

Executive Compensation Survey Practices

A Survey Brief by WorldatWork and
Global Equity Organization (GEO)
August 2008

research



About WorldatWork®

The Total Rewards Association

WorldatWork (www.worldatwork.org) is a global human resources association focused on compensation, benefits, work-life and integrated total rewards to attract, motivate and retain a talented workforce. Founded in 1955, WorldatWork provides a network of more than 30,000 members and professionals in 75 countries with training, certification, research, conferences and community. It has offices in Scottsdale, Arizona, and Washington, D.C.

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The Global Equity Organization (GEO) is a member-founded and member-driven international nonprofit organization created to provide timely and relevant information to the global stock plan community. GEO's nearly 3,000 members represent over 1,500 companies and professional firms in over 70 countries. GEO members include stock plan designers, stock plan administrators, academics, non-governmental agencies, service providers, attorneys, brokers, and accountants who participate in networking, information sharing, and discussions through international, regional, national, and local events. GEO's 12 local and regional chapters provide members with coordinated location-specific information about the application of stock plans in that local environment. For more information regarding GEO please visit www.globalequity.org



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Methodology

Between March and April 2008, WorldatWork and Global Equity Organization (GEO) jointly fielded a survey to their respective memberships on the topic of executive compensation surveys. A survey link was sent via e-mail to a random sample of 2,234 WorldatWork members and to 1,406 GEO members who are specifically responsible for leading equity programs for their respective companies.

Between these two populations, a total of 275 respondents participated in the survey. A list of participating organizations can be found in the Appendix. The respondent data was manually cleaned to eliminate duplicate organizations, e.g., when a member of WorldatWork *and* GEO from the same office responded. Any duplicates left in the participant list reflect offices in different countries or regions (e.g., Ford Motor U.S. and Ford Motor Europe).

The data for several open-ended questions was also manually coded to distill themes and common responses where they existed.

In aggregate, the typical demographic profile of the 275 respondents was of a practitioner employed at the manager/assistant-director level and above, with at least five years of experience in human resources, compensation or equity. More detail regarding respondent demographics is included in the Survey Demographics section.

Summary of Key Findings

A brief survey completed by compensation and equity professionals on the topic of executive compensation survey products provides valuable insight into not only how practitioners use these products, but also their opinions about how these survey products might be improved.

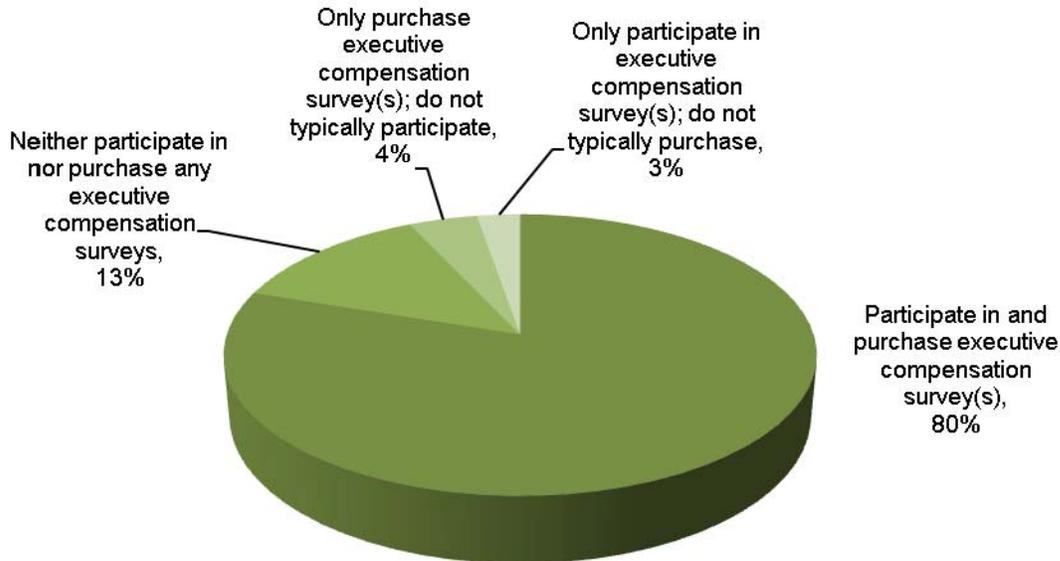
- Eight in 10 respondents said that their organization uses more than one compensation survey when conducting a marketing analysis of an executive position — which has been identified as a best practice in the field. Further, one in five organizations (20%) use four or more different surveys when performing a market analysis.
- When given an open-ended opportunity to indicate why they use several surveys when performing a market analysis, the most common answer related to a desire to obtain more confidence and accuracy in the analysis through the use of multiple data points.
- When asked about the methodology used in their organization to determine the fair value of certain long term incentives (LTI), respondents most commonly answered the Black-Scholes model. For service-based stock options, Black-Scholes was indicated by 83% of companies, followed by the Lattice model at 11%. For performance-based options, however, Black-Scholes was mentioned less frequently at 66%, and the second most common response was Simulation model (sometimes known as Monte Carlo) at 14%. The Lattice model was indicated fourth most frequently at 10%.
- When respondents were asked in an open-ended and unprompted way what they might change in the way LTI data is collected and reported, the largest single percentage (47%) said the “most important” change that could be made would be the establishment of a common or consistent methodology. Secondly, 35% indicated they would like to receive more information from the surveys, either through additional data collection or through additional or different data reporting.
- In a follow-up question, when provided with a 10-point scale where a rating of 1 would mean minimal inconvenience and a rating of 10 would mean significant pain, respondents rated the issue of consistent or common methodology at 8.2.
- When asked if they would be willing to pay more for products in which their identified issues had been resolved, respondents seemed split. While 42% said they would not be willing to pay more to have their executive compensation survey issue or issues resolved, 48% said they would be willing to pay a premium of anywhere from 5% to more than 10% in order to obtain a solution to their issue.
- Finally, respondents were asked a four-part question designed to draw out their opinions regarding the pluses and minuses of survey providers’ use of proprietary methodologies and definitions. In aggregate, it would seem that respondents generally do not favor this practice:
 - A combined 44% disagreed that proprietary methodologies create better surveys because they allow providers to differentiate their products
 - A combined 44% also disagreed that survey companies make the practitioners’ job easier by providing tailored valuation methodologies.

