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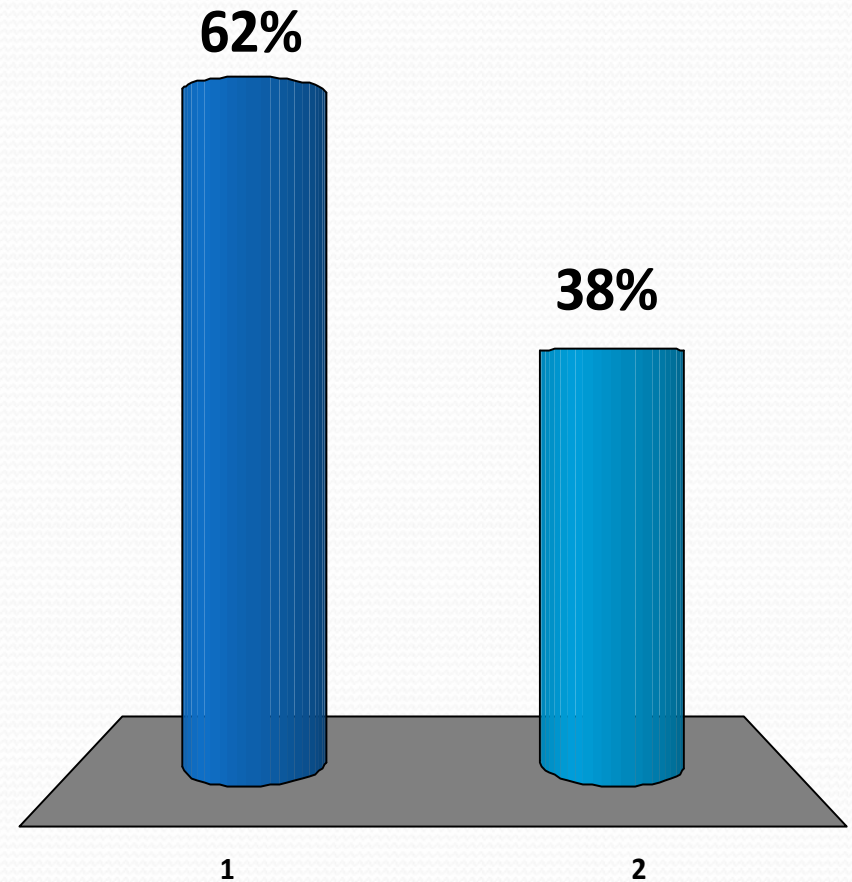
A L L I A N C E[®]
O F C H I E F E X E C U T I V E S , L L C

