EXECUTIVE COMPENSATION PRACTICES OF TWENTY-FIVE TEXAS COMPANIES

THESIS

Presented to the Graduate Council of the North Texas State College in Partial Fulfillment Of the Requirements

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By

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CHAPTER I

INTRODUCTION

Statement of the Problem

The general problem of interest in this study is that of executive compensation.

The problem of executive compensation is becoming one of greater magnitude and of more importance as years pass because business is becoming more complex and harder to manage successfully; therefore, executives of ability are in great demand.

This demand brings about the question of executive payment, because pay is a factor that attracts executives to a company and one which encourages them to succeed. How the amount of payment will be set, what types of payment will be offered, who has responsibility for the salaries all enter into the question. An authority on executive compensation has said:

The picture of executive compensation that is visible to outsiders is baffling indeed. From company to company and industry to industry, the salaries, bonuses, pensions, and other benefits paid to corporate officers show no predictable pattern or clear relationship to company operations. 1

This authority's statement shows that confusion and uncertainty can exist for people directly connected or merely interested in the

subject of executive compensations. This study will attempt to clear up at least a small portion of this confusion and uncertainty by determining the compensation practices that twenty-five Texas companies follow on executive levels.

Purpose of the Study

The full presentation of all phases on the subject of executives compensation in even twenty-five companies would fill volumes; therefore, the specific purpose of this study will be: (1) to find what factors determine the amount of pay that executives in twenty-five Texas companies receive, and how personal factors are ranked in setting their salaries; (2) to determine present and proposed utilization of formal job evaluation methods among the twenty-five Texas companies in setting executive salaries; (3) to find which methods of remuneration are used for executives of different levels in the twenty-five Texas companies; (4) to determine who has the final responsibility for the administration of executive salaries in the twenty-five Texas companies; and (5) to determine the means used in appraising executive merit or worth in determining salary adjustments while an individual remains in the same position.

Delimitations

This study will be based on the information received from twenty-five Texas companies. Each of the twenty-five companies in this study
has two hundred employees or more, and each company has its home office in Texas. Table I shows that there were seventeen companies of twenty-five that had from 200 to 1,499 employees. There were two companies of the twenty-five that had from 1,500 to 2,999 employees. One company has from 3,000 to 4,499 employees. None of the twenty-five companies has employees falling in the range of 4,500 to 5,999, but five have over 6,000 employees.

TABLE I

RANKING OF THE TWENTY-FIVE COMPANIES ACCORDING TO NUMBER OF EMPLOYEES

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>200-1499</td>
<td>17</td>
</tr>
<tr>
<td>1500-2999</td>
<td>2</td>
</tr>
<tr>
<td>3000-4499</td>
<td>1</td>
</tr>
<tr>
<td>4500-5999</td>
<td>0</td>
</tr>
<tr>
<td>6000-and over</td>
<td>5</td>
</tr>
</tbody>
</table>

The remuneration policies studied will be limited to the executive levels, and for the purpose of this study, executive levels will include all positions from first line supervisor rank to the president of the company.

The information will be gained from only one source in the case of each company, since the time available for the completion of this study makes it impossible to check the validity of the information received by sending more than one questionnaire to a company.
The twenty-five companies are in various fields of industry and a fairly reliable cross-section is represented. Table II shows that banking is the most frequently represented industry with five banks participating in this study. Oil-field equipment manufacturers follow banking closely with four companies being represented. Iron and steel producers, aircraft manufacturers, and city transportation companies each have two companies represented in this study, and with one representative each is dairying, crude oil refining, retail and wholesale sporting goods, brick and tile manufacturing, life insurance, construction material suppliers, railroading, utility service, clothing manufacturing and finance.

### TABLE II

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of companies represented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>5</td>
</tr>
<tr>
<td>Oil Field Equipment Manufacturing</td>
<td>4</td>
</tr>
<tr>
<td>Iron and Steel Producers</td>
<td>2</td>
</tr>
<tr>
<td>Aircraft Manufacturers</td>
<td>2</td>
</tr>
<tr>
<td>City Transportation Companies</td>
<td>2</td>
</tr>
<tr>
<td>Dairying</td>
<td>1</td>
</tr>
<tr>
<td>Crude Oil Refining</td>
<td>1</td>
</tr>
<tr>
<td>Retail and Wholesale Sporting Goods</td>
<td>1</td>
</tr>
<tr>
<td>Brick and Tile Manufacturing</td>
<td>1</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>1</td>
</tr>
<tr>
<td>Construction Material</td>
<td>1</td>
</tr>
<tr>
<td>Railroading</td>
<td>1</td>
</tr>
<tr>
<td>Utility Service</td>
<td>1</td>
</tr>
<tr>
<td>Clothing Manufacturing</td>
<td>1</td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Companies</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>
It is realized that the information gained and the conclusions drawn from the returned questionnaires will not necessarily apply to all companies in Texas, but the information gained and the conclusions drawn, using the twenty-five companies as a basis, should give a fairly reliable cross-section of the conditions which exist in all Texas companies and should give some idea of the over-all picture of executive compensation practices in use in Texas.

Procedure

After the problem of this study was definitely determined, a careful review was undertaken of references in the North Texas State College Library and in the Fort Worth Public Library. Then, a questionnaire was composed after a study of the reference material that would include the factors to be covered in this study.

The questionnaire, while still in rough form, was tested by asking three prominent Fort Worth, Texas, people to read it and to explain to the investigator any problem which they felt might arise to cause misunderstanding in completing it. These people were Gladys S. Bowman, Head of the Business Administration Department of Texas Wesleyan College, Jack Vaught, Personnel Director of The First National Bank of Fort Worth, and Jack Norton, Personnel Director of the Fort Worth Office of the Lone Star Gas Company.

During the period of the composition of the questionnaire, the investigator compiled a large list of Texas companies from the
Register of Texas Manufacturers. This list was then checked against Poor's Register of Directors and Executives so that only companies with two hundred or more employees and with home offices in Texas would be used in this study. The names of the companies' Presidents and the company addresses were noted. From this list the companies to be used for this study were selected.

A letter explaining why the information was desired was then composed and mimeographed.

The questionnaire and the covering letter were then mailed to sixty-four companies and the first twenty-five returns from this mailing were used to compile this study.

The questionnaires were filled out by the Presidents of the companies, or by other qualified company personnel. This basic information from the questionnaires will be supplemented by information gained from authoritative sources in the field of executive compensation.

Definition of Terms

The following definitions are of terms used in this study which could cause confusion if their exact meaning in this study were not known.

These definitions are solely for the use of this study, and may not necessarily agree with definitions in general use.

For the purpose of this study, the term "executive" will mean any employee of a company from the rank of first line supervisor to that of president.
The term "job evaluation" means a process of measurement of the relative worth of jobs.

"Remuneration" means payment to an executive, either in cash or a combination of cash and other incentives which have a monetary value.

The term "job ranking" means a system of job evaluation in which executive positions are placed in order of their importance as they appear on an organizational chart of the company.

