

WCBC Western Compensation & Benefits Consultants

WCBC helps Canadian employers pay employees appropriately by providing customized solutions, market-based research and professional advice. Let us know how we can help you achieve your compensation goals.

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Executive Compensation: Good Corporate Governance

The biggest development over the past 25 years in the world of compensation has been the dramatic changes in governance. This change commenced with executive positions in the early 1990s and continues today.

In March 2015, Western Compensation & Benefits Consultants ("WCBC") conducted a national research project on:

- executive compensation philosophy design;
- similarities/differences in compensation philosophy between executive and positions below executive;
- objectives of the executive compensation program;
- selection of peer group for compensation comparisons;
- pay positioning policy; and
- communication of the compensation philosophy.

A total of 115 organization from across Canada participated in this survey. Appendix A contains a profile of the participants while Appendix B lists the participating organizations.

Our Findings

What is Corporate Governance?

Corporate governance identifies processes and procedures by which corporations are directed and controlled such as assignment of rights and responsibilities of board, management, shareholders/ stakeholders, auditors, etc.; defines rules and procedures for decision-making; and provides mechanisms for monitoring policies, actions and decisions.

Growth in the demand for good corporate governance has been fueled by a number of developments such as failures of large corporations, fraud, evidence of bad policies/decisions and the 2008 financial crisis.

Executive compensation governance is an important component of overall corporate governance.

Policies Vary by Sector

The prevalence and design of an executive compensation philosophy varies depending on whether the organizations is privately-owned, publicly-traded, in the public sector or a not-for-profit. Publicly-traded organizations in the private sector and some public sector organizations are regulated and therefore have the most formal plans, but there is a spill-over to, and adoption by, all types of employers.

Compensation Philosophy

A compensation philosophy is a set of guiding principles that drives the design and administration of an organization's compensation program(s). A compensation philosophy would typically include:

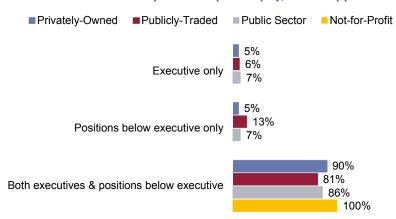
- the objectives of the compensation program or strategy;
- identification of the components of compensation;
- criteria for selecting peer comparison organizations; and
- outline where the organizations targets its compensation levels versus the market.

As shown below, the majority of Canadian organizations have a compensation philosophy.

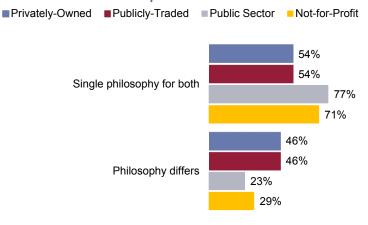
Percent of organizations with a compensation philosophy



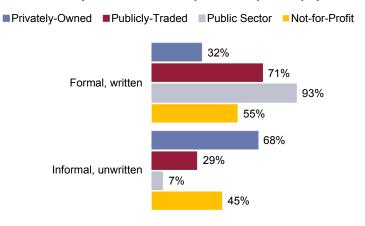
Of those with a compensation philosophy, who it applies to:



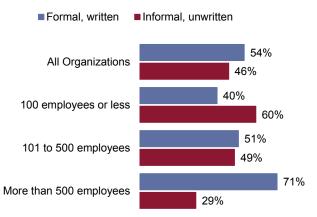
Organizations with a compensation philosophy for both executives and positions below executive



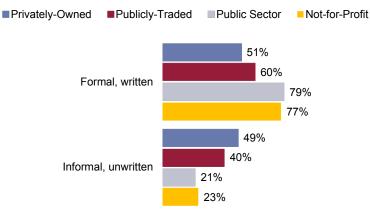
Formality of executive compensation philosophy



Formality of executive compensation philosophy by size of organization



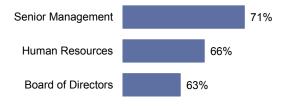
Formality of compensation philosophy for positions below executive



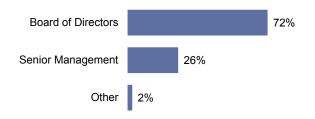
Development & Approval of Executive Compensation Philosophy

As shown below, the development of the executive compensation philosophy involves, human resources, senior management and the board of directors but final approval is typically the responsibility of the board. Topics included in the executive compensation philosophy vary depending on whether or not the executive compensation philosophy is formal and written or informal and unwritten.

