

# PHL|HP CONSULTING GROUP

Building and Sustaining High Performing Organizations



A Message from  
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Founder and President

## Determining a CEO's Value and Compensation

A topic of recent discussion in business communities has been how to measure the value of a CEO in order to determine compensation.

Executive Compensation continues to be a very complex and controversial topic that, in my opinion, is often as much art as science. The artfulness has been widely overlooked and over-emphasis has been placed on the 'scientific' or the leader's quantifiable metrics. Nevertheless, it has great impact on all of you as it relates to your compensation as well as that of your most senior staff.

Compensation is very much related to the perceived value of the CEO, but how that should be determined is often hotly debated.

There are two approaches frequently utilized: total shareholder return, which is easy to measure, but very limited, and return on capital over a number of years when compared to companies of similar size in the same industry.

Relationships with Boards, Compensation Committees, partners, and shareholders influence the outcome and should not be overlooked or underestimated. Even in privately held companies, when compensation becomes public, as it typically somehow does, despite the best efforts to the contrary, these relationships are extremely important.

What I feel is omitted in either approach is the CEO's ability to increase human capital, sculpt corporate culture, maximize employee engagement, satisfaction, and "buy in", and recruit, hire, and retain A-level employees who become the core of a leadership development program and succession plan.

Whether you hope to grow, sell, or merge your company, the valuation always includes an assessment of the senior support team. That is why current standards for measuring the value of a CEO may be inadequate and must incorporate a human capital assessment.

Without sound financial planning, a return on investment, and strong human capital development even the most powerful CEOs will have their value and compensation questioned.

Action Needed:

- Develop a Compensation Committee
- Demonstrate return on capital
- Strengthen relationships with those who assess your performance and compensation and demonstrate your value to them
- Create a human capital assessment plan that evaluates employees at all levels, develops future leaders, enhances company values, and increases employee engagement.

For further information, contact Dr. Philip Levy at [Philip@phlconsultinggroup.com](mailto:Philip@phlconsultinggroup.com)

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