- A combined 69% agreed, however, that proprietary definitions and methodologies make it more difficult to participate in different surveys
- A combined 77% agreed that proprietary definitions and methodologies make it more difficult for practitioners to compare data across different survey providers.

In aggregate, the data collected from the professionals who regularly work with executive compensation surveys indicates they believe that improvements could be made to compensation survey products that would improve their utility and effectiveness.

Detailed Survey Results

Figure 1: “Does your organization typically participate in and/or purchase any executive compensation surveys?” (n=255)



The 13% of respondents reporting that their organization neither participates in nor purchases executive compensation surveys were asked to discontinue the survey and submit.

Figure 2: “Please indicate the executive compensation survey providers of which your organization has been a client during the past five years (through either survey participation and/or the purchase of an executive compensation survey product).” (n=221)

Respondents were provided a list with the names of 21 firms who are prominent in the executive compensation survey field, plus three additional open-ended “other” response opportunities. Firms that were mentioned two or more times in the open-ended responses were included in the table below. The 38 firms mentioned only once are reflected in the 17% “other.”

Towers Perrin	62%	Fredric W. Cook & Co. Inc.	3%
Mercer	53%	Equilar	2%
Hewitt Associates	49%	Sibson Consulting	2%
Watson Wyatt Worldwide	43%	Compdata Surveys	2%
Radford Surveys + Consulting	23%	LOMA	1%
Hay Group	22%	Economic Research Institute (ERI)	1%
ORC Worldwide	13%	Stanton Group	1%
Clark Consulting	10%	Abbott Langer & Associates	1%
Buck Consultants	10%	MGMC	1%
Pearl Meyer & Partners	9%	The Survey Group	1%
Salary.com	8%	Compensation Research	1%
Aon Consulting	8%	Olney	1%
McLagan Partners	8%	Other	10%
Culpepper Surveys	5%		

Figure 3: “Does your organization use more than one executive compensation survey when conducting a market analysis for executives?” (n=221)

As indicated below, eight out of 10 respondents reported using more than one survey in conducting a market analysis, a concept that is considered a best practice in the field.

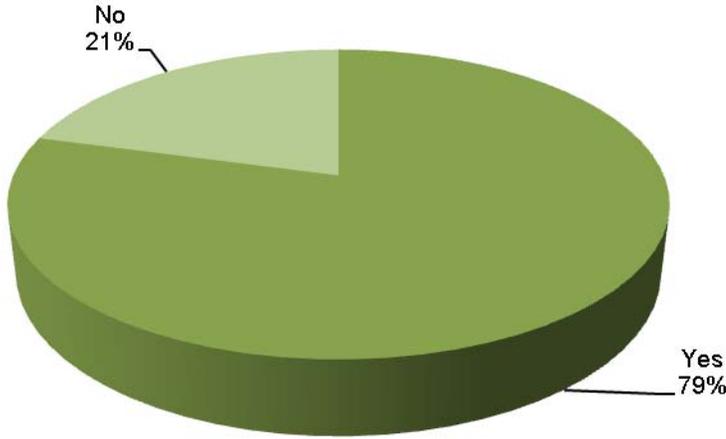
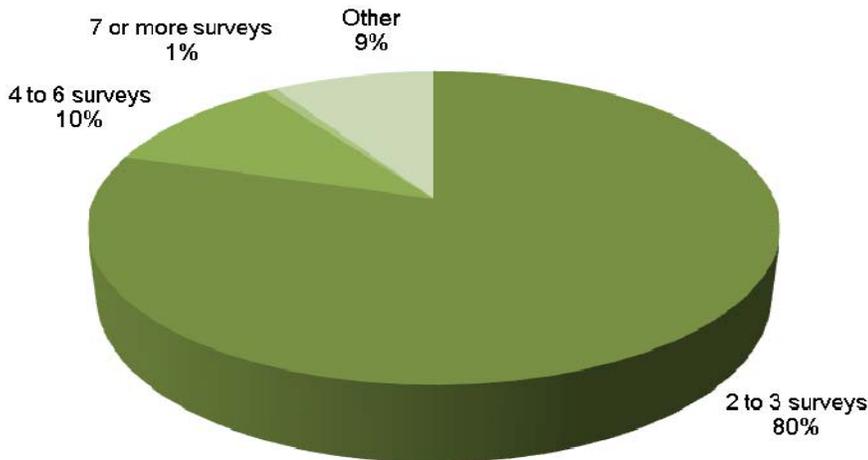


Figure 4: “If yes, how many (surveys do you typically use in a market analysis)?” (n=133) This question provided only an open-ended response opportunity. The ranges in the pie chart below were created based on respondents who provided a single numerical value. The 9% “other” category in the pie chart below includes respondents who provided either a range of numbers, or a text response such as: ‘it depends,’ ‘as needed’ or ‘varies.’



As an additional follow-up, respondents were asked why they typically use the number of surveys they do when market pricing for executive positions. Again, this was an open-ended only response opportunity. Answers varied considerably, but the most common answers related to a desire to validate data points, and therefore, increase the confidence and accuracy of the analysis.

