



# EXECUTIVE COMPENSATION: Good Corporate Governance

**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.

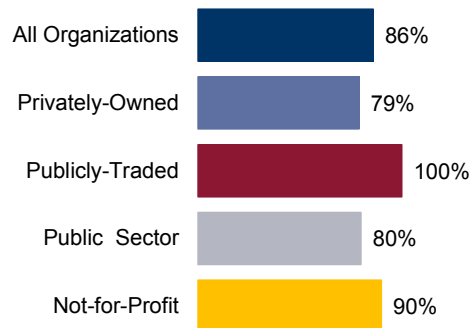
# Compensation Philosophy

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:

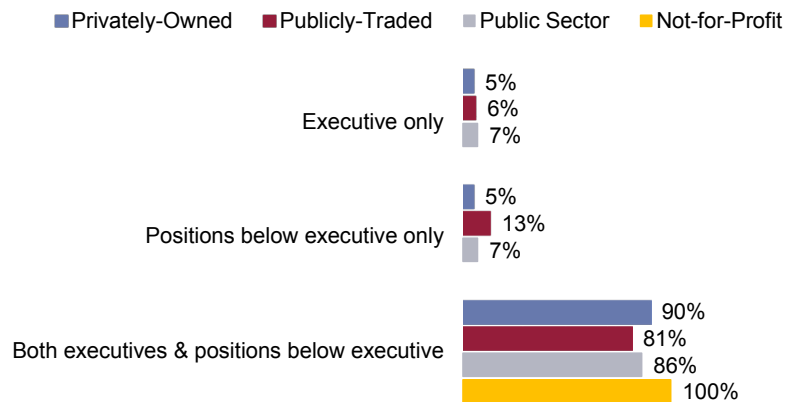
- the objectives of the compensation program or strategy;
- identification of the components of compensation;
- criteria for selecting peer comparison organizations; and
- outline where the organizations targets its compensation levels versus the market.

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

Percent of organizations with a compensation philosophy

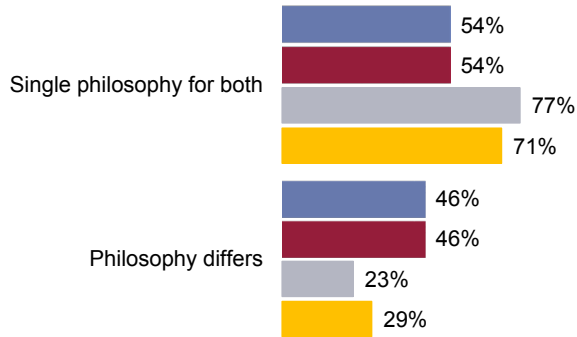


Of those with a compensation philosophy, who it applies to:



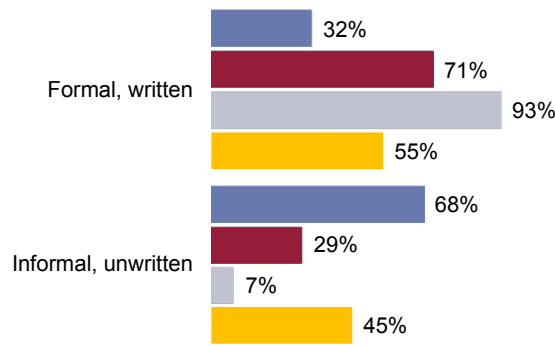
### Organizations with a compensation philosophy for both executives and positions below executive

■ Privately-Owned ■ Publicly-Traded ■ Public Sector ■ Not-for-Profit



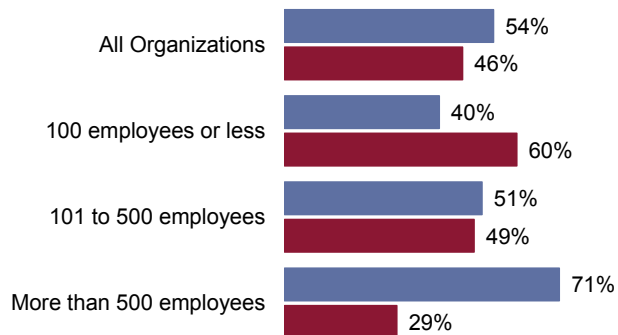
### Formality of executive compensation philosophy

