Organizational Consulting Group

Executive Compensation
Best Practices

"Best practices" are management techniques, methods, or processes that are believed to produce better or more efficient or effective results than others. They are the creation of individuals and organizations rather than legislatures and sanctioning bodies. While they may not have the force of law, they nevertheless express a standard, based on continual learning and improvement, which is flexible and variable, as necessary.

Because best practices have many authors, even in compensation practice, there are many examples, even on identical subjects. Here, we have chosen a few, from the many, which strike us as worthy of consideration.

Overall

- Set in advance performance measures for accountability for company metrics and individual performance specific to each executive's role.
- Associate the highest positions with the highest risk, so that at the most senior levels, variable compensation may comprise 50% or more of total compensation.
- Update the executive compensation plan at least yearly.

Salary

- Set at a level that:
    - Yields the highest value versus cost, and
    - Would pay for a qualified replacement.

Bonus

- Structure so as to align executive interests with company goals and reward superior performance meeting or exceeding well-defined performance targets.
- Incorporate specific quantitative and qualitative performance-based operational measures.
- Establish performance standards below which a bonus will not be awarded.
- Require repayment of a bonus in the event of an executive's malfeasance or any fraudulent or misleading accounting or financial activity resulting in substantial harm to the company.

Long-Term Incentives

- Structure so as to reward achievement of the company's long-term strategic objectives and/or the superior performance of the company's stock.
- Attach meaningful performance and/or vesting periods.
- Grant long-term incentive awards at the same time each year.
- Prohibit hedging equity-based awards by executives.
- Establish a policy concerning the impact, if any is desired, of long-term incentives upon stock ownership and retention guidelines.
- Require repayment of a long-term incentive in the event of an executive's malfeasance or any fraudulent or misleading accounting or financial activity resulting in substantial harm to the company.