Figure 5: “Which of the following methods is most commonly used by your organization to determine the fair value of stock options that are service-based?” (n=169)

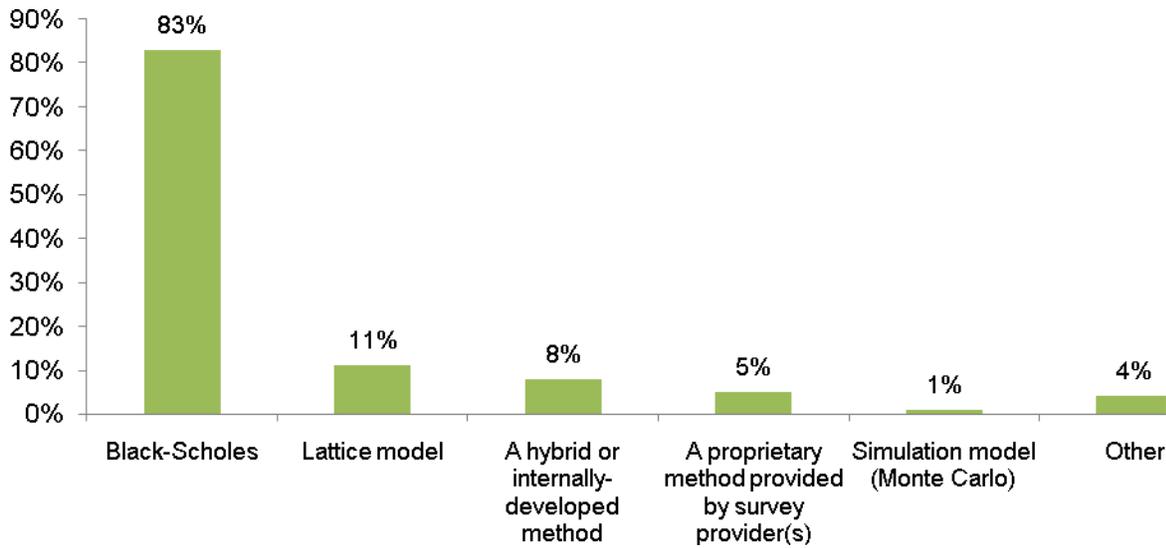
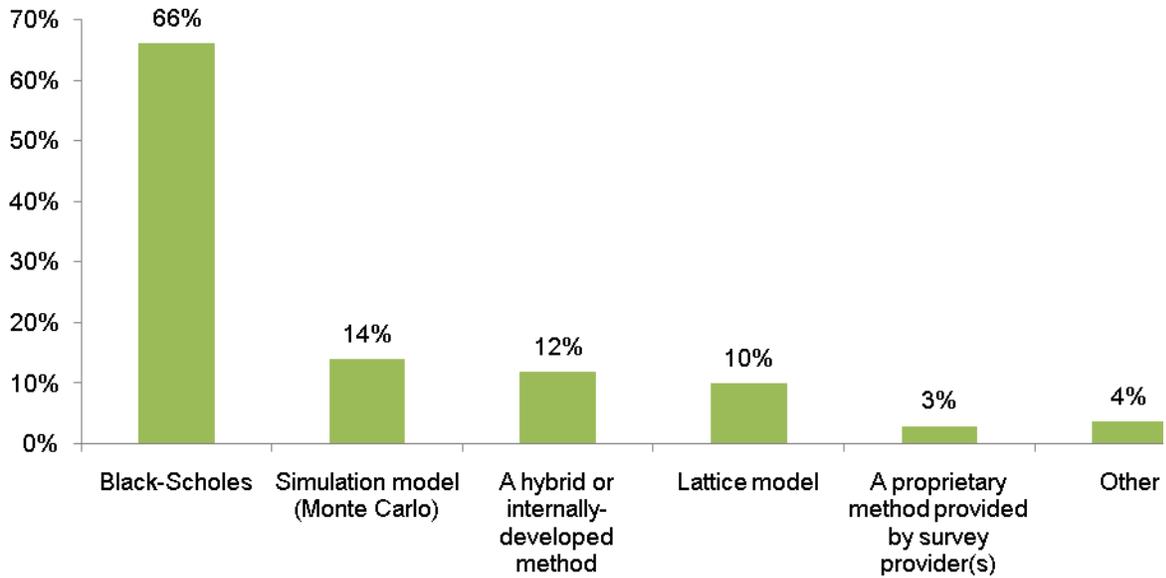


Figure 6: “Which of the following methods is most commonly used by your organization to determine the fair value of stock options that are performance-based?” (n=124)



Figures 7a and 7b: “If you or your company could change up to three things about the way long-term incentive data is currently collected or reported in executive compensation surveys, what would you change?” (Respondents were asked to indicate the “most important” issue they would change first, and were given two “other” text-entry boxes to note additional issues.)

Figure 7a: "Most important" responses (n=136):

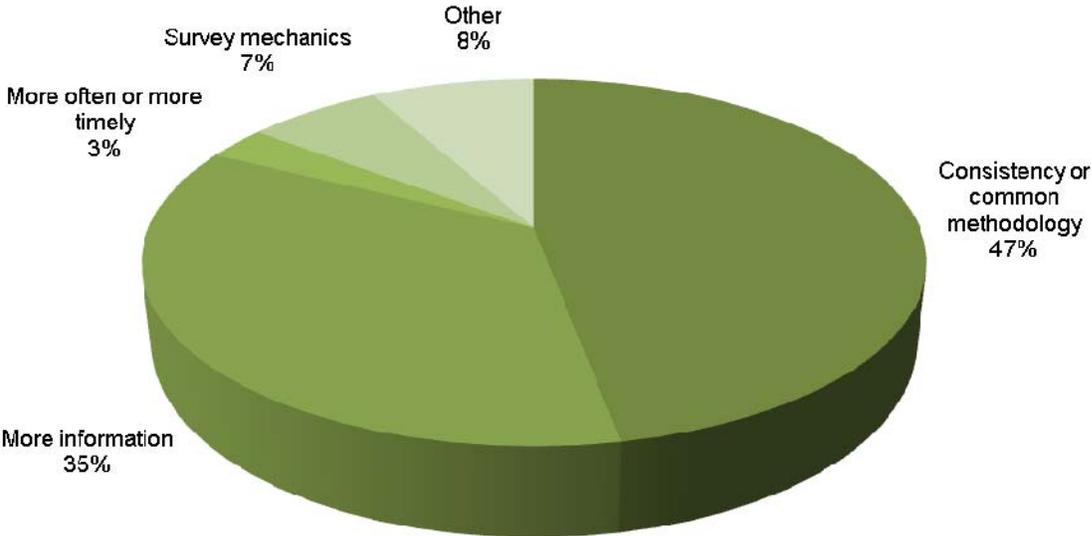


Figure 7b: "Other" responses (n=109):