■ Privately-Owned ■ Publicly-Traded ■ Public Sector ■ Not-for-Profit

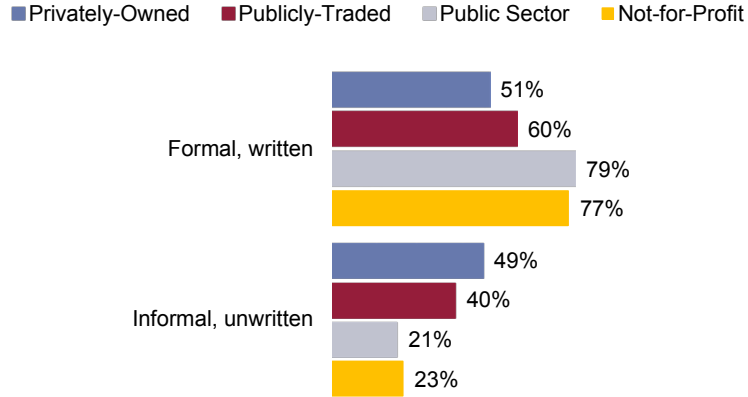


### Formality of executive compensation philosophy by size of organization

■ Formal, written ■ Informal, unwritten



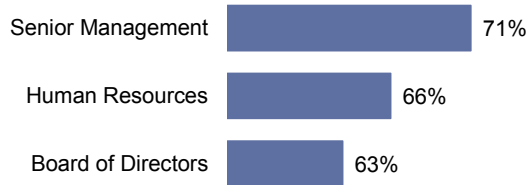
### Formality of compensation philosophy for positions below executive



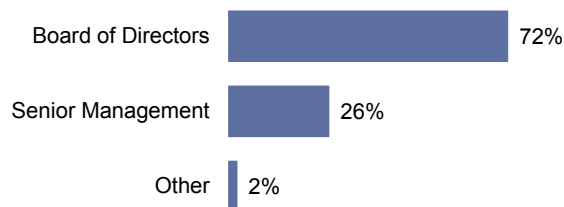
## Development & Approval of Executive Compensation Philosophy

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.

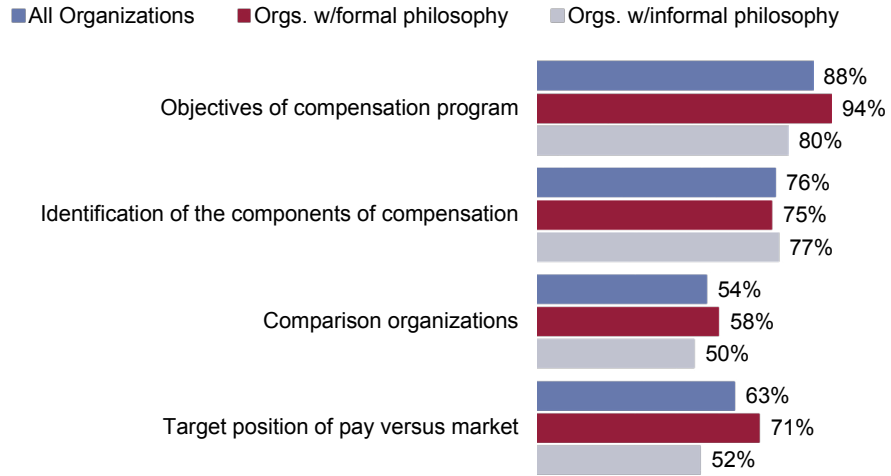
### Entities involved in developing executive compensation philosophy



