

# Good example of essay on executive compensation

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CEO pay has not been effective in increasing company's performance. According to a 2004 survey carried by The Globe and Mail, on Canada's top executives it revealed that higher grant compensations to CEO were weakening the performance of their respective companies. It is without doubt that a company cannot operate efficiently without sufficient funds. This is because most of the firms operate in a dynamic arena that presents constraints such as general economic status, inflation, and interests rates. The aforementioned forces relate with each and are beyond CEOs control. Since pay is tied to performance, CEOs pay will be dependent to performance. In order to curb the variations that are contributed by the above factors, CEOs will avoid such factors by keeping their pay independent of the risks. The CEOs will therefore be compensated irrespective of the profit margins. This phenomenon weakened financial status of a business in times of weaker profits and at the long run affects the performance of the firm.

Annual re-election of the CEOs can be the appropriate remedy to continued poor performance of a firm. Annual re-election will make the CEOs more accountable to shareholders. Consequently, annual re-election contributes to diversity. Diversity has several benefits such as gender consideration which facilitate a well-balanced board and eliminate the attribute of 'group think' which is associated with boards. Diversity will encourage new ideas and strategies. Annual re-election fuels in new people with different ideas and strategies to the board of directors. These new ideas and strategies will work towards improving the performance of the firm every now and then. Lastly,

annual re-election can bring new insights to the board which may challenge long accepted views or procedures and hence add value to the firm.

## **References**

Balsam, S. (2002). An introduction to executive compensation. San Diego: Academic Press.