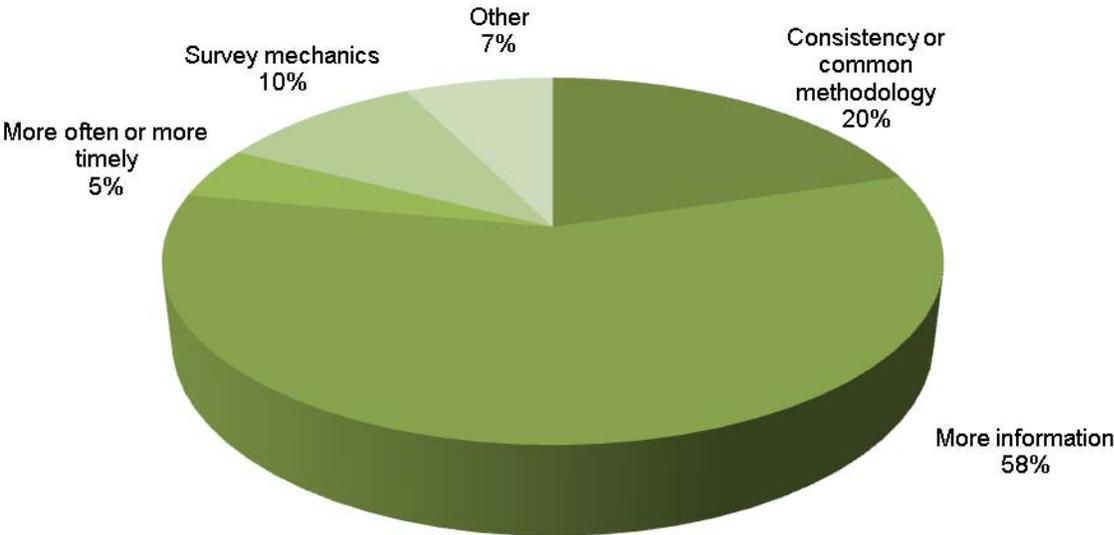


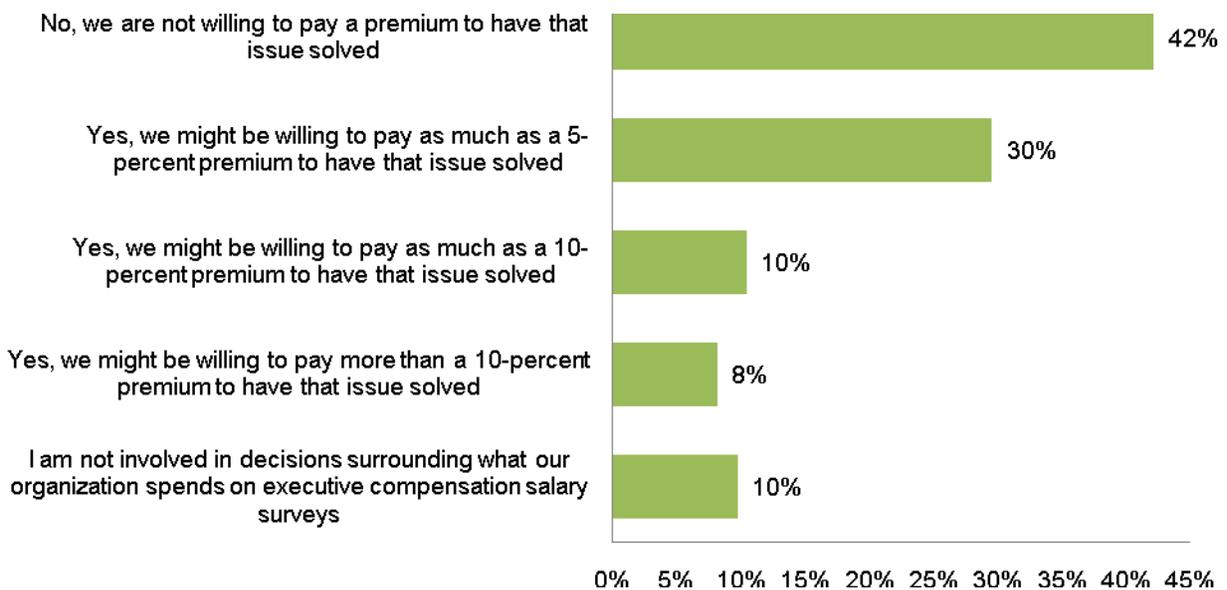
Figure 7c: “How much of a problem is the issue that you indicated you would like to change, on a scale of 1-10 with 1 being ‘minimal inconvenience’ and 10 being ‘significant pain?’”

Average ratings are presented below, broken down by whether the change suggestion was reported as the “most important” or as an “other” suggestion.

Change Suggestions	When noted as “...” change suggestion:	
	"Most Important"	"Other"
Consistency or common methodology	8.2 (n=64)	7.6 (n=22)
More information	7.4 (n=48)	7.3 (n=63)
More often or more timely	7.3 (n=4)	7.0 (n=5)
Survey mechanics	7.0 (n=9)	8.0 (n=11)
Other	8.7 (n=11)	7.8 (n=8)

Figure 8: “Would you or your organization be willing to pay more for executive compensation survey products if the most important issue you identified (above) could be resolved?” (n=183)

In a final follow-up in the series of questions about how a respondent might like to see executive compensation surveys change in the future, participants were provided with a series of closed-ended response opportunities. A combined 48% said that they would be willing to pay more for a product if their issues identified above could be resolved; 42%, however, said they are not willing to pay more to have the issue or issues fixed.



Figures 9a - 9e: “Some salary survey providers create their own definitions and proprietary methodologies in their surveys for items such as the valuation of long-term Incentives. Using the scale below, please indicate your agreement or disagreement with each of the following statements regarding this practice.”

Figure 9a: “(Proprietary definitions and methodologies) ... Create better surveys because they enable survey providers to differentiate their products in the marketplace” (n=205).

