

# Executive Compensation: How Much to Pay – and How to Do It

An Interview with Gary M. Locke, Managing Director,  
Executive Compensation and Rewards, Towers Perrin, Stamford, Connecticut



Gary M. Locke

**EDITORS' NOTE** Gary Locke describes the executive-compensation consulting business as “arguably more competitive than ever before.” At the same time, however, the managing director and leader of Towers Perrin’s Executive Compensation and Rewards business envisions “unprecedented opportunities ahead” for his firm. As he explains: “What distinguishes Towers Perrin’s executive-compensation consultants from the competition is our depth of resources and our long-standing reputation for quality, objectivity, and reliability. We’re respected by boards and management alike, and we’re known for effectively representing the interests of shareholders.” In addition, he continues, “the breadth and depth of our expertise” – which “spans almost every industry in almost all major markets worldwide” – empower “us to bring practical insight to particular problems and particular clients,” while the firm’s size “allows us to make significant intellectual-capital investments aimed at improving our clients’ business results.” Finally, Locke crystallizes Towers Perrin’s principal objective as helping clients maximize “the return on their investment in people.” Understandably, then, as companies now emerge from bearish times and “return to basics, such as developing superior executive-pay programs,” this

“plays right to our strengths and creates new opportunities for us.”

In addition to serving on his firm’s board of directors, Locke advises many top Fortune corporations, as well as some of the largest privately owned U.S. and foreign firms. He frequently speaks on his specialty in the United States, Canada, Europe, and Asia, and has been interviewed by influential business publications. He also was recently featured in a case study in Suzanne C. Lowe’s book *Marketplace Masters: How Professional Services Firms Compete to Win*. Locke received his B.A. and M.B.A. from the University of Minnesota.

**COMPANY BRIEF** Founded in 1934, Stamford, Connecticut-based Towers Perrin is a global professional-services firm, which helps organizations optimize performance through the effective management of people, risk, and finance. Employing more than 8,000 people in 24 countries, it provides innovative solutions in the areas of human-resource consulting and administrative services, risk management and actuarial consulting to the financial-services industry, and reinsurance intermediary services. With a client roster that includes nearly 400 of the world’s 500 largest companies and more than 70 percent of the Fortune 1,000, the company ([www.towersperrin.com](http://www.towersperrin.com)) reported total revenues of \$1.5 billion in 2003.

## What, exactly, is the essence of executive-compensation consulting?

As long as I’ve been in this business, we’ve helped organizations answer two very important and enduring questions: “How much to pay?” and “How to pay?” Over the years the pendulum has swung to either side of that equation, but that’s basically what we do. On the how-much-to-pay side, we help companies decide on appropriate levels of pay for their senior team and how those levels should vary with performance. In every case our recommendations aim to strike a balance between the need to attract and retain senior executives, and an obligation to

represent the interests of a company’s owners. We help a client reach and then maintain this equilibrium by distilling marketplace best practices into a “best fit” that reflects its unique culture, pay philosophy, and business objectives. On the how-to-pay side, we design executive-compensation programs that help our clients improve their business results, whether it’s a stock-option plan that ties executive compensation directly to shareholder value or a business-unit performance plan that captures a company’s own recipe for rewarding value creation at its source. Whatever the assignment, our ability to create a customized solution stems in part from our consultants’ having access to proprietary databases.

## What impact have the highly publicized corporate scandals had on your business?

The issues that make front-page news describe the worst things that can happen in the areas of corporate governance and executive pay. They’re not flattering portraits, to be sure, but neither do they represent the overwhelming majority of companies nor the professionals who advise them. Corporate America has never been more conscious of executive pay and the implications for not getting it right. As a result, a growing number of companies are turning to experts such as us for objective advice and counsel. Slowly but surely, more people are beginning to understand the role we play in redefining what constitutes executive-compensation best practices.

## And so you think a positive message can be conveyed that most executives are compensated fairly?

Absolutely. Just in the last year, I’ve seen more change in executive-compensation packages at leading-edge companies than I have at any time over the past 20 years. Plus, before any conclusions can be drawn about the scope of these changes, it’s important to remember this: There’s a time lag between when a company changes its compensation practices and when pay levels actually are effected. The changes made so far, though wide ranging and meaningful, represent only the beginning of a powerful trend. For some, this