

Executive Compensation: Pay for Performance or Pay for Stewardship?

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Abstract: Most conversations on executive compensation seem to focus on how much CEOs get paid. Unfortunately, in a larger sense, how much CEOs get paid will be determined mostly by the market, not by individual compensation committees of boards. Boards will find it necessary to pay competitively with the market to attract the kind of talent to whom they wish to entrust the company. Where the Board will have considerably more influence is in structuring when and under what conditions the CEO gets paid. This topic seems to seldom get much attention. And, when it does it seems to focus on the traditional norms of pay for performance, where performance is usually viewed as delivering on some financial metrics that relate to short term or long term performance indicators.

We introduce the notion of pay for stewardship, a concept whose foundation is the premise that the CEO should get paid as the market dictates, but only when they have fully discharged their stewardship responsibilities to all stakeholders that depend on them. We will focus on all stakeholders, including shareholders, customers, vendors and employees. Included in the discussion will be tools and strategies for holding the CEO accountable for discharging his or her stewardship responsibility. Finally, we contrast the notions of pay for stewardship with pay for performance.

This concept was developed and implemented in a publicly traded company early in the decade, for which the speaker was recognized nationally for transforming executive compensation.