THE FUTURE OF CEO PAY
AUGUST COURSES

COMPENSATION

Accounting and Finance for the Human Resources Professional (T2)
Aug. 18-19 Los Angeles (City of Industry), CA
Aug. 31–Sep. 1 Austin, TX
Anytime E-Learning

International Financial Reporting Standards for Compensation Professionals (T7)
Aug. 27-29 Johannesburg, South Africa
Aug. 31–Sep. 2 Cape Town, South Africa
Anytime E-Learning

Quantitative Methods (T3/GR2)
Aug. 10-12 Perth, WA, Australia
Aug. 12-13 New York, NY

Quantitative Principles in Compensation Management (C3E)
Aug. 25–Oct. 23 Online Blended Learning
Anytime E-Learning

Regulatory Environments for Compensation Programs (C1)
Aug. 3-4 Kansas City (Overland Park), KS
Aug. 12-13 New York, NY
Anytime E-Learning

Job Analysis, Documentation and Evaluation (C2/GR4)
Aug. 5-6 West Des Moines, IA
Aug. 24-25 Denver, CO
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Base Pay Administration and Pay for Performance (C4/GR4)
Aug. 4-5 Boston, MA
Aug. 18-19 Toronto, ON
Aug. 25-26 Troy, MI
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Business Acumen for Compensation Professionals (C8)
Aug. 12-13 New York, NY
Aug. 24-26 Johannesburg, South Africa
Aug. 24-28 Virtual Classroom
Aug. 26-27 Waltham, MA
Aug. 27-29 Cape Town, South Africa

Variable Pay — Improving Performance with Variable Pay (C12/GR6)
Aug. 3-5 Singapore
Aug. 4-5 Boston, MA
Aug. 12-13 Milwaukee (Wauwatosa), WI
Aug. 17-19 Cape Town, South Africa
Aug. 26-27 Dallas, TX
Anytime E-Learning
| Market Pricing — Conducting a Competitive Pay Analysis (C17/GR17) | BENEFITS AND WORK-LIFE |
| Aug. 3-4 Pittsburgh, PA | Regulatory Environments for Benefits Programs (B1) |
| Aug. 3-4 Austin, TX | Aug. 13-14 Nashville, TN |
| Aug. 8-10 Shanghai, China | Benefits Outsourcing — Selecting, Contracting and Managing Service Partners (B12) |
| Aug. 10-12 Hong Kong | Aug. 18-19 Los Angeles (City of Industry), CA |
| Aug. 12-13 New York, NY | Anytime E-Learning |
| Aug. 20-22 Cape Town, South Africa | Organizational Culture Change: A Work-Life Perspective (W4) |
| Anytime E-Learning | Aug. 19-20 Waltham, MA |

| Exemption Tests in Practice | Pay Structures — Develop a Framework from Start to Finish |
| Aug. 11-Oct. 9 Online Blended Learning | Aug. 4-Oct. 2 Online Blended Learning |

<table>
<thead>
<tr>
<th>TOTAL REWARDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Rewards Management (T1/GR1)</td>
</tr>
<tr>
<td>Aug. 18-19 Los Angeles (City of Industry), CA</td>
</tr>
<tr>
<td>Anytime E-Learning</td>
</tr>
</tbody>
</table>

| Strategic Communication in Total Rewards (T4/GR9) |
| Aug. 3-5 Melbourne, VIC, Australia |
| Aug. 4-5 Boston, MA |
| Aug. 6-8 Hong Kong |
| Aug. 18-19 Los Angeles (City of Industry), CA |
| Aug. 24-25 Atlanta, GA |
| Anytime E-Learning |

| International Remuneration: An Overview of Global Rewards (GR7) |
| Aug. 3-4 Columbus, OH |
| Anytime E-Learning |

<table>
<thead>
<tr>
<th>SALES COMPENSATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elements of Sales Compensation</td>
</tr>
<tr>
<td>Aug. 26-27 Dallas, TX</td>
</tr>
<tr>
<td>Anytime E-Learning</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXECUTIVE COMPENSATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining Pay for Executives</td>
</tr>
<tr>
<td>Aug. 18-Oct. 16 Online Blended Learning</td>
</tr>
</tbody>
</table>
features

24 Does Your Executive Compensation Have an End Game?
Learn Key Elements to Develop an Effective Program
Your organization’s proxy statement should include a strategy and a philosophy to achieve a successful executive program.
BY JIM SILLERY

32 Checklist for Relative Total Shareholder Return Incentive Plans
Learn ways to ensure meaningful, effective roles for relative total shareholder return plans in an incentive program.
BY MARK EMANUEL

38 Strategies That Drive Organizational Change
Guide your organization through new initiatives using workforce data and three key strategies.
BY MICHELLE KOZIN

44 Post-Recession Severance and Change-in-Control Trends
A recent WorldatWork survey shows organizations using conservative approaches to severance and change-in-control plans.
BY ROBERT B. JONES

50 Build Specialized Teams for Mergers and Acquisitions
Ways to successfully handle various transactions with the best in your organization.
BY MELISSA COLOPO

56 Johns Hopkins and MVP Health Care Showcase Work-Life as It Should Be
Organizations Earn Work-Life Innovative Excellence Award
Would your company subsidize race fees for employees who run? This is just one of the outstanding work-life programs that earned the Work-Life Innovative Excellence Award.
BY JANE LARSON

coverstory

THE FUTURE OF CEO PAY

Take a look at where CEO pay is headed with peer benchmarking and increased focus on internal equity.
BY CORY MORROW

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Brit Wittman, CCP, CEC, Director, Executive Compensation and Corporate Compensation Design, Intel Corp.
Some believe it’s because of impending vacation (including a once-every-seven-year sabbatical). But the real reason I’m smiling is because I’ve never felt more relevant. The ever-increasing focus on total rewards, and its subsequent evolution is bringing the big, societal questions to the forefront, and that gets my blood pumping.

A quick scan of various news channels yields a wide-ranging set of articles about employee engagement and motivation: whether it’s Facebook pushing its vendors to increase wages and benefits for their employees; a Philadelphia eatery doing away with tips in favor of higher wages for employees; a journalist challenging the taboo of not discussing salaries in the workplace; Zappos embracing holacracy and doing away with the role of “manager” entirely; or tech companies taking on the glass ceiling, pay is at the heart of the debate.

Certainly, none of these issues is new, but it feels to me there is an ongoing evolution in the way they are being addressed. The myopic focus on quarterly results seems to be giving way, at least in part, to broader and longer-term thinking about companies’ places in local communities and global societies. Even executive compensation — often considered a bastion of the old world — is evolving. (See Cory Morrow’s excellent article on page 18.)

We live at the intersection of money and people, which is a powerful place to be. So my questions to you are: Are you evolving? Are you helping to bring these concerns to the surface in your organization? Or better yet, are you creating plans to address them? Are you riding this wave of change, or are you just hanging on the beach and soaking up the rays of sun?

Sincerely,

Ah, summer!
Some think it’s because the sun is shining (in Portland, no less).

Brit Wittman, CCP, CECP
Director, Executive Compensation, Intel Corp.
Member, WorldatWork Society of Certified Professionals Board of Directors

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You Asked … the Community Answered

Here are practical tips on how to maximize your ability to profit from one of the most valuable resources available to total rewards professionals.

By Edward W.N. Smith and E. James Brennan

If two online community members of WorldatWork who have published more than 6,000 posts since the launch of the association’s website can’t advise you on the best methods, no one can. The authors have seen thousands of questions and answers posted on the association’s discussion boards. Many of those questions have been well-thought, insightful and stimulating. Such exchanges have prompted answers that triggered professional responses that have expanded the knowledge base that members share.