CEOs Deserve to be Rewarded Too

Robert Sher

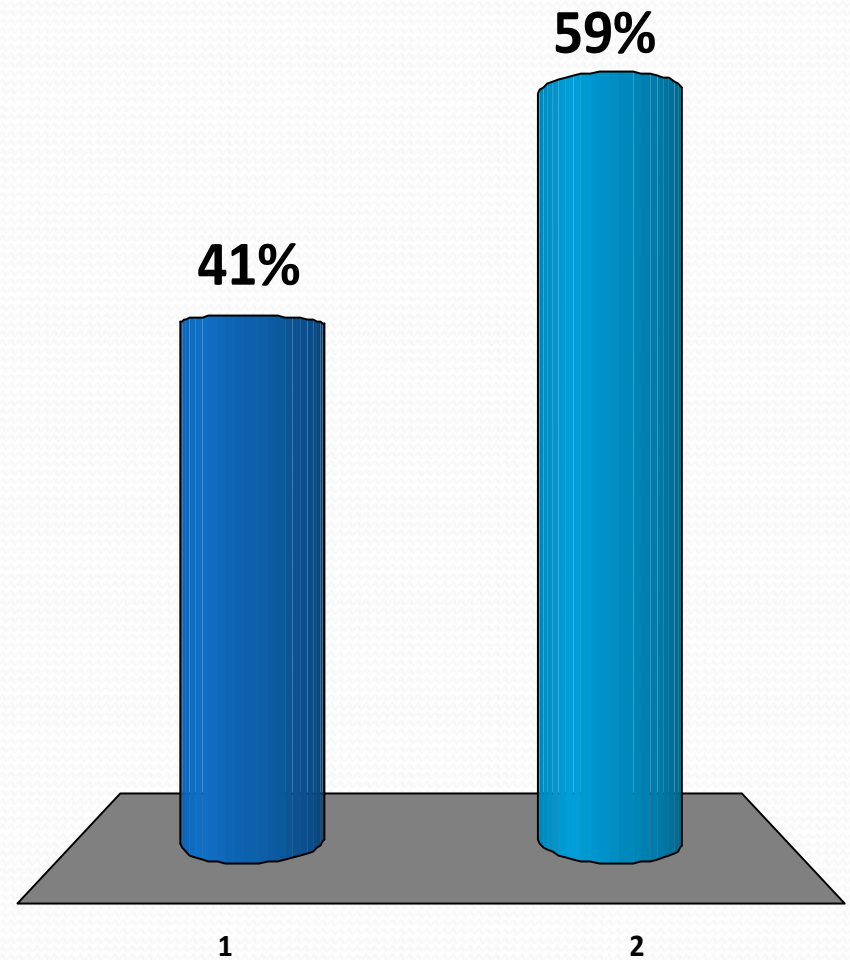
Practice Question

1. I am an Alliance member.
2. I am a guest.



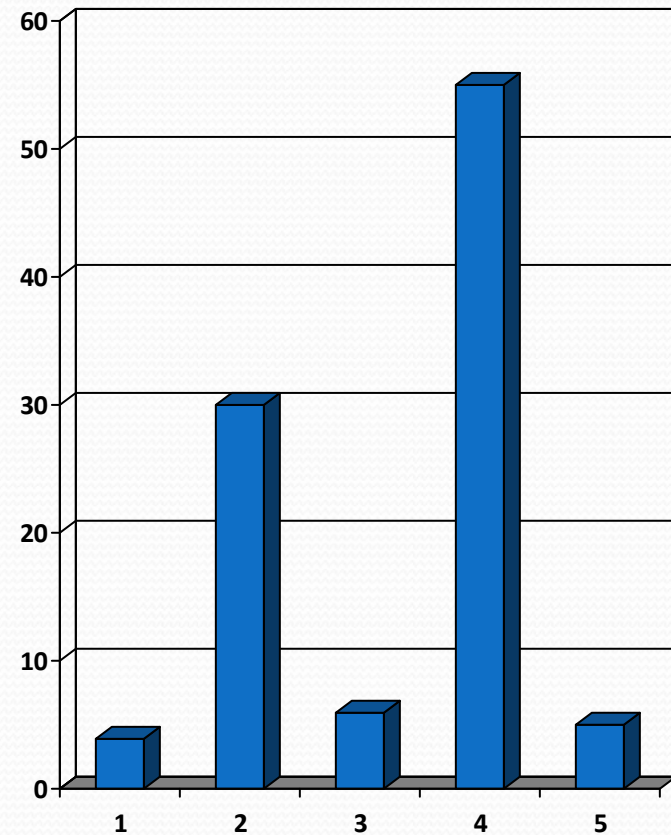
I Have a Written Employment Contract

1. Yes
2. No



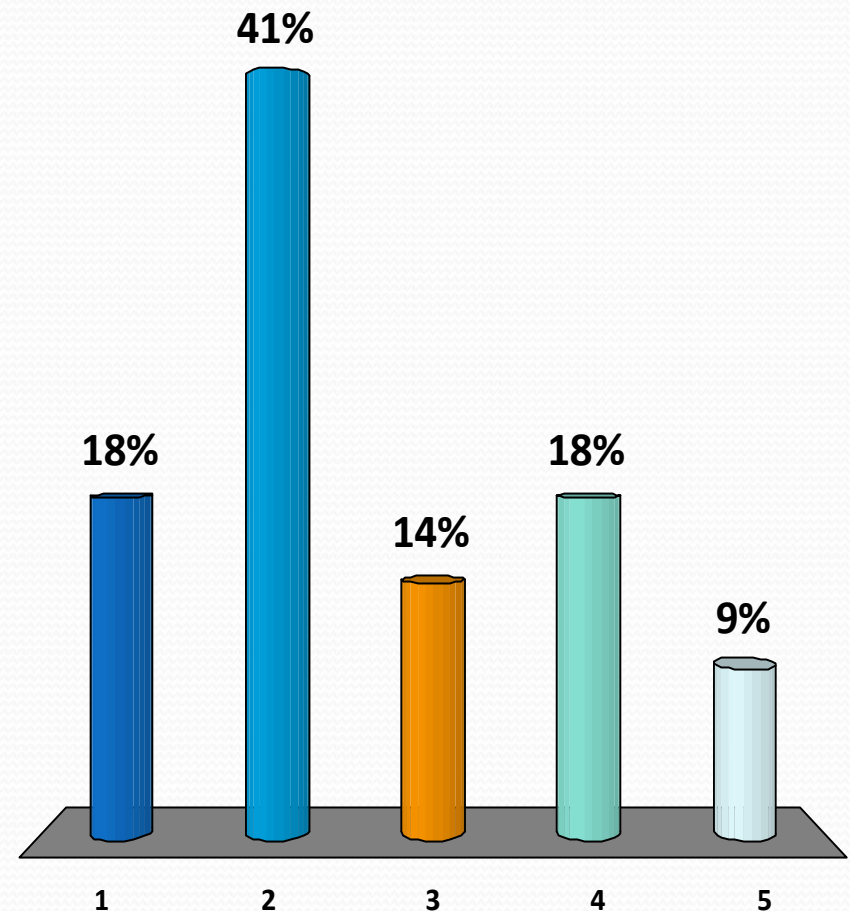
Type of Company

1. Public company
2. Investor funded company where CEO is minority shareholder
3. Investor funded company where CEO owns majority
4. Closely held: CEO owns 80% plus
5. Closely held partnership (CEO holds <80%)



Health of Company

1. We are excelling
2. Steady and improving
3. We are stuck in a trading range—neither good nor bad
4. We are struggling
5. We are in a turnaround situation



The Root of Many Compensation Disputes

- Alignment between performance expectations, results and compensation.
- How are/should performance expectations be established?
- What are the relevant performance results areas, and how should they be measured?
- Should compensation fluctuate with performance; at what level, with limits?

The Public Company Fishbowl

- Glass Lewis reviews public board performance and advises institutional investors which board members to vote for, and which to vote against.
- Public boards are supposed to set prudent compensation plans for the top executives. (One aspect of director performance.)
- Bob McCormick is the Chief Policy Officer of Glass Lewis, who is responsible for architecting director evaluation approaches.
- They believe in pay for performance.



Bob McCormick, CPO

Glass Lewis's Approach

Target Setting

Performance is evaluated against the performance of a company's peers. Peers are grouped into **four applicable peer groups**:

- 1. industry peers**
- 2. sector peers of similar size**
- 3. companies of similar market capitalization**
- 4. companies in the same geographic regions**

Glass Lewis's Approach Performance

Six indicators of shareholder wealth and business performance:

- 1. stock price change**
- 2. change in book value per share**
- 3. EPS growth**
- 4. total return**
- 5. return on equity**
- 6. return on assets**

Glass Lewis's Approach Compensation

They look in two places:

- 1. The chief executive's total compensation**
- 2. The top five executives' total compensation**