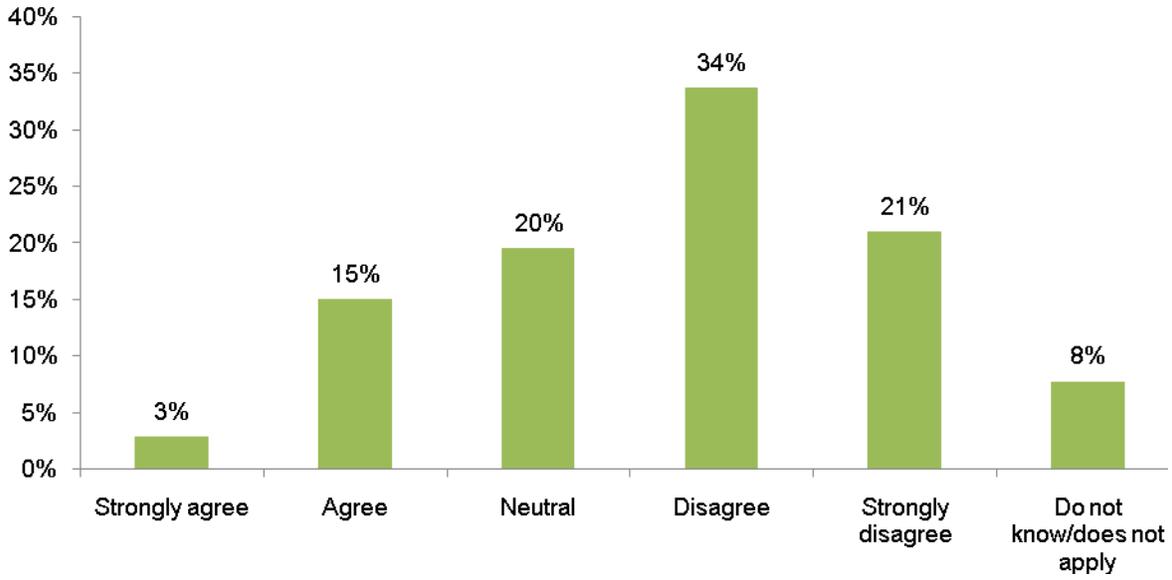


Figure 9b: “(Proprietary definitions and methodologies) ... Make my job easier because our survey provider(s) have tailored a valuation methodology for my industry group” (n=206)

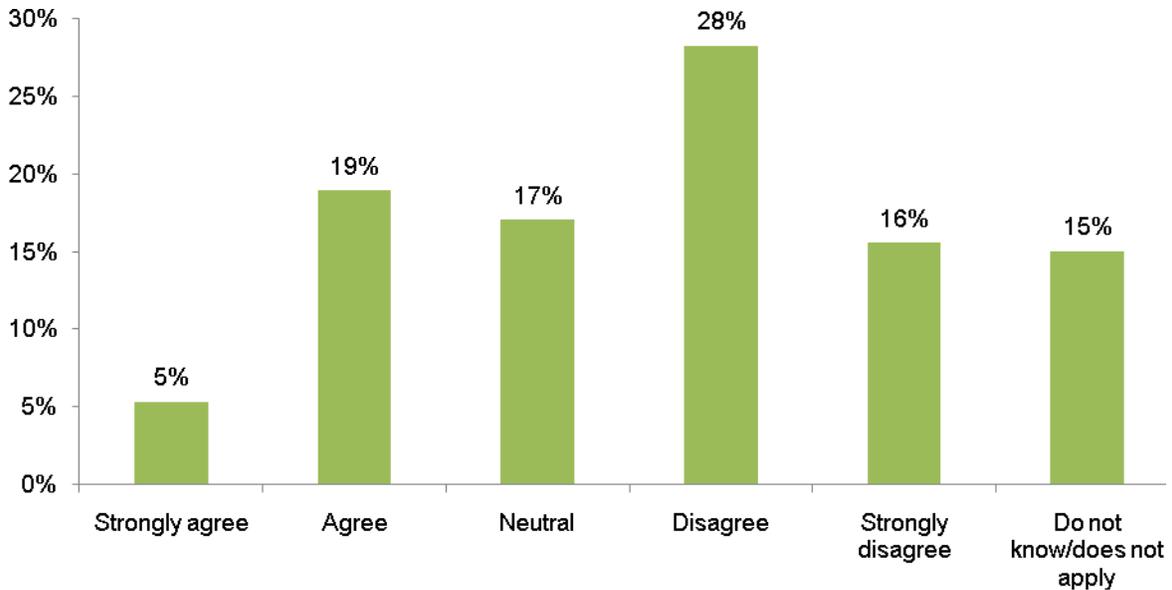


Figure 9c: “(Proprietary definitions and methodologies) ... Make it more challenging to participate in various surveys” (n=207)

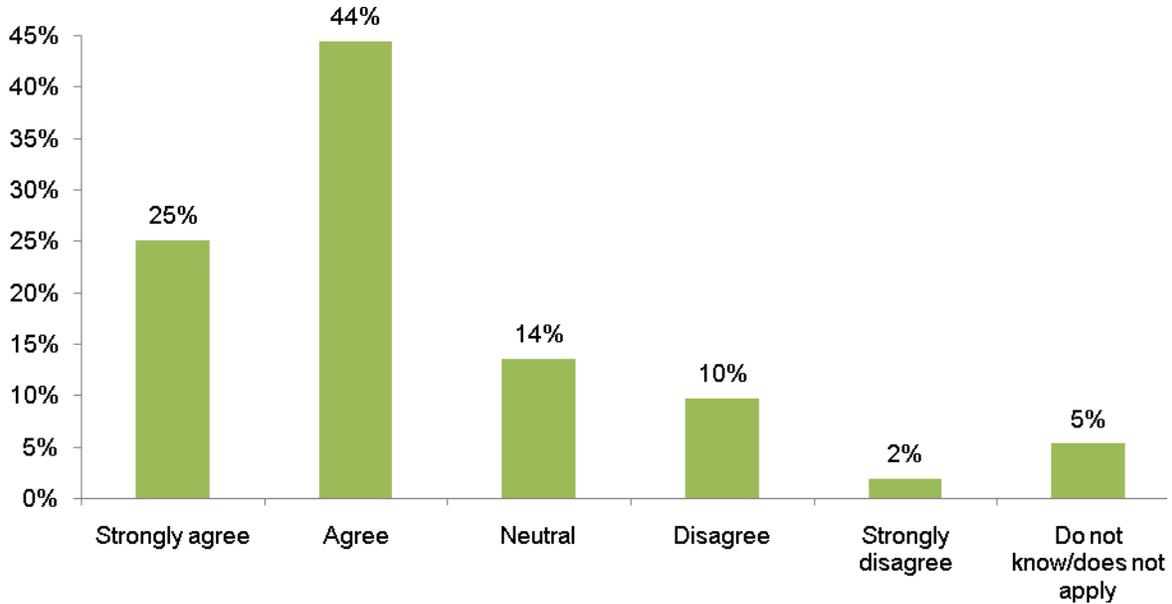


Figure 9d: “(Proprietary definitions and methodologies) ... Make it more challenging to understand the data being reported” (n=208)

