

Executive Compensation: An Introduction to Practice & Theory



Executive Compensation: An Introduction to Practice & Theory

Steven Balsam, Ph.D.
WorldatWork Press. 2007.
517 pages. Soft cover.
ISBN: 1-57963-170-3

Q & A with Author Steven Balsam, Ph.D.

WorldatWork: The first edition of this book was published in 2002. What are some of the significant ways in which executive compensation has changed since then?

Author Steven Balsam: The major change is in the use of stock options. At the time the first edition was published, stock options had peaked in usage. Now, due to market declines, accounting rules forcing the expensing of options and the backdating scandal, the magnitude of option use has declined dramatically. Despite this, options are still a major part of the compensation package, and the largest form of equity compensation for most firms/executives. Even more interesting, now that the accounting incentive to issue fixed options has been removed, we are starting to see companies experiment with different types of options.

WorldatWork: Executive compensation really seems to be in the media spotlight right now. What should readers keep in mind as they are reading this book?

Balsam: Executive compensation is an extremely complex field, an industry to itself. Articles in the popular press are limited in length, so they can't always give you the necessary background. This book can provide, via examples from practice and feedback from academic research, some of the background necessary to understand what is going on in the industry and to evaluate whether pay is structured in an appropriate manner.

WorldatWork: Many critics contend that executives are overpaid for what they do. What is your feeling about the way executives are paid today?


Balsam: There are always some people who are overpaid, and others who are bargains. It exists in corporate America, but it also exists in sports and entertainment, and in academia. The key is to have a proper system of governance in place so that executives are not setting their own pay, but that pay is negotiated in an arm's-length transaction by directors who are looking out for shareholder interests.



WorldatWork: What are one or two of the major takeaways you'd like readers to have after finishing this book?

Balsam: I'd like them to have a basic understanding of the complexity of compensation packages, understand the major components (i.e., salary, bonus, stock options, restricted stock and pensions), understand how the components affect incentives and retention, and how they are used today in corporate America. A final note—I would like readers to understand that external (political) influences have shaped the executive compensation package, but not always to the benefit of shareholders. Examples include the overuse of options in the 1990s and perhaps the private equity boom we are observing now.

WorldatWork: What would someone outside of the compensation/executive compensation arena get from this book? Why is it important to HR generalists or professionals in other areas of total rewards?

Balsam: That is an interesting question. In the first edition of the book, I was instructed to focus on executive compensation. But the truth is, many of the incentives that apply to executives apply to all employees. For example, a bonus can motivate someone on the assembly line as well as a chief executive officer. The key is to base the bonus on something under his or her control. For that reason, stock options may not help motivate lower-level employees whose actions individually have little effect on share prices. 

Many of the incentives that apply to executives apply to all employees. For example, a bonus can motivate someone on the assembly line as well as a chief executive officer.

This bookshelf section has been compiled to share topical book news and make readers aware of new and significant titles relevant to the compensation, benefits and total rewards professions. Inclusion of specific books does not imply endorsement by WorldatWork or *workspan*. To acquire copies of these and other titles, please visit our online bookstore, www.worldatwork.org/bookstore, or call 480/922-2020 or toll free 877/951-9191. If you are interested in submitting a manuscript or book review for consideration, contact Andrea Ozias, book publishing manager, at aozias@worldatwork.org or 480/922-2038.