To encourage readers to use the discussion boards in the most effective ways, here are steps to help you develop questions that attract fruitful answers on the WorldatWork Discussion Boards.

STEP 1  
Think about what you want to learn.

Talk about it with peers and colleagues. Make sure that everyone agrees on what you are looking to discover. You must understand the question well enough to articulate it distinctly to attract short practical answers.

Consider keywords. Identify your topic, so you can research past discussions. If no prior post is relevant, think how you can concisely state a title that names the subject, draws interest to your detailed question and permits others to find it in future searches.

STEP 2  
Research the question, both on the WorldatWork site and elsewhere.

This will help in three ways: First, it will help you better pose the question. Second, if the answer is already there, it will save you time waiting for replies. Finally, it will avoid awkward situations where your question has been asked and answered many times in great detail. Your fellow WorldatWork members are your peers, not your personal research department.

STEP 3A  
Draft the question.

Take care to keep it short, direct and complete. Remember what Abraham Lincoln said: “I’m sorry I wrote such a long letter. I did not have the time to write a short one.”

You can find the full list of questions and answers on the WorldatWork Discussion Boards. You can also ask questions that are not answered in the previous discussion boards.

WorldatWork (www.worldatwork.org) is a nonprofit human resources association for professionals and organizations focused on compensation, benefits, work-life effectiveness and total rewards — strategies to attract, motivate and retain an engaged and productive workforce. WorldatWork and its affiliates provide comprehensive education, certification, research, advocacy and community, enhancing careers of professionals and, ultimately, achieving better results for the organizations they serve. WorldatWork has more than 70,000 members and subscribers worldwide. Founded in 1955, WorldatWork is affiliated with more than 70 local human resources associations and has offices in Scottsdale, Ariz., and Washington, D.C.

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JIM: I participate in online discussions because I have spent all my life in the total rewards profession and remain interested in learning more, becoming aware of new developments and paying back by paying forward. Those exchanges help me determine the current relevance of my experience and expand my personal body of knowledge. Many have helped me in the past, and I owe it to them to continue the tradition of sharing whatever few nuggets of tradecraft information I may possess which still retain value in this era. Sometimes, there are parallels and precedents obscure to others but clear to old-timers who have viewed many cycles of practice in hundreds of industries at thousands of different employers. In other cases, the stuff I know is so old no one else remembers it. Such institutional memory should not be wasted, in my opinion, but should be invested in the development of future generations. After absorbing enough knowledge, more human resources and total rewards professionals may come to realize how little they really know. Only then can they truly earn the description of “expert.”

NED: Why do I contribute to questions posted on the WorldatWork discussion boards? Two words, one man — Tom McGinley.

Tom was the Director of Compensation and Benefits who made it possible me to transition from Employment & Employee Relations into the Compensation arena. When the first salary survey invitations came in, I asked him if we should participate or just pay the premium to get the results as nonparticipants. His reply was that if no one participated there would be no data and that it was our mutual job to manage my workload so that if all possible we would submit data as participants. Later on, he encouraged me to participate in informal survey requests for information (that would not be considered antitrust/constraint of trade violations) from peers — back then questions like we now post on the WorldatWork discussion boards were shared by telephone and mail. Tom’s position was that if we were not going to help out our peers when they needed us they would not be there when we needed the help. The WorldatWork discussion boards are just a natural extension of that support of our community.

WEB EXTRAS!
Go online to www.worldatwork.org/workspan to get extra pieces to the stories in this issue.
Dear Editor:

In a March 2015 *workspan* article asking “Why Do Women Earn Less?” a leading statement in the article giving the rationale for the question is, “The gender pay gap, on average, remains about 20 percent, according to the U.S. Bureau of Labor Statistics.” There is an implied notion that there is a pay difference of 20 percent for equal work, and this implication, then, is the basis for a call to action to do something about it.

As compensation and human resource professionals, we are familiar with the concept of equal pay for equal work, and in particular that the concept of equal work takes into account the skill, effort, responsibility and working conditions associated with the job. This means that in any analysis of pay differences, rigorous job matching has to be done to ensure comparable job content.

Unfortunately, headline-grabbing statements such as “Women Still Paid 20 Percent Less than Men” or “Gender Pay Gap Still Exists” are not based on equal work. The source of the pay difference number is the United States Census Bureau report *Income and Poverty in the United States: 2013* (upon which the BLS report is based) and its summary statement “The 2013 female-to-male earnings ratio was 0.78, not statistically different from the 2012 ratio.” This is the basis of many “scare” headlines and political mischief.

Indeed, the corresponding ratio for 2012 was 0.77, which was the source of a 2012 campaign TV ad stating “President Obama knows that women being paid 77 cents on the dollar for doing the same work as men isn’t just unfair, it hurts families.” The addition of “same work” was a (deliberate) misleading statement. This same misleading notion was repeated in his State of the Union address.

To understand the numbers, we need to examine the report itself. Extracting from Table 1, Income and Earnings Summary Measures by Selected Characteristics: 2012 and 2013, of the report, we get the following table for 2013.

<table>
<thead>
<tr>
<th>Sample Size</th>
<th>Median Income</th>
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<tr>
<td><strong>Men with earnings</strong></td>
<td>60,769</td>
</tr>
<tr>
<td><strong>Women with earnings</strong></td>
<td>45,068</td>
</tr>
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</table>

Dividing the pay for women by the pay for men, we get the reported 0.78.

What does this number represent? It is the ratio of the median income of thousands of women to the median income of thousands of men, no matter in what industry, no matter in what occupation, no matter in what level of work, and no matter in what location, who were respondents to a Census Bureau survey. Everything is thrown into one big pot. And, most important, in the survey questionnaire, there were no questions about the specific jobs people were doing. Hence, those compensation factors that may account for legitimate pay differences were not taken into account at all.

The statistics in the report are sound as defined, comparing one big pot of data with another big pot of data. But to modify the conclusion to say there are pay differences for equal work is blatantly false and unethical.

As compensation and human resource professionals, we must challenge such misguided statements of gender pay gaps that have the implication that the pay is for equal work, because those statements are based on faulty premises and certainly against sound compensation principles and practices. This also means that the subsequent calls to action are based on dubious and unfounded assumptions.

John H. Davis, Ph.D., CCP

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Edward “Ned” Smith is an employee compensation professional for the Pennsylvania House of Representatives. He can be reached at NedSmith@juno.com.

Jim Brennan, is an author, speaker, editor and blogger with a degree in management from Webster University. He can be reached at emmetjames3@yahoo.com.
They were viewed as something that companies must provide to employees to keep up with their competitors, but they didn’t really provide the company much bang for the buck. Today, most compensation professionals realize that benefits can have an important influence on a company in the long term. The current conventional belief is that benefits can have long-term effects for two reasons. First, benefits are a hefty percentage of a firm’s labor costs: The U.S. Department of Labor estimated in 2014 benefits made up 30.6 percent of labor costs for the average company in the U.S. Therefore, just because of their huge cost, benefits can have a substantial impact on a firm’s bottom line. Second, benefits can be highly instrumental in attracting and retaining employees. However, new research suggests that benefits can have important long-term implications for firms for a third reason.

This research provides evidence that firms can use benefits strategically with specific benefits to attract specific types of employees — employees that will perform in ways consistent with a company’s strategic goals.

Benefits consistently are viewed as important to attract employees and to retain them for the long term. It is perfectly logical and makes sense that generally more people will be eager to go work for companies that provide them with more benefits. Recent research has expanded on this view, suggesting that benefits help attract and retain some people but not others. Further, who they help attract and retain depends on the benefit. That is, there are individual differences in who will be attracted to a specific benefit.

