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Executive Compensation Trends You Need to Know

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Proxy season is in full swing and CEOs are awaiting shareholders' votes so they can open their compensation packages. Shareholders and board members across the United States are gathering to determine, among other things, what their CEOs will be compensated.

Recent government reforms, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, have made moves to regulate compensation and increase transparency after shareholders called foul over executive pay. Under Dodd-Frank's Section 951, also known as "Say on Pay," shareholders now have an advisory vote in what executives get paid and what their golden parachute looks like.

Paul R. Dorf, who has been an executive compensation consultant for more than 40 years, said there has been an improvement with government regulations, but that isn't the only change he's witnessed.

"One of the things is the amount of compensation has gone up exponentially," Dorf said. "If you look back into the early '70s, it was a rare, very rare occurrence that an executive made more than $1 million. In fact, I've seen articles written about the one individual who broke a million, and it was an exciting time."

What was once salary, benefits and bonuses has turned into a much larger array of cash compensation, such as bonuses, incentives, equity programs, long-term programs and severance programs, along with perks and benefits.

"The new term in the field is the total rewards package," Dorf said.

Given the changes, there are multiple methods boards consider when evaluating their executives' pay, and of course, not all methods are created equal.

Many extraneous things — such as company jets, cars and executive medical plans — are becoming less and less common, explained Ted Buyniski, senior vice president of Radford, a company that provides compensation market intelligence to the technology and life sciences industries. To this, he credits disclosure.

"Getting rid of those made a lot of sense for everybody," Buyniski said, adding that this is a positive trend because most of the extraneous items were holdovers from the 1980s, when there were tax benefits attached to them. Once the tax benefits ceased, companies began holding on to those things to convey status, he explained.

"[Now,] the overall executive compensation market is becoming more uniform," Buyniski said.

There are three parts to considering what an executive should be paid, he explained.

- The first is looking at the competitive landscape to know what the market pay is.
- Winning, which refers to the company's goals and objectives, should be defined within the company – whether it be revenue growth, profit growth or stock price appreciation.
- Then there is the matter of how the company is performing in its market.

"As I say to all of my clients, the market is simply a starting point, it's not a decision," Buyniski said. "You need to know where the market is. The market is hundreds of data points. You as a [compensation] committee are dealing with an individual."

Ultimately, it's up to that compensation committee to determine the best method of evaluation for their company.

"One thing I caution everybody on is, that as much as everyone would like to find the holy grail so that everybody is paid correctly, there are at this point no simple solutions," Buyniski

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