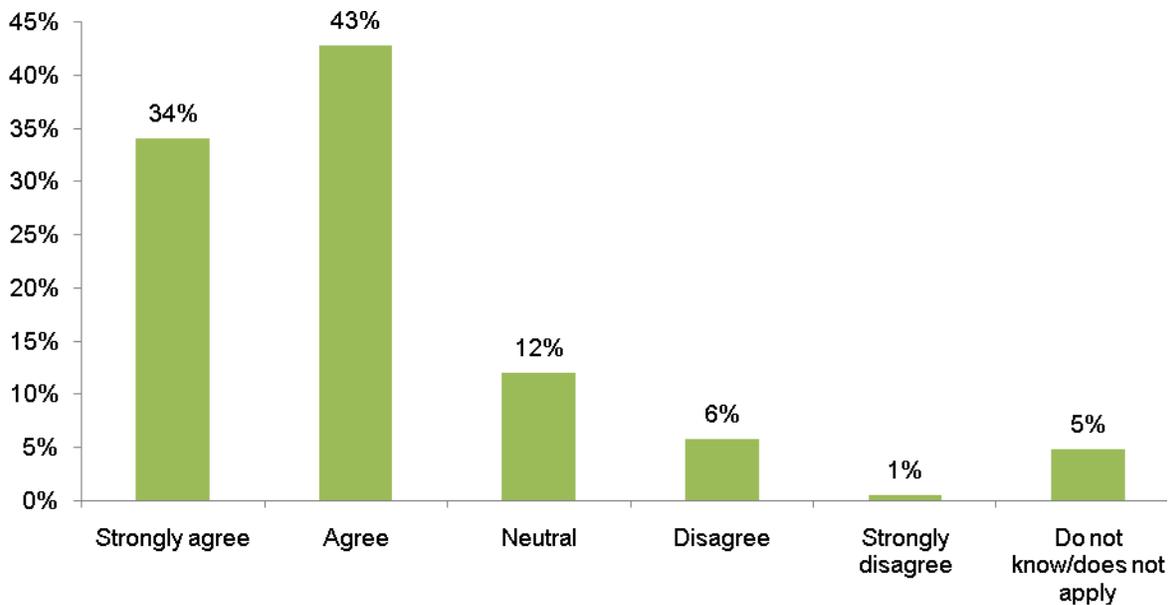
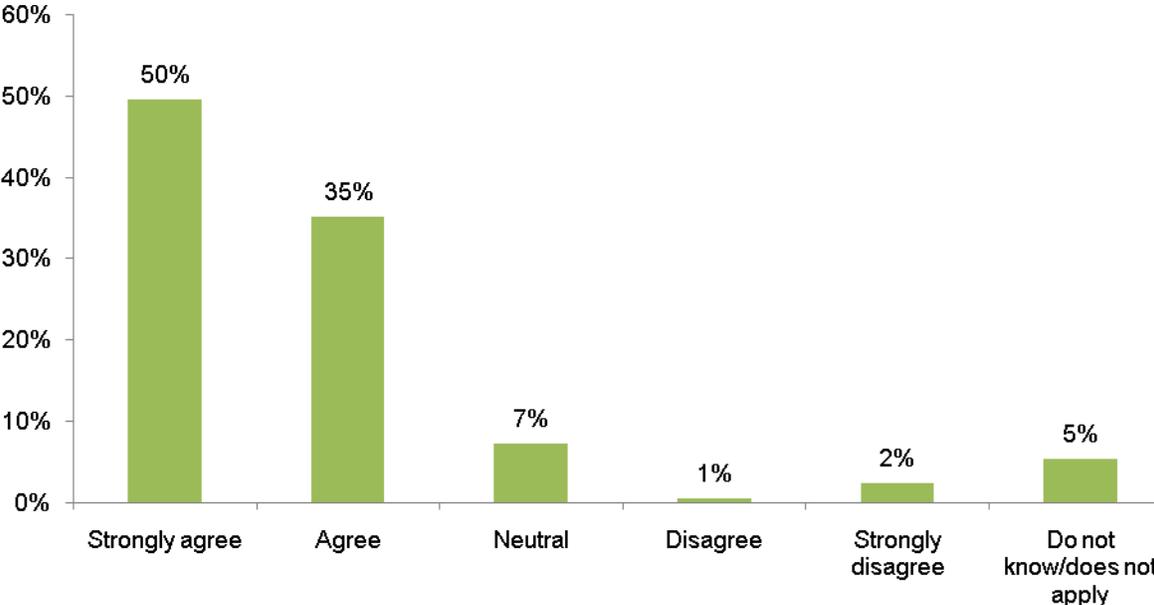


Figure 9e: “(Proprietary definitions and methodologies) ... Make it more challenging to compare data across different survey providers/reports” (n=208)



Survey Demographics

Figure 10: "Is your company publicly traded?" (n=222)

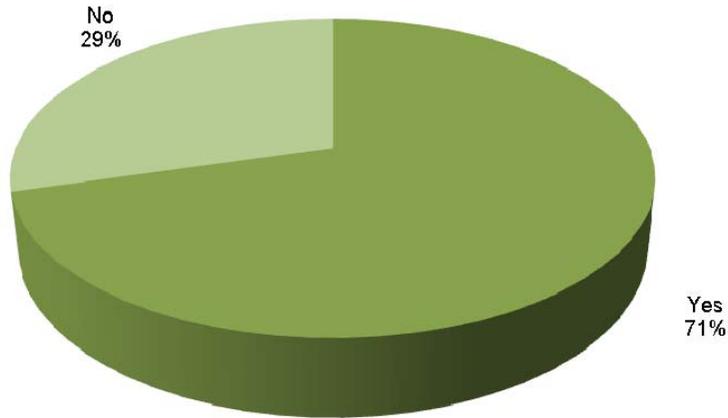


Figure 11: "How many employees does your organization employ worldwide?" (n=222)

