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 for several years after being ousted as Penn State President

(Newman, Gerhart, & Milkovich, 2017)
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

(Newman, Gerhart, & Milkovich, 2017)
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)
In exchange for meeting at least quarterly a typical director currently receives about $100,000 in cash, plus incentives for a total of $130,000.

Corporate Governance at Corning, Inc.

(Newman, Gerhart, & Milkovich, 2017)
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 and other incentives have gained prominence in the corporate directors’ package

(Newman, Gerhart, & Milkovich, 2017)
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)
Executive Compensation
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

(Newman, Gerhart, & Milkovich, 2017)
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

(Newman, Gerhart, & Milkovich, 2017, p. 505)
### 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.

## Popular Perks Offered to Executives

<table>
<thead>
<tr>
<th>Perks Offered</th>
<th>Perks Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical exam</td>
<td>Personal liability insurance</td>
</tr>
<tr>
<td>Company car</td>
<td>Spouse travel</td>
</tr>
<tr>
<td>Financial counseling</td>
<td>Chauffeur service</td>
</tr>
<tr>
<td>Company plane</td>
<td>Reserved parking</td>
</tr>
<tr>
<td>Income tax preparation</td>
<td>Executive dining room</td>
</tr>
<tr>
<td>First-class air travel</td>
<td>Home security system</td>
</tr>
<tr>
<td>Country club membership</td>
<td>Car phone</td>
</tr>
<tr>
<td>Luncheon club membership</td>
<td>Financial seminars</td>
</tr>
<tr>
<td>Estate planning</td>
<td>Loans at low / no interest</td>
</tr>
<tr>
<td></td>
<td>Legal counseling</td>
</tr>
</tbody>
</table>


(Milkovich, Newman, & Gerhart, 2014, p. 485)
Executive Compensation: Examples

- 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)