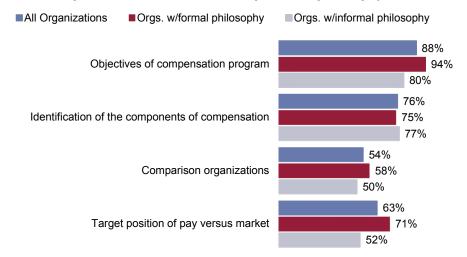
Entities involved in developing executive compensation philosophy



Highest organizational level providing approval for the executive compensation philosophy

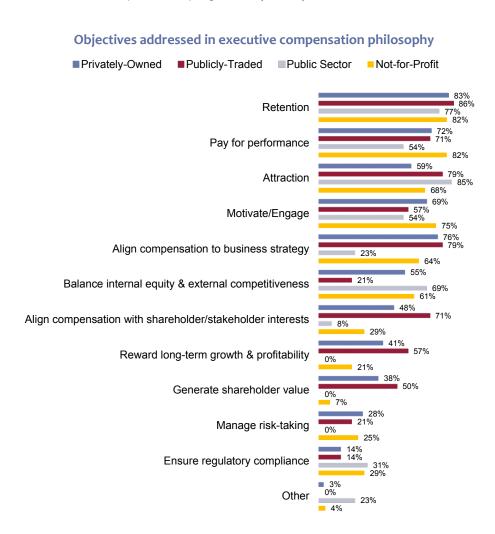


Topics included in executive compensation philosophy



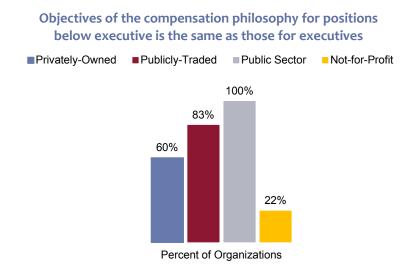
Objectives of Executive Compensation Program

It is important to specify what your organization's compensation program is designed to do to help the organization succeed. Depending on whether or not your organization is private, public or a not-for-profit, objectives of the executive compensation program vary widely.



Executive Positions vs. Positions Below Executive

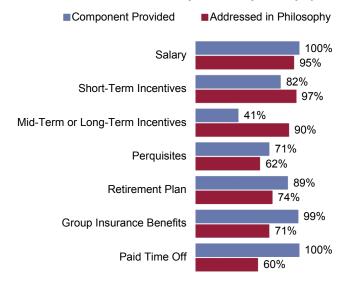
As shown below, all the public sector and the majority of the private sector organizations which include the objectives of the compensation program in their compensation philosophy do not differentiate the objectives between executive positions and positions below executive. However, less than one-quarter of not-for-profits have the same objectives for executive and lower level positions.



Identification of the Components of Compensation

As reported earlier, approximately three-quarters of organizations include the identification of the components of compensation in their compensation philosophy. As shown below, while direct compensation is usually addressed in the executive compensation philosophy, indirect compensation such as group insurance, retirement plans and paid time off are addressed to a lesser degree.

Components of compensation provided to executives and addressed in the executive compensation philosophy



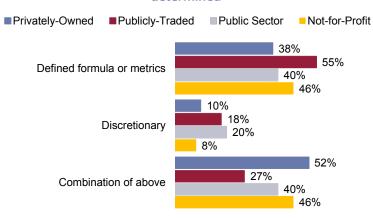
Components of compensation included in the compensation philosophy for positions below executive are the same as those included for executives



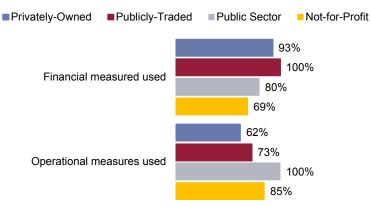
Executive Short-Term Incentive Plans

As shown above, virtually all organizations which have annual bonus plans in place for their executives reference these short-term incentives in the executive compensation philosophy. How the amounts of short-term incentives awards are determined in these organizations are shown below.