"Job classification" is a refinement of the ranking method. Under it, major job classes are first established, and then the various jobs are classed by rankers and finally converted into dollar values.

The "factor comparison" method evaluates jobs by means of "yardsticks". In this method key jobs are set up as the "yardsticks" and ranked, in dollar value, according to the key jobs.

Another method that uses "yardsticks" is called the "point system". Under it, the "yardsticks" are factors common to all jobs. The sums of these factors are point values, and these are converted into dollar values.

"Straight salary" refers to cash payments, agreed upon in advance, which are fixed rather than variable in amount and which are paid periodically.

A "bonus" is a reward in addition to the contractual compensation of an executive.
A "stock option" plan is a form of executive compensation that is an agreement between the corporation and the executive under which the corporation will sell stock to the executive on favorable terms in return for the executive's service.

A "stock purchase" plan for executive compensation is one that includes all plans, other than stock options, which provide for the purchase of a corporation's stock by its executives. The stock is usually bought at market price under the plan.

"Expense accounts" are a type of executive compensation which offers such items as the cost of the executive's transportation, hotel room, meals, baggage handling, tips for service rendered, entertainment of customers, telephone, telegraph, or postage expense, etc.

"Deferred payment" is a type of executive compensation in which the actual payment is received by the executive long after the services for which the pay was received are completed. This plan is used to evade the high tax rate for the high income brackets.

"Retirement plans" refer to those plans maintained by a corporation to provide for periodic payments to those who have retired from active employment or to the executive's beneficiaries.

"Profit sharing" is a type of executive compensation which is a formalized variant of the usual bonus plan. Under a profit sharing plan, the aggregate payments are determined by a fixed formula, which specifies the percentage of net earnings to be shared with participants.
Further discussion and explanation of these and other terms will be given in the chapters in which the terms appear.

Related Studies

The problem of executive compensation, as viewed from the approach of this study, is a subject which has had very little research done concerning it, but one that is attracting more attention as time passes. Because of the lack of directly related studies on the subject of executive compensation, from the viewpoint of this study, only three studies of a similar nature will be mentioned here. The libraries consulted for related studies were the North Texas State College Library in Denton, Texas, and the Fort Worth Public Library in Fort Worth, Texas.

The first related study is *Trends in Executive Compensation.*2 This booklet contains information received from the Securities Exchange Commission, and it is based on a period of from 1940 to 1949. Its purpose is to show, percentagewise, how much executive pay has increased or decreased in specific industries during this time. Charts with the various rates of increase or decrease are shown in the text of the study. This booklet is similar to this study in that the basic subject, executive compensation, is the same in both cases. In both studies a sampling of industries was made, although in the National Industrial Conference Board booklet the sampling is on a national basis, and in

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this study, the information from only twenty-five Texas companies is used. The methods of gathering information for the two studies were different. In the case of the National Industrial Conference Board booklet, reports from the companies were received from the Securities Exchange Commission and the information taken from them, while in the case of this study, information was gained from questionnaires sent out to various companies.

The next related study was titled, Executive Compensation: Company Policies and Practices. This study, by the American Management Association, points out the different types of compensation given to executives beside straight salary. One chapter of the present study is devoted solely to the subject of different types of executive compensation used by twenty-five Texas companies. Other items discussed at length in the American Management Association study are bonus plans of different companies, retirement and security plans of various companies, and how much an executive would be paid.

Top Management Compensation is the third related study. This National Industrial Conference Board booklet determines who is the highest paid executive of 1,157 individual companies, and it seeks to determine a "yardstick" for setting executive salaries. It finally concludes that net

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sales are the most valid "yardstick" used in the case of the 1,157 companies. This study, by the National Industrial Conference Board, was done using 1949 as the base period. It is related because of the same general subject, and because it also employed the sampling method used in getting information. The studies are dissimilar in that the National Industrial Conference Board booklet used many more companies over a national range while this study uses only twenty-five Texas companies, and the National Industrial Conference Board booklet is concerned with determining the highest paid executive, while this study delves into various problems of executive compensation, such as whether companies have job evaluation plans for executive positions, what compensation beside straight salary is given to executives, is merit rating used for executives, and what factors determine executive pay.

Treatment of Data

Chapter I is the Introduction, and it contains the statement of the problem, purpose of the study, delimitations, procedure, definition of terms, related studies, treatment of data, and companies used in this study.

Chapter II is a discussion, both from the view of authorities' opinions and actual practices of twenty-five Texas companies, on the general factors that determine the amount of pay an executive receives. Also, the rankings of four personal factors, in order of their importance, by the twenty-five companies surveyed is given.
Chapter III is concerned with job evaluation plans for use in setting executive salaries. Authorities' opinions are presented on the subject, and information received from the twenty-five Texas companies on whether job evaluation plans are used in setting executive salaries is presented. If job evaluation plans are used in setting executive pay, the plans used are indicated. Various executive opinions from the twenty-five Texas companies are also given on whether they feel a job evaluation system would be good for their company and for their executives.

Chapter IV is concerned with the types of executive compensation given beside straight salary. Authorities' opinions are discussed, and information gained from the twenty-five Texas companies is given.

Chapter V is concerned with who has final authority in setting executive salaries and whether a system is used to appraise executive merit or worth while he is in the same position. As in the last three chapters, authorities' views are given and data received from the twenty-five companies is presented.

Chapter VI is a summary of conclusions and recommendations.

Companies Used in this Study

The following is a list of the names of the companies which made possible the completion of this study. Since the information they offered will be regarded as being in the strictest confidence, the data
presented will not contain any direct reference to any company names.
CHAPTER II

FACTORS CONSIDERED IN SETTING SALARIES AND IN DETERMINING WORTH OF EXECUTIVES

Introduction

The information which comprises this chapter was taken from questions 1 and 2 of the questionnaire. A sample of the questionnaire and the letter which was sent out with it may be found on the following pages in this chapter.

The questionnaire was compiled after research on the subject of executive compensation was done in the North Texas State College and the Fort Worth Public Libraries. When the questionnaire attained an acceptable form, it, along with the covering letter, was mailed to sixty-four companies.

These sixty-four Texas companies were picked by consulting The Directory of Texas Manufacturers and Poor's Register of Directors and Executives. These sixty-four companies have home offices in Texas and have two hundred employees or more.

Twenty-five returns from these sixty-four companies were used in compiling the information which appears in this chapter. It is realized that this rate of return is low, but the confidential nature of much of this information called for in this study may explain the seemingly low rate of return.
Mr. John Doe, President
A. B. C. Corporation
Fort Worth, Texas

Dear Mr. Doe:

Probably one of the greatest problems of business management today is that of compensating executives adequately and fairly.

In connection with the writing of a Master's Thesis at North Texas State College, I am attempting to determine practices of twenty-five prominent companies in executive compensation.

A very brief questionnaire is enclosed. Would you be so kind as to take a few minutes of your time and furnish information which would make possible the inclusion of your company in this study?

If your own schedule should not permit this, would you pass the questionnaire on to another person who is capable of giving the information desired for your firm.