### Highest organizational level providing approval for the executive compensation philosophy



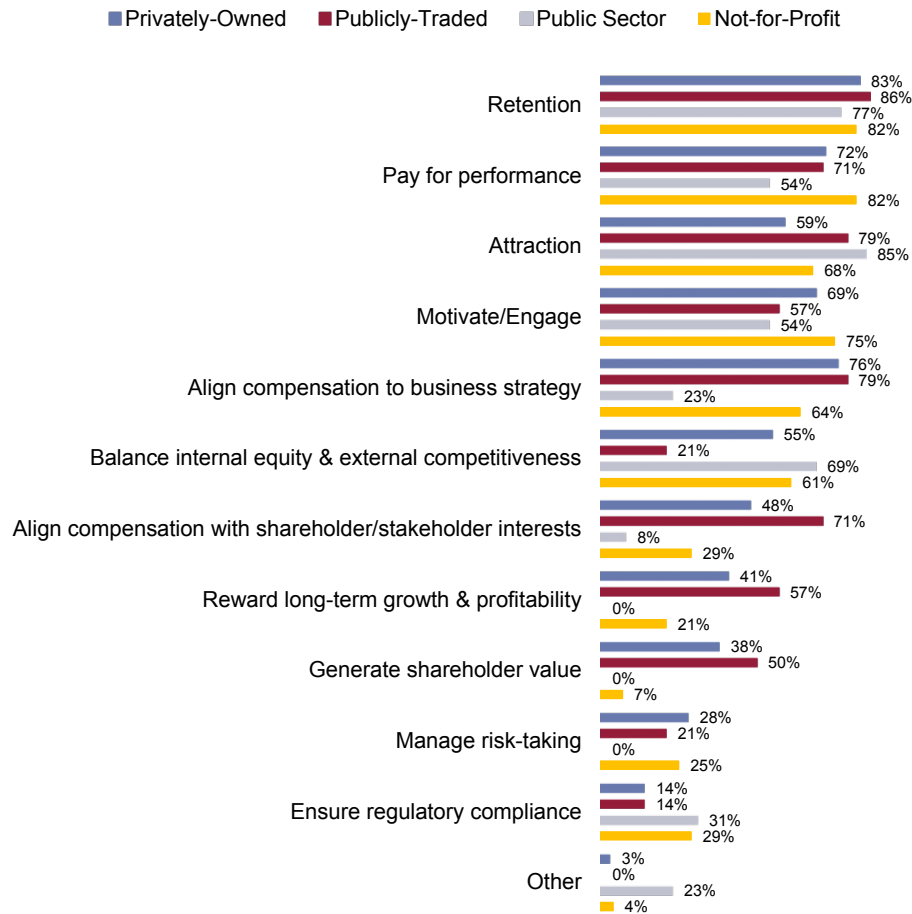
### Topics included in executive compensation philosophy



# 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.

## Objectives addressed in executive compensation philosophy

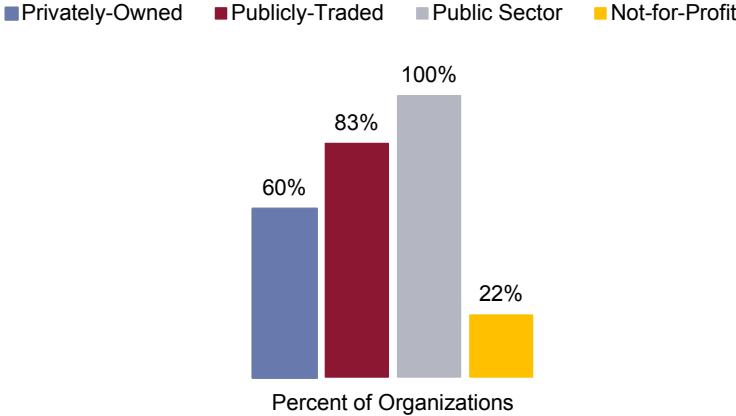




# Executive Positions vs. Positions Below Executive

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.

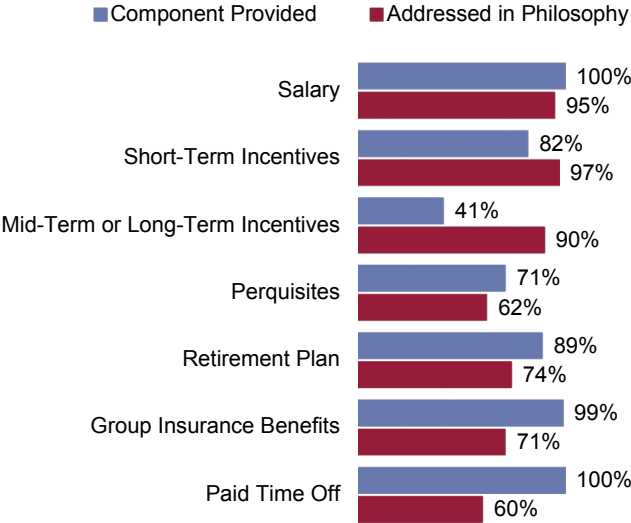
Objectives of the compensation philosophy for positions below executive is the same as those for executives



