pay and promotion are two great motivators, and should be tied to how an executive develops as a leader.

Finally, executives should be given all the tools to succeed, whether this is in the form of training, mentoring, or something else. Executives that do succeed should be rewarded.

When the environmental conditions are set—when the developmental leadership rewards are in place—there is a substantial opportunity for the executive to develop increased capabilities with respect to those aspects of their job that require the confidence associated with leadership.