An addressed envelope is enclosed to facilitate the return of this questionnaire.

Thank you very much for your time and consideration.

Sincerely,

Jack F. Demetruk

Figure 1
Letter Sent to the Twenty-Five Texas Companies
QUESTIONNAIRE

For the purpose of this study, please consider an executive to be any employee of the company from president to first-line supervisor.

1. What general factors determine the amount of pay the executives in your company receive? Please check all that have important bearing.
   - a formal plan of job evaluation
   - historical precedent
   - what competing companies pay
   - what the company can afford to pay
   - the prevailing rate of the industry
   - the executive's future potential with the company
   - cost of living
   - stockholders opinions
   - other: (please list)

2. Will you please rank in 1, 2, 3 order the personal factors which seem to be weighted most heavily in determining the worth of different executives within your organization. Include under "other" any factors not suggested and include these in your ranking.
   - Personal Attributes
     (this includes: initiative, resourcefulness, creativeness, ability to make decisions, ability to plan, etc.)
   - Growth Potentialities
     (this includes: basic intelligence, emotional maturity, personal integrity, foresight, desire to learn, etc.)
   - Business Comprehension
     (this includes: extent of general business knowledge, complexity of knowledge required, technical knowledge required, knowledge of the company, etc.)
   - Managerical Skills
     (this includes: ability to delegate authority and responsibility, ability to develop assistants, ability to get along with subordinates and to command their respect, ability to handle responsibility, etc.)
   - Other:

Figure 2

Questionnaire Used to Gain Information from the Twenty-Five Texas Companies
3. Is a formal job evaluation plan used by your company in setting executive salaries?  
   ____yes  ____no  
   If a formal job evaluation plan is in operation, what executive levels are covered by it  
   ____ top management  
   ____ middle management  
   ____ supervisory management  

4. After which of the methods listed below is the formal evaluation plan patterned?  (Omit if no formal plan of job evaluation for executives is in use.)  
   ____ job ranking method  
   ____ job classification method  
   ____ factor comparison  
   ____ point system  
   ____ a combination of two or more of the above  
      (please underline the methods used in the combination)  
   ____ other:  ____________________________  

5. If your company does not have a formal job evaluation system in operation for setting executive salaries, do you think the company and the executives would profit by the initiation of such a plan?  
   ____yes  ____no  
   please explain briefly  

6. What other types of compensation does your company extend to executives beside straight salary?  (Please check all types of compensation used and please indicate in space after types of compensation the LOWEST executive level to which the type applies -- from first-line supervisor to president.)  
   (type used)  (lowest applicable rank)  
   ____ bonus  
   ____ stock option  
   ____ expense accounts  
   ____ deferred payment  
   ____ retirement plans  
   ____ insurance  
   ____ club membership  
   ____ profit - sharing  
   ____ use of company cars or planes  
   ____ subscriptions to trade magazines or books  
   ____ dining facilities  
   ____ none  
   ____ other:  ____________________________  

Figure 2 (Continued)
7. Who has final authority in setting executive salaries in your company? Please check applicable answer.

- board of directors
- top executive
- immediate superior executive
- evaluation of experts from outside the company
- evaluation of committee from within the company
- other: __________________________________________

8. By what means is executive merit or worth appraised in determining salary adjustments while an individual remains in the same position? Please check each of the statements below which applies.

- informal appraisal and judgment
- formal merit rating or appraisal system
- other: (please describe) __________________________

Would you please mention any important problems in executive compensation which have not been recognized in this questionnaire? __________________________

Figure 2 (Continued)

The first question appearing on the questionnaire was asked to determine what general factors are considered by twenty-five Texas companies in setting executive pay and to see if there are one or more factors which seem to be most important from the viewpoint of use by the companies in setting executive salaries.

Question number 2 listed four important personal factors found in executives which were to be ranked in order of their importance in determining individual executive worth. This question was asked to see which personal factor was ranked first, second, third, and fourth in the companies' opinions in appraising the worth of their executives.
Information from References

In formulating the first two questions on the questionnaire, authorities on executive compensation were consulted. In this study, the authorities' views on the different phases of executive compensation will be presented at the first of each chapter, and a comparison of the authorities' views and the actual practices will appear at the last of each chapter.

There are several factors which can be considered to arrive at specific pay amounts. These fall into two broad classes which are internal factors and external factors. Internal factors include an individual's talent and abilities, his performance in a position, the responsibility in his position, the history of compensation in the position, and conformance to an equitable salary structure in the company. External factors include the market rate for like work, cost of living, personal income taxes, and public, labor, and stockholder opinions. 1

Another view on the subject of what is considered in setting executive salary is the profit level of the company and the industry of which the company is a part. 2

A similar view was expressed by another authority who stated that the amount of money an executive received depends upon the company size

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and the industry of which the company is a part. 3 One authority feels that what the company is able to pay has very great importance in setting executive salaries, 4 while another authority said:

In almost no case was the amount awarded to any one person at matter of strict formula. Rather, it was almost always awarded on the basis of the contribution made to the company by the individuals; the extent of this contribution measured in the judgment of his superiors. 5

It can be seen from the foregoing text that authorities do have different views on exactly what factors are most considered and what factors are most important in setting executive salaries.

One set of personal factors given by authorities includes knowledge (what does the man have to know in general, technical, and specialized fields), decisions (how new and complicated and difficult are the situations to which he must apply his knowledge and on which he must form correct decisions and judgments), and responsibility (what is entrusted to him that is valuable to the company and that may be affected by his decisions and judgments). 6

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5 Robert B. Fetter and Donald C. Johnson, *Compensation and Incentives for Industrial Executives* (Bloomington, 1952), p. 88

But then, different opinions appear in the question of personal factors also. In the words of Sidney Weinberg (a director in twelve companies),

There is no pattern in setting top salaries. Every company is different just as every child is different. You don't relate the salary to profit or sales; the fact that there has been no profits or dividends just makes for a different climate of judging. You take everything into account -- what a man is getting, why he should be raised, what the competition is paying, what the prevailing market is, whether a raise would throw the pay scale out of kilter, and so on. We ask everything we can think of. 7

Careful consideration should be given to the different factors considered in determining executive worth because, in the words of one writer: "Great care must be used to set compensation for executives, since such decisions affect the attitudes of others in addition to the efficiency of the executives." 8

Factors Determining What Executives Are Paid

The question "What general factors determine the amount of pay the executives in your company receive?" was asked. After the question appeared a list of possible answers to be checked. This list included a formal plan of job evaluation, historical precedent, what competing companies pay, what the company can afford to pay, the prevailing rate of the industry, the executive's future potential with the company, cost of living, stockholder opinions, and other, which left space for inclusion of any factors used by a company which did not appear on the list.


The results of the information gained from the replies of the twenty-five companies are presented in Table III. These show that the executive's future potential with the company was the single factor most considered. Second in line were the prevailing rate of the industry and what competing companies pay. The next most mentioned factor was what the company can afford to pay, and following, in this order, were historical precedent, a formal plan of job evaluation, stockholder opinion, cost of living, and responsibility involved. A complete list of the factors and the number of companies which considered them may be found in Table III.