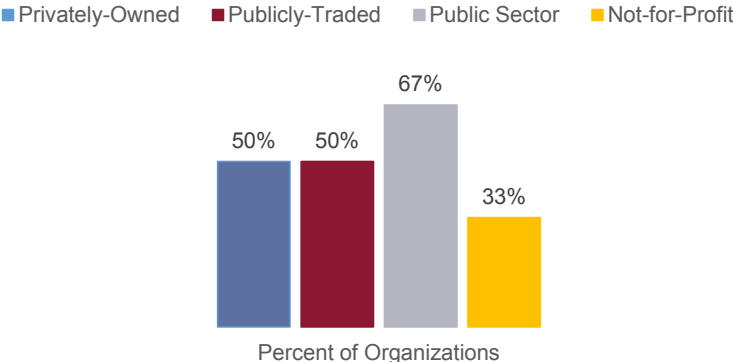
# Identification of the Components of Compensation

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



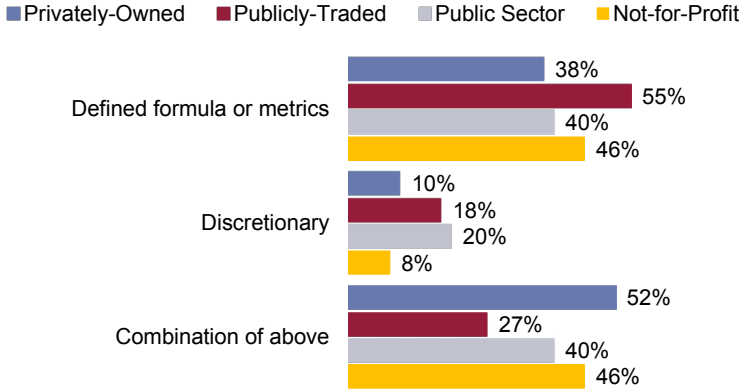
Components of compensation included in the compensation philosophy for positions below executive are the same as those included for executives



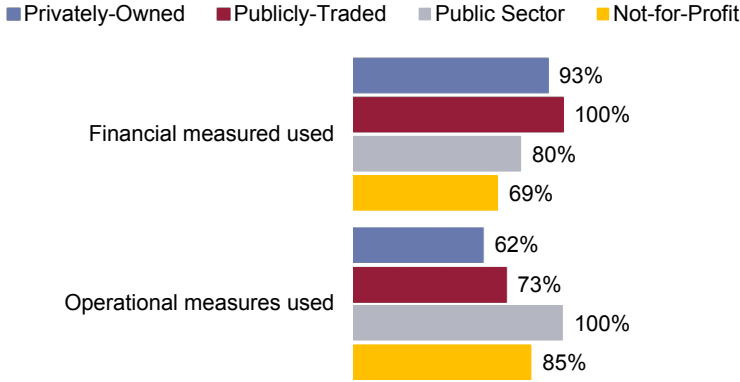
# Executive Short-Term Incentive Plans

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.

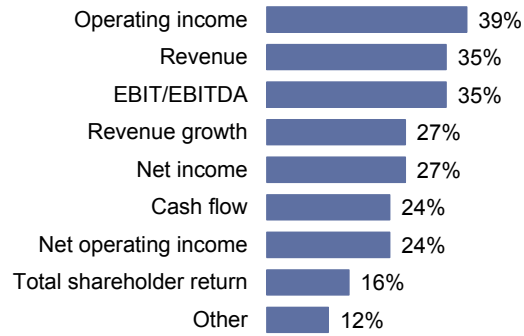
How amounts awarded under executive short-term incentive plan are determined



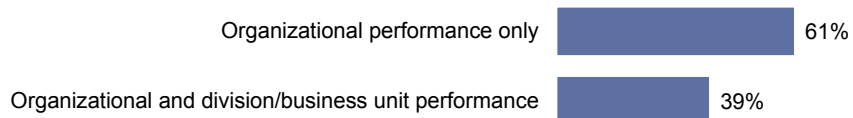
Use of financial and/or operational performance measures in determining an executive's short-term incentive payout



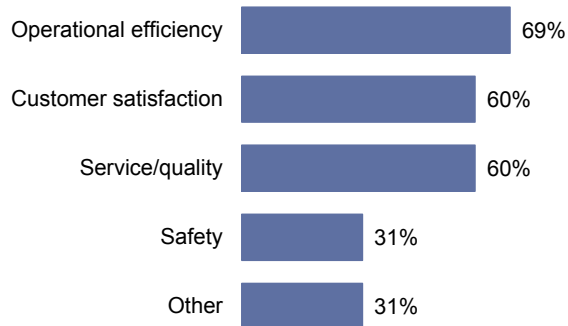
### Financial performance measures used to determine executive short-term incentive payout



