



INVESTOR ALERT

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“We’re Overpaying Him, But He’s Worth It..”

Samuel Goldwyn might be the Yogi Berra of the movie industry, but his quote above market might describe the situation in some companies.

When early and mid-career executives’ base salaries are high relative to their competitors, an investor should be concerned that the factors governing variable pay may be unachievable. Most often, executives want high fixed compensation when they don’t trust that the performance goals driving variable pay, such as revenue, stock price or EPS growth, will pan out.

And, if the executives have high salaries, then so may managers and other significant parts of the workforce. This excess in compensation payments is not sustainable long term, unless the company builds a significant competitive advantage.

Remember the phrase “The higher the executive’s fixed salaries, the lower that executive’s expectations for the company”!