Two recent studies have reported examples of this. First, a study by Maria Fernanda Garcia, Richard Posthuma and Manuel
Quiñones published in the *Journal of Business Psychology* looked at how the mentioning of benefits in job advertisements affected job-pursuit intentions. Not surprisingly, the authors found that advertisements which mentioned more benefits resulted in greater job pursuit intentions. What was more surprising was they also found that this effect was substantially stronger for married applicants, providing initial evidence that the appeal of certain benefits substantially varies among people.

This principle was shown in a study I did with Christian Kuiate, Thomas Noland and Arthur Francia to be published in the academic journal *Human Resource Management*. Our study on hundreds of truck driving companies during a five-year period showed firms that offered supplemental retirement benefits had safer drivers than those that didn’t. This finding is consistent with other research that shows that people who are risk averse find supplemental retirement benefits attractive compared with people with a high risk propensity; and people who are more risk averse tend to be safer drivers (that is, they are less likely to speed, drive under the influence of alcohol, not wear seat belts, etc.). We believe that these results help show how firms can strategically use benefits to attract and retain the type of employees a firm wants.

The studies provide evidence that compensation professionals should think about benefits in a new way. Give thought to which benefits to offer by using the following questions:

- Who will be attracted to this benefit?
- Are those attracted to this benefit more likely to perform in ways that benefit the company in the long term?
- Will the benefit itself have an impact on how employees behave?

Let me address each of these questions individually. First, who will this benefit attract? Because there is little research that looks at the specific types of people attracted to specific benefits, using logic can help answer this question. For example, it makes sense that people who are risk averse are likely to be attracted to benefits that reduce their personal risk, as shown in the trucking study. Such benefits are likely to include any type of insurance, including health-care insurance, supplemental retirement plans and supplemental disability insurance. Other examples include educational reimbursements to attract learning-oriented individuals and mobile technology (e.g., smart phones, tablets, etc.) to attract tech-savvy Millennials. The bottom line is that different benefits are likely to attract different people, and giving some thought can pay off.

Second, are those attracted to this benefit more likely to perform in ways that benefit the company in the long term? The trucking study indicates that more risk-averse employees are likely to engage in safer driving behaviors. This is likely to extend to risk-taking behaviors in general. Therefore, it is reasonable that risk-averse employees are likely to be more safe-conscious in general. For firms where safety is critical, providing benefits that attract risk-averse individuals can be an important factor in achieving long-term safety goals. However, if risk-taking is an important strategic factor for the firm (as it may be in highly innovative or entrepreneurial firms) then attracting risk-averse employees is likely to be counterproductive to the firm’s strategy.

Third, some benefits may have an impact on employee behavior directly. For example, education reimbursements are likely to increase the number of employees going back to college. Or, company-matches of employee donations to nonprofit organizations are likely to increase employee donations. Monitoring how benefits directly affect employee behaviors can help identify the possible strategic implications of them.

Although intuitively appealing, the research looking into how benefits affect individuals differently is just beginning to develop and has exciting implications for using benefits strategically...
State and Local Paid Leave Legislation Stimulate Capitol Hill’s Attention

Fed up with years of congressional inaction, several state and local legislatures have been passing their own paid leave laws, which has in turn given paid leave supporters in Congress an additional public spotlight for their own bills.

While some of these bills have been around for years, the total rewards community should be aware that this idea is finding a slow-building, bipartisan congressional support for some kind of action. But how this support translates into actual legislation is yet to be seen, because both parties have wildly divergent ideas about what a paid leave bill should actually do.

In the past few years, cities across the United States and several states have been enacting paid sick leave ordinances and statutes. Three states and 18 cities have enacted laws mandating employers offer paid sick leave to their employees, 11 of those since last September. Paid leave is a winner with voters, with all four paid sick leave initiatives on the November 2014 state ballots passing with significant majorities. The momentum for paid sick leave has even created a backlash, with 11 states now enforcing laws banning their municipalities from passing their own sick leave laws and a 12th state — Missouri — considering this year a similar law for its own cities.

According to the U.S. Bureau of Labor Statistics, 43 million Americans, or more than one in three workers, do not receive paid sick leave, including 22 percent of full-time employees. Only a quarter of part-time employees get paid sick leave.
Parental leave also is finding support on the state level. Fourteen states now have laws that go beyond the requirements of unpaid leave found in the federal Family and Medical Leave Act of 1993 (FMLA), and 18 more states have similar parental leave laws that apply only to women or state employees. A Massachusetts law took effect in April guaranteeing men eight weeks of unpaid paternity leave. Three states — California, New Jersey and Rhode Island — offer paid family and medical leave.

Outside pressure from businesses offering more paid leave is directing the spotlight across this legislative momentum. In early April, the software giant Microsoft began requiring its vendors with more than 50 employees to offer no fewer than 15 days paid leave or lose their contracts with the company. Microsoft general counsel Brad Smith wrote on a company blog explaining the decision. “Paid time off benefits both employers and employees by contributing to a happier and more productive workforce,” Smith said. “We’ve long recognized that the health, well-being and diversity of our employees help Microsoft succeed. Our commitment to them extends beyond the workplace.”

Congress is Watching
All this private sector and state and local government action has not gone without notice in Washington, D.C. Elected officials in Congress who have been pushing paid leave legislation for years are taking note of these new outside-the-Beltway achievements and sensing this could be the energy they’ve been seeking to push their own bills towards a vote. (See sidebar, “Paid Leave Bills.”)

So, What’s Next?
Several signs demonstrate an increasing support for paid leave legislation in the 114th Congress. At the very least, the reintroduction of last session’s bills shows that there is continued interest in paid leave by both parties. A subtle sign of new support for paid leave occurred in late March during the Senate’s late

Paid Leave Bills
There are several paid leave bills now under consideration in the 114th Congress, each taking a different approach to the concept of employee leave.

**INTRODUCED BY DEMOCRATS**

**Family Act (S. 786/H.R. 1439)**
 Creates a national insurance program within the Social Security Administration paid through employee wage deductions, and provide employees up to 12 weeks of partial income when taking leave for serious health conditions, including childbirth.

**Family and Medical Insurance Leave Act (S. 786/H.R. 1439)**
 Provides for a monthly family and medical leave benefit payment to individuals meeting employment and other criteria.

**Flexibility for Working Families Act (S. 777/H.R. 1450)**
 Creates right for employees to request changes to their work schedule.

**Healthy Families Act (S. 497/H.R. 1439)**
 Mandates up to seven paid sick days a year in businesses with 15 or more employees, and seven unpaid sick days a year for businesses with fewer than 15 workers.

**INTRODUCED BY REPUBLICANS**

**Family Friendly and Workplace Flexibility Act (S. 803)**
 Allows employees the choice of compensatory time off.

**Strong Families Act** (to be introduced)
 Allows certain employers a tax credit for wages paid when employees are on family and medical leave.

**Working Families Flexibility Act (S. 233/H.R. 465)**
 Allows employees the choice of accruing 160 hours of compensatory time off in lieu of earning overtime pay.

All of these bills were introduced in the last Congress, and some in earlier Congresses, but they did not see any action before those sessions ended.
night show-votes on amendments to the fiscal 2016 budget resolution. A nonbinding amendment by Sen. Patty Murray, D-Wash., supporting the idea of paid sick leave found a surprising level of support from 14 swing-state Republicans, causing the amendment to finish on a strong 61-39 vote. While Murray’s amendment by design cannot mandate any change to paid leave practices, this unexpected support is causing both parties to add paid sick leave to the 2016 election campaign discussion.

Another sign of issue promotion is the Obama Administration’s Labor Department continuing interest in changing paid leave policies. Its social media campaign #LeadOnLeave continues to generate publicity for the idea. Labor Secretary Thomas Perez began traveling extensively across the country late last year promoting paid leave policies. “We are on the cusp of huge breakthroughs on paid family leave and paid sick days,” he told a Vermont audience last October. President Obama himself used the January 2015 State of the Union address to call on Congress, states and cities to pass legislation allowing all working Americans to earn up to seven paid sick days a year.