**TABLE III**

**GENERAL FACTORS CONSIDERED BY TWENTY-FIVE TEXAS COMPANIES IN SETTING EXECUTIVE SALARIES AND THE NUMBER OF TIMES EACH FACTOR WAS LISTED**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Number of Times Listed</th>
<th>Percentage of Companies Checking</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Executive's future potential with the company</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>The prevailing rate of the industry</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>What competing companies pay</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>What the company can afford to pay</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>Historical precedent</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>Formal plan of job evaluation</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Stockholder opinions</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Cost of living</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Responsibility</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Performance</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Value to the company</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Status of job</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Experience</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Abilities</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Committee Evaluation</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Adequate differential between supervisors and employees</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>
Ranking of Executive Personal Factors

The question asked of the twenty-five companies in gaining this information was, "Will you please rank in 1, 2, 3 order the personal factors which seem to be weighted most heavily in determining the worth of different executives within your organization?"

The factors listed for the companies to rank were personal attributes (this includes initiative, resourcefulness, creativeness, ability to make decisions, ability to plan, etc.), growth potentialities (this includes basic intelligence, emotional maturity, personal integrity, foresight, desire to learn, etc.), business comprehension (this includes extent of general business knowledge, complexity of knowledge required, technical knowledge required, knowledge of the company, etc), and managerial skills (this includes ability to delegate authority and responsibility, ability to develop assistants, ability to get along with subordinates and to command their respect, ability to handle responsibility, etc.).

The twenty-five companies ranked these four personal factors in order of their importance, and their rankings are summarized in Table IV.

Personal attributes were ranked first by twelve of the companies, second by nine of the companies, third by three of the companies, and fourth by one of the companies.

Growth potentialities were ranked first by three of the companies, second by five of the companies, third by ten of the companies, and fourth by seven of the companies.
Business comprehension was ranked first by two of the companies, second by two of the companies, third by seven of the companies, and fourth by fourteen of the companies.

Managerial skills were ranked first by eight of the companies, second by nine of the companies, third by five of the companies, and fourth by three of the companies.

From this information, the conclusion is drawn that personal attributes in the personal factor of primary importance in most cases in the twenty-five Texas companies. Managerial skills was the factor ranked as second in importance by most of the twenty-five Texas companies consulted. Growth potentialities was in third place in importance, as ranked by twenty-five Texas companies, and in fourth place was business comprehension.

**TABLE IV**

**RANKING OF FOUR PERSONAL FACTORS, IN ORDER OF THEIR IMPORTANCE, BY TWENTY-FIVE TEXAS COMPANIES**

| Personal Factors       | Rankings | Total Points | Average |  |
|------------------------|----------|--------------|---------|
|                        | 1st      | 2nd          | 3rd     | 4th       | No. % | No. % | No. % | No. % |       |       |
| Personal Attributes    | 12 48    | 9 36         | 3 12    | 1 4       | 43     | 1.72  |
| Growth Potentialities  | 3 12     | 5 20         | 10 40   | 7 28      | 71     | 2.84  |
| Business Comprehension | 2 8      | 2 8          | 7 28    | 14 56     | 83     | 3.32  |
| Managerial Skills      | 8 32     | 9 36         | 5 20    | 3 12      | 53     | 2.12  |

This ranking of the personal factors was arrived at in two ways. First, each personal factor was scored according to the number of first, second,
third, and fourth place rankings. As an example, personal attributes received the most first place votes, so it was considered to be first in importance. Managerial skills received the most second place votes, therefore, it was considered as being second in importance. Growth potentialities received the most third place votes and was considered as being third in importance. Business comprehension was ranked in last place by most of the companies, hence, it was considered as being last in importance.

To check the validity of these conclusions, another type tally was done. Each factor was scored on total votes. This was done by assigning a first place ranking one point, second place ranking two points, third place ranking three points, and a fourth place ranking four points. Then each factor's total points was determined using this scale of values. The lowest total points would show the first place factor, the second lowest total, the second place factor, and so on. This check supported the first method of ranking by showing the same order of importance for the factors. Personal attributes was first with 43 points, managerial skills second with 53 points, growth potentialities third with 71 points, and business comprehension fourth with 83 points.

Conclusions

The general factors most considered in the twenty-five Texas companies when setting executive pay are the executive's future potential with the company, the prevailing rate of the industry, what competing companies pay,
and what the company can afford to pay. The personal factor ranked first in importance when setting executive salaries is that of the personal attributes of the executive, that is, his initiative, resourcefulness, creativeness, ability to make decisions, and ability to plan.

The authorities mentioned such general factors as talents and abilities, performance, responsibilities, history of compensation in a position, conformation to an equitable salary structure, market rate for like work, cost of living, personal income tax, public, labor, and stockholder opinions, profit level of the company, industry of which the company is a part, company size, what the company is able to pay, and contribution of the executive to the company in the eyes of his superiors as being those considered when setting an executive's salary. The executive's future potential with the company was rated first by the twenty-five Texas companies but received no mention by the authorities, who seemed more concerned with present worth of the executives. The prevailing rate of the industry and what competing companies pay was rated as second by the twenty-five companies and received mention by two authorities. What the company can afford to pay also received consideration by the authorities and was rated in fourth place by the twenty-five Texas companies.

The authorities expressed different opinions on the ranking of personal factors in determining an executive's worth. One said that knowledge, decisions, and responsibility were the most important personal factors. Another authority stated that everything should be taken into consideration.
The twenty-five Texas companies showed that personal factors were definitely rated, and that personal attributes ranked first.
CHAPTER III

THE USE OF JOB EVALUATION PLANS FOR EXECUTIVES

Introduction

This chapter is based upon the question of how many of the twenty-five Texas companies included in this study have job evaluation plans in effect, what levels are covered if such a plan is in operation, and if an evaluation plan for executives is not in operation, whether the initiation of a plan, in the company's opinion, would be beneficial.

The question of job evaluation is rather a touchy one, as shown by one authority's statement:

So far, there has been relatively little research on the ways internal pay scales for executives are determined and administered, primarily because this process has traditionally been treated as one of the top-most secrets of top management. ¹

The views of selected authorities in the field of executive compensation will be presented first in this chapter to be followed by information gained on the job evaluation phase of the problem received from the twenty-five Texas companies.

Authorities' Opinions

The problem of job evaluation for executives seems to hinge around the difficulty of getting a job evaluation system that will work in all the different executive positions of a company. One authority has stated that all administrators of executive salaries agree that executive salaries must be equitable with regard to individuals who work together, and a job evaluation plan, if valid and workable, would certainly make this goal more likely to be attained.

General Foods has a plan in operation which is a good example of how a job evaluation plan for executives could be set up. Under it, the executives themselves write the job description of their own positions. Also, the work of each managerial employee constitutes a separate position and thus a separate job description. There is no grouping of managerial jobs for easier evaluation. One great advantage of the plan is that the scales are not predetermined by "experts" either through assignment of top value for each scale, known as "weighting", or through division of the total scale into calibrations or steps marked by definite legends. This plan used by General Foods

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Foods is thus, more like a "factor comparison" method than any other method, while at the same time not purely a factor comparison plan.

