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ASK THE EXPERT INTERVIEW | DEC 2019

Understanding Executive Pay Practices at Private Companies



Ed Steinhoff

MANAGING DIRECTOR

Managing Director Ed Steinhoff discusses the differences in executive compensation philosophies and design decisions at private companies versus publicly owned.

Q. You have recently advised several multi-billion-dollar private companies on their executive pay plans. What do those compensation committees have to do differently than their public counterparts?

A: Very large private companies typically are competing with both publicly traded and other private companies for executive talent and so the market is quite broad. This makes it more challenging for a private company to decide how it wants to position itself relative to this large and diverse labor market.

Base salary levels between equivalently sized public and private companies are fairly comparable for a CEO or a CFO and the same is generally true for annual incentive award opportunities. But there is usually a very different approach to long-term incentives and that could be in the frequency, the form, and/or the level of the LTI.

Q. Does this create a disadvantage or are there other options for a private company to be competitive?

A: This is where the compensation committee has to make a philosophical determination on the best approach to the total compensation package based on who they compete with for talent and what the executive attraction and retention concerns might be. For example, a large private company may have an LTI plan that is below public company levels, but they may provide an above-market supplemental executive retirement plan. It's not a one-for-one trade-off, but the SERP provides a partial offset and a strong retention hook.

Overall, committees need to think about the nature of the role they want to fill. While the market for talent is broad, there are differences in the roles of a senior executive at a public versus private company in terms of regulatory and reporting requirements and the degree to which they need to communicate and interact with external shareholders. Therefore, differences in pay program design and LTI in particular may be appropriate. It comes down to uniquely aligning compensation with your business—be informed but not dictated by the market.

About the Author

Ed is a consulting team leader with 25+ years advising boards and senior management on executive compensation for public and private companies to help design pay programs aligned with performance, governance, and stakeholder expectations.

About Pearl Meyer

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