Glass Lewis's Approach

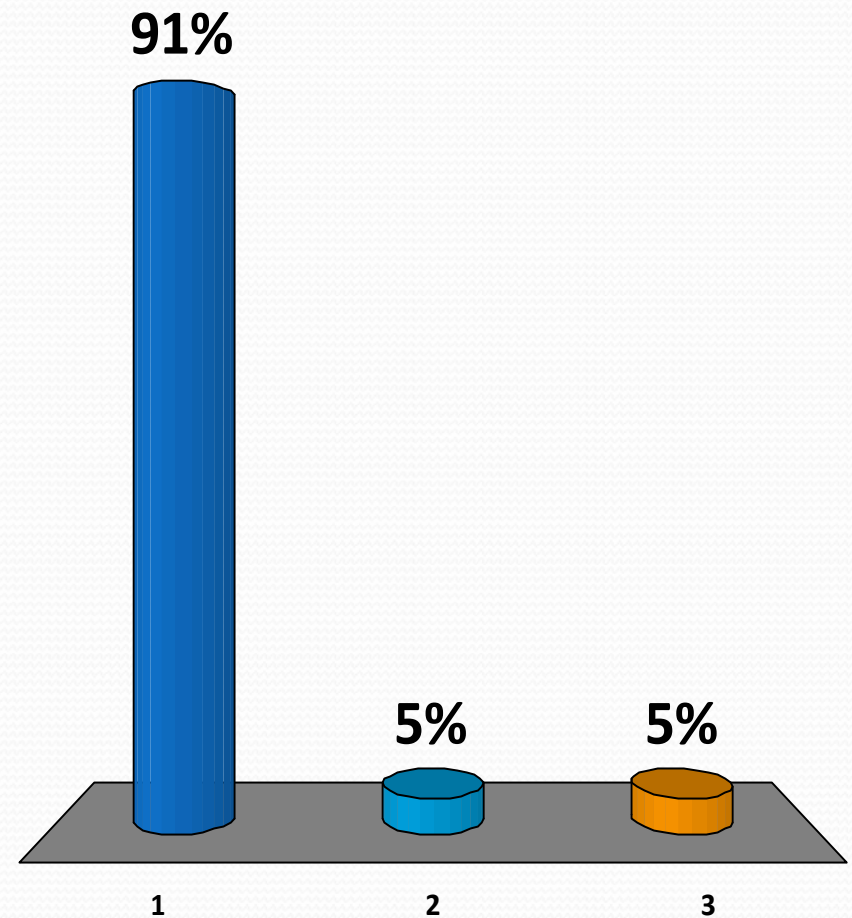
Comparative Alignment Ranking

“In the end, the model calculates a weighted-average executive compensation percentile (i.e., compensation relative to peers) and a weighted-average performance percentile. For example, a company might be in the 85th percentile in executive compensation and in the 65th percentile in performance. These two percentile rankings are compared to determine how closely the compensation tracks the relative performance of the company.”

<http://www.glasslewis.com/resources/pay-for-performance/>

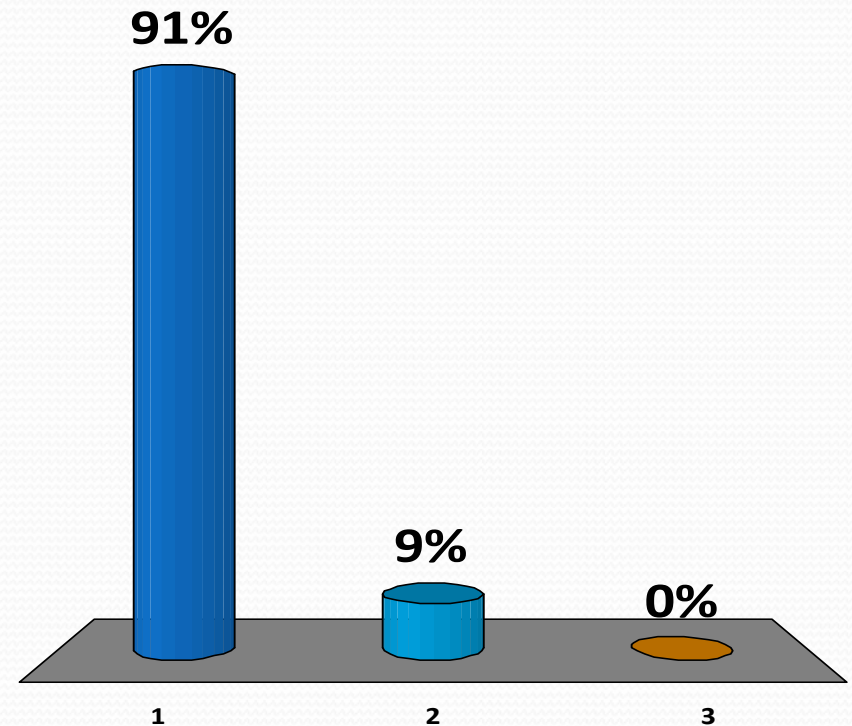
Generally, should CEO pay be linked to performance?

1. Yes
2. No
3. Maybe



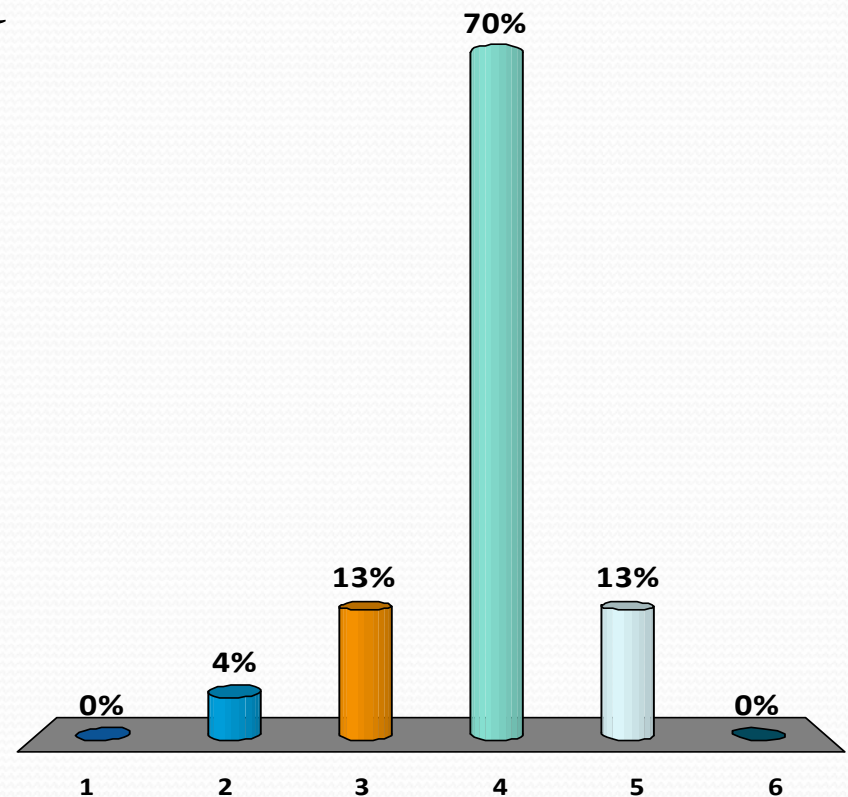
Should **YOUR** pay be linked to company performance in your current company, given the present circumstances?