Collectively, these actions in Congress, the Obama Administration, in state and local legislation, and the emphasis by several large businesses to promote paid leave policies increase the chances that there might someday be changes to our federal paid leave laws. And while total rewards professionals recognize the benefits that paid leave delivers to a business, as political professionals WorldatWork’s D.C. staff also notes that the devil is in the details with these proposals.

WorldatWork strongly believes that employers and employees are best served by encouraging companies to offer paid leave policies as part of their total rewards package to their employees. But employers rarely use a one-size-fits-all benefits package for their employees. Paid leave policies work best when employers have the flexibility to tailor these valuable benefits in the best way that fits their own organization and employees’ situation.

“We are on the cusp of huge breakthroughs on paid family leave and paid sick days.”

One bill that seems to fit this criteria is the “Working Families Flexibility Act” (S. 233/H.R. 465), introduced in the House by Rep. Martha Roby, R-Ala., and in the Senate by Sen. Mike Lee, R-Utah. This bill would amend the Fair Labor Standards Act of 1938 to allow employers to provide their employees the choice of accruing 160 hours of compensatory time off in lieu of earning paid overtime. The employee would receive 1.5 hours of leave for each hour of employed overtime. Federal government employees have been able to receive a similar benefit since 1978, but it is not allowed in the private sector.

While WorldatWork does not consider S. 233/H.R. 465 a traditional paid leave bill, it is being offered by Republicans as a substitute for the several Democratic paid leave bills. WorldatWork’s public policy staff has been working with the bill’s House and Senate sponsors to improve the legislation to serve our members better. Depending on the bill’s shape when it comes up for initial votes, WorldatWork will decide if the association can support the legislation.

Paid leave proposals are finding increasing support across the country, so don’t expect efforts to die down anytime soon. To read the latest news, follow WorldatWork on Twitter at @worldatwork_dc or on the Web at www.worldatwork.org/publicpolicy.

Robert Baylor is the public affairs manager for WorldatWork in Washington, D.C. He can be reached at robert.baylor@worldatwork.org.

For more information, log on to www.worldatwork.org and scroll down to Public Policy Watch.

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THE FUTURE of CEO PAY

Executive compensation is undergoing a revolution on multiple levels, affected by business and societal trends as well as economic realities that are reshaping the future of CEO pay. We can get a glimpse of the future by looking at the dynamics at play today and extrapolating where these trends are heading. The future of executive compensation is one where there will be less reliance on peer benchmarking and increased focus on internal equity. In addition, expect to see more diversity in plans as companies and compensation committees develop designs tailored to reflect individual company realities and the unique environment in which the business operates. Shareholder investigation into plan design and

By Cory Morrow, Hay Group
The relatively small number of objectively comparable peers for any one CEO role, compounded by companies that view the 50th percentile as an ideal pay point — a magic number, necessarily drives pay rates upward.

pay-performance links will continue to grow over the next few years, aided by the proposed rules on executive pay versus performance disclosure, and tempered only by the potential distraction of an improving economy.

Executive Compensation Today
Over the past five years, there has been particular emphasis on improving governance in executive compensation. This interest has been driven in part by legal and regulatory requirements, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and proxy disclosure rules as well as enhanced scrutiny of compliance with Section 162(m) of the Internal Revenue Code (i.e., the $1 million cap on deductibility of executive compensation). And shareholders and proxy advisory firms, such as Institutional Shareholder Services (ISS) and Glass, Lewis & Co. LLC, also are looking more closely at executive compensation plans, concerned about disparities between CEO pay and company performance among other governance issues.

Recently, the U.S. Securities and Exchange Commission proposed rules requiring disclosure of executive compensation levels relative to company and peer performance (based on total shareholder return). This will continue to raise the level of scrutiny on executive pay programs.

These trends are compounding to change the environment in which executive compensation programs are developed and assessed. From the author’s experience, here is what we predict the future holds for executive compensation.

Peer Benchmarking in Limbo
Benchmarking CEO pay against a peer set remains the most common tool for assessing the competitiveness of pay. It is a yardstick by which CEOs can feel they are rewarded in line with market rates and, similarly, helps boards and compensation committees be comfortable that they are not overpaying. The financial crisis revealed some of the shortcomings of using benchmarking as a primary tool for setting compensation levels. Despite this, many organizations continue to rely heavily on this approach. The SEC recently further preserved benchmarking’s role in its proposed rules on executive pay and performance, which require companies to disclose annual compensation figures for the chief executive and other named executive officers relative to TSR for the company as well as the TSR within its peer group.

Critics blame benchmarking for ratcheting up pay to higher and higher levels, and for allowing pay to get out of sync with how CEOs and their organizations have actually performed. The relatively small number of objectively comparable peers for any one CEO role, compounded by companies that view the 50th percentile as an ideal pay point — a magic number, necessarily drives pay rates upward. The median (or above) isn’t a price point that decides what you pay, however. It’s just one of several factors to consider when making your decision. Comparatively, no one buys a car just because it’s the average price for the make and model. Rather, buyers hope to get the best car for the price they are willing to pay. The same is true for executive compensation peer benchmarking; it’s a singular number that should serve as a guidepost but should not be considered in isolation.

But new regulations may confuse the picture, where ideally companies in the future could go beyond benchmarking and approach CEO pay from more of a business case perspective. Regulations such as the proposed SEC rules may further entrench a single measurement technique where flexibility is required. Some techniques that are growing in importance recently include evaluating pay differentials between the CEO and other direct reports in the executive team, looking at the concept of internal equity — that is, pay rates
commensurate with the relative size and difficulty of the job — and pay policies that reflect the overall company philosophy toward compensation. It's about considering the size and scope of the CEO role from internal and external perspectives while looking at the standards of the broader business environment and considering the value the CEO is expected to deliver overall.

Pay Plans Become More Diverse

In recent years, executive compensation designs have been largely minor derivations of the same formula, especially for large public companies. Most include the majority of top executives’ compensation in the form of long-term incentives (LTI) tied nearly universally to total shareholder return (TSR). The reasoning is clear: TSR is a near-unimpeachable measure of company success that easily passes muster with boards, shareholders and proxy advisory firms alike.

But TSR isn’t a perfect measure, as some companies are now beginning to realize. While easily justifiable to external stakeholders, it’s quite challenging to draw a clear line of sight between executive actions and the long-term impacts on shareholder value relative to peers. As such, TSR loses some value as an incentive for senior executive performance. More companies will begin to explore the appropriateness of incorporating additional metrics, such as growth in earnings before interest and taxes (EBIT) or earnings per share (EPS), return on investment (ROI), increases in top-line sales and total cash flow.

In the future, expect the pendulum to swing back toward leveraging TSR as one of several measures within a balanced long-term incentive portfolio approach — e.g., performance-based equity tied to TSR in addition to one or two other metrics, as well as stock options and time-vesting restricted stock. The right balance of measures remains uncertain because it must reflect both the specific industry and business in which it is used, as well as consider the impact of proposed SEC rules on pay-for-performance disclosure. So where custom plan designs are used, expect to see detailed justification in proxy statements tying the compensation program to a clear business case.

Companies Remain Under the Microscope

Since the financial crisis, shareholders have paid close attention to the inner workings of the companies in which they have a vested interest. Executive compensation in particular will be of greater focus in the future and will need to be more tightly integrated into strategies for driving long-term business success. Increasingly, shareholders and investors are examining executive compensation to ensure it is designed not only to drive executive team initiatives that are in line with overall business goals, but that the plans do not reward executives for average or lackluster results. This scrutiny into CEO pay is a mirror for stakeholders’ concerns about sustainability, fairness in the workplace and pay inequities.

