Executive Compensation Essay, Research Paper

Executive Compensation

Executive compensation should be pay for performance. The direct link between pay and the company s profitability is an important factor. It can either motivate an executive to work harder for the company or to work against the company. Borders Group has established a Compensation Committee, comprised of two independent, non-employee members of the Board of Directors without interlocking relationships. This committee ensures that executive compensation policies and practices in place enable Borders Group to attract, retain, and motivate outstanding management that will drive superior operating performance .

The current compensation policy provides a performance oriented culture. A mix of cash, bonus and equity incentives offers below market compensation in the event of poor operating performance and above market compensation in the event of superior market performance. The company s orientation toward equity incentive plans encourage executive s investment in Borders Group. The higher the level of responsibility, the greater the proportion of performance based compensation in relation to base salary.

Base Salaries are determined from information gathered from published surveys. The objective of Borders Group is to maintain base salary levels that are competitive and close to the average. The company also provides annual cash incentives dependent on the attainment of specific performance goals. The Bonus Plan requires each executive officer to take a minimum of 20% and maximum of 100% of the actual bonus in restricted common stock, which is subject to the terms and conditions of the Management Stock Purchase Plan.

Mr. Josefowicz receives a base salary of $650,000 based on the average of similar retailers, with the possibility of earning up to $650,000 in stretch bonus if performance goals are met. He also received a one time payment of $200,000 under the terms of his employment agreement. Under the Management Stock Purchase Plan, Mr. Josefowicz purchased 90,000 shares of restricted Common Stock at 80% of market value.

Strategic Initiative Investors II, L.P. submitted a proposal to amend Borders by-laws requiring the five most highly compensated officers of Borders to be full-time employees. DiRomualdo, Chairman of the Board, and Mrkonic, Vice Chairman, are required to devote only 50% of their time to Borders. Strategic Initiative also states that the greater than $1 million possible compensation for these individuals is excessive for part time individuals.

Compared to their main competitor, Barnes and Noble, Borders Group executives own considerably less stock. (Finish Comparison)