Compensation: Solving the Pay Puzzle

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Download *IESE Insight* magazine (Issue 7, Q4 2010) on executive compensation.

Money may make the world go round, but does it guarantee good results? In this dossier:

- **Sandalio Gomez & Ignacio Contreras** explain how compensation systems conspired to form the perfect storm that led to the 2008-09 economic crisis. They recommend ways in which companies can improve employee and executive compensation policies.

- **Henry L. Tosi & James Van Scotter** warn that charismatic CEOs may use their charms to secure hefty pay packages, while not delivering equally hefty profits. They provide useful tips for boards to compensate CEOs based on performance, not personality.
- **Alex Edmans** proposes an innovative and provocative compensation model for executives: Instead of paying CEOs solely with stock options, he suggests they should be paid with debt, too. In this way, executives are aligned not only with shareholders, but also with bondholders, which, in turn, could lead to better assessments of risk during decision time.
- **Monica Franco-Santos, Javier Marcos & Mike Bourne** explore what is one of the biggest challenges in compensation design: goal setting. They offer a 10-step process for avoiding, or at least mitigating, the adverse consequences of performance-based pay.

Elsewhere in the magazine:

- **Mary E. Barth** says it's not fair to blame fair value for the financial crisis, arguing that the accounting tool remains a rather robust financial reporting measurement approach.
- **Josep Tapies** shatters some clichés about family businesses, revealing that the secret to their longevity is related to the distinct set of values they share.

Plus: Top Indian executive **Subodh Bhargava of Tata Communications** explains how India has weathered the global financial meltdown so well, and he suggests which sectors are ripe for Western investment.

There's also a business case on **Gallina Blanca,** the well-known Spanish producer of bouillon, soup and sauces, on adapting to tastes in the diverse African market.

And logistics expert **Christophe Hambye** explains how the **Red Cross** stays true to its mission while delivering essential on-the-ground assistance in some of the world's most volatile regions.

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