The General Foods plan is quite workable in its particular environment, but not applicable, of course, in all companies. Different companies require different plans. One authority lists these types of job evaluation plans as the simple ranking plan, the job classification method, the point system, and the factor comparison method. 4 Another authority lists these five evaluation plans for use in executive evaluation: the ranking method, the classification method, the factor comparison and point system, and the basic abilities system. 5

As good as all these plans may seem at first glance, there are those that agree with the authority who said: "All existing methods have some elements of arbitrary calculation. In other words, we do not have a measuring device that will tell us exactly what any man is worth." 6

Executive Job Evaluation Plans In Use

The question was asked on the questionnaire, "Is a formal job evaluation plan used by your company in setting executive salaries?"

The replies received from the twenty-five Texas companies show that

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six or 24 per cent of the companies do have executive job evaluation plans in operation, and that eighteen or 72 per cent do not. One company did not fill in this section of the questionnaire.

**Executive levels covered by the six executive job evaluation plans.**

Of the six companies which do employ a job evaluation plan for their executives, all levels, including top management, were included in two of the plans. The remaining four plans included the middle and supervisory levels of management, but not the top, officer level of management.

**Types of executive job evaluation plans used by the six companies.**

The six companies which use job evaluation plans for executives indicated that plans patterned after the job classification system of evaluation are used in two cases. The point system of job evaluation is also used in two cases, and a combination of factor comparison and point system is likewise used in two cases.

**Comments of companies which do not have job evaluation plans for their executives.**

The question, "If your company does not have a formal job evaluation system in operation for setting executive salaries, do you think the company and the executives would profit by the initiation of such a plan?" was answered by the nineteen companies which do not have job evaluation plans in operation in this manner. Six of the nineteen companies replied "yes" to the question, and twelve of the nineteen companies replied "no". One company did not comment on this question. Six of the
companies gave reasons for answering as they did. Table V summarizes the information presented in the chapter.

**TABLE V**

**EXECUTIVE JOB EVALUATION PRACTICES OF TWENTY-FIVE TEXAS COMPANIES**

<table>
<thead>
<tr>
<th>Condition</th>
<th>Those Having Executive Job Evaluation Plans in Operation</th>
<th>Those Not Having Executive Job Evaluation Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job evaluation plans that apply to all levels</td>
<td>2</td>
<td>---</td>
</tr>
<tr>
<td>Job evaluation plans that apply to middle and supervisory management</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Companies expressing favorable attitudes for initiation of job evaluation</td>
<td>4</td>
<td>---</td>
</tr>
<tr>
<td>Companies expressing unfavorable attitudes for initiation of job evaluation</td>
<td>---</td>
<td>6</td>
</tr>
<tr>
<td>No comment on question</td>
<td>---</td>
<td>1</td>
</tr>
<tr>
<td>Companies using job classification</td>
<td>2</td>
<td>---</td>
</tr>
<tr>
<td>Companies using point system</td>
<td>2</td>
<td>---</td>
</tr>
<tr>
<td>Companies using combination of classification and point system</td>
<td>2</td>
<td>---</td>
</tr>
</tbody>
</table>

Two respondent companies which answered "yes" to the question stated, "We are working to develop such a system and believe that fewer inequities would exist should a workable system be developed"; and "A plan is now under study by our company". Four of the respondents who answered "no" to the question expressed these views: "Satisfactory results are obtained in our company by informal appraisal"; "Each company has to work out its own problems"; "Formal evaluation
for executives, I believe, is more effective with larger companies than this one"; and "Job evaluation for executives is in its infancy, and its development requires large companies to pioneer its use."

Relation of Company Size to Executive Job Evaluation Plans

There are three companies with from 200 to 1,499 employees that have executive job evaluation plans, two companies with from 1,500 to 2,999 employees with executive job evaluation plans, and one company with over 6,000 employees that uses a job evaluation plan for their executives.

Of course, the fact that there are fewer large companies involved in this study than small ones must be taken into consideration. Therefore, there is a greater percentage of the larger companies that use executive job evaluation plans, but small companies, although to a lesser degree percentagewise, still have a representation of companies that have executive job evaluation plans in operation.

### TABLE VI

**SIZE OF COMPANIES USING EXECUTIVE JOB EVALUATION PLANS**

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Total Companies</th>
<th>Number with Plans</th>
<th>% of Companies Having Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>200-1,499</td>
<td>17</td>
<td>3</td>
<td>17.6</td>
</tr>
<tr>
<td>1,500-2,999</td>
<td>2</td>
<td>2</td>
<td>100.0</td>
</tr>
<tr>
<td>3,000-4,499</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4,500-5,999</td>
<td>0</td>
<td>0</td>
<td>---</td>
</tr>
<tr>
<td>6,000 and over</td>
<td>5</td>
<td>1</td>
<td>20.0</td>
</tr>
</tbody>
</table>
This statement is supported by the fact that 100 per cent of the companies with from 1,500 to 2,999 employees had executive job evaluation plans against a 20 per cent representation in the 6,000 and over classification and a 17.6 per cent representation in the 200 to 1,499 classification.

Conclusions

It is concluded that about one fourth of the twenty-five companies have formal job evaluation plans in operation which cover their executives, but only two of the twenty-five companies have plans which cover the top executive level. Job classification, point system, and a combination of factor comparison and point systems are each used by two of the six companies which have executive job evaluation plans in operation. Finally, six of the eighteen companies which do not have executive job evaluation plans in operation at this time favor their adoption for the company's good, as well as the good of the executive. Therefore, about 50 per cent of the companies either have executive job evaluation plans in operation at this time or favor their initiation.

Authorities consulted on the subject of executive job evaluation have opinions that range from the belief that job evaluation is the only way to have equitable wages, to the feeling that there is no way to accurately measure the worth of a man. Some authorities list job evaluation methods, and the methods mentioned by two authorities include simple ranking, job classification, point systems, and factor comparison.
Factor comparison was, in a sense, mentioned by three authorities, because one authority discusses at length the General Foods Plan for job evaluation, which is primarily a modified factor comparison plan. Some writers express the view that executive job evaluation is good, while others say it is impossible. The twenty-five companies seem to be divided along these lines also. Fifty percent have executive job evaluation plans in operation or favor their adoption, and the other fifty percent do not have executive job evaluation plans in operation and do not favor their adoption. The authorities list four types of job evaluation plans, and the six companies having executive job evaluation plans use job classification and point system in two cases, for each method. A combination of factor comparison and point system was used by the remaining two companies. Therefore, it may be concluded that both the authorities and the twenty-five Texas companies reflect the uncertainty and the lack of uniformity which seem to characterize executive job evaluation at its present stage of development.
CHAPTER IV

TYPES OF EXECUTIVE COMPENSATION EMPLOYED BESIDES STRAIGHT SALARY

Introduction

This chapter is a combination of the opinions of selected authorities on executive compensation and of information gained on the subject of the different types of executive compensation employed by the twenty-five Texas companies.