The emergence of activist investors over the past few years plays into this intensified examination of executive compensation practices. Consistently on the lookout for underperforming companies, the involvement of activist investors often leads to CEO and senior management turnover — a costly and distracting change in the business. Increased turnover rates and the heightened risk of accepting the CEO position have an impact on severance multiples.

Another significant factor in scrutiny of companies’ compensation practices has been proxy advisory firms. However, the role of these businesses is beginning to change and will look somewhat different in the future. More institutional investors today have the tools and talent at their disposal to conduct their own proprietary complex analyses, sometimes employing methodologies that
are even more restrictive or narrowly tailored than those employed by major advisories. Shareholder advisory businesses such as ISS and Glass Lewis will continue to be influential among smaller investor groups, though the firms themselves may shift their focus and target their services more toward corporate issuers than institutional investors directly.

Pay Is Only Part of the CEO Life Cycle
Companies continue to operate in a challenging business environment that has resulted in CEO turnover spiking to record levels in 2014, with more than 1,300 chief executives vacating the top office, according to outplacement firm Challenger, Gray & Christmas, Inc. As any struggling sports team seeks a top coach, a business with an executive vacancy wants to retain the best CEO possible. That requires executive compensation plans to be structured to attract the best talent and address the challenges associated with performance management and succession planning.

With the dramatic rise in complexity, risks and challenges that boards and CEOs face today, it is necessary to take a broader look at how they work together. This means doing two things differently. First, being mindful of the strong links between three elements of the CEO life cycle that are often dealt with in isolation: succession, performance evaluation and compensation. And second, looking constructively at the relationship between boards and CEOs: the rules of engagement, responsibilities and communications.

By working on the board and CEO relationship this way, it’s possible to build greater clarity and trust between the parties, ensuring compensation decisions are made in the appropriate context rather than in isolation.

As company leadership increasingly considers executive pay alongside CEO performance and succession planning in a more holistic manner, future discussions of CEO pay will become broader conversations about the overall CEO life cycle planning process. Boards should always be thinking about structuring their relationship with the CEO around ways of working that are clear and comprehensive — leaving no room for surprises — and addressing succession planning and performance management on an ongoing basis, not as an occasional or once-a-year check-the-box activity.

Looking Ahead
CEO pay will be affected by the decreased reliance on peer benchmarking as a singular measure of pay and by the appearance of more diverse and customized plan designs that are backed by detailed business-case justifications. At the broader organizational level, the continued scrutiny of company pay policies by shareholders and activist investors will keep up the emphasis on fairness and interconnectedness of pay and performance. Across industries, boards will draw strong links among CEO pay, performance and succession, considering these as pieces of a holistic CEO life cycle rather than as disparate elements.

Overall, the future of executive compensation will become more tailored, built to stand up to stakeholder examination, match the unique conditions of individual businesses and designed with a closer eye toward interconnectivity.

Cory Morrow is senior principal in Hay Group’s Board Solutions group based in Dallas. He can be reached at cory.morrow@haygroup.com.

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DOES YOUR EXECUTIVE COMPENSATION HAVE AN END GAME?
Understand a company’s key stakeholders to develop a strategy that serves as a guide for compensation-related decisions.

In sports, the focus for a team is on winning the game. In business, it’s on achieving organizational success. However, there’s a famous saying: “Hope is not a strategy.” For the sports team, it takes a clear and well-executed game strategy to win. For a company, a well-thought-out and well-articulated compensation strategy can provide a road map for getting there.

Today, most companies have a formal executive compensation philosophy or strategy, or both, detailed in their proxy statements or on company websites. They are considered a best practice for publicly traded companies, privately held companies, and tax-exempt and not-for-profit organizations.

By Jim Sillery, Buck Consultants at Xerox
While many of these statements are well articulated, more often than not they represent a missed opportunity. They state how the executive compensation program is structured and how it compares with the market, but they generally don’t address the end game — like the desired objectives of the compensation program. They state what the executive compensation program is, but not where it is going or the role that it plays in getting there; for example, they don’t specifically say what is the desired state and how does the executive compensation program help to get there.

Companies often use “compensation philosophy” and “compensation strategy” interchangeably. However, they are actually two different concepts that work hand in hand. It’s unlikely that a compensation philosophy will be successful without being anchored to a strategy — a plan of action or policy designed to achieve the overall desired state. At the same time, a compensation strategy is not likely to be successful unless it’s guided by a philosophy — a system of principles, beliefs, values or tenets that guide practical affairs.

SHRM, a leading authority in compensation matters, states in its 2012 paper “Planning and Design: What is a compensation philosophy?” that “a compensation philosophy is simply a formal statement documenting the company’s position about employee compensation.” Human Resource Management (HRM) Guide provides an online repository to help human resource professionals “bridge the gap between theory and practice.” Its online database describes a compensation strategy in much the same way, stating that “the compensation strategy is derived from the HR Strategy and it defines the position of the organization on the job market.” It defines the pay market, the desired position on the pay market, and how the desired level and position will be achieved. While there’s truth in the statements from both of these sources, a compensation philosophy and strategy are actually much more than that.

Properly constructed, a compensation philosophy and strategy will serve as a guide for all compensation-related decisions that are made by the company or its board of directors. But many of these general statements are ultimately ineffective having an impact on the company’s ability to achieve long-term, sustainable success through an effective compensation program. In stating the purpose of their compensation programs, companies will often list the following attributes:
- Attract, motivate and retain qualified executives
- Be competitive with the market
- Pay for performance
- Target the median (75th percentile, etc.) based on performance

Companies often use “compensation philosophy” and “compensation strategy” interchangeably. However, they are actually two different concepts that work hand in hand.
Align executives with shareholder interests. These are all worthwhile, but they’re general and speak to tactics rather than philosophy and the strategy to execute that philosophy; they don’t clearly articulate what the strategy is and where it leads. They do not tell you what the purpose (desired state) is. They also do not tell you how the elements of compensation help to reach the desired state. Finally, they do not tell you why the desired state is important.

For an executive compensation strategy to be effective, it must disclose a complete narrative, taking us from “What” to “How” to “Why.” Required is an understanding of the perspectives of its three primary constituencies, because each has its own unique interests and desired outcomes. These constituencies include:

- Investors, including shareholders
- Company
- Executives

(See Figure 1.)

Investors
Investors and, in the case of publicly traded companies, shareholders make a significant, direct financial investment in the company. This investment is essential to the company’s ongoing operations. These investors expect a return on that investment. A compensation strategy should address three primary concerns and interests for investors:

- **Share price appreciation/value creation:** Each investor has a different reason for investing and a different exit strategy. A shareholder may be taking a short-term or long-term position (renters vs. owners). Depending on the time line for the shareholders in a publicly traded company, they may be looking for a rapid increase in the share price or a more gradual longer-term curve, perhaps supported by a dividend stream. In the case of a privately held company, investors may measure the value of their investment by appreciation in enterprise value.

- **Good governance:** Investors and shareholders want to ensure that the company is well run so that their investment will be protected. This requires a qualified management team, a focus of sustained performance and an appropriate balance between risk and growth. This can be best achieved by putting their money into a well-run company that meets the strict standards of good governance.

- **Marketability:** Every investor has an exit strategy. It may be long term (e.g., Warren Buffett) or short term (e.g., private equity). Investors may be focused on creating value to maximize value at a transaction. Shareholders may look to time-sell their stock to maximize value. In either case, they also want to be sure that, when they are ready to exit, there’s a market that will provide a timely and appropriate return on their investment.