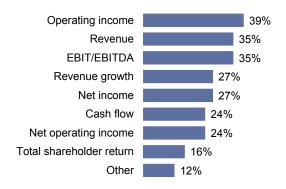
How amounts awarded under executive short-term incentive plan are determined



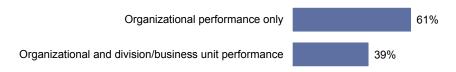
Use of financial and/or operational performance measures in determining an executive's short-term incentive payout



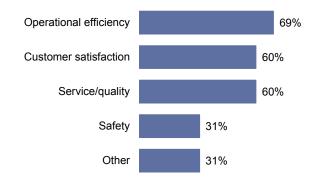
Financial performance measures used to determine executive short-term incentive payout



How financial measures are applied to determine executive short-term incentive payout



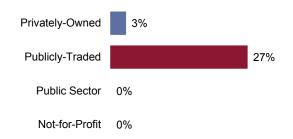
Operational performance measures used to determine executive short-term incentive payout



Clawbacks

A clawback provision requires repayment of incentive payments if there is a re-instatement of the financial results or other metrics used to determine incentive awards. As shown below, just over one-quarter of publicly-traded companies have a documented clawback provision, whereas it is rarely documented in the privately-owned companies and does not exist in public sector and not-for-profit organizations.

Documented clawback provisions in place



Comparison Organizations

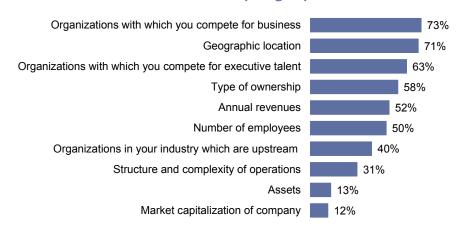
The comparison organizations are the ruler with which organizations measure their compensation levels. Having a sound process for the peer group selection is a critical governance component.

As reported earlier, just over half (54%) of organizations include information on comparison organizations in their executive compensation philosophy. As shown below, with the exception of publicly-traded organizations, the human resources department plays a large role in selecting peer organizations for compensation comparisons.

Parties involved in selecting peer organizations for executive compensation comparisons



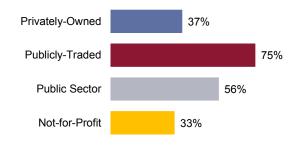
Criteria used for peer group selection



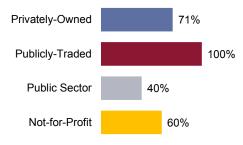
Number of organizations in peer group



Disclosure, by name, of compensation peer group organizations



Of those disclosing compensation peer group by name, also identifying selection criteria to verify appropriatness

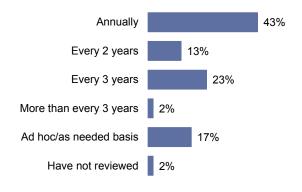


Peer group used to determine:

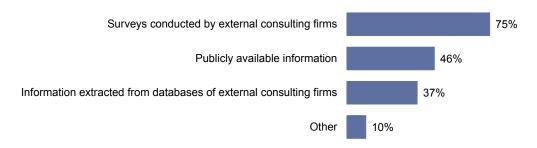


*only those organizations that provide these forms of compensation are included in the calculation

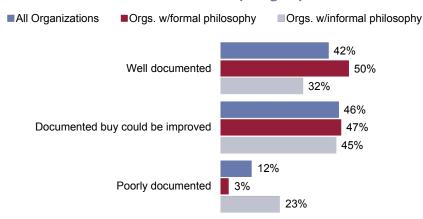
Frequency of peer group review



How peer group compensation data is collected



Level of documented information on peer group selection criteria



Executive Positions vs. Positions Below Executive

As shown below, with the exception of the public sector, those organizations which identify the organizations used for market comparison in their compensation philosophy typically are the same comparison organizations for executive positions and positions below executive.