As in the previous chapters, the opinions of the authorities will be presented first. Then, the information gained from the twenty-five Texas companies on the types of compensation offered to executives besides straight salary, and the management levels covered by the different types of compensation will be given.

Authorities' Views

There are many motivating forces that spur executives on to do a good job besides a straight, cash salary. These motives may be tangible or intangible. One authority lists the intangible motivating forces as being achievement desires, desire for recognition, congenial environment factors, fidelity traits, or a desire for power. ¹

¹Robert B. Fetter and Donald C. Johnson, Compensation and Incentives for Industrial Executives (Bloomington, 1952), p. 17.
Another authority lists the intangible rewards as being pride in the company, freedom of action, title and position, and fun and interest in the job. ²

However, these intangible rewards are very difficult to measure for research purposes and will not be considered any further in this study, although they do merit this mention. The major concern of this part of the study is the tangible compensation that executives receive besides straight salary in twenty-five Texas companies. These rewards may be direct or indirect. ³ One authority lists these supplemental executive rewards as cash bonus, pensions, deferred payment, stock bonus, stock purchase, or stock option.

Another authority lists six main supplementary compensation devices as being the bonus, profit-sharing, stock option, stock purchase, retirement benefits, and insurance. ⁴ The Kroger Company adds these five compensations devices to their executive's straight salaries, a non-contributory retirement

² John Calhoun Baker, Executive Compensation Practices of Retail Companies. (Boston, 1939), p. 2


plan, a savings plan, a stock option plan, a bonus plan, and disability insurance.

Still another list of additional remuneration plans for executives besides straight salary includes bonus, stock purchase plans, medical care, expert assistance in legal, tax, and investment problems, facilities for entertaining and dining, company recreational areas, membership fees in clubs and business associations, extra schooling, scholarships for children, and subscriptions to magazines and books.

Many of the extra compensation devices for executives are aimed toward getting around the high tax rate that executives have to face because of their high salaried positions. One authority lists these tax-sheltered rewards: annuities, deferred pay, stock options, insurance, club memberships, use of company cars and planes, housing maintenance, entertainment and travel allowances, discounts, dining rooms, and magazine subscriptions.

As shown by the foregoing discussion, there are many types of executive remuneration devices available for companies to offer besides straight cash. Different authorities list different methods, but most of

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their views seem to follow the same general pattern and the same methods are listed by several authorities in most cases.

Types of Executive Compensation Used Beside Straight Salary

The twenty-five Texas companies were asked, "What types of compensation does your company extend to executives besides straight salary?" After the question was a list of possible types of executive compensation which included bonus, stock option, expense accounts, deferred payments, retirement plans, insurance, club memberships, profit sharing, use of company cars or planes, subscriptions to trade magazines or books, dining facilities, and "other", which left space for the addition of any types of compensation offered that were not included in the list.

Table VII shows the answers obtained from the twenty-five Texas companies.

Insurance is the most popular executive compensation device used in the twenty-five companies beside straight salary. Following closely behind in popularity are retirement plans. Expense accounts and club memberships follow next, in that order, and use of company cars and planes and subscriptions to trade magazines and books are next in popularity with the twenty-five Texas companies as "extra" executive remuneration devices. The other compensation devices follow in this
order, stock option, profit sharing, dining facilities, deferred payments, and incentive bonus plans.

TABLE VII

TYPES OF EXECUTIVE COMPENSATION OTHER THAN STRAIGHT SALARY USED BY TWENTY-FIVE TEXAS COMPANIES AND THE NUMBER OF TIMES EACH TYPE COMPENSATION WAS LISTED

<table>
<thead>
<tr>
<th>Type of Compensation</th>
<th>Number of Times Listed</th>
<th>Percentage of Companies Listing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>21</td>
<td>84</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>19</td>
<td>76</td>
</tr>
<tr>
<td>Expense Accounts</td>
<td>14</td>
<td>56</td>
</tr>
<tr>
<td>Club Membership</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Use of Company Cars or Planes</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>Subscriptions to Trade Magazines or books</td>
<td>12</td>
<td>48</td>
</tr>
<tr>
<td>Bonus</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>Stock Option</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Profit Sharing</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Dining Facilities</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Deferred Payments</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Incentive Bonus Plan</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

Executive Levels Covered by the Types Of Compensation

Along with checking what types of executive compensation a company offers besides straight salary, the companies were asked to indicate what the lowest management level (top, middle, or supervisory) is that is covered by the various compensation plans.

However, only fourteen of the twenty-five companies filled in this additional information. Since this is only slightly more than fifty per cent
of the companies used in the study, no conclusions will be drawn about the executive levels covered by the types of executive compensation extended besides straight salary. The information received from the fourteen companies will merely be reported, since no valid conclusions can be drawn from the small percentage of the companies which did fill in this section of the questionnaire.

It should be kept in mind that the following levels referred to are the lowest applicable rank for the types of compensation discussed.

The bonus device is offered in two cases to middle management and in five cases to supervisory management.

Stock options are extended in four cases only to top management, in one case to middle management, and in one case to supervisory management.

Expense accounts are offered in one case only to top management, in two cases to middle management, and in three cases to supervisory management.

Retirement plans are extended in nine cases to supervisory management, Insurance is extended in one case only to top management, and in eleven cases to supervisory management.

Club memberships are extended in five cases only to top management and in two cases to middle management. Profit sharing is offered in two cases to supervisory management.

The use of company cars and planes are extended in three cases only to top management, in two cases to middle management, and in two cases to supervisory management.
Subscription to trade magazines and books are extended in four cases to middle management and in one case to supervisory management.

Dining facilities are extended in one case only to top management, in one case to middle management, and in two cases to supervisory management.

Conclusions

Insurance is the most popular type of executive compensation besides straight salary. Retirement plans follow insurance closely in popularity. Expense accounts and club memberships are third in popularity in twenty-five Texas companies as methods of executive compensation besides straight salary.

The seven authorities consulted on the subject of "extra" executive rewards agree fairly well on most of the devices used. Four different authorities list bonus and stock option as being additional executive remuneration devices to use beside straight cash salary. Three different authorities list stock purchase, retirement plans, and insurance. Two different authorities list deferred payment, entertainment, dining facilities, club memberships, and subscriptions to trade magazines and books as devices to use. Stock bonus, profit sharing, savings plans, medical care, assistance in legal, tax, and investment problems, company recreational areas, extra schooling, scholarships for children, annuities, use of company cars and planes, housing maintenance, travel allowances, and discounts are each listed by one authority.
Therefore, it may be seen that the most popular form of "extra" executive compensation with the twenty-five Texas companies, insurance, is named by three of the authorities. Retirement plans, second in popularity with the twenty-five Texas companies is also listed by three of the authorities. Expense accounts, third in popularity with the twenty-five Texas companies, is listed by two of the authorities, under the titles entertainment expense and dining facilities. The two most listed devices by the authorities, bonus and stock option are in seventh and eight places, respectively. This shows that although the companies and the authorities do agree on some of the "extra" executive compensation devices, they do not on all.
CHAPTER V

AUTHORITY FOR SETTING SALARIES AND THE

APPRaisal OF EXECUTIVE WORTH

Introduction

The information comprising this chapter comes from the last two questions appearing on the questionnaire. The last two questions are, "Who has final authority in setting executive salaries in your company," and "By what means is executive merit or worth appraised in determining salary adjustments while an individual remains in the same position"?