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



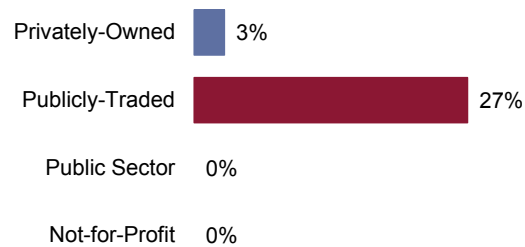
### Operational performance measures used to determine executive short-term incentive payout



# 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

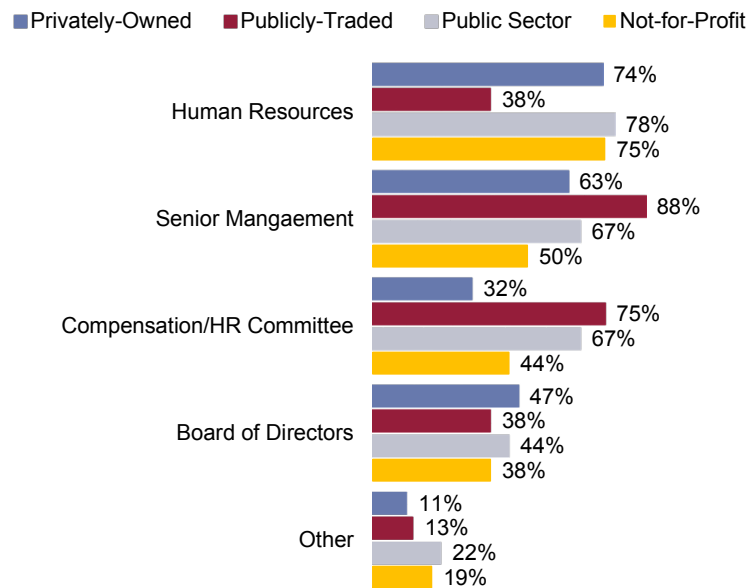


# Comparison Organizations

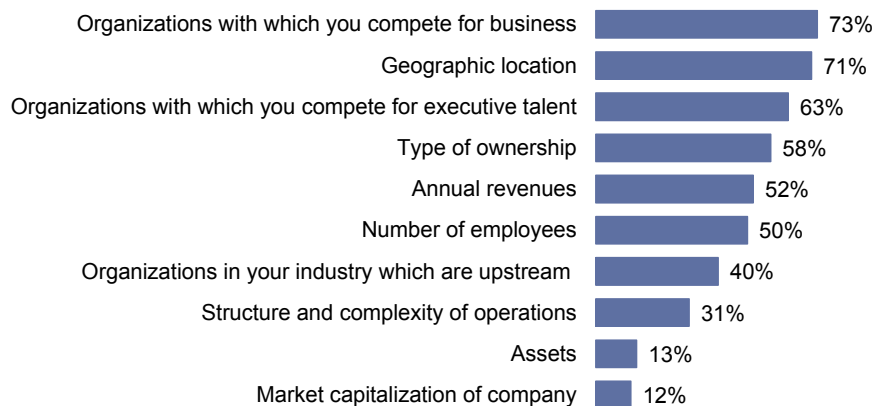
The comparison organizations are the ruler with which organizations measure their compensation levels. Having a sound process for the peer group selection is a critical governance component.

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.

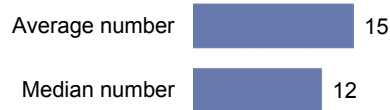
## Parties involved in selecting peer organizations for executive compensation comparisons



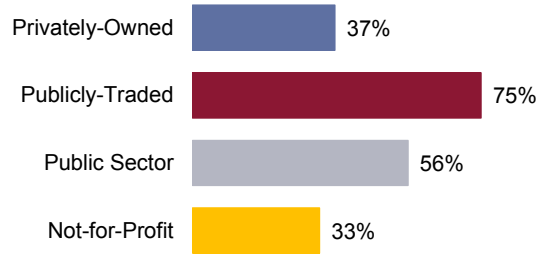
## Criteria used for peer group selection



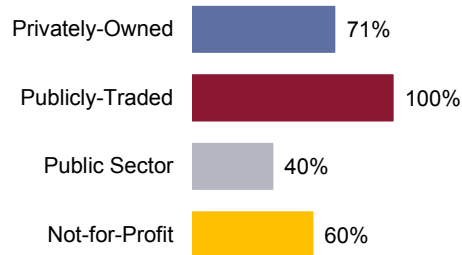
### Number of organizations in peer group