Company
The company makes a substantial investment in people, in the form of the total compensation provided to its executives, and looks for a corresponding return. The primary areas that companies focus on that should be addressed through a compensation strategy are:

- **Leadership:** A company needs to attract, motivate and retain the caliber of executive required to create the vision for the company, translate that vision into a strategy and then execute on that strategy. The ability to do this goes beyond the pay opportunity itself; it also means ensuring that compensation programs will be attractive to the type of executive who will thrive in the business environment and work culture of the company and who can help lead it to success.

- **Driving value:** Executive compensation programs should directly...
contribute to company performance. While financial performance may be important in the short term, it may not be enough in the long term. This is because, historically, companies have used the fairly simple relationships of accounting profits to sales and profit growth. However, empirical evidence has shown there is a relatively low correlation between accounting earnings and value creation. To ensure that performance leads to success, companies need to focus on economic measures that serve as drivers of long-term value creation. Executive compensation programs should pay for those measures of real performance that contribute disproportionately to company success.  

**Enterprise sustainability:** It’s important that companies achieve their growth needs in a way that contributes to success today, while it contributes to success as an ongoing organization. Creating a sustainable enterprise involves defining the value chain; identifying opportunities to promote growth through new products, new markets and the composition of the business portfolio; improving return on capital through sales and marketing strategies, creating sustainable operations; and managing risk, whether regulatory, reputational or operational. As a result, a company’s compensation strategy needs to be future-focused as well as focusing on today’s needs.  

**Executives**  
To ensure that its compensation program provides maximum motivational value to its executives, a company must focus on more than market position or the dollars being delivered. It must also provide a compensation opportunity that is perceived as a high level of value on the part of those executives. This means that the company must have a good understanding of those factors that determine how perceptions are formed. To an executive, perception is reality. And because each executive has a unique and complex way of processing information and arriving at conclusions, compensation arrangements may need to be flexible to meet those diverse needs. There are three primary factors that can determine perceived value on the part of executives:  

**Cash flow and liquidity:** With much of executive compensation tied to performance and with much of equity compensation tied to ownership requirements, it’s important to an executive that the total compensation offering provides a reasonable amount of cash flow to meet ongoing cash commitments. Additionally, ownership requirements should allow for an appropriate amount of liquidity, particularly if the executive needs to diversify holdings as part of a personal risk management strategy.  

**Career:** Executives view the concept of career broadly, to encompass current pay, role and opportunity and future pay, role and opportunity. Depending on the situation, an individual may make tradeoffs between the two on an ongoing basis. Issues like retention become critical in establishing compensation strategies — the Challenger, Gray & Christmas 2014 Year-End Report showed that CEO turnover in 2014 was at its highest level in six years. Companies need to recognize that retention means more than the dollars that an executive would walk away from. It may also mean the career opportunity that he/she is staying for.  

**Wealth creation:** Executives face a negative impact from ERISA, which places significant limitations on wealth creation through qualified plans. So it’s important that a company provide its executives with tools for long-term capital accumulation to create financial portfolio sufficient to fund their retirement needs. These may include deferred compensation arrangements, supplemental retirement plans and equity compensation. While conventional wisdom would say that you cannot be all things to all people, success in this area means that you cannot afford to disenfranchise any constituent. Instead, the company needs to determine what the most important needs of each constituent are and focus on those. By doing a “Pareto Analysis” of the different needs, you can clarify those outcomes that will disproportionately affect the commitment and support necessary for continued success.
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OF OUR EXECUTIVE COMPENSATION PROGRAM

The philosophy underlying our executive compensation program is to provide an attractive, flexible, and market-based total compensation program tied to performance and aligned with the interests of our shareholders. Our objective is to recruit and retain the caliber of executive officers and other key employees necessary to deliver sustained high performance to our shareholders, customers, and communities where we have a strong presence. Our executive compensation program is an important component of these overall human resources policies. Equally important, we view compensation practices as a means for communicating our goals and standards of conduct and performance and for motivating and rewarding employees in relation to their achievements.

Overall, the same principles that govern the compensation of all our salaried employees apply to the compensation of our executive officers. Within this framework, we observe the following principles:

◆ Retain and hire top-caliber executives: Executive officers should have base salaries and employee benefits that are market competitive and that permit us to hire and retain high-caliber individuals at all levels;

◆ Pay for performance: A significant portion of the annual compensation of our executive officers should vary with annual business performance and each individual’s contribution to that performance;

◆ Reward long-term growth and profitability: Executive officers should be rewarded for achieving long-term results, and such rewards should be aligned with the interests of our shareholders;

◆ Tie compensation to performance of our core business: A significant portion of our executive officers’ compensation should be tied to measures of performance of our businesses;

◆ Limit discretion: Incentive compensation should be based on the Company’s financial results relative to pre-established targets under applicable formulas, and the Board generally should not exercise discretion to adjust formula-based awards;

◆ Align compensation with shareholder interests: The interests of our executive officers should be linked with those of our shareholders through the risks and rewards of the ownership of our Common Stock;

◆ Provide limited perquisites: Perquisites for our executive officers should be minimized and limited to items that serve a reasonable business purpose; and

◆ Reinforce succession planning process: The overall compensation program for our executive officers should reinforce our robust succession planning process.

So how do you do this? To articulate a clear, complete statement, you need to answer three basic questions: Why, because it needs to provide a compensation opportunity that is attractive to the upper quartile of the market. Why, because that is where you find the talent needed to execute an aggressive growth strategy in highly competitive markets.

Prudential Financial provides us with a good example of this approach with their “Philosophy and Objectives of Our Executive Compensation Program” found on the Company website. In this statement, they state “What” – we “provide an attractive, flexible, and market-based total compensation program tied to performance and aligned with the interests of our shareholders.” The “How” is detailed in the eight core principle and underlying tactics that serve as a basis for their executive compensation program. The “Why” – “Our objective is to recruit and retain the caliber of executive officers and other key employees necessary to deliver sustained high performance to our shareholders, customers, and communities where we have a strong presence.”

By pulling the “What” – “How” – “Why” together, they provide a complete narrative on their executive compensation program and spells out the key needs of each constituency that their program addresses.

By addressing the priorities, needs and perceptions of each of their constituencies in this way, a company can develop an executive compensation strategy that provides a framework for future success by guiding compensation decisions to maximize their effectiveness. Investors and shareholders will see the company as an attractive investment since the company is responsive to their interests. Executives will be more engaged since their financial and career needs are addressed through the compensation offering. The company will also have its needs met through engaged executive team, better investor relations, and a focus on performance achievement that contributes to long-term, sustainable success.

Jim Sillery is principal and an executive compensation leader at Buck Consultants in Minneapolis-St. Paul area. He can be reached at james.sillery@buckconsultants.com.

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Checklist for Total Shareholder Return Incentive Plans
Does your company’s total shareholder return align with its business goals?

Today, one of the most significant debates in executive compensation circles centers on the merits of relative total shareholder return (TSR) as an incentive plan metric. On one side, proxy advisers and governance groups have championed relative TSR as a metric...
that — in theory — ensures executives are only rewarded when shareholders experience above-market returns. On the other side, a host of critics (including directors, executives and consultants alike) notes a number of challenges that — in practice — make relative TSR a difficult metric to use (see “Common Critiques of Relative TSR Plans”).

One thing is clear, though: The use of relative TSR in long-term incentive (LTI) plans has exploded in recent years from nearly 30 percent of S&P 500 companies in 2010 to roughly 50 percent today. This trend has been, in part, a reaction to say on pay and the attendant rise in influence for the proxy advisers that champion relative TSR metrics. Many companies have — sometimes, begrudgingly — introduced relative TSR plans in response to, or in anticipation of, say-on-pay-related concerns. Our experience suggests that the introduction of a relative TSR plan is one of the most common changes made in response to a failed or low-majority say on pay vote result.

