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Compensation plans to achieve strategic goals

The executive compensation plans are foundational means of driving every company's achievement of strategic objectives. They are so powerful that if used well, they can drive the company to the top or run it aground with a poor set-up. A methodical approach to executive package design ultimately creates long-term shareholder value, assures growth, and builds a foundation for ownership culture. A bad one will cause misalignment, short-sightedness, talent attrition, and lost profits.

The market leaders know that. In fact, this is partially what got them to the top. And there is no better way to learn for yourself than to study

- Which ones did they emphasize?

- Why did they choose the particular compensation vehicle?
- Why are some plans long while others run on quick and short cycles?

In this e-book, I analyze 8 publicly traded companies from the US and Europe to show how each of them structured their executive compensation package to fit their particular needs, stage of development, business objective, sector, and environment in which it operates.

I also check how each responds to particular challenges posed by the pandemic, fierce talent competition, or changing economic conditions. And whether the current executive compensation packages shield the firms from those dangers or how companies redesign them in response to poor performance in such conditions.

> "Retention and war for talent are important, but not more so than the **PERFORMANCE** - if you don't have the performance, you have the wrong executives.

Jack Connell

Leading Expert Consultant and CEO at Jack Connell Compensation Consulting

The competitive data is based on the proxy statements and FW Cook Global Top 250 Compensation Survey 2021/2022. I chose to present executive compensation plans from various perspectives, therefore the companies picked differ with respect to their goals, business stages, and traditions.

Mondelez and Inditex are giants with established position and large maket share, who nevertheless have to still search for new ways to grow. Therefor they need to focus on both the short and long-term perspective.

Amazon and Tesla are innovators with ultra large market caps. Their executive compensation packages are contrasted with a smaller size, yet similarly focused on innovation, AirBnB. These groundbreakers need extended time scales to realize their goals, therefore their executive compensation plans emphasize long-term perspective.

We'll also look at LendingClub and Beyond Meat, companies facing challenging market conditions, transitions, and acquisitions to see how the executive compensation plans stimulate focus on short-term results critical in the times of change.

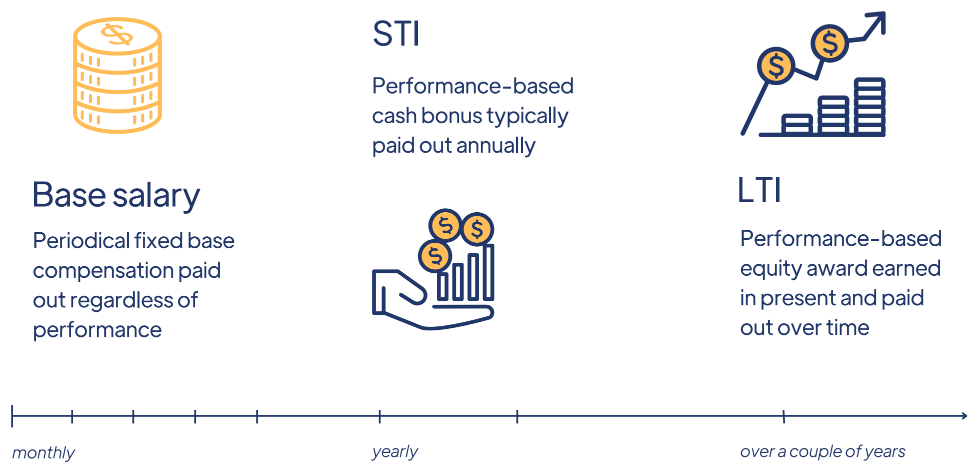
Finally, I also picked Inditex and InPost to show the European take on executive compensation. In the case of Inditex, at an established large company, contrasted with InPost, who is in the phase of fast growth and aggressive acquisition.

See how **Amazon**, **Tesla**, **Mondelez**, **LendingClub**, **AirBnB**, **InPost**, **Inditex** (Zara et al.), and **Beyond Meat** stimulate their growth with executive compensation plans.

Let's start with a short catch-up on the essential elements of executive pay:

Components of executive compensation plans

A typical executive compensation plan is composed of three main elements:



1. **Base salary** a fixed cash compensation a senior manager receives throughout the year periodically regardless of his or her performance.
2. **Short-term incentive plan** - usually a performance-based cash bonus paid out the same year the award was granted provided the achievement of the preset goals.
3. **Long-term incentive plan** - typically a performance-based equity award or profit-sharing plans earned in the present with a deferred payout spread over time (vesting period), usually spanning between three to five years.

Each of these elements can also vary as to whether the pay is:

- fixed or variable,
- compensation comes as cash or equity,
- the awards are based on group vs individual performance,
- and what is the frequency of the payouts, and the length of vesting periods

By carefully selecting these variable elements, you can structure an executive compensation package that can significantly impact the company's future. Let's see how these market leaders design their executive compensation plans to drive the company performance.

Next chapter

Teardown 1: Amazon