

# Searchlight

The Pearson Partners International, Inc. Newsletter

Q1 2007

## **Executive Compensation** **You Get What You Pay For**

Recent scandals involving severance packages, accounting treatment of stock option expenses, option backdating and other real and perceived excesses in executive compensation have brought a timely focus upon the issue of pay in America. There is a general feeling on the street that something's just not right.

Despite the furor over executive compensation and the growing pay disparity between CEOs and the average workers in the organizations they lead, in our market economy an individual's compensation is determined primarily by the complexity of the role he or she occupies and the number of people qualified and willing to perform that role. Like the huge paychecks received by many professional athletes, executive pay may seem exorbitant to many, but our free market economy drives pay levels for both groups.

*Continued ...*

# Executive Compensation

## Supply and Demand

... *Continued*

Over the last fifty years, the size and complexity of major U.S. corporations have increased by incredible magnitudes. The number-one-ranked firm on *Fortune* magazine's 500 largest U.S. corporations in 1955 was General Motors, with revenue of \$9.8 billion. In 1980 ExxonMobil was number one, with revenues of \$79 billion. Wal-Mart led the list in 2005, with sales of \$288 billion.

It's not just size alone that makes business today more challenging. Most people would agree that the issues facing General Motors today are far more numerous, complex and difficult than those it faced in 1955. Globalization, enormous international competition and the ensuing sociopolitical challenges, global trade issues and the rapid pace of evolving technology are all factors contributing to the incredible complexity of large businesses in our world today.

Similarly, smaller corporations are operating in a much more complicated environment now than in years past due to the same factors (i.e., globalization, technology complexity and competition). Additionally, Sarbanes-Oxley and other factors have increased the challenges and liabilities for executives of almost every organization of any size.

Most people agree that pay at all levels of an organization should reward people for achievements which link to corporate goals. If you were to ask corporate leaders if aligning pay incentives with corporate goals is important, almost all would say yes. However, most would admit that their company's incentive plans fall significantly short of accomplishing that objective. Even worse, as many as half of U.S. corporations report not even having a formally defined compensation strategy.

In general, executive compensation is driven by the effects of supply and demand. Complex businesses facing today's challenges, especially those who are in financial trouble, need the best talent they can find.

Sometimes pay is tricky. But most of the time you get what you pay for. Or, you pay for what you get.

*This article was used as a basis for an editorial that was published in the Comments section of the Dallas Business Journal, March 2-8, 2007.*

### What to think about when looking at executive pay ...

Don't rely on a one-size-fits-all compensation approach. Make sure incentives are offered that are attractive to the type of people you need for each position.

Ensure that the leadership maintains a meaningful equity interest in the enterprise.

Evaluate Directors' compensation to ensure they are compensated for the additional liability and time now required of an effective board member.

Ensure incentives have short-, intermediate- and long-term components.

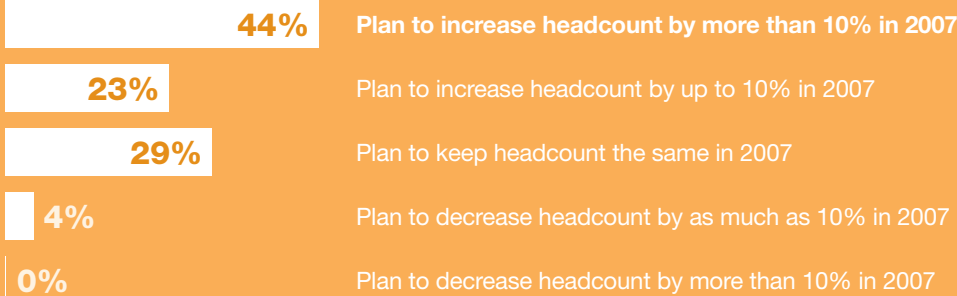
Make sure individuals have the ability to appropriately affect the variables they are being compensated for.

Clean up stock option issues to minimize risk and liability.

# Executive Survey Results

# Company News

## Survey Results



In late December and early January, Pearson Partners surveyed a sampling of area senior executives to determine their hiring expectations for 2007. These executives included CEOs, CFOs and senior human resources and recruiting leadership from companies ranging from under \$100 million to over \$10 billion in annual revenues.

Bill Rowe, Managing Partner, Pearson Partners, commented on the survey results: "We continued to enjoy a vibrant recruiting market in 2006 which began in early 2005, and it appears from the results of our survey and the current market economics that this growth will continue in 2007."

If the actual performance of the 2007 market matches the predictions of our survey results, then the ongoing challenge for the recruiting sector and our clients will be finding available and qualified business executives to serve in the leadership roles needed in this robust market. It is a challenge that we at Pearson Partners are prepared to face enthusiastically.