Although the trend to relative TSR has certainly been driven by these external factors, that does not mean there cannot be a meaningful and effective role for relative TSR plans in an incentive program. To do so, there simply needs to be clarity as to why relative TSR is being adopted and how it is being used.

Establish Clear Objectives
To maximize the effectiveness of a relative TSR plan, companies must first be able to enumerate the rationale for introducing the plan. We identify here three common objectives that may be served by a relative TSR plan:

- **Align pay with value creation that outpaces peers.** This ensures alignment of pay outcomes with the shareholder’s experience. Typical for companies facing significant and uncontrollable market uncertainty where measurement of relative TSR may be more relevant than measurement of absolute financial performance, or companies facing changes in leadership or strategy that make the setting of absolute, financial goals exceedingly difficult.

- **Provide a balanced portfolio of incentives.** Common among mature, stable companies with a pay strategy that emphasizes balance across absolute and relative performance and multiple vehicles, metrics and timeframes.

- **Respond to governance pressures.** Common among companies that are responding to low say-on-pay support or those looking to adopt best practices championed by proxy advisers and “blue ribbon” governance panels to more explicitly align compensation with shareholder results.

Companies that wish to simply follow the market and adopt a relative TSR plan should do so at their own risk. At best, doing so risks creating an overall incentive program that lacks a coherent purpose and balance. At worst, blindly adopting a relative TSR plan has the potential to distract from the core objectives of the incentive program and create unintended consequences and behaviors.

Ensure Appropriate Design
Once clear on the plan’s objectives, companies can begin to focus toward tailoring the design to serve the stated objective(s) in order to best complement the accompanying portfolio of incentives.

The process to translate the plan’s objective(s) into program design is an exercise in calibrating the plan to the desired orientation as incentive or reward. At one end of the spectrum, relative TSR is used as an incentive — a carrot to prospectively drive and reward for outperformance. At the other, relative TSR is used as a reward — to retrospectively deliver pay commensurate with results and outcomes. Where the plan falls along the spectrum of incentive vs. reward is modified by how prominent the plan is within the context of the total incentive portfolio and the potential sensitivity of results to performance. A plan that represents the entirety

### Common Critiques of Relative TSR Plans

- Relative TSR plans lack line-of-sight for participants as point-in-time share price can be more sensitive to exogenous factors than traditional financial measures. Also, participants have no control over, and reduced visibility to, comparator performance.

- Relative TSR performance can become disconnected from absolute and/or relative financial performance during shorter, discrete periods.

- Consistent relative TSR outperformance is difficult to achieve over multiple periods, even for companies that are high-performers.

- The comparator group can introduce a variety of unintended consequences if not carefully considered.
of the LTI in a total pay mix that is weighted heavily to long-term pay, or with a greater sensitivity to results, will enhance a plan's orientation to incentive. A plan that represents only a modest portion of the total incentive portfolio with only modest performance leverage will attenuate the plan's orientation to reward.

A plan's design features must be tailored to achieve the desired orientation — incentive or reward. In this respect, there are four primary design considerations for relative TSR plans:

I What portion of the LTI mix will be tied to relative TSR?
I Will relative TSR be used as the singular measure, in combination with other metrics, or as a modifier to other metrics?
I How will plan payouts be calibrated to relative performance rankings?
I Who is the comparator group?

Weighting of Plan in LTI Mix
A majority of weighting within the total portfolio of LTI vehicles can magnify the incentive or reward orientation of the relative TSR plan by placing further prominence on the relative TSR metric. Similarly, a greater than typical weighting of LTI

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**Figure 1** Illustrative Mapping of Common Objectives on the Incentive vs. Reward Spectrum

<table>
<thead>
<tr>
<th>Reward</th>
<th>Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respond to Governance Pressures</td>
<td>Align with Relative Value Creation</td>
</tr>
<tr>
<td>Provide a Balanced Portfolio</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 2** Typical Design Characteristics of Relative TSR Plans, by Objective

<table>
<thead>
<tr>
<th>Common Design Characteristics</th>
<th>RESPOND TO GOVERNANCE PRESSURES</th>
<th>PROVIDE A BALANCED PORTFOLIO</th>
<th>ALIGN WITH RELATIVE VALUE CREATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approx. % of LTI Mix</td>
<td>20-50% of LTI mix</td>
<td>33-50%</td>
<td>50-100%</td>
</tr>
<tr>
<td>Metric Selection</td>
<td>Relative TSR paired with 1-2 financial metrics</td>
<td>Relative TSR paired with 1-2 financial metrics</td>
<td>Relative TSR is the singular metric</td>
</tr>
<tr>
<td>Goal-Setting/ Payout Leverage</td>
<td>50th P earns target; max payout for 75th P</td>
<td>50th P earns target; max payout for 75th P</td>
<td>50th P earns target; max payout for 80th P+</td>
</tr>
<tr>
<td>Comparator Group</td>
<td>Measured against a broad index (e.g., S&amp;P 500)</td>
<td>Measured against industry index or benchmarking peers</td>
<td>Measured against benchmarking peers</td>
</tr>
<tr>
<td>Prevalence</td>
<td>25-30%</td>
<td>20-25%</td>
<td>50-55%</td>
</tr>
</tbody>
</table>

A plan’s design features must be tailored to achieve the desired orientation — incentive or reward.
in the total pay mix can achieve similar results by increasing (or decreasing) the plan’s prominence.

Combination and Weighting of Metrics
The combination and weighting of the relative TSR metric (within the plan) also influence prominence by, again, having an impact on the notion of “dollars-at-risk” to relative TSR performance. A plan that uses relative TSR as the singular metric will have a greater prominence than one in which relative TSR is paired with one or two financial metrics. When relative TSR is used only as a modifier to financial performance, the prominence can be further reduced by narrowing the potential for relative TSR outcomes to have an impact on the ultimate value realized from a given award.

Calibration of Goals and Payout Leverage
While both the combination of metrics and the weighting of the plan are a measure of how prominent the relative TSR plan is within the context of the individual’s total incentive opportunity, the calibration of the relative TSR goals and associated payout leverage is used to directly influence the incentive or reward orientation of the plan.

Greater orientation to incentive is associated with the following goal-setting approaches that increase the riskiness and leverage of a plan to motivate and drive outperformance:

- A requirement for above-median relative TSR to achieve a target (or even threshold) payout
- Significant payout leverage (e.g., up to a 200 percent payout for performance at the 90th percentile)
- The use of an absolute TSR cap to reduce or cap payouts if absolute TSR is negative.

Plans that require only median relative TSR performance to achieve a target payout and that have a more normative payout leverage (e.g., 0-150 percent of target) are associated with a greater reward orientation because they reduce the level of risk in the plan so as to become a vehicle for pay delivery of satisfactory performance. Note that the use of relative TSR as a modifier to core financial metrics (as noted above) often coincides with even further reduced leverage in which the payout may plus or minus be modified up to 25 percent.

Comparator Group Selection
The final lever for determining incentive vs. reward orientation is the choice of comparator group. Using a broader and larger group of companies, such as the S&P 500, as the comparator group generally has the effect of reducing the likelihood that the company will significantly outperform or significantly underperform the group. Of course, exceptions exist for countercyclical industries, but narrowing the comparator group to a specific industry index or, even further, to a select set of peers will generally increase the relative TSR plan’s incentive orientation.

Conclusion
While the challenges associated with relative TSR, as a metric, are here to stay, so, too, are the forces that have made it a popular choice for issuers in recent years. Companies that wish to get the most out of their relative TSR plan should first understand the objective the plan is intended to serve. Second, companies should ensure the design of a plan supports and aligns with the desired level of prominence, incentive or reward orientation.

Mark Emanuel is senior consultant for Semler Brossy in Los Angeles. He can be reached at memanuel@semlerbrossy.com.
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case study
Understanding your workforce can help implement major changes successfully.