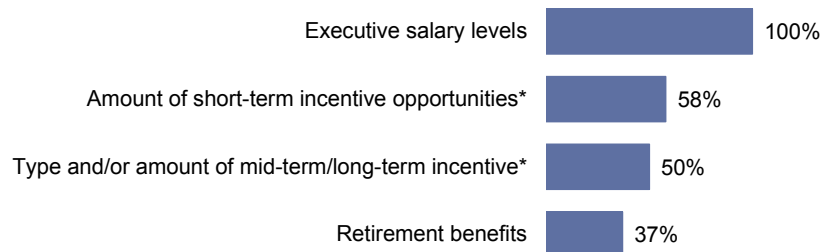
### Disclosure, by name, of compensation peer group organizations



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

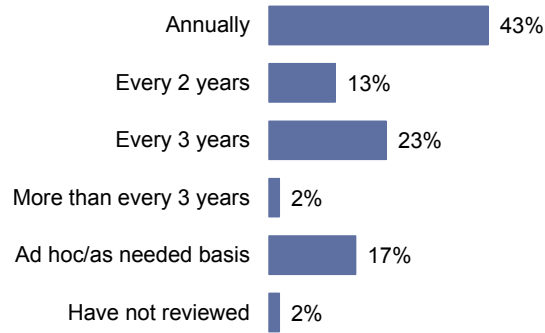


### Peer group used to determine:

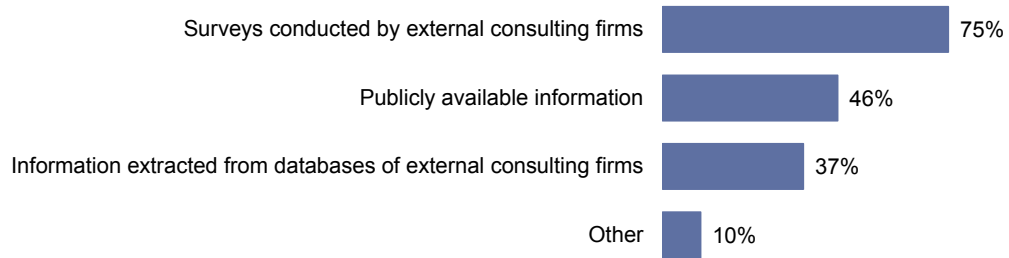


*\*only those organizations that provide these forms of compensation are included in the calculation*

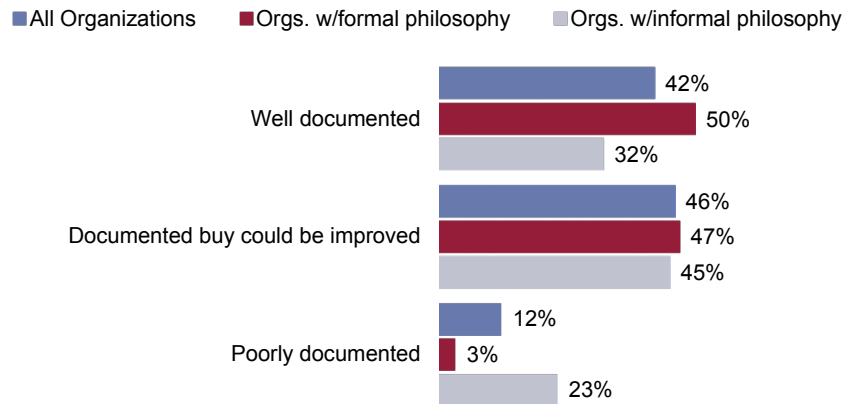
### Frequency of peer group review



### How peer group compensation data is collected



### Level of documented information on peer group selection criteria



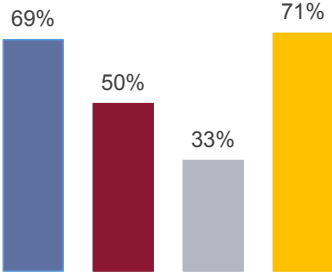


# Executive Positions vs. Positions Below Executive

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.

