



The Executive Leader's Blueprint

Compensation for Strategic Hires



Executive Operations Compensation Overview



Establishing a highly motivating compensation strategy is paramount for attracting and retaining an executive who will lead a critical function or region. This individual is responsible for **driving functional excellence**, achieving specific strategic objectives, and accelerating the maturity of their operational domain.

Poorly designed compensation for this pivotal hire often fails because it focuses on basic tasks rather than **measurable strategic outcomes**. This signals a lack of strategic vision, leading to an inability to hire top-tier talent and slower-than-expected organizational progress.

This executive role is a **Strategic Owner and Organizational Accelerator**. Their compensation must reflect accountability for **strategic alignment, operational efficiency, and talent stewardship** within their scope. The package must be competitively benchmarked against local market standards, utilizing substantial **Long-Term Incentives** to align them with the sustained success of the overall business.

In this guide, you will learn about the advanced strategic steps to designing an executive compensation plan that is competitive, drives organizational results, and successfully integrates the new leader.

SECTION 1

Preparing to Build Your **Executive** Compensation Plan

ASSEMBLING YOUR TEAM

Compensation design requires collaboration between global strategy and local operational leadership.

GLOBAL BOARD / COMPENSATION COMMITTEE

Mandatory Oversight. Provides final approval, ensures the plan aligns with the global shareholder strategy, and sets the overall organizational performance targets.

EXTERNAL LEGAL COUNSEL

Essential for reviewing the executive contract, ensuring compliance with **local labor and contract laws**, and advising on restrictive covenants (e.g., non-compete/non-solicitation clauses).

INTERNAL HR LEADERSHIP

Essential Partner. Provides data on internal equity, manages the **local benefits program**, and handles the integration process for the new executive.

SPECIALIZED COMPENSATION CONSULTANTS

Benchmarks the specific function (e.g., Head of Legal, Chief HR Officer) against comparable roles in the local region, considering the scale and complexity of the business.



ALIGNING COMPENSATION TO CORE BUSINESS OUTCOMES

Compensation for the executive must prioritize **strategic accountability, functional maturity, and organizational scaling**. Tie executive incentives to the following core business outcomes:

- 1 Functional Excellence & Impact:** Achieving specific strategic targets within the executive's domain (e.g., reducing operational risk, achieving key hiring milestones, enhancing technological scalability).
- 2 Organizational Scale and Talent Stewardship:** Successfully integrating the executive's function with global platforms and developing the next tier of leadership talent within their domain.
- 3 Risk Management & Compliance:** Ensuring 100% adherence to **local regulatory standards** and internal governance policies.
- 4 Strategic Initiative Execution:** Successful execution of major, cross-functional strategic projects (e.g., M&A integration, digital transformation, major policy overhaul).



CRITICAL QUESTIONS YOU NEED TO ANSWER

Address these critical factors before proceeding:

- 1 Benchmarking Philosophy:** How does the local On-Target Earnings compare to global benchmarks?

The benchmark must reflect the specific competitive market for that functional talent.

- 2 Benefits Parity:** Does the proposed local **health and welfare package** (e.g., medical, dental, retirement savings plan) meet the local competitive threshold?

- 3 LTI Tax Complexity:** Which equity vehicle is most appropriate (e.g., Stock Options, RSUs)? Does the entity have a compliant LTI plan in place for this jurisdiction?

- 4 Employment Status:** What is the legal status of the employment, and how will this be clearly explained?

- 5 Jurisdictional Compliance:** What specific employment and labor laws apply based on the executive's location and the operating region?

SECTION 2

Executive Compensation Models and Levers

The compensation model must be competitive for the specific market and role complexity, leaning heavily on **strategic performance metrics**.

Role Type	Typical Base/Variable Split	Rationale (Focus/Risk)
Functional VP / Chief Officer (e.g., CPO, CTO)	60% Base / 40% Variable	Variable is split between Annual Bonus (Functional Goals, Operational Efficiency) and LTI (Stock/Options) to drive multi-year strategic alignment.
Chief Operating Officer (COO)	50% Base / 50% Variable	Key Compensation Levers Variable is heavily weighted towards LTI and corporate performance (EBITDA, overall business metrics). Focus on multi-regional operational and efficiency accountability.
LTI Component (All Executives)	Varies, typically 1x - 4x Annual Base	Equity (RSUs/PSUs) vests over 3-4 years. Must be carefully structured to minimize tax friction and ensure retention.