The questions were asked to find who actually had the final "say-so" in setting executive salaries in the twenty-five Texas companies, and to find if the twenty-five Texas companies have merit rating systems in operation for their executives, and if so, whether the systems are of a formal or an informal nature.

Authorities' Comments on the Administration Of Executive Salaries

One authority expresses the opinion that executive salary administration is a field where no two companies operate on the same basis and where there are no standard patterns to follow. ¹

One plan, which was designed at General Foods, employs a ten-man board made up of intra-company personnel for the administration of their executive salaries.  

Going along with this same idea, somewhat, another authority refers to an advisory committee of senior executives as being one of the most common mechanisms for executive salary control.

The same authority also points out that the setting of salaries is still primarily the function of the executive in charge, but it is no longer their function exclusively.

A combination of all the preceding views is expressed by an authority, who seemed to sum up most of the possible alternatives by making the observation that the administration of executive salaries can be either with the board of directors, a committee of board members, or the operating officers of the company.

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Authorities' Opinions on Executive Merit Rating Procedure

First, the purposes of merit rating for executives or for lower level employees are promotion, transfer, employee improvement, and the establishment of control groups. Specifically for management personnel, merit rating inventories (as to abilities and potentialities), evaluates (as to performance), and trains and develops. 6

Merit rating can be either qualitative or quantitative, 7 and the value of qualitative judgment is that it transmits from the rater to the person interested in the rating a general opinion of what the rater thinks of the individual rated.

One authority lists the basic types of formal merit rating as being the chart method, the rank-order method, and the forced distribution method. 8 Another writer gives this advice on the development of a formal merit rating plan; (1) list the traits on which judgment is to be exercised, (2) from this list eliminate some, retaining only those traits which are important to success, comprehensive, specific, and differential, (3) decide on the form of the scale, (4) sketch out a tentative scale, (5) decide on the "weight" of the traits to be used, and (6) prepare detailed


instructions for the rater. All of the aforementioned opinions are ideas and theories of how a merit rating system for executives would function, and why it would be established. The following is an actual plan of merit rating which has, with possible minute variations, been in actual use.

Under the Periodic Management Review of management personnel, each person identified as a member of management is studied by a committee consisting of the three superiors in ascending line of authority over the individual to be reviewed. The review is designed to start, at or near the top of the organization and proceed downward through the various organizational levels until the first line supervisor has been studied.

Final Authority in Setting Executive Salaries

In the twenty-five Texas companies which are used in this study, seventeen listed the board of directors as having final authority in setting executive salaries. Eleven listed the top executive as having the authority of setting executive salaries, and four listed a committee from within as being the authority which sets executive salaries. One company did not fill in this section of the questionnaire. Table VIII shows the results from this question.

Several of the twenty-five companies listed both the board of directors and the top executive in this question, hence the total of the different

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indicated salary administrators equals more than twenty-five. The explanation was written in more than one of the questionnaires, that

TABLE VIII

FINAL AUTHORITY IN SETTING EXECUTIVE SALARIES

<table>
<thead>
<tr>
<th>Authority</th>
<th>Number Indicated</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>17</td>
<td>68</td>
</tr>
<tr>
<td>Top Executive</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td>Evaluation of Committee from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within the Company</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>No Comment on the Question</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>

listed both, that the board of directors has authority in setting top executives' salaries and the top executive has authority in setting middle and supervisory management's salaries.

Executive Merit Appraisal

In this chapter of the study, the primary question is to find if the twenty-five Texas companies do use a merit system on the executive level and if this system is formal or informal, and no attempt was made to find what specific types of merit rating for executives issued.

As in the question of authority in setting executive salaries, several of the twenty-five companies furnished information listed both the suggested answers and also wrote in additional types of merit rating plans. The two blanks left for checking were, "informal appraisal and judgment" and "formal merit rating or appraisal system." A space labeled "other" was also available.
Table IX shows the information gained from this part of the questionnaire.

TABLE IX

THE USE OF MERIT RATING FOR THE EXECUTIVES
OF TWENTY - FIVE TEXAS COMPANIES

<table>
<thead>
<tr>
<th>Merit Rating Plan</th>
<th>Number Using</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Appraisal and Judgment</td>
<td>18</td>
<td>68</td>
</tr>
<tr>
<td>Formal Merit Rating or Appraisal System</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Review of Board</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Conference of Major Department Heads</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Outstanding Performance</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>No Comment on the Question</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

The answers received from the twenty-five Texas companies were that eighteen use informal appraisal and judgment, four use a formal merit rating or appraisal system, one uses the review of the board, and one uses conferences with major department heads to get appraisal and recommendations. Three of the twenty-five companies did not fill in this section of the questionnaire, which could indicate that they did not have a merit system in operation for their executives, or that they considered this information confidential and merely did not want to fill in this section for that reason.

Other Problems

The last item on the questionnaire was a question that asked the companies if there were any other problems in the field of executive
compensation that had not been brought out in the questions asked on the questionnaire. There was only one reply to this section and it included two areas. The areas are, "How taxation affects executive salaries" and "The effects of inflation on executive purchasing power."

Conclusions

Two of the authorities on administration of executive salaries list the different administrative agencies as being an advisory committee, executive directly in charge, board of directors, committee of board members, or operating officers of the company. One authority gave the General Foods plan for the administration of their executives’ salaries.

One authority on merit rating gave a brief explanation on what merit rating is for and gave the basic merit rating methods as being the chart method, the rank-order method, and the forced distribution method. Another authority also explained merit rating and how to set up a merit rating system. The Periodic Management Review Plan for merit rating was also outlined and explained by an authority.

From the information presented in this chapter, it may be concluded that in the twenty-five Texas companies the board of directors is most often considered the final authority on setting executive salaries, and that informal appraisal and judgment is the most used form of executive merit rating.

The authorities list five different possible administrative agencies, but the companies use the board of directors and the top executive to control
executive salaries in most cases. The data, received from the companies and the opinions of the authorities on the subject of merit rating on the executive level are not of a nature to allow a comparison of information from the two sources.
CHAPTER VI

SUMMARY AND CONCLUSIONS

Problem

The basic, general problem under consideration in this study has been that of executive compensation. Payment, or reward, is a powerful force in motivating effort, therefore, it is natural that the subject of compensation would be a subject of great interest. The fact that executives direct the business effort of a company clearly shows that the reward of these people who direct economic activity would be vitally important and hence prove a fertile subject for study.