1. Yes
2. No
3. Maybe



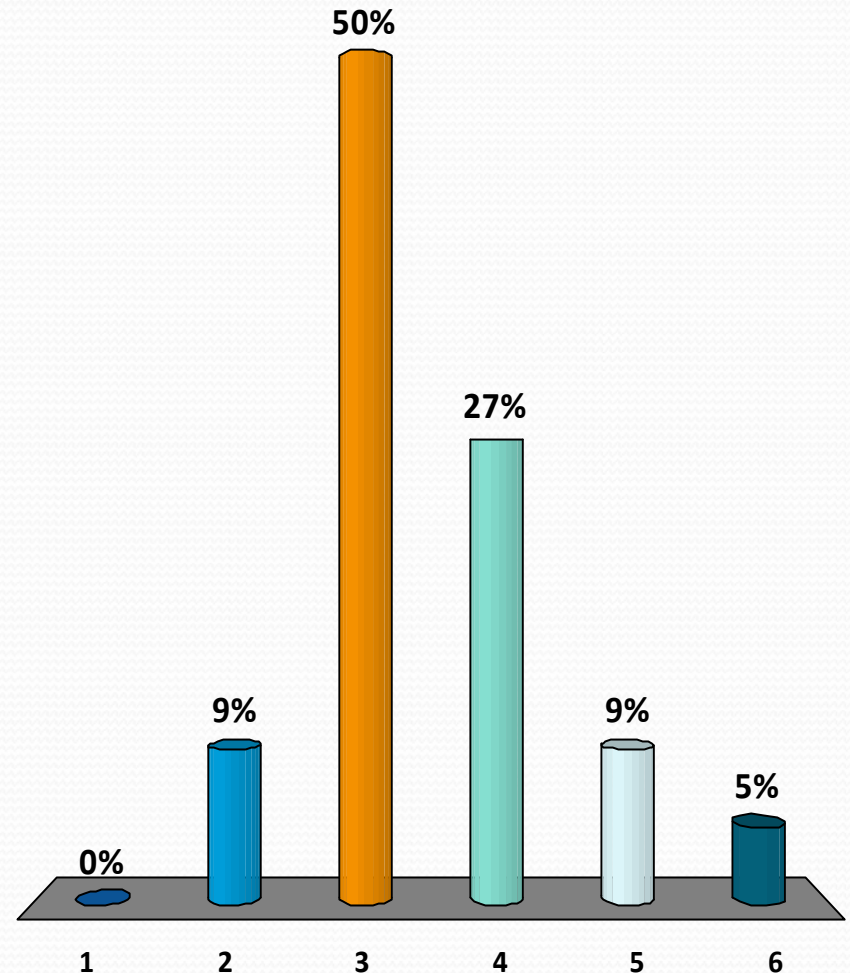
How should performance targets (for purposes of Exec. Comp.) be set in your company?

1. Relative to peers
2. Financial objectives set at beginning of the year by the board
3. Attainment of key milestones set by board
4. A mix of objectives set by both the board and CEO
5. The CEO sets the targets
6. Other