Less than 100	2%
100-499	6%
500-999	4%
1,000-2,499	10%
2,500-4,999	13%
5,000-9,999	14%
10,000-19,999	13%
20,000 to 39,999	13%
40,000 to 99,999	17%
100,000 or more	10%

Figure 12: “Which term best describes your current level of responsibility?” (n=221)

Executive/Officer/Top Level: Along with other senior management, establishes organizational philosophy, vision and overall strategic business objectives (e.g. executive/senior vice-president)	11%
Senior Level: Maintains overall responsibility for plan design, development and negotiation; expected to execute strategies determined by the executive/top level (e.g. senior director/director, assistant director, senior manager)	47%
Mid Level: Analyzes, implements, administers and audits tactical programs in alignment with established strategic plans (e.g. manager, senior analyst, specialist, internal consultant)	38%
Emerging Level: Assists in analyzing, coordinating, administering and maintaining tactical programs (e.g. analyst, representative, coordinator, administrator)	4%
Consultant: Works for an external consulting firm or as an independent consultant	0%
Educator/Academician: A university professor or researcher employed by a research organization or university	0%

Appendix A: Participating Organizations

A total of 218 organizations that participated in the survey voluntarily provided their name. The only duplicates listed are those organizations that reported being located in different places. For organizations that reported same company name and same location, only one respondent's data was included in the final data set.

3M	ConAgra Foods	Honeywell International
Abbott laboratories	Con-way Inc.	Hovnanian Enterprises
ABT Associates Inc.	Corn Products International Inc.	HSBC
Accenture	Corus Nederland	HSBC Costa Rica
ADC Telecommunications	Covance	Hutchinson Technology Inc.
Aditya Birla Group	Covidien	IKON Office Solutions
Agilent Technologies	Credit Acceptance Corporation	Infineon Technologies
Altria Group Inc.	CV Therapeutics	ING
American Express	David Michael and Company Inc.	Ingram Micro
American Family Insurance	Delphi Corporation	Intel
Amgen	Delta Dental of Illinois	Invitrogen
Andrew Corp.	Dept. of Defense	Johnson & Johnson
Apogee Enterprises Inc.	Diageo	Jordan Valley Water Conservancy District
Apple Inc.	Discovery Communications	Kenexa
Armstrong World Industries	Dolby Laboratories	Kimberly-Clark
Asante	Dow Chemical Co.	Kraft Foods Inc.
ASML Netherlands BV	DuPont	Lattice Semiconductor Corp.
AstraZeneca Pharmaceuticals LP	Eaton Corp.	Lawson Products
AT&T	Electrolux	Lear Corp.
Atos Origin	Eli Lilly and Co.	LGE MobileComm USA
Automatic Data Processing	EPCO Inc.	Link Market Services Limited
Avaya	Erie Insurance Group	LLBean Inc
Baxter International Inc.	Express Scripts Inc.	Lockheed Martin
Bear Stearns	Fender Musical Instruments	L'Oreal USA Inc.
Bechtel Systems & Infrastructure Inc.	First Data	McCormick & Co. Inc.
Beckman Coulter Inc.	Ford Motor Co.	McDermott International Inc.
Best Buy Canada Ltd.	Ford Motor Co. Europe	MDC Holdings Inc
Biogen Idec	Foster's Group	Medtronic inc
Bristow Group Inc.	Fraser Papers Inc.	Merck
Callaway Golf Company	General Mills Inc.	Merck KGaA
Campbell Soup Company	General Motors Corp.	Merck Serono International SA
Carver Federal Savings Bank	Genworth Financial	Meredith Corp.
Cash America	Girl Scouts of the USA	Micron Technology Inc.
CDI	Goodrich Corp.	MidAmerican Energy Co.
CH2M Hill	Hanesbrands Inc.	Millipore Corp.
Children's Healthcare of Atlanta	Harris Bank	Monster Worldwide
Chrysler LLC	Harvard University	MphasiS An EDS Co.
Ciba Inc.	Harvest Natural Resources Inc	Nationstar Mortgage
Cleco Corp.	HCA	NCH Corp.
Clickability	Health Net Inc.	NEC Corp. of America
CME Group	Hilb Rogal & Hobbs Co.	Nestle USA
Commonwealth Bank of Australia	HJ Heinz	Neurocrine Biosciences Inc.

New Zealand Fire Service
 NIBC Bank NV
 Nordstrom Inc.
 Northeast Health
 Novartis International AG
 Novell Inc.
 NRG Energy Inc.
 Oldcastle Distribution (dba Allied Building Products Corp)
 Opus Corp.
 Orbitz Worldwide
 Oxford industries Inc.
 Pacific Life Insurance Co.
 Plantronics Inc.
 Plexus Corp.
 PLIVA d.d.
 Poynter Institute
 PPG Industries
 Praxair Inc.
 Prime Therapeutics LLC
 Procter & Gamble
 Qualcomm Inc.
 Raiffeisen
 Randstad Holding
 RCN
 Reed Elsevier
 Rehabilitation Hospital of Indiana
 Reliant Energy
 Rich Products Corp.
 Roche
 Rohm and Haas Co.
 Royal Ahold

Safeco Insurance
 San Antonio water system
 SAP
 Sara Lee Corp.
 SBCG
 Schneider Electric
 Scotiabank
 Seagate Technology
 Serco Group plc
 Shell Oil Co.
 Simpson Housing LLLP
 Sisters of Charity Health System
 Skyline Displays Inc.
 Solutia Inc.
 South African Reserve Bank
 Southwest Autism Research and Resource Center
 Southwest Gas Corp.
 Spansion
 Spectrum Health
 Sprint Nextel
 Starwood Hotels & Resorts Worldwide Inc.
 Stepan Co.
 Sun Microsystems
 Sunoco Inc.
 TCHIBO CIS LLC
 TD Bank
 TD Meloche Monnex
 Tech Data Corp.
 Teva Pharmaceuticals
 The Clorox Co.
 The Dun & Bradstreet Co.

