

Directorship Viewpoint: Executive Pay by Blythe J. McGarvie



The recent media focus on executive compensation is yet another example of how outsiders to the world of business misconstrue events that could be used to gain insights into an environment that continues to perplex them. The market determines salaries – full stop. Unless one is desirous of imposing some anonymous “third party’s” conception of fairness upon contracts for labor, the salaries of executives will remain the province of the signatories to executive contracts: executive and boards of directors. In this relationship, the board members serve as protectors of shareholder interests. Boards have been, are, and will be vitally involved in compensation matters. The real issue is not what executives are paid, but rather who has access to executive suites.



Historically, women and minorities have not served as executives in major companies. This has been changing in recent decades, but statistical disparities still exist. We all recognize that a market driven environment results in some relative winners and losers. We must make sure we are inclusive in who frames the questions that ultimately decide hiring criteria and business success. A key component of a good compensation program is its emphasis on developing top executives from within. A diverse management workforce will eventually create diversity in the executive suites.

Each company must be clear about the purpose of and guiding principle regarding compensation, not only for the CEO but for all employees. Many employers use base pay to maintain competitive wages and future financial rewards to engage talented associates to achieve annual and strategic business plans and profit goals. But, long term corporate health also depends upon lateral movement for professional development and personal growth opportunities.

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—Blythe McGarvie

In these actions, future CEOs are created. Perhaps a socially concerned media or shareholder group might more legitimately concern itself with monies allocated to these programs.

The Nobel laureate in economics, Professor Robert M. Solow recently was asked if he thought the fruits of the global economy will be distributed more or less evenly 50 years from now and why? He stated, “The relative lot of the unskilled and uneducated will probably worsen, but there is the possibility of improved nutrition, population control and education as democracy spreads.” Boards are primarily concerned with executive accountability for realizing business goals. The compensation systems serves as a tool to help the board in addressing its concern. Boards strive for the CEO and other associates’ pay to 1) link to the goals defined in the strategic plan; 2) be easy to understand and have a clear line of sight for the associates so that they understand how performance and rewards are aligned; 3) provide associates with some opportunity for short-term liquidity and additional opportunities for liquidity upon retirement; and 4) create an in-house pipeline of top management in future years. The system used for the CEO is the same as for the associates at one of my companies for which I serve as Chairman of the compensation committee on the board. Shareholders have also been well-rewarded under transparent and inclusive management at this company. But, be aware that compensation and reward systems may not grow or decline at the rate of earnings which are more volatile than most people’s livelihood needs.

The goal is not to take a snapshot of today’s pay, but to provide a means for all employees to continue to develop, contribute something of significance, achieve, and leave a legacy from the many hours worked.