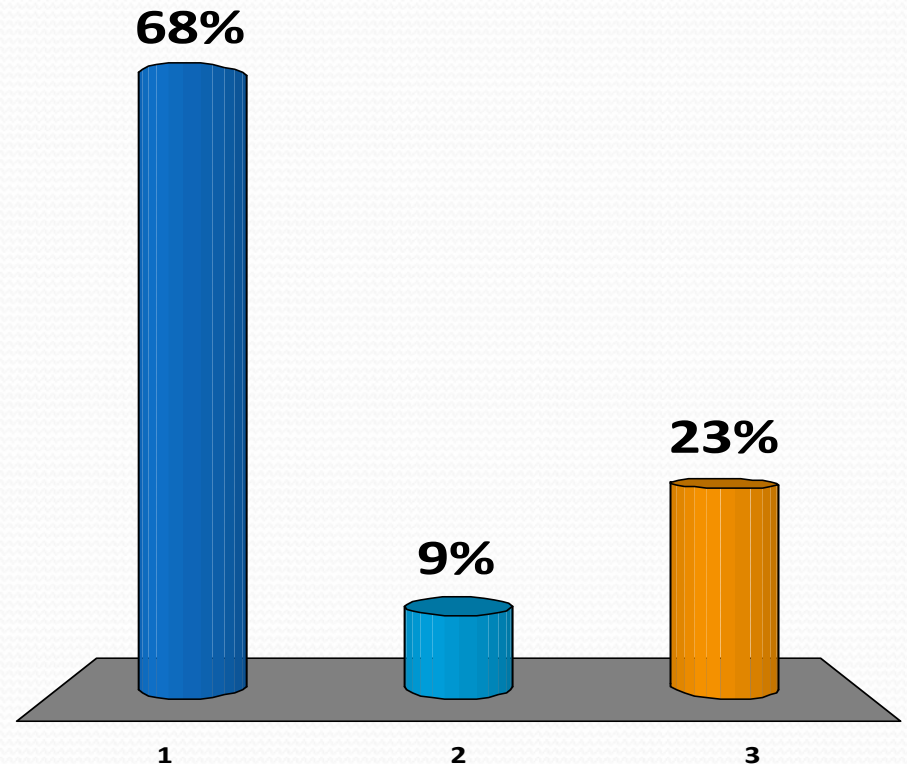
How much of total CEO compensation should be variable, in your industry?

1. None
2. 5-20%
3. 21-40%
4. 41-60%
5. 61% - 80%
6. Over 80%



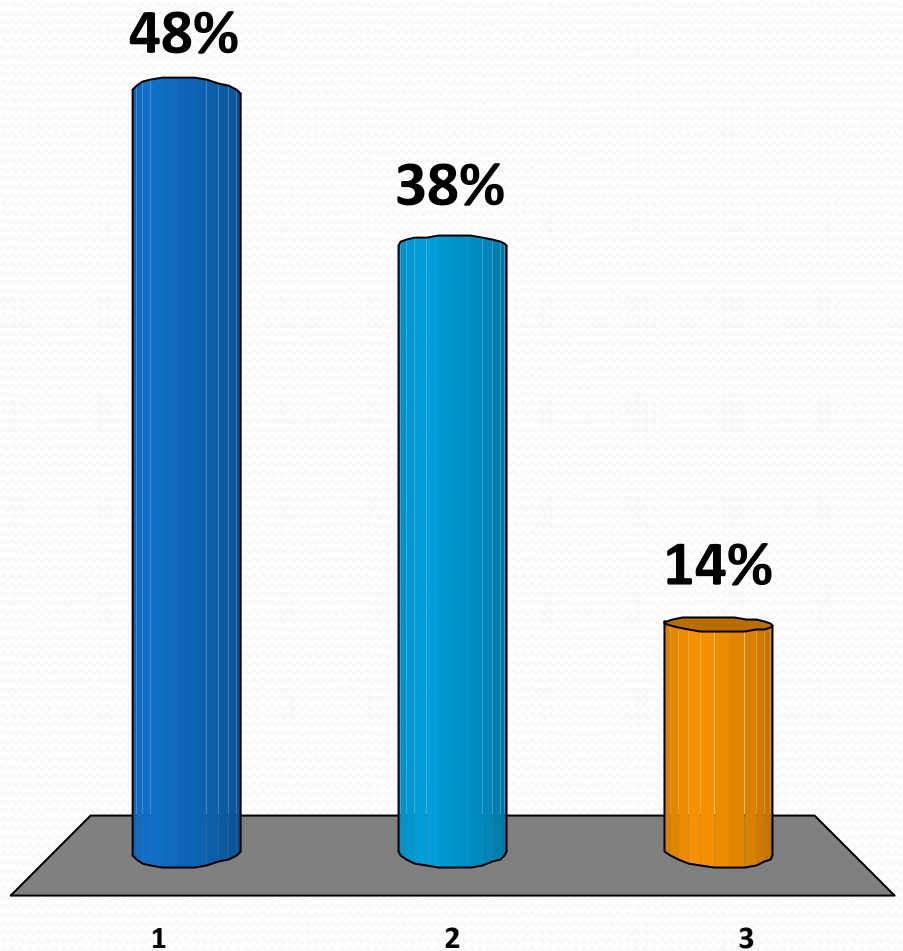
Should top team pay be computed using a similar approach as is used for the CEO in your industry?

