

Food for Thought

April 2009

Focus of executive compensation: When, not how much

Food for Thought is our way of sharing interesting concepts on corporate leadership and management with others who might find it useful. The thoughts offered are intended to be controversial and thought provoking. They always follow our motto of helping develop logical leadership.

Last month, when the world was in uproar over the bonuses paid out to AIG executives, this topic seemed timely. Now that we have moved on to the auto industry bailout, the world economic summit, and beyond, this topic might seem passé. Nevertheless, we think it merits attention – because we repeatedly focus our conversations about executive compensation on how much they get paid, rather than on when they deserve to get paid.

The motivation for this idea is rooted in the [Inverted Bonus Plan](#), implemented at Planar Systems almost a decade ago. The premise is that CEOs and other top corporate executives are, by selection, desirous of making money. While there needs to be some focus on how much they get paid, far more attention needs to focus on when they are deemed to have earned their pay. As executives of a corporation – especially, a public corporation, - they have a stewardship responsibility to ensure that those with a lesser capacity to influence the results of the corporation – yet, a vested interest in those results, - are fully served before they serve themselves. This fundamental value system is often neither demanded nor nurtured by public company boards.

Take, for example, the defense offered by many of the AIG executives, justifying their bonus payments. “We were not in that division when it collapsed,” they say. “We were asked to come in and clean up,” they explain. Their comments show a lack of acceptance of the stewardship principle laid out above: Those very executives, as senior executives of AIG in other parts of the company, had a stewardship responsibility to the shareholders and lower level employees of the company, to ensure that the assets of the corporation were not squandered. Their failure to execute their stewardship responsibility is what makes their receipt of bonus pay outrageous, independent of where they were in the company at the time of the collapse.

The public is not outraged that some corporate executives get millions of dollars of bonuses, but that AIG executives would get any bonus this year is what gets their gander up. The public is quite happy to pay executives of successful corporations who deliver on their stewardship responsibility a princely sum of money – but, only if their bonuses are withheld when they fail to discharge their stewardship responsibilities. The issue is more often when they have earned it, rather than how much they have earned.

We have received many responses to our Food for Thought mailings, asking if you can freely share and forward these thoughts. Indeed you can. All we ask is that a clear attribution to LogiStyle and our contact information are included. For the interested reader, we have archived some of our recent Food for Thought mailings at our website, and can be viewed at LogiStyle: Food for Thought Archive. As always, we welcome your comments. We hope your business is doing well. If we can be of any assistance please fell free to call – even, if just to chat.

Best Regards,

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