

How will the CEOs of tomorrow be paid?

Posted by: Matthew Boyle on April 23, 2009

For our upcoming package on “The CEOs of Tomorrow,” one question we wanted to answer was how the economic crisis and the increasing regulatory environment will impact CEO pay packages going forward. For an answer, we went to Don Delves, founder of [The Delves Group](#), a small Chicago consulting firm that specializes in executive compensation. We like Delves’ take on pay issues, as he’s one of the few compensation consultants around who actually tells it like it is. Here’s his response:

First, we have to look at some underlying trends that will affect CEO and executive pay:

- A relatively flat stock market - or at least not a raging bull market
- Very high inflation and interest rates
- The gradual replacement of baby-boomer CEOs with a next generation
- Greater focus on risk
- More talented, involved, entitled boards
- Continued rapid ascendance of China, India and others

What do these trends mean for CEO pay? A flat stock market will cause a shift away from stock compensation towards paying for financial performance. This happened in the 1970s and will likely happen again. This is probably healthy, as we have focused way too much on paying for short term stock performance.

Next-generation CEOs have a different value set. They are more egalitarian, cooperative, flexible, tech-savvy, and comfortable with change. They also may be a bit less focused on their own wealth, and more on enjoying life. There will also be a much greater focus on paying for innovation, entrepreneurship, and people development. The days of Gordon Gekko are over.

Less risk means fewer stock options, and instead, more restricted and performance-based shares. CEOs will be judged less on growth and profits and more on sustainability, balance sheet soundness, and return on capital. Meanwhile, baby-boomer boards will be more analytical. They’ll also be open to paying for innovation, but they will want this to be measurable. Look out for major board room battles over this.

The ascendance of emerging markets means that our pay may just not be all that exciting, compared to other countries. One possibility is that foreign executives inside U.S. companies may start becoming the highest paid, rather than the U.S.-based CEO.

Executive pay is a relatively new field and we are still in the dark ages in terms of our ability to distinguish bad pay plans from the good. All we can do now is point at a few outliers that really offend people and say they stink. I believe that we will develop agreed-upon methods and tools for boards and shareholders to use in evaluating the quality and effectiveness of executive pay. This will be driven either by the boomer boards, or by mandatory say on pay votes. Sooner or later, the voters will want a better system to evaluate what they are voting on.