1. Yes
2. No
3. Maybe



Should the underlying compensation approach be different in closely held companies?

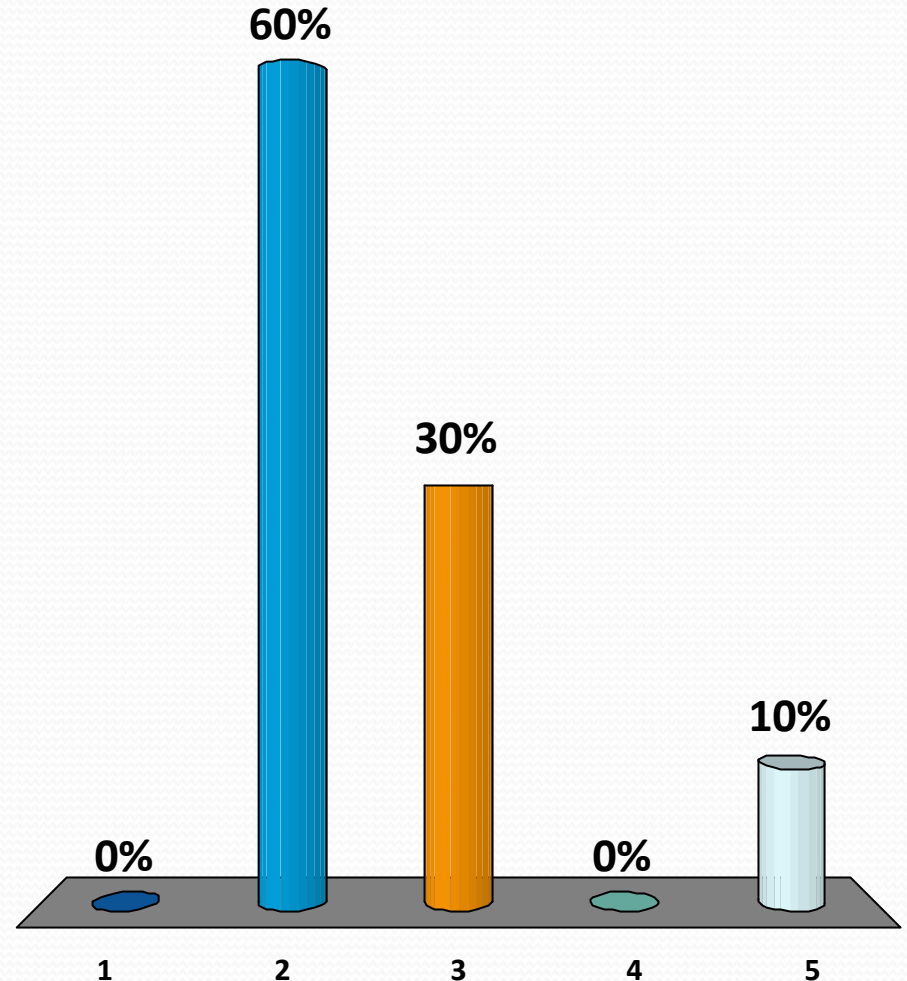
1. Yes
2. No
3. Don't know



How transparent should you be about executive compensation?

