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Executive Compensation as a Strategic Tool



As part of our series of articles by exceptional HR professionals, today we present article by a new guest author, Jim Moniz.

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With the year 2008 gone and its legacy of a weakened economy and even the most understated financial pundits already designating 2009 as volatile, many companies are reevaluating their business plans and shifting into survival mode. While attracting, retaining and motivating key employees are vital to the success of any business, the current economic environment may be the ideal time to re-think executive compensation measures.



The days of the “holiday bonus” may soon be by gone as companies – both private and public – progressively recognize there are other, more creative vehicles that can serve as incentive for retention. For instance, that annual check bestowed during the office holiday party is a short-lived and anticipated incentive and once received, what’s to stop employees from moving on to newer landscapes? This

yearly “reward” come the end of December or the fiscal year is often looked upon as part and parcel of salary, essentially diminishing the true definition of performance incentive – and while the intention may be good, this type of across the board reward mechanism can alienate certain employees whose performance is consistently outstanding.

By creating a business environment that fosters achievement and implements long-term incentive programs, the loss of vital employees whose skill and knowledge are fundamental to the overall success of a

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company may be avoided.

For example, deferral plans are fast becoming a popular executive benefit, since they allow for pre-tax contributions that mirror 401(k) contributions lost under limitation rules. A deferral plan is the bonus that keeps on giving year-round as it allows employees to reduce their current income tax liability and watch their funds grow tax-deferred. In addition, the employer can make matching contributions to cover those contributions not allowed under a 401(k) plan, making the deferral plan a genuine incentive for longevity within a company.

Phantom stock is another incentive that can be tied exclusively to performance. Simply put, phantom stock is a promise to pay a bonus in the form of the equivalent of either the value of company shares or the increase in that value over a period of time. The most essential element of this incentive approach is its long-term understanding. Also, phantom stock plans are not tax-qualified, and as such not subject to the same tax rules as 401(k) plans. A company can promise a new and valuable executive this durable bonus every three or five years or over a longer period of time, making it attractive to remain for an extended run.

Another form of executive bonus is the performance unit – an offer to pay an executive a sum of cash at the end of a long-term performance period. The amount of a performance unit is based on attainment of certain pre-established financial objectives of the company. Some may define this brand of incentive as the ultimate performance carrot, as it consistently encourages an executive employee to tie his or her individual success into that of the company.

Company stock options are another form of incentive compensation appealing to many executive level employees. The amount of equity can be tied to the number of years in service, translating into potentially high returns for employee longevity.

It must be said that there are occasions when a well-timed “spontaneous” reward can be worth its proverbial weight in gold. A check for a modest amount in the aftermath of a key company success can go a long way toward providing management team members with a sense of company loyalty.

Finally, don't discount other, more imaginative approaches to executive compensation. Options that should be considered are life insurance programs, health-club memberships, tuition reimbursement, flexible hours, and the leeway to work from a home office on occasion.

Ultimately, incentives should be connected to a company's broad mission and scope of values. Companies must create



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an environment that fosters success and incentives should be tied to that success. Failure to keep an eye on that goal may result in lack of motivation for certain key employees, whose performance or lack of performance can make or break a business.

An effectively designed executive compensation program impacts the overall success of a company. A well integrated compensation arrangement can assist in promoting the core values of a company and help it along the path to continued success.

About our Guest Author:



James E. (Jim) Moniz, CEO of [Northeast VisionLink](#), a Massachusetts firm that specializes in structuring executive compensation. James E. Moniz is a national speaker on the topic of wealth management and on executive compensation.



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