Executive Compensation 101 for a Newly Public Company

BACKGROUND:

The client went public several years prior to engaging our services, but the compensation program did not yet reflect the business priorities of a publically traded organization. In addition, the Compensation Committee of the Board of Directors was not yet aware of many of the new proxy disclosure rules and SEC regulations governing executive compensation.

MANDATE:

HR+Survey Solutions was retained to determine an appropriate pay level and incentive plan for the Founder/ CEO of the company. The plan needed to be satisfactory to him, the Board and to the shareholders.

SOLUTION:

As the first step, HR+Survey Solutions conducted a webinar for the Board's Compensation Committee to apprise them of recent legal and regulatory developments regarding executive pay. The company had just become large enough to require full proxy disclosure so the webinar served as an excellent primer for the Committee.

Next, we established a peer group of companies that we used to assess pay levels *and* calibrate company performance. Now the bad news, based on the proxy analysis, the CEO's pay was significantly out of alignment. His pay mix had too much fixed pay (salary) and not enough variable pay (annual and long-term incentives). His salary level was at the 75th percentile. A portion of his bonus was guaranteed, creating further imbalance between fixed and variable pay. Finally, stock options were only granted sporadically. The dilemma we faced was how to reduce the proportion of fixed pay without disenfranchising the company's leader.

Based on our findings, the company needed to beef-up the annual incentive opportunity and establish regular annual grants of stock options. However, by doing so, the CEO's compensation would approach the 90th percentile. This was viewed as unacceptable, so the Committee chose to implement two policies that they knew would be unpopular with the CEO – freeze his salary and eliminate the guarantee on his bonus. This required careful communication and a clear understanding that the new plan offered more opportunity for being rewarded when the company performed well.

Our third challenge was to develop clear performance goals for the incentive plan. Because a portion of the CEO's incentive was discretionary, the CEO viewed his bonus as a yard stick for measuring his popularity with the Board. This placed the Committee in an uncomfortable position since they highly valued the CEO, lacked formalized tools to calibrate the bonus. Initially we developed a framework for assessing performance retrospectively against strategic milestones. This provided the Compensation Committee with a business basis for establishing the bonus payout. The following year we were able to establish a more formalized plan.

RESULTS:

The Compensation Committee took steps to ensure legal and regulatory compliance and avoided complications with their disclosure. The CEO's new compensation plan provided a better link between pay and performance. More importantly, the goal setting conversations (for the incentive plan) created clarity regarding performance expectations and priorities, while the structured approach provided a business basis for determining the size of the incentive award. This resulted in an improved relationship between the Board and the CEO.

Judy Canavan; Managing Partner, HR+Survey Solutions
www.HRSurveySolutions.com
jcanavan@hrsurveysolutions.com
866-252-6788 x902