Comparison organizations in compensation philosophy for positions below executive are the same as those for executives

■ Privately-Owned ■ Publicly-Traded ■ Public Sector ■ Not-for-Profit



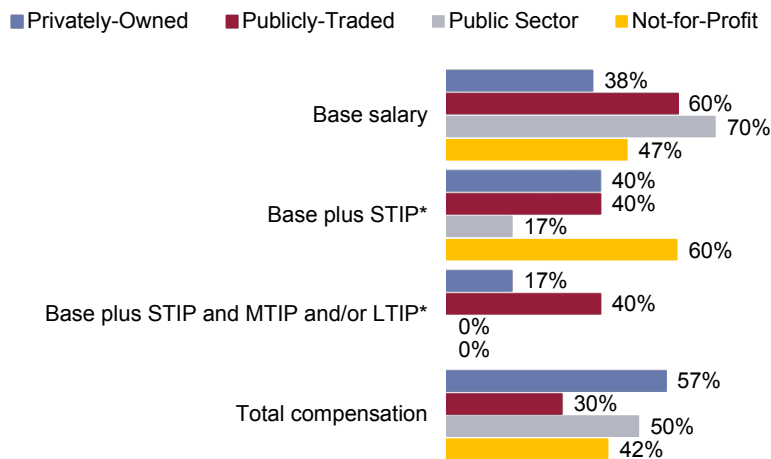
Percent of Organizations

# Target Position of Pay Versus Comparison Organizations

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

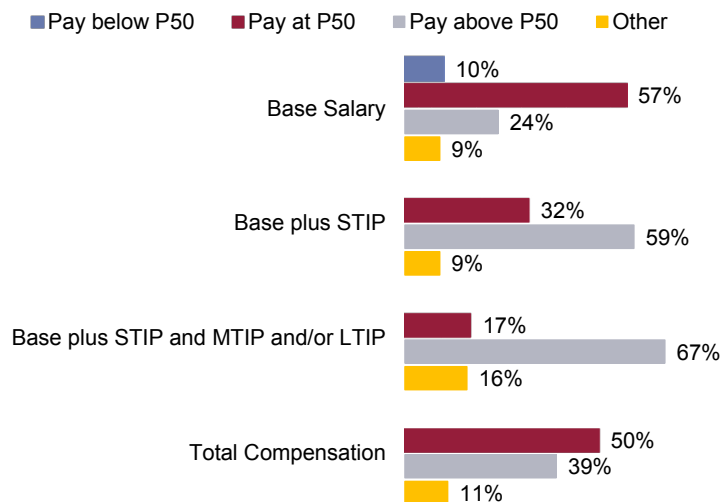
As reported earlier, just under two-thirds (63%) of organizations address pay positioning strategy in their executive compensation philosophy. Where it is addressed, organizations typically have more than one pay positioning strategy (e.g., one for base salary, one for base salary plus bonus, etc.).

## Pay positioning strategies in place for executive compensation levels



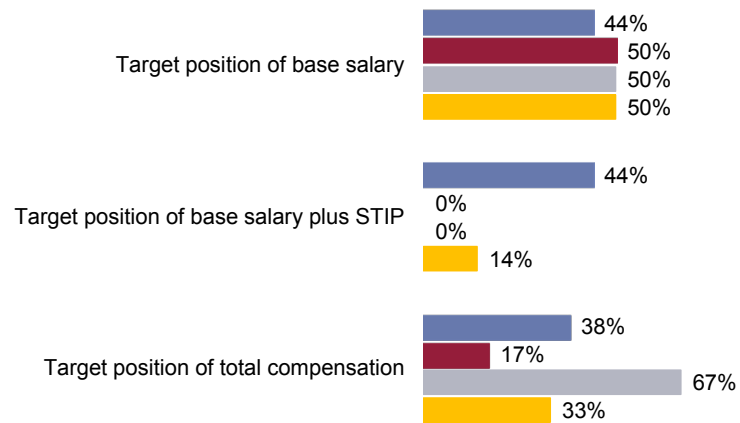
*\*only those organizations that provide these forms of compensation are included in the calculation.*

