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So how much to pay executives?

By Paperitalo Staff

Last week's column, "A fiduciary misstep" created several responses, the predominant one being, "Jim, so how much should people be paid?" This question, of course, is in the context of executive pay.

The answer is simple in theory, tough in execution: "Not one dollar more than it will take to keep the good ones and keep them properly motivated." Pay beyond this is simply a waste of the company's assets.

Who is responsible for figuring this out on a case-by-case basis? The Human Resources Department. Unfortunately, they are seldom held to this high standard.

Having been in engineering departments in the past myself, we were always cognizant of receiving good value for dollars expended. And using bidding processes and comparative shopping, we could usually satisfy ourselves that we were succeeding in being good fiduciaries. However, I have never seen this subject even come across the desk of the human resources department.

I am a member of the National Association of Corporate Directors. Executive pay is a big topic in our meetings, especially the annual meeting. The problems identified at that level are simple to describe, hard to deal with. The first problem is that an executive pay consultant is usually hired to set the top tier pay. The flaw in this exercise has been that this consultant is often hired by and reports to the CEO. One can see the obvious conflicts there.

The second problem is that boards of directors tend to want to have executives paid in the top quartile. They make this statement both in hiring and in continuing employment. The logic here is that if our top executives are paid in the top quartile of all executives, then they must be really good. This of course leads to rampant inflation, as everyone annually rushes around to make

their executives' pay in the top quartile (only in Lake Wobegon can everyone's child be above average).

I have a simpler solution. Watch your voluntary attrition rate. May I suggest that if 10% of your executives leave, on their own, annually, your company is doing about right? Not only do you then know you are operating on the edge of satisfaction (a great place to be, no matter the venue), you have the opportunity to bring in fresh thinking and ideas every year. Your company may just find out that it does not have all the answers, and indeed fresh blood can bring new solutions to otherwise intractable problems.

After all, everyone sitting around fat, dumb and happy certainly has not been working in our industry, don't you think?

For safety this week, may I suggest you never get complacent? Empower everyone to stop unsafe acts. Be careful and we will talk next week. ##