EXECUTIVE COMPENSATION*

I. FACTUAL REPORTS AND DISCUSSIONS
OF PRINCIPLES AND PROBLEMS

Baker, John C. *Executive salaries and bonus plans*. New York 18. Mc-
274 pp. $4.00.

An authoritative analysis of practices and policies applied to senior
executives in large and average sized companies during the years
1926-1936 as revealed in data published by the Federal Trade Com-
mision and the Securities and Exchange Commission. In the con-
cluding chapter the author summarizes his findings and points out
some of the cautions to be observed in compensating executives.

"How should executives be paid?" *Harvard Business Review*
(Soldiers Field Station, Boston 63), Autumn, 1939. pp. 94-106.
$1.25.

Discusses the advantages and disadvantages of salary and bonus plans
and outlines the following guiding principles which the author feels
should be given consideration in formulating a plan: "(1) they would have as few
present and future financial worries as possible; (2) they should be
influenced by the method of payment in a professional rather than in
a speculative direction; (3) they should receive other satisfactions
than simply financial ones; (4) they should have corporate standing
which would foster individual freedom of action and high social, in-
tellectual, and moral standards." He also stresses the importance of
careful study of most executive jobs and the type of men needed to
fill them and of constant review of the success of junior executives in
terms of promotional possibilities.

Dartnell Publications, Inc. *Executive salaries and contingent compensa-
Prepared for subscribers to *American Business*.

Discusses various plans for compensation of officers and partners,
general executives, department managers, and clerical assistants. Also
includes a salary survey which gives amounts paid to top executives
and amount of annual sales for companies in a variety of industries.

An introductory discussion of trends stresses the growing importance
of paying the "going rate" in the industry.

* Items from this list should be ordered directly from the publisher. Addresses are
given in connection with each reference.
Fortune (350 Fifth Avenue, New York 1), April, 1948. "What makes the Boss work?" pp. 104-107, 204, 266-213. $1.00.

Discusses the effects of the economic climate on the financial rewards of management and stresses the importance of reconsideration of the problem of incentives at the top level. Includes a brief description of the executive compensation plans of Owens-Illinois Glass Company; Sears, Roebuck; Johns-Manville; and Standard Oil (New Jersey).


On the basis of his own and Baker's studies, the author concluded that, given a salary high enough to permit a generous standard of living and ample provision for family obligations, the non-financial incentives that pertain to executive positions seem a sufficiently strong inducement to provide large corporations with the necessary leadership.


A broad discussion of fundamental problems in executive compensation plans, including objectives, elements and scope of the plan, underlying principles, measurement of individual accomplishment, and obstacles to successful administration.


A survey of industry and company trends in payment of the three highest-paid executives. Comparisons are based on percentage of net sales.


Brings up to date the data given in the report listed above and gives, in addition, information regarding the remuneration of all officers and directors for 762 companies.

2. Specific Types of Plans


Examines the significance, characteristics, justification, and weaknesses of 27 formal and informal pension plans. Argues that well-balanced executive compensation plans should include provision for retirement when corporate usefulness declines and when the promotion of younger men is seriously impeded.

A critical study of the characteristics and problems of stock options which leads to the conclusion that they are of little significance in attaining the objectives of a comprehensive executive compensation plan and that "some exceedingly well-defined reason should exist for their use before they can be classified as a constructive form of executive compensation."


Gives the reasons why a manufacturing company with several thousand employees discontinued an executive profit-sharing plan and describes the bonus plan which replaced it.


Brief description of the Bigelow-Sanford Carpet Company's executive compensation plan in accordance with which the amount of executive bonus is determined both by company profits and a combination of self-rating and committee rating for each executive covered.


Gives the characteristics of plans in 84 companies.


On the basis of their analysis of long-term trends and experience with profit-sharing plans, as well as of the effects of recent developments, the authors conclude, with special reference to managerial profit sharing, that it has "a better record of acceptance and survival than plans for wage earners... Nevertheless, the elimination of better treatment for salaried employees than for wage earners now in progress, increased personal income taxes... more watchful stockholder attitudes evidenced by the litigation initiated in recent years, a more critical public opinion toward executive compensation... are likely to hamper [its] further development..."

3. **LEGAL AND TAX ASPECTS**


Considers the problems faced by the courts in judging the reasonableness of amounts paid to executives and argues that courts and others faced with the question should base their decisions on statistical analy-
sis of data available from government agencies. On the basis of the statistics assembled for this study, the author also draws some interesting conclusions regarding the effects of executive compensation practices and tax policies on the financial soundness of small companies.


Examines the tax aspects of various types of incentive payments and the types of plans permissible under present laws and Treasury rulings.


Discusses the point at which deferred compensation plans show tax advantages over additional cash income and the advantages and disadvantages of putting the rights of the individual executive in the deferred compensation plan into a formal contract.


Discusses the effects of the federal tax policy on executive incomes and calls for a "complete re-examination by Congress of the basis of taxing earned income." Suggests the following as guiding principles: relief of executives from personal financial worries, maintenance of healthy corporate economy, maintenance of the enterprise system, and increased participation by management in the making of public decisions affecting the enterprise system.


A summary of cases which were of special interest during 1948. Includes a list of 14 "factors which have been held favorable, in recent cases, in determining that compensation was reasonable."


An exhaustive study of various types of executive compensation plans with discussion of "the chief legal and practical problems encountered in the drafting and adoption" of such plans. Includes texts of a number of corporate documents giving details of agreements with executives.