Compensation of Special Groups
Who Are Special Groups?

- Specific groups receive special treatment in the form of...
  - Add-on packages not received by other employees
  - Compensation components entirely unique in organization

- Characteristics of special groups
  - Tend to be strategically (or politically) important to firm
  - Positions tend to have built-in conflict

Example: **Graham Spanier was still being paid $600,000 per year a year after being ousted as Penn State President**

(Milkovich, Newman, & Gerhart, 2014)
Key Activities of Corporate Directors

- Review senior management actions to ensure congruency with organizational
  - Mission
  - Vision
  - Strategies

- Review policies of key organizational operations to ensure effective use of resources

- Ensure senior management is properly staffed

(Milkovich & Newman, 2008)
Conflicts Faced by Corporate Directors

- Help set strategic plans affecting profits

- Face possibility disgruntled stockholders may sue over corporate strategies that are
  - Unprofitable or
  - Unpopular

(Milkovich & Newman, 2008)
Corporate Directors

- Stockholders blame corporate directors for excessively high executive compensation
  - Directors are much more active in decision making and somewhat less prone to grant huge salaries to the CEO
  - Approximately two-thirds of boards now include more outside directors than inside directors

(Milkovich, Newman, & Gerhart, 2014)
Compensation of Corporate Directors

- Annual retainer
- Attendance fees
- Fees for participation on subcommittees

(Milkovich & Newman, 2008)
Corporate Directors

In exchange for meeting at least quarterly a typical director currently receives about $55,000 in cash, plus incentives for a total of @ $150,000

Corporate Governance at Corning, Inc.

(Milkovich & Newman, 2008)
Major Benefits Offered to Directors

- Retirement programs
- Matching director’s gift to college or university
- Deferral of cash compensation until retirement
- Grants to charity
- Medical insurance
- Payment of spouses’ travel expenses
- Death benefits

(Milkovich & Newman, 2008)
Corporate Directors: Recent Changes

- Boards now include more outside directors than inside directors

- Along with shift in duties, pay has moved towards pay for performance

- Stock options have gained prominence in the corporate directors’ package

(Milkovich, Newman, & Gerhart, 2014)
Conflicts Faced by Top Management

- Must decide between strategies
  - Maximizing short-term gains *versus*
  - Focusing on long-term

- Stockholders want returns on investment

- Government wants compliance with laws

(Milkovich & Newman, 2008)
Explanations for CEO Compensation

- Social comparisons
  - Executive salaries bear a consistent relative relationship to pay of lower-level employees

- Economic approach
  - Value of CEO should correspond to some measure of organizational success

- Agency theory
  - Incorporates political motivations
  - CEO compensation should be designed to ensure executives focus on best interests of firm and stockholders

(Milkovich, Newman, & Gerhart, 2014)
Components of an Executive Compensation Package

- Base salary
- Bonuses or other short-term (annual) incentives
- Long-term incentives and capital appreciation plans
- Executive benefits
- Perquisites

(Milkovich, Newman, & Gerhart, 2014, pp. 481-485)
### EXHIBIT 14.2  Breakdown of Executive Compensation Components

<table>
<thead>
<tr>
<th>Compensation Component</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>60%</td>
<td>40%</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>Benefits</td>
<td>*</td>
<td>15</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Perks</td>
<td>*</td>
<td>5</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Short-term incentives</td>
<td>25</td>
<td>20</td>
<td>27</td>
<td>17</td>
</tr>
<tr>
<td>Long-term incentives</td>
<td>15</td>
<td>20</td>
<td>40</td>
<td>66</td>
</tr>
</tbody>
</table>

*Unreported.


(Milkovich, Newman, & Gerhart, 2014, p. 481)
<table>
<thead>
<tr>
<th>Popular Perks Offered to Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical exam</td>
</tr>
<tr>
<td>Company car</td>
</tr>
<tr>
<td>Financial counseling</td>
</tr>
<tr>
<td>Company plane</td>
</tr>
<tr>
<td>Income tax preparation</td>
</tr>
<tr>
<td>First-class air travel</td>
</tr>
<tr>
<td>Country club membership</td>
</tr>
<tr>
<td>Luncheon club membership</td>
</tr>
<tr>
<td>Estate planning</td>
</tr>
<tr>
<td>Personal liability insurance</td>
</tr>
<tr>
<td>Spouse travel</td>
</tr>
<tr>
<td>Chauffeur service</td>
</tr>
<tr>
<td>Reserved parking</td>
</tr>
<tr>
<td>Executive dining room</td>
</tr>
<tr>
<td>Home security system</td>
</tr>
<tr>
<td>Car phone</td>
</tr>
<tr>
<td>Financial seminars</td>
</tr>
<tr>
<td>Loans at low / no interest</td>
</tr>
<tr>
<td>Legal counseling</td>
</tr>
</tbody>
</table>


(Milkovich, Newman, & Gerhart, 2014, p. 485)
The AFL-CIO provides a (biased) site to monitor executive compensation at its Executive PayWatch Database.

Check out the Forbes.com Executive Pay List and the Perks!

Mercer Consulting provides examples of information and services that are fee-based.
Executive Pay & Performance

- Pay is linked to company performance
  - Company performance exceeds industry standards, big bonuses and stock payouts follow
  - Poor financial performance means much smaller pay packages

- Ways to rein in executive compensation
  - Stockholders can vote/propose limits to compensation
  - Use of tally sheet
  - Increase government regulation

(Milkovich & Newman, 2008)