Podcast Summary –
Evaluating Executive Pay Relative to Company Performance
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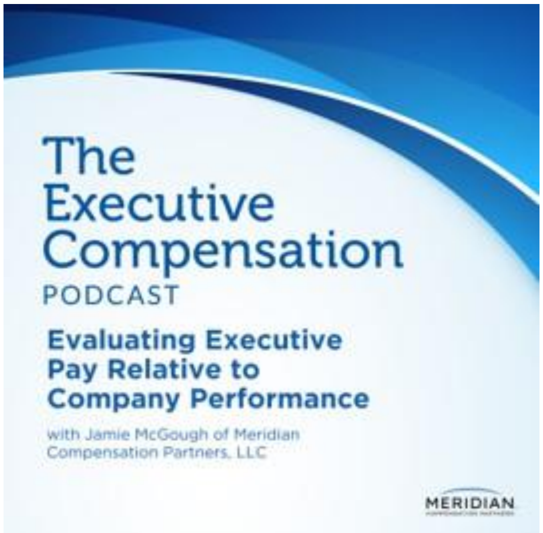

Introduction

Effective executive compensation practices are essential for aligning the interests of leadership with the goals of shareholders. This episode of the Executive Compensation Podcast, hosted by Ryan Harvey and featuring Jamie McGough, focused on the alignment of executive pay with company performance; emphasizing the importance of aligning executive compensation with company performance to drive business results, increase shareholder value, and mitigate potential risks.

Key Themes and Topics

1. **Defining Pay and Performance in Executive Compensation**
   - **Realized and Realizable Pay**: Moving beyond target compensation to include what executives actually earn, which may fluctuate with company performance.
   - **Complexity of Compensation Structures**: Executive pay packages include multiple components, such as salaries, bonuses, long-term incentives, and stock options, each affected by different time frames and performance metrics.

2. **Criteria for Measuring Performance**
   - **Absolute vs. Relative Measures**:
     - Absolute measures assess how compensation relates to the company's predefined goals.
     - Relative measures evaluate how compensation compares with similar benchmarks in the industry.
   - **Common Performance Metrics**:
     - Total shareholder return (TSR) and other high-level financial metrics, such as EBITDA, net income growth, or EPS growth, are critical for evaluating performance.
     - Industry-specific measures, like same-store sales growth for retailers or return on equity for financial services, are also used to gauge performance.

3. **Challenges in Measuring Pay and Performance Alignment**

- **Overlapping Performance Cycles**: Long-term incentives and stock options can complicate evaluations because their performance periods can extend beyond the typical evaluation window.
- **Methodological Imperfections**: No single method perfectly aligns pay with performance, requiring compensation committees to choose the least imperfect methods available.

4. **Governance Implications**
   - **Decision-Making for Boards and Compensation Committees**: Assessing whether pay structures are effective and whether there is directional consistency between pay levels and company performance.
   - **Adjustments Based on Evaluation**: If pay and performance are misaligned, adjustments might be necessary, either by changing performance goals or revising compensation structures.

5. **Regulatory Considerations and Critique**
   - **SEC Regulations and Proxy Advisor Guidelines**: New SEC requirements for pay versus performance disclosures are seen as lacking in practical utility, providing data that does not necessarily aid in decision-making.
   - **Methodological Differences**: The critique focuses on the practical application of regulatory frameworks, which often do not align with the more nuanced, real-world applications needed by boards.

Conclusion

Aligning executive compensation with company performance is not merely a regulatory requirement but a fundamental aspect of corporate governance. While the methodologies employed to measure this alignment may be imperfect, they are crucial tools for ensuring that executive pay reflects the true value created for shareholders. Boards and compensation committees must navigate these complexities thoughtfully, using robust frameworks to make informed decisions that support sustainable corporate success.

Listen to the full podcast here:
Evaluating Executive Pay Relative to Company Performance - Meridian Compensation Partners (meridiancp.com)