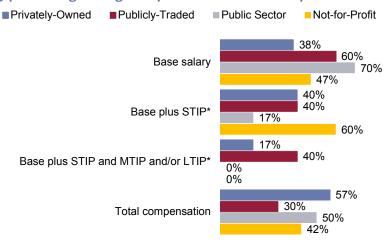


Target Position of Pay Versus Comparison Organizations

A pay policy position defines what an organization wishes to pay relative to the market. Does your organizations strive to pay at the middle of the market, above market or below?

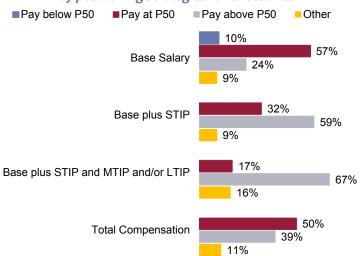
As reported earlier, just under two-thirds (63%) of organizations address pay positioning strategy in their executive compensation philosophy. Where it is addressed, organizations typically have more than one pay positioning strategy (e.g., one for base salary, one for base salary plus bonus, etc.).

Pay positioning strategies in place for executive compensation levels

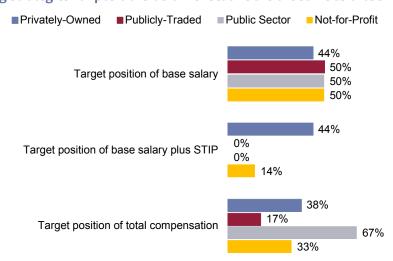


*only those organizations that provide these forms of compensation are included in the calculation.

Pay positioning strategies for executives



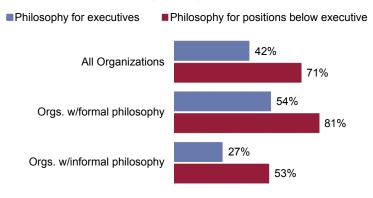
Pay positioning strategies for positions below executive are the same as those for executives



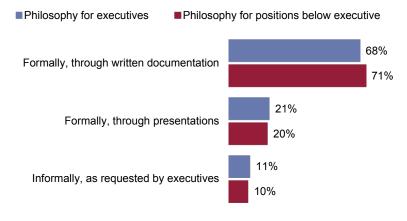
Communication

The level of communications within an organization about the compensation philosophy is predominantly affected by whether or not a formal, written philosophy is in place or if the compensation philosophy is informal, unwritten.

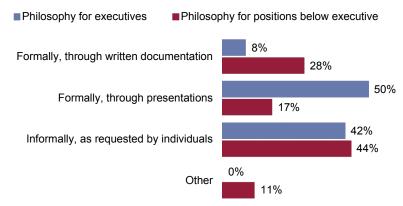
Percent of organizations that communicate compensation philosophy



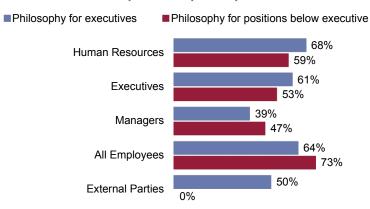
Method of communication for formal, written compensation philosophies



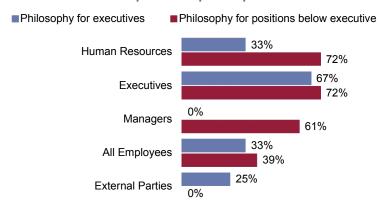
Method of communication for informal, unwritten compensation philosophies



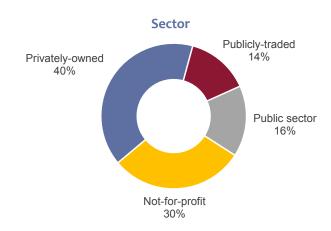
Parties who have access to information about formal, written compensation philosophies



Parties who have access to information about informal, unwritten compensation philosophies



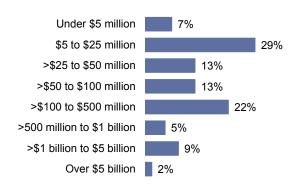
Appendix A: Participant Profile

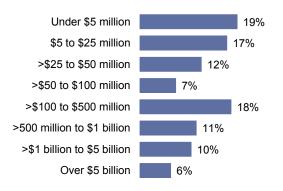


Business Classification

Professional/Scientific/Technical Services 17% Financial Services/Insurance Retail/Wholesale 10% Association or Regulatory Body 9% **Public Administration Educational Services** 5% Transportation/Warehousing 5% Agriculture, Forestry, Fishing & Hunting 4% Arts &.. 4% Real Estate/Rental/Leasing 4% Mining/Oil & Gas Extraction Healthcare/Social Assistance 3% Utilities 3% High Tech Information/Media Construction Manufacturing

Annual Revenues





Appendix B: Participant List

Alberta Boilers Safety Association

Aldergrove Credit Union

Alterra Power Corp.

