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THE COMING BATTLE OVER EXECUTIVE PAY

by Karen Dillon

Wall Street may have ignited the outrage over executive compensation, but it's now affecting all public companies. Believing that corporate pay practices encourage excessive risk taking, policy makers feel compelled to intervene, and shareholders are angrily demanding input. The battle will rage in boardrooms and annual meetings for years, and it won't be pretty. A bill that will give shareholders a "say on pay" is winding through Congress, and if passed, could affect how U.S. companies pay key employees - and perhaps open other operational decisions to shareholder approval. That would hamstring companies competitively, some argue. Complicating matters, the experts are deeply divided on how to tie pay to performance. Moreover, past attempts to regulate pay spurred companies to find loopholes, such as bonuses, deferred compensation, and huge hidden perks that weakened the link between compensation and company results. Though the answers aren't clear, the practices of household products maker Reckitt Benckiser offer a potential model. Reckitt has overhauled compensation throughout its ranks, linking performance-based pay for all executives to economic value added to the business. No one receives a bonus for individual performance; a separate long-term incentive program rewards individual performance with shares and options, which vest only if the company grows earnings per share by more than 30% for three years. This simple system helped Reckitt turn itself around and generate strong growth - and the executives, in turn, have been well paid for their efforts.

