EXECUTIVE SALARIES AND PAY CAPS

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Introduction

Executive Salaries are set according to a unique blend of external market competitiveness and internal equity considerations. Every organization has its own way of paying people and use many variables to determine the mix and quantum, such as revenue size, number of employees, type of people they wish to attract, profitability, pre-established pay history, corporate culture, geographic location, talent depth, benefits and perks, and ease of commute. Every enterprise has to compete in an open market to attract and retain talent; those who pay too low fail to attract or retain good employees and must either raise their entry salary or do without good hires. Those who pay too high will have long lines of applicants for every opening, but they need to be much more profitable or more efficient than their competition or they may spend themselves out of business, or in a down turn they would need a pot of money to fund severance programs to lay-off excess staff. Despite many companies saying that they pay according to what the market requires, no two entities pay exactly the same. Beyond the minimum starting range, employers all vary in their practices, even for similar organizations of the same size within the same city and in the same industry. No two organizations will agree on exactly what their 'competitive market' is for all jobs, how it is structured or what their target pay should be. Once an employer has paid enough to hire someone, the cash paid above that amount is totally up to the company. Pay always reflects a particular company policy on the intended role of salary within their pay mix of total compensation, of which base salary is merely one component.

Total Compensation?

Total Compensation is very much more than base pay. The key elements in total compensation include;

A) Base Pay -
Will generally form 40% to 50% of total cash and the base pay will be structured to attract talented employees and provide a secure base of cash compensation. i.e. to provide a minimum level of pay that sustained individual performance warrants.

B) Bonus Pay (Short Term incentives)
Rewards individual performance and operational results for business units and or the Company. Primary compensation element to recognize performance against pre determined business goals and reward accomplishments within a given year. Would generally be around 50-60% of total direct cash compensation?

C) Cash Allowances

D) Long Term Incentives (LTI)-Provides variable pay opportunity for long-term performance. Usually a combination of stock options and deferred bonus schemes.

E) Benefits (medical, life insurance, leave, exam reimbursement, utilities, etc.)

Therefore, when companies compare their compensation programs with market data it is best to look at total compensation without only attempting to be competitive at a base pay level and end up paying less or more than what the market is actually paying for a particular job.

Structuring Salaries

Starting salaries are usually the lowest amount employers will pay for work. Companies expect new hires to know less about a new position, so they typically start them lower than someone with an established track record. Employers generally ensure that entry-level starting salaries match the hiring market requirement and that new employees as far as possible will be placed at a lower salary point than their senior job peers. Median salaries are the amount in the center between the lowest and highest paid compensation. Median salaries are better measures of 'normal' pay, being central values. Averages can swing wildly with the addition of extremely high or low values to the group. All things being equal, employees with more years of experience in a company would generally make more money. Often experience at the company where you currently work generally trumps experience elsewhere, if some one were new in a position, companies would pay near the bottom of the scale. On the other hand if a company is hiring seasoned talent - people who can hit the ground running, they will warrant a salary that exceeds the entry rate. The role that qualifications and specialized training plays in determining a salary depends on the nature of the job and the relevance of the education and skill for the role. More formal education or advanced credentials in the specific field of work or occupational area will carry a lot of weight when determining salary offers.

Risk taking

To discourage excessive risk taking Companies have often used Pay Caps. However, companies that used pay caps have failed for several reasons. Vast majority of companies in most industries have incentive schemes that are sensible and as generous as they can afford to be. So when a blanket approach is used for all staff, it can become expensive and unhelpful, because a company can end up losing the key talent in the Business to competitors as the salaries will not track at all with the amount of increases in pay that their counterparts enjoy outside the organization. Money is generally a crude motivational instrument. If we want engaged and collaborative employees, we are likely to be much better off focusing on intrinsic and social motivators, such as making work more inspiring and interesting, and by providing recognition and promotional opportunities for those who do well. So these external reviews of incentive schemes are not only expensive, they also don't get at the real underlying drivers that encourage people to work smart and contribute for the betterment of the organization. Therefore pay caps simply won't work, because they don't encourage long-term alignment of individual and corporate interests.

Corporate Governance

Executive pay is an important part of corporate governance and therefore will need thoughtful tweaking to remain responsive to the changing needs of the modern organization andtherefore salaries and benefit programs of firms should be designed to;

- Attract, retain and motivate the talent required to ensure continued success
- Ensure that compensation reinforces achievement of business objectives, execution of strategy and is consistent with results
- Reward performance in a given year, achievements over a sustained period and expectations for the future.
- Appropriately structured to discourage excessive risk taking

In the final analysis, pay and perks is only one part of the total reward experience for a high-performing employee to determine whether or not to accept a job and then stay in the company. Most high performers don't work for money alone; therefore the total value proposition needs to be right to attract and retain key talent for the long-term success of a company.