It has been the purpose of this study to present some of the techniques used by twenty-five Texas companies in the compensation of their executives. The purpose has been attacked in these five ways: (1) by finding what factors determine the amount of pay that executives receive, and how personal factors are ranked in setting their salaries; (2) by determining present and proposed utilization of formal job evaluation methods among the companies in setting executive salaries; (3) by finding which methods of remuneration are used for executives of different levels; (4) by determining who has the final responsibility for the administration of executive salaries; and (5) by determining the
means used in appraising executive merit or worth in making salary adjustments while an individual remains in the same position.

Summary of Procedure

Library research for this study was done in the North Texas State College and the Fort Worth Public Libraries. A questionnaire was composed using the accumulated information and tested on three Fort Worth people. A covering letter was composed. A mailing list was compiled from indexes on manufacturers. The list consisted of sixty-four companies with home offices in Texas and having two hundred or more employees. Twenty-five companies returned the questionnaire and furnished the foundation for this study. This low rate of return is at least partially explained by the confidential nature of the subject.

Summary of Findings

Considering the factors used in the twenty-five Texas companies, it has been found that the order of importance in setting executive pay is (1) the executive's future potential with the company, (2) the prevailing rate of the industry and (3) what competing companies pay, (4) what the company can afford to pay, (5) historical precedent, (6) a formal plan of job evaluation, (7) stockholder opinions, (8) cost of living and (9) responsibilities involved, (10) and performance, (11) value to the company, (12) status of the job, (13) experience, (14) abilities, (15)
committee evaluation, and (16) an adequate differential between
supervisor and employee.

On the subject of the ranking of personal factors, it has been found
that personal attributes ranks first in determining executive worth in
the twenty-five Texas companies; managerial skills is ranked second;
growth potentialities is ranked third; and business comprehension is
ranked fourth.

As to the use of executive job evaluation plans, eighteen or 72 per cent
of the companies have no form of job evaluation in operation for setting
executive salaries, and that six or 24 per cent do have job evaluation
plans in operation. Two of the six companies using executive job
evaluation plans apply the plans to all levels of management, while the
remaining four companies apply the executive job evaluation plans
only to middle and supervisory management levels. One company did
not fill in this section of the questionnaire.

On the subject of what type executive job evaluation plans the
companies used, it was found that job classification, point system, and
a combination of factor comparison and point system are each used in
two cases among the six Texas companies that use executive job
evaluation plans.

The findings on the attitude of the companies that do not have
executive job evaluation plans in operation are that six of the nineteen
companies are favorable toward their initiation, and twelve are not. One company did not comment on this question.

From the information received about types of executive compensation besides straight salary, it was found that the types of "extra" compensation given to executives, in order of their popularity, in the twenty-five Texas companies are (1) insurance, (2) retirement plans, (3) expense accounts, (4) club memberships, (5) use of company cars and planes, and (6) subscriptions to trade magazines and books, (7) bonus plans, (8) stock options, (9) profit sharing and (10) dining facilities, and (11) deferred payments and (12) incentive bonus plans.

The findings on administrative authority over executive salaries in the twenty-five companies are that the board of directors is used as final authority in eleven cases, and the evaluation of a committee from within the company is used in four cases. Several companies listed more than one of the authorities as having control of the setting of executive salaries because the different executive levels are administered by different sources in some cases.

The findings on executive merit rating in the twenty-five Texas companies are that informal appraisal and judgment are by far the most used, and that formal merit rating or appraisal, review of the board, conferences with major department heads, and outstanding performance are used to a much lesser degree in the rating of executives.
Summary of Authorities' Views

The general factors mentioned by authorities were abilities, performance, responsibilities, history of compensation in a position, conformance to an equitable salary structure, market rate for like work, cost of living, personal income tax, public, labor, and stockholder opinions, profit level of the company, industry of which the company is a part, company size, what the company is able to pay, and contribution of the executive to the company.

Authorities express different viewpoints about the subject of job evaluation on the executive level. Some feel it would provide a fair means for setting executive salaries, while others feel it is impossible to accurately measure the worth of a man. The different types of job evaluation plans are listed and explained by those who feel that a good plan of job evaluation is the answer to executive compensation.

As to types of executive payment other than that of straight salary, the authorities agree fairly well. The types of "extra" executive compensation listed by more than one authority are bonus plans, stock option, stock purchase, retirement plans, insurance, deferred payment, entertainment, dining facilities, club memberships, and subscriptions to trade magazines or books.

On executive salary administration, the authorities listed the possible administrators as being an advisory committee, the executive directly in charge, the board of directors, a committee of board
members, or the operating officers of the company. The General Foods Plan for executive salary administration was outlined as a model plan in one outstanding reference. This plan uses a ten man intra-company board to administrate salaries on the executive level.

Authorities on merit rating explain why it is used, both on the employee and executive levels, and what merit rating plans could be used. These possible plans are the chart method, the rank-order method, and the forced distribution method. A plan for setting up a merit rating system was also given.

Conclusions

The general factors most considered in the twenty-five Texas companies when setting executive pay are the executive’s future potential with the company, the prevailing rate of the industry, what competing companies pay, and what the company can afford to pay. The personal factors ranked first in importance when setting executive salaries are that of the personal attributes of the executive, that is, his initiative, resourcefulness, creativeness, ability to make decisions, and ability to plan. Authorities and Texas companies are not in full agreement as to the general and personal factors to be considered when setting executive pay.

From the information gained from the twenty-five Texas companies, it is concluded that about one-fourth or 24 percent of the twenty-five companies have formal job evaluation plans in operation on the
executive level. Job classification, point system, and a combination of factor comparison and point system are each used by two of the six companies which have executive job evaluation plans in operation. Six of the eighteen companies which do not have executive job evaluation plans in operation at this time favor their adoption for the companies' good, as well as the good of the executives. On this phase of the subject of executive compensation, the authorities and the twenty-five companies agree quite closely.

Insurance is the most popular type of executive compensation other than straight salary in the twenty-five Texas companies. Retirement plans, expense accounts, and club memberships also rate high as "extra" compensation for executives in the companies. Authorities and the respondents to the questionnaire agree on most phases of this question, but they disagree on others, notably stock options. Stock options are mentioned by nearly all of the authorities consulted on this phase, but receive very little support from the companies.

The Texas companies use the board of directors most often as the final authority in setting executive salaries. The authorities do not express opinions about the subject of the administration of executive salaries, but give mostly merit rating methods, which are not gone into in this study.

Subjects for Further Study

The fertile subject of executive compensation offers many phases of study beside those covered in this study. Other specific subjects for
study along the lines of executive compensation would be how tax rates affect executive salaries, the change of executive purchasing power over the last ten years, what is the highest paid executive position, and what is the average salary for given executive positions in a specific industry and among different industries.

The feature of executive compensation plans which has probably shown up most clearly in this study is the great lack of uniformity and of standardization of practices among existing company plans. Any research which can throw light on the problem of fitting compensation plans to individual company needs may be expected to contribute to management science in this important area.


Baker, John Calhoun, *Executive Compensation Practices of Retail Companies*, Boston, Graduate School of Business Administration, Harvard University, 1939.


**Articles**