Pearson Partners International is pleased to announce the election of Keith D. Pearson to President, and that both he and William D. Rowe II, Managing Partner, were elected to the additional title of Vice Chairman.

We are also pleased to announce the addition of H. Michael Gleason and Daniel M. Jones to our Board of Directors.

Pearson Partners has established operations in Florida based in the Fort Lauderdale/Miami area. Jill Pearson, Principal, will lead this practice.

## CIO The Path Beyond the Position

Pearson Partners recently hosted our first quarterly breakfast of 2007. A panel of four senior executives shared insights on how the CIO position has evolved and

discussed the career path and opportunities for today's CIOs.

The guest speakers were:

- **George Assenheimer**, Principal, Capgemini Americas Outsourcing
- **Steve Davis**, Chief Information Officer, SOURCECORP
- **Max Hopper**, Founder & President, Max D. Hopper & Associates
- **Dan Jones**, Former Managing Partner, Dallas, Tatum LLC

The event featured an interactive panel discussion with about 30 guests exchanging viewpoints and war stories on how the CIO's role has moved from transactional to strategic. Renee Arrington, Vice President and Technology Practice Leader at Pearson Partners, moderated the event.

One of the key observations of the panel was the importance of effective 360-degree communication for the CIO leader and the ability to

speak succinctly in business terms. To move beyond the CIO role requires a leader who can embrace business issues creatively, leveraging technology to support solutions. Also discussed was whether the CIO is a final career destination or a stop along the way to other C-level positions, as well as the importance of board service for the CIO and the critical need for effective talent management and mentoring of future leaders.

# PPI Confidential

## Bob Pearson Profile

*Each quarter we give our readers a glimpse into the personal background of one of our team members. For this edition Robert L. Pearson, Chairman and CEO, has been selected.*

Bob was always ambitious and hard working. While in high school, after a few years of mowing lawns in Lincolnwood, IL, he and his best friend Larry started a lawn sprinkler installation company they named Suburban Sprinkler Co. Sprinkler systems were fairly new then, and the boys did quite well. Bob was able to buy a second-hand National Cash Register truck, which worked well for the business because it had lots of compartments for all the sprinkler parts. What it didn't have was a passenger seat, which was a problem when Bob went on dates with a folding lawn chair in the front for his date.

At Michigan State University Bob studied electrical engineering and received his BS. At Massachusetts Institute of Technology Bob pursued a master of science degree in management. While there he won a NASA teaching fellowship and worked on a team designing the lunar module. He also met his future wife of forty-three years, Norma, on a blind date. He completed his master's degree in a year and a half, earning the highest grade on his thesis and graduating with honors.

His first job after MIT was Assistant to the Vice President of the Missile and Surface Radar Division of RCA in Haddonfield, New Jersey. After a year and a half there, McKinsey & Co. extended an offer, and Bob and Norma moved to Chicago. He spent four years with the firm as senior engagement manager. After McKinsey,

Bob, together with another McKinsey colleague and a Harvard Business School friend, founded Investment Management and Research, which later merged with Raymond James & Associates Inc. The family enjoyed the years in Florida, and Bob developed life-long passions for deep-sea fishing and golf.

Feeling the desire to run something on his own, Bob bought a company that manufactured steel buildings and cattle feeding equipment and moved his family to Wisconsin in 1971. After ten years in Wisconsin, Texas seemed like a wonderful place to live, so the family moved to North Texas—first to Fort Worth and later to Dallas.

Bob started his executive recruiting career with Russell Reynolds Associates Inc. and later moved to Lamalie Associates. After several years as Managing Partner of

the Dallas office of Lamalie and participating in a management buyout, Bob was elected Chairman and CEO of LAI. In his last three years there he shepherded the company through an initial public offering, the acquisition of competitor Ward Howell, a secondary public offering, and finally the sale of LAI to TMP Worldwide. Bob founded Pearson Partners International, Inc. in 2002.

When he's not working, Bob enjoys hunting, running (no more marathons, however), deep-sea fishing, traveling and visits with family to their Colorado home.

### About Pearson Partners International

Pearson Partners has a long history of successful performance in the retained executive search industry across a multitude of industries and disciplines. Our partners share a common commitment to quality service, long-term client relationships and direct partner involvement.

The firm has an evolving global network of offices that affords the capability to serve clients' needs across all multinational markets in the Americas, Asia and Europe.

Pearson Partners focuses on providing retained executive recruiting services to clients on a global basis across all industries and disciplines, from the middle management level to the boardroom.

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