

COMPENSATION

Executive Compensation and Incentives for Chains

Executive compensation is a hot topic for business publications, where readers are treated to a titillating look at the often-exorbitant salaries of corporate America's top brass. For companies that operate in highly competitive industries, however, insight into executive compensation of one's peer group provides invaluable information for attracting and retaining the kind of talent necessary to succeed.

The 2005 Chain Restaurant Corporate Report, presented by HVS International Executive Search, is the result of survey responses and public documentation from 107 restaurant companies via the HCE Hospitality Compensation Exchange, which they bill as the "largest industry forum for the exchange of compensation and benefit information."

Results from this year's survey, the fourth such national examination by HVS, confirm that "compensation in the restaurant industry continues to be connected to the hierarchy of a traditional organization chart." CEOs enjoy the highest median salary among restaurant executives, with a median salary of \$400,000 and an average bonus of \$318,004 in 2005. The median is 75 percent more than that of the next highest earning executive, though CEO salaries ranged widely from \$1.00 to \$1.4 million.

According to HVS Managing Director David Mansbach, the most notable finding from the survey "is not necessarily the increase in what a CEO makes"—in fact their median salary increased just 1.4 percent from 2004—"it's that companies are starting to realize that employees up and down the organizational chart need long-term incentives to drive the initiatives of the company."

So while those persons at the top of the hierarchy received the largest average bonuses and long-term incentives, those at the bottom had some "skin in the game," as Mansbach puts it, as well. Unit general managers enjoyed average bonuses of about \$10,000 and long-term incentives, comprised of restricted stock awards and stock options, as high as \$17,000. Even chefs and kitchen managers benefited from this trend, earning nearly \$5,000 in average bonuses and over \$1,000 in long-term incentives.

The form of long-term incentives migrates from the use of stock options, which have fallen out of favor due to Sarbanes-Oxley expensing requirements, to the awarding of restricted stock awards. The latter generally do a much better job of aligning pay and performance because they often vest only if certain predetermined goals are met, such as a target same-store sales percent or attaining particular customer service scores.

In Mansbach's opinion, too many companies fail to structure their compensation incentives in a way that ensures executives are focused beyond the short term. "I would say 40 percent to 60 percent of companies are doing it the right way," he estimates. "There are still companies that have a long way to go before they truly align employees—whether it's a unit GM or CEO—with the interests of shareholders and/or ownership."

In addition to amassing salary and benefits data across all respondents, the report stratifies the data by system sales and unit counts of restaurants, with three size classes for each. As expected, earnings increase with the scope of an operation, with chairmen earning a 245 percent premium at concepts with sales greater than \$500,000 versus those with less than \$100,000. For positions such as regional director or unit manager, where the size of the system has little impact on job duties, salaries hardly vary.

Chief information officers enjoyed the largest percent increase in median salary from 2004 to 2005, earning on average \$150,000, a 16 percent raise. CIOs are responsible for a company's information technology strategy, maintaining financial databases and overseeing the implementation of company-wide systems.

Mansbach has predicted the increasing importance of CIOs for a few years, pointing to the emergence of new technologies, especially those related to customer relationship management, for driving demand. He adds that restaurants now look outside the industry to fill this position, to sectors where CIOs command relatively higher salaries, another factor behind their rapid earnings growth.

Executive	Median Salary	Average Bonus	Maximum Long-Term Incentive
Chief Executive Officer	\$400,000	\$312,301	\$20,039,549
Chief Financial Officer	\$209,504	\$99,733	\$9,454,097
Chief Information Officer	\$150,436	\$38,319	\$1,298,104
VP Franchising	\$143,094	\$44,917	\$221,352
Unit General Manager	\$51,358	\$10,109	\$17,334