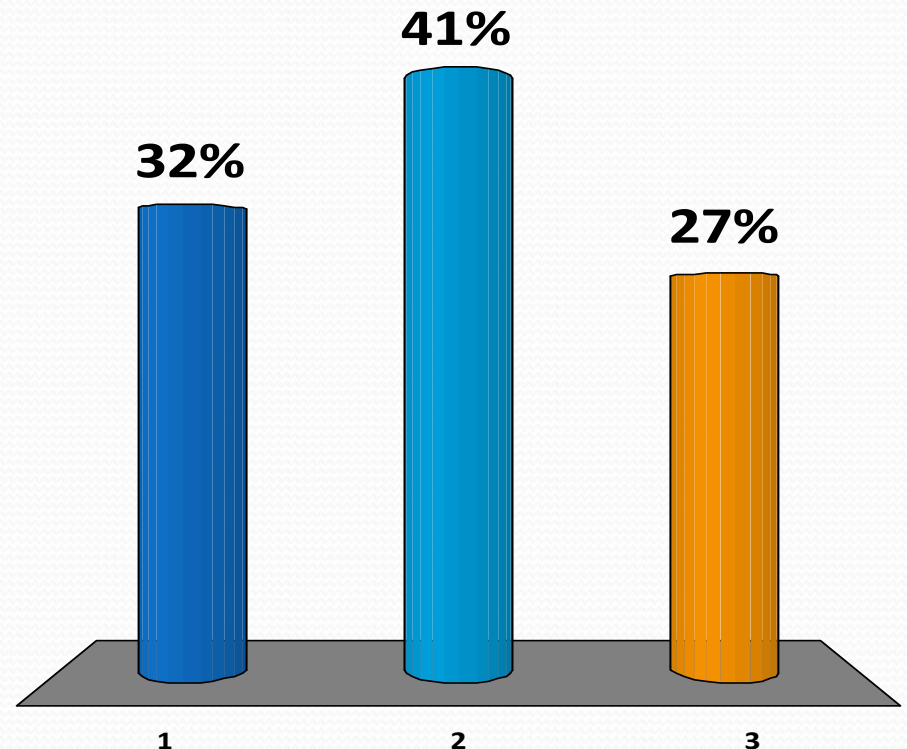
(Assume you have a choice.)

1. Full public disclosure
2. All confidential
3. Share executive comp with all executives
4. Share exec comp with all employees
5. None of the above



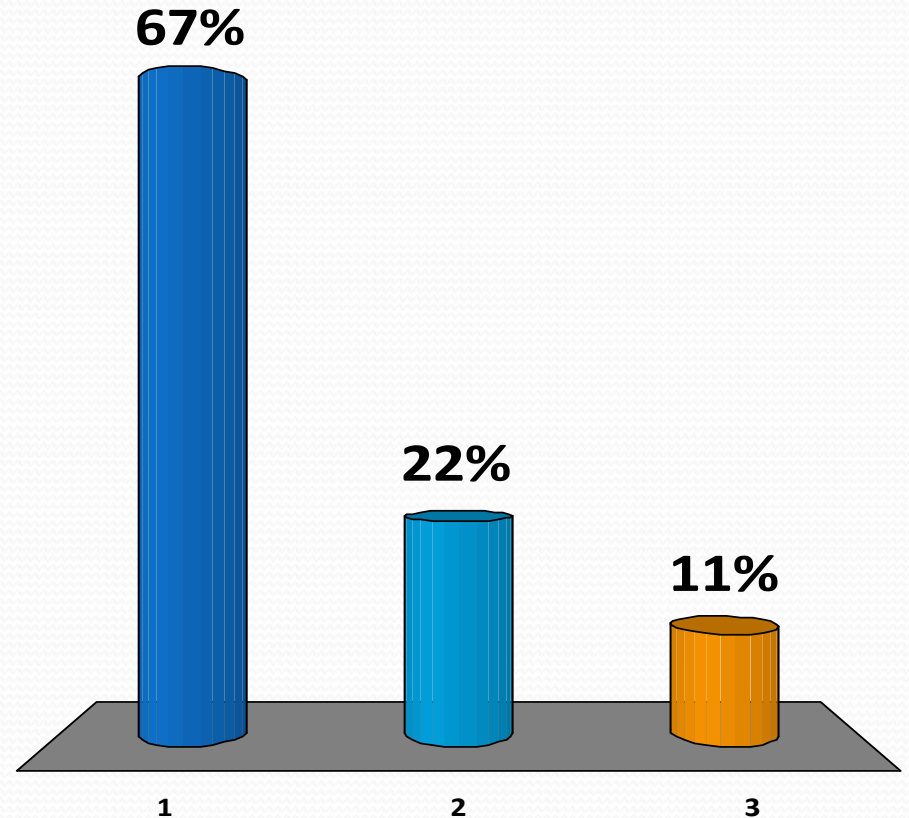
Politics vs. Pay for Performance: Have you been a part of a board-CEO falling-out despite achievement of clear and accepted expectations?

1. Yes
2. No
3. Not applicable to me—I've not worked for formal boards.



Politics vs. Pay for Performance: For those that answered yes, were you compensated fairly during/after the fallout?

1. Yes
2. No
3. Don't know



Your challenges:

- What challenges do you face now related to CEO compensation and contracts?
- What challenges are you likely to face in the next year?
- Is it possible that there will be a change in interested parties over the next year? New investors?
- Other related challenges?

Leverage the collective wisdom of your peers!

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