The Hershey Co.
 The Medicines Co.
 The Pantry Inc.
 The Shaw Group Inc.
 The TDL Group Corp.
 The Timken Co.
 Three Rivers Federal Credit Union
 T-Mobile USA
 Torchmark Corp.
 Toshiba America Business Solutions Inc.
 Tower Insurance Company of New York
 Trust Company of the West
 Trustmark Companies
 UBS
 Underwriters Laboratories
 United Water
 UnitedHealth Group
 Unum Group
 UPS
 USG Corp.
 V & V Supremo Foods Inc.
 Valspar Corp.
 VeriSign
 Vermeer Corp.
 Wal-Mart Canada
 Washoe County
 Wellpoint Inc.
 Wendy's International Inc.
 Western University of Health Sciences
 Willis

Appendix B: Survey Instrument

WorldatWork, the association for total rewards professionals, and the Global Equity Organization (GEO) are partnering on a new survey about executive compensation survey practices. The results of this survey will advance the body of knowledge associated with compensation survey practices and provide important information for survey firms and practitioners.

1. Does your organization typically participate in and/or purchase any executive compensation surveys?

- Yes, participate in *and* purchase executive compensation survey(s)
- Only purchase executive compensation survey(s); do not typically participate
- Only participate in executive compensation survey(s); do not typically purchase
- Neither participate in nor purchase any executive compensation surveys. (Please skip to end and click "submit".)

2. Please indicate the executive compensation survey providers of which your organization has been a client during the past five years (either through survey participation *and/or* the purchase of an executive compensation survey product.) (Check all that apply.)

- Abbott Langer & Associates
- Aon Consulting
- Buck Consultants
- Clark Consulting
- Culpepper Surveys
- Compdata Surveys
- Foote Partners
- Hay Group
- Hewitt Associates
- McLagan Partners
- Mercer
- Milliman
- ORC Worldwide
- Pearl Meyer & Partners
- Radford Surveys + Consulting
- Salary.com
- Sibson Consulting
- Stanton Group
- Towers Perrin
- WageWatch
- Watson Wyatt Worldwide
- Other _____
- Other _____
- Other _____

Does your organization use more than one executive compensation survey when conducting a market analysis for executives?

- Yes. How many? _____
- No

3a. Why or why not? _____

3. Which of the following methods is most commonly used by your organization to determine the fair value of stock options that are service-based? (Check all that apply.)

- Black-Scholes
- Lattice model
- Simulation model (Monte Carlo)
- A proprietary method provided by survey provider(s)
- A hybrid or internally-developed method
- Other (Please specify.)

4. Which of the following methods is most commonly used by your organization to determine the fair value of stock options that are performance-based? (Check all that apply.)

- Black-Scholes
- Lattice model
- Simulation model (Monte Carlo)
- A proprietary method provided by survey provider(s)
- A hybrid or internally-developed method
- Other (Please specify.)

5. If you or your company could change up to three things about the way long-term incentive data is collected or reported in executive compensation surveys currently, what would you change?

Change Suggestions		How much of a problem is the issue that makes you recommend each change?										
		1 (Minimal Inconvenience)	2	3	4	5	6	7	8	9	10 (Significant Pain)	
Most Important	1. _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	2. _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	3. _____	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. Would you or your organization be willing to pay more for executive compensation survey products if the most important issue you identified in Question 6 could be resolved?

- No, we are not willing to pay a premium to have that issue solved.
- Yes, we might be willing to pay as much as a 5-percent premium to have that issue solved.
- Yes, we might be willing to pay as much as a 10-percent premium to have that issue solved.
- Yes, we might be willing to pay more than a 10-percent premium to have that issue solved.
- I am not involved in decisions surrounding what our organization spends on executive compensation salary surveys.

7. Some salary survey providers create their own definitions and proprietary methodologies in their surveys for items such as the valuation of long-term incentives. Using the scale below, please indicate your agreement or disagreement with each of the following statements regarding this practice:

Different proprietary methodologies and definitions in surveys ...						
	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Don't know/ does not apply
create better surveys because they enable survey providers to differentiate their products in the marketplace.	<input type="radio"/>					
make my job easier because our survey provider(s) have tailored a valuation methodology for my industry group.	<input type="radio"/>					
make it more challenging to participate in various surveys.	<input type="radio"/>					
make it more challenging to understand the data being reported.	<input type="radio"/>					
make it more challenging to compare data across different survey providers/reports.	<input type="radio"/>					

Demographics

8. Company name: _____ (not required)
9. Is your company publicly traded
- Yes, ticker symbol: _____
 - No

10. How many employees does your organization employ worldwide?

- Less than 100
- 100-499
- 500-999
- 1,000-2,499
- 2,500-4,999
- 5,000-9,999
- 10,000-19,999
- 20,000 to 39,999
- 40,000 to 99,999
- 100,000 or more

11. Which term best describes your current level of responsibility? (Consultants, please choose the consultant category regardless of your responsibility level within your organization.)

- **Executive/Officer/Top Level:** Along with other senior management, establishes organizational philosophy, vision and overall strategic business objectives (e.g. executive/senior vice-president)
- **Senior Level:** Maintains overall responsibility for plan design, development and negotiation; expected to execute strategies determined by the executive/top level (e.g. senior director/director, assistant director, senior manager)
- **Mid Level:** Analyzes, implements, administers and audits tactical programs in alignment with established strategic plans (e.g. manager, senior analyst, specialist, internal consultant)
- **Emerging Level:** Assists in analyzing, coordinating, administering and maintaining tactical programs (e.g. analyst, representative, coordinator, administrator)
- **Consultant:** Works for an external consulting firm or as an independent consultant
- **Educator/Academician:** A university professor or researcher employed by a research organization or university

12. E-mail address (required to receive copy of report)

Thank you for your participation!