Tips for Busy Readers

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ADMINISTERING EXECUTIVE COMPENSATION by Arch Patton. Business Horizons, Vol. 2, No. 4, p. 21-32. (Published by School of Business, Bureau of Business Research, Indiana University.)

The integrated approach to compensation is being adopted by more of the outstanding companies. According to the author such an approach consists of four major elements—

(1) Effective use of the various compensation devices.

While salaries and pensions have almost universal application, the value of stock options, bonus plans, profit-sharing, and deferred compensation will depend on the company, and the type of motivation desired.

(2) A compensation program that meets company needs.

A company operating in a highly competitive environment will usually find it necessary to pay their executives well above the average and to use incentive bonus plans based on performance and executive skill. The television industry is cited as one operating in this highly competitive group. Since statistics show that executive compensation accounts for only four per cent of the average company's total payroll, the cost of such a program is minor compared to the advantages to be achieved.

(3) A profit-oriented internal company environment.

To obtain the greatest effectiveness from a compensation program, management must be able to create an environment in which executives believe they are being rewarded for their individual efforts to increase company profits. The approach which breaks down company targets into individual goals, and then provides objective bases on which to judge performance, seems to provide the most satisfactory program.

(4) Controls to insure consistent compensation administration.

A program which gives a promoted executive a smaller increase than the merit increase given the executive, who was not promoted, does not instill much confidence in the fairness of the compensation program. Among the controls developed by some of the larger companies are comparisons within the industry, as well as among the divisions within the same company. Charts are given to illustrate that such comparisons often reveal wide variations in executive compensation.

In the last analysis approval of one's associates is likely to offer more motivation to the key executive than compensation alone. The integrated approach will recognize this important characteristic, as well as the other objectives to be considered, in establishing the most effective compensation program for the company under consideration.

THE ROLE OF ACCOUNTING IN DECISION MAKING, by R. B. Lewis. The Accounting Review, Vol. XXXV, No. 1, p. 37-44.

Financial analysis is a service which accountants can perform for management as an aid in decision making. In choosing between possible alternatives the need for additional capital investment, and the hope for increased profits are usually the two aspects which should receive prime consideration.

If financial analysis is to be of the greatest value, all projects being considered should be subject to careful screening by the analyst. Such a program should help to avoid many of the mistakes which occur in making business decisions.

Among these mistakes the author discusses the folly of "sending good money after bad"; failing to take any action on business opportunities; over-diversification or under-diversification without justification in the form of higher profits or lower operating costs; and errors in eliminating seemingly "unprofitable" products without careful allocation of fixed overhead costs.

A program of financial analysis should first select the problem or problems to be studied, should then weigh the alternatives possible and finally recommend the action to be taken. In such a program the approach must at all times be practical, and must present the investment requirements and the possible profits under each of the alternatives.

The article concludes with a checklist of ten suggestions for the analyst to follow in carrying out the program outlined above.