Aquatera Utilities Inc.

Arc'teryx Equipment Inc.

Assiniboine Credit Union

Association of Neighbourhood Houses of BC

Association of Professional Engineers &

Geoscientists of Alberta

Association of Professional Engineers &

Geoscientists of BC

Bancorp Financial Services Inc.

BC Children's Hospital Foundation

BC Pharmacy Association

BC Provincial Government – Ministry of

Finance

BC Real Estate Association

BC Securities Commission

BCCA Employee Benefit Trust

Beedie Development Group

BlueShore Financial

British Columbia Automobile Association

Calgary Co-operative Association Limited

Calgary Stampede

Canadian International Grains Institute

Canadian North Inc.

Cascades Recovery Inc.

Celero Solutions Inc.

City of New Westminster

City of Penticton

City of Richmond

City of Surrey

College of Registered Nurses of BC

Collins Barrow PQ LLP

Concert Properties Ltd.

Conifex Timber Inc.

Credit Counselling Society

Douglas College

ENGCOMP Engineering & Computing

Professionals Inc.

Entertainment Partners Canada

Fielding Chemical Technologies Inc.

Flair Airlines Ltd.

Forestry Innovation Investment Ltd.

Group2 Architecture Interior Design Ltd.
GWC Group of Companies

H.H. Angus & Associates Limited Consulting Engineers

Health Employers Association of BC
HOPE International Development Agency

Integris Credit Union

ISL Engineering and Land Services Ltd.

I-XL Masonry Supplies Ltd.

K+S Potash Canada

Kal Tire Ltd.

Kerr Wood Leidal Associates Ltd.

KF Aerospace

Kinder Morgan Canada Inc.

Knight Piesold Ltd.

Koch Ford Lincoln Sales (2003) Ltd.

L-3 Wescam

Land Title & Survey Authority of BC

Law Society of Alberta

Law Society of British Columbia

Legal Services Society

MacKenzie Fujisawa LLP

Manitoba Blue Cross

Manitoba Liquor & Lotteries Corporation

McGregor and Thompson Hardware Ltd.

Millar Western Forest Products Ltd.

MMM Group Limited

MTE Consultants Inc.

NAL Resources Management Limited

Nature's Path Foods Inc.

Nelson International

North American Construction Ltd.

North East School Division No. 200

Ontario Motor Vehicle Industry Council

Ontario Real Estate Association

Opus International Consultants (Canada) Inc.

Pacific Blue Cross

Pacific Coast Terminals Co. Ltd.

Peterson Group

Peto MacCallum Ltd.

Port Metro Vancouver

Purdys Chocolatier

RBC Convention Centre Winnipeg
Ready Engineering Corporation
Real Estate Board of Greater Vancouver

Richmond Honda

Safety Codes Council

Saskatchewan Indian Gaming Authority

Saskatchewan Polytechnic

RHC Insurance Brokers Ltd.

SaskTel

SFU Community Trust

Solex Thermal Science Inc.

South Beach Casino & Resort

Stantec Consulting Ltd.

SunRise Credit Union

Surrey School District

Taiga Building Products Ltd.

TELUS Communications Inc.

Tetra Tech EBA, Inc.

Tolko Industries Ltd.

Torys LLP

Tourism Vancouver

TransAlta Corporation

Triton Environmental Consultants Ltd.

University of Manitoba

Vancouver Community College

Vancouver Foundation

Wavefront Wireless

Wawanesa Mutual Insurance Company

Wesgroup Properties LP

Western Canada Marine Response Corporation

Western Forest Products Inc.

WestJet Airlines

Whistler Blackcomb

Young Life of Canada