## Pay positioning strategies for executives



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

■ Privately-Owned ■ Publicly-Traded ■ Public Sector ■ Not-for-Profit



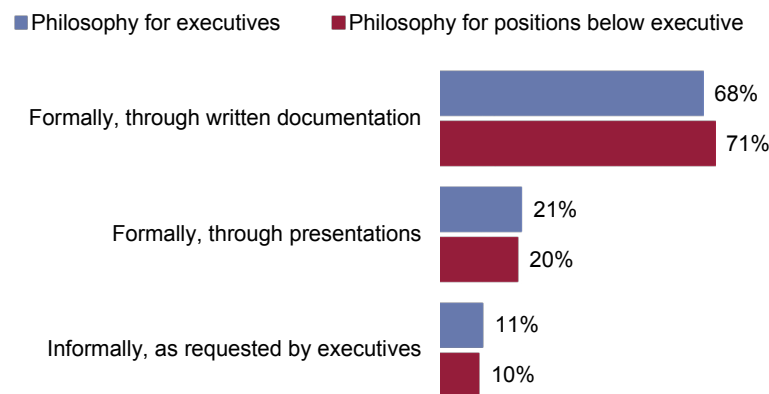
# Communication

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.

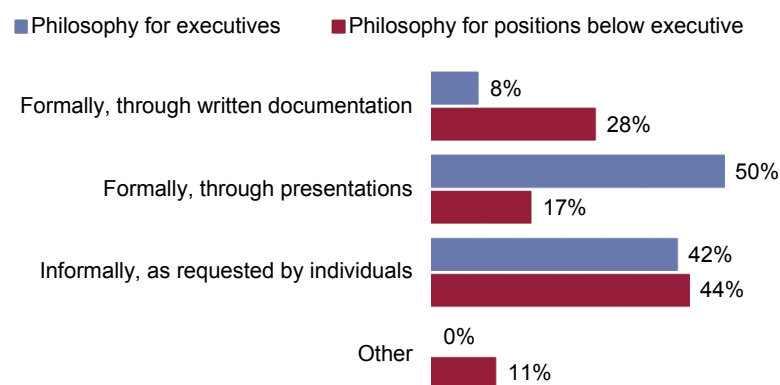
## Percent of organizations that communicate compensation philosophy



## Method of communication for formal, written compensation philosophies



## Method of communication for informal, unwritten compensation philosophies



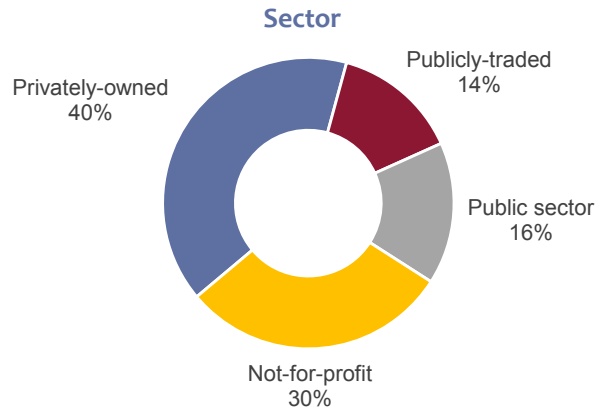
### Parties who have access to information about formal, written compensation philosophies



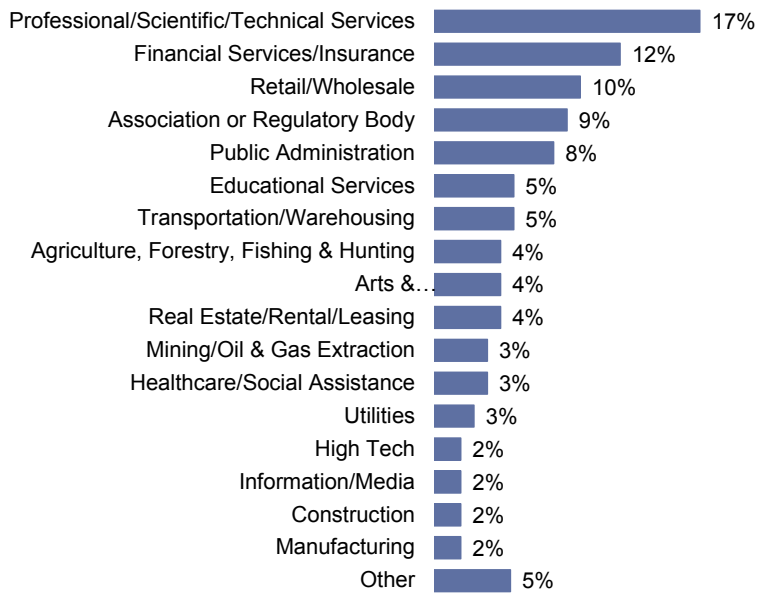
### Parties who have access to information about informal, unwritten compensation philosophies



# Appendix A: Participant Profile



## Business Classification



## Annual Revenues