Key Executive Compensation Levers

- **ANNUAL CASH BONUS:** (Typically 30% to 60% of Base Salary) Linked to annual, measurable metrics focused on **functional achievement** (e.g., "Implement new talent acquisition pipeline by Q3," "Achieve 99.9% system uptime," "Reduce legal claim exposure by 10%").
- **LONG-TERM INCENTIVES (LTI):** (Equity/Stock, vesting over 3-4 years) Must use the appropriate equity vehicle tied to **Sustained Corporate Financial Targets** or **Long-term Strategic Milestones** (e.g., successful exit/IPO, completion of a multi-year IT integration).
- **PERKS & BENEFITS:** Mandatory inclusion of a **comprehensive local health insurance and retirement savings plan** with corporate match, and possibly temporary housing/relocation support.

ADVANCED COMPENSATION CONSIDERATIONS

Rewarding Strategic Impact

Rewards must skew toward **strategic impact and functional efficiency**.

Risk vs. Cost Strategic MBOs

Use quantifiable MBOs tied to their functional mandate (e.g., "Achieve 95% completion rate on internal audit recommendations," "Roll out new global performance management system," "Increase data security rating from B to A").

Focusing on Enterprise Metrics:

Bonuses should still be tied to some mature, standard financial metrics like **EBITDA or Cash Flow Generation**, ensuring all executives are focused on the collective health of the organization.

Rewarding Compliance and Talent

Compliance Gate:

The entire variable pay (Annual Bonus and LTI) must be subject to the executive maintaining **zero material regulatory violations** and adhering to internal governance standards.

Talent MBO:

Include a measurable objective for building out a high-performing team (e.g., "Achieve 90% retention rate for first-tier leadership team," "Maintain above-average employee engagement scores within their function").

Common Mistakes in Executive Comp Plans

When creating compensation plans for executive leaders, global organizations often make these critical errors:



- **IGNORING LOCAL BENEFITS COST:** Failing to budget for the high, non-negotiable cost of a **competitive local benefits package** (health insurance, retirement plans, etc.), which is a primary expectation for executive-level talent.
- **ASSUMING UNIVERSAL TAX TREATMENT:** Assuming that stock options or RSUs granted globally will be treated the same way in the local market. This almost always leads to **complex tax liabilities and misunderstandings** for the executive.
- **LACK OF CLAWBACK ENFORCEMENT:** The employment contract must clearly define **clawback and termination rules** under the local legal jurisdiction to protect the company's interests in cases of misconduct or material restatement of financials.
- **BENCHMARKING GLOBALLY, PAYING LOCALLY:** Benchmarking the role to competitive local market rates (e.g., a high OTE) but attempting to pay based on a lower-cost global headquarters compensation structure. **You must pay to compete in the local market.**

Key Components of the Executive Compensation Document

The executive compensation document is a formal, legally binding contract. It must detail all financial and equity components with full transparency under local law.

- 1 Header Information:** Includes Executive Name, Title, effective dates, Target Annual Bonus, and Target Annual Long-Term Incentive grant value. Must explicitly specify the **Governing Legal Jurisdiction**.
- 2 Fixed Compensation:** Detailed Base Salary, employment term, and any specific relocation or repatriation clauses.
- 3 Benefits Schedule:** Explicitly details the **local Health & Welfare benefits package** (medical, dental, retirement savings plan match, etc.).
- 4 Annual Incentive Plan:** Detailed weighting tied to **Corporate Financial Metrics** and the executive's specific **Functional Maturity/Strategic Achievement Metrics**.
- 5 Long-Term Incentive Plan:** Clearly defines the grant date, type of equity (RSUs/options), vesting schedule, and any associated performance criteria (e.g., 3-year Corporate EPS or Strategic Milestones).
- 6 Clawback and Termination Clauses:** Explicitly detailing conditions for forfeiture and recovery of compensation, enforced under local contract law, including provisions for termination without cause vs. for cause.

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