If you are in the midst of a change initiative, it's likely that you have experienced some of the resistance that occurs in an organization. Research shows that 70 percent of all major change efforts in organizations fail because companies often neglect the most critical factor in the equation: people.

By Michelle Kozin, PI Worldwide
To come out on the winning side of a change initiative requires measurable insights into both individuals and teams. ... using workforce data to drive talent management decisions.

Trigger events such as mergers and acquisitions, executive leadership changes and other transforming projects require measurable insights into both individuals and teams in order to be successful. Leading companies are leveraging workforce analytics to address employee concerns by going back to behavioral drives, motivating needs and skill benchmarking.

The data behind workforce analytics can be used effectively to communicate and implement productive change during organizational transitions by:

1. Understanding what causes change-related situations
2. Minimizing the productivity dip that occurs during times of transition
3. Optimizing leadership teams and cultures that can influence successful change.

With this valuable data, you can customize a communication plan to align management’s approach with individual styles and team needs. This will allow managers at all levels to convey information better to their people and validate existing needs before moving forward.

**Case in Point: Husqvarna**

At Husqvarna Construction Products (HCP), several rapid acquisitions and a declining market had left the company with challenging situations around culture and profitability. In response, HR and Sales joined forces to lead a corporate-wide culture shift within Construction Products North America, which in the past few years, has dramatically reduced turnover, built a strong talent pipeline, introduced processes and increased profits.

To come out on the winning side of a change initiative requires measurable insights into both individuals and teams. Husqvarna took charge by developing a phased, methodical approach underpinned by their ongoing commitment to using workforce data to drive talent management decisions.

**The Circumstances That Led to the Change**

Historically, HCP has been profitable over the years and, as a result, carries a big impact financially on overall numbers. In 2008, the construction market was down 13 percent and in 2009, the market was down 24 percent. At that time, Husqvarna hit crisis mode.

In came Steve Chamberlin, who is now the current president of construction products, North America. Chamberlin started working closely with Debbie Slocum, director of human resources at Husqvarna Construction Products. They knew the first thing that needed to be addressed was the culture. Without shifting perceptions and gaining alignment, they knew it would be a struggle to try to introduce any new initiatives or processes.

During this time, the company was leveraging the Predictive Index® from PI Worldwide (PI®), which was originally put in place for recruiting purposes. Husqvarna decided to expand its use of PI data to conduct business reviews that would help uncover the best internal recruits for a coalition team to champion an organizationwide culture shift.

When performing the business reviews, Husqvarna identified challenges in the sales organization. Husqvarna decided to combine its behavioral PI data with new skills data by benchmarking the strengths and gaps of its sales teams through the SSAT™ — Selling Skills Assessment Tool. To build a more powerful sales team, the company held CFS™ — Customer Focused Selling training that focused on strengthening specific skills at the individual and group levels. Husqvarna also started using a job analytic tool called the PRO™ that allows companies to quantify the behavioral requirements of any specific job, at any level, within an organization to get a more accurate profile and ensure a high level of job fit success.

Husqvarna compiled data from the PRO and used it to analyze talent, look at performance issues and better communicate with employees. The communication piece was key because Husqvarna needed to convey clear expectations to a workforce that had multiple cultures — not only in...
regard to employee performance but in behavior, roles and responsibilities. The workforce analytics put in place were used to present all of this information in terms employees could understand — what they do, how important it is and how it has an impact on the team and the organization as a whole.

“We started using workforce analytics within the entire organization,” Slocum said. “We are now using multiple data-driven tools from PI Worldwide anywhere from conflict resolution to recruiting to performance and talent reviews to building teams to our training initiatives. This has now become universal in our daily work lives.”

Husqvarna started seeing growth and adding positions. “We revamped our job descriptions so they not only included the skills for the job, but also the personality needed for the position. Looking at this process and changing it was the best thing we ever did,” Slocum said.

With the help of workforce analytics, the company was able to keep on track to reach its goal of solidifying their culture and personal accountability for each employee. The introduction of a data-driven hiring process also enabled the company to quantify hiring success for the first time in its history.

The benefits included:

- Steady sales increases from 2010-2013 with 26 percent growth in Q1 2012 while market remained flat;
- Hiring and retention rates of top performers increasing to a three-year average of 88 percent;
- Employee satisfaction rates rose exponentially, as quantified by the Employee Satisfaction Index (ESI) surveys conducted.

“We revamped our job descriptions so they not only included the skills for the job, but also the personality needed for the position.”
Husqvarna Construction Products North America successfully contributed to the brand’s year-over-year growth by managing organizational change through workforce analytics and informed talent development.

Below are the three key strategies that high-performing organizations like Husqvarna can use to drive change:

1. **Understand the Present and Define the Future**
   To understand the existing attitudes, values, motivations and assumptions of employees that shape the current environment, pick a few critical behaviors that need to be adjusted or that you want everyone to adopt. Use this to help give your change initiative a clear direction and give your leaders a clear vision that can be communicated to others.

2. **Leverage Your People to Drive the Process**
   Having a clear vision does not mean having only one way to do things, however; it is essential to tap into the strengths of the people with whom you work and to help them see that there are many ways to work toward a common purpose.

3. **Show NOT Tell**
   The CEO is the most visible leader in a company. His or her direct engagement in all facets of the company’s culture can make an enormous difference, not just in how people feel about the company, but in how they perform. Similarly, individuals at all levels within an organization can lead the charge for change by modeling the new culture and helping everyone to experience the benefits.

**Conclusion**
Husqvarna was able to manage its challenging situation by employing objective information to make difficult conversations easier and by understanding what motivates individuals and teams. As a result, the company was able to initiate successful organizational change. The market is still sluggish, but HCP is performing well above the average as highlighted in key workforce analytic areas Husqvarna uses include:

- Job-Fit Analysis
- Informed Coaching for Sales Growth
- Skills Benchmarking
- Performance Improvement
- Cross-functional Team Building
- Targeted Sales Training
- Optimized Recruiting and Selection.

Data-driven managers and leaders are better able to handle challenging situations by employing objective information to make difficult conversations easier and by understanding what motivates individuals and teams. As a result, the likelihood of successful organizational change is dramatically increased.

Michelle Kozin is the vice president of Learning and Communications for PI Worldwide in Wellesley Hills, Mass. She can be reached at mkozin@piworldwide.com.

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Can conservative approaches to severance and change-in-control agreements work for companies?
Compensation professionals have generally weathered the Great Recession storm of mass layoffs and severance packages. With the economy picking up, so are mergers and acquisitions, and that means compensation practitioners need to shift their focus to change-of-control plans.

In the face of that fluctuating business environment, severance and change-in-control plans have continued to remain remarkably stable, as seen in the 2014 Severance and Change-in-Control Plans Survey conducted by WorldatWork and Innovative Compensation and Benefits Concepts LLC.

By Robert B. Jones, J.D., CPA, CEBS, CSCP, Innovative Compensation and Benefits Concepts LLC
Many companies continue to mold their plans to strive to meet the New Normal of the present-day war for talent. That New Normal includes a lowered salary increase environment overall for most companies than earlier in the decade, cutting back somewhat on executive severance amounts and more attention to proper pay governance practices than ever before.

Organizations are taking a more conservative, well-thought-out approach to their plans since the recession, observed Alison Avalos, WorldatWork senior manager for research and certification.

“There are continued signs that organizations are not automatically putting their dollars into plans,” Avalos said. “They are putting them where they work in the attraction of top-tier candidates.”

The 2014 survey indicated the lowest percentage of respondents both executing and foreseeing mass layoffs in the six surveys WorldatWork and Innovative Compensation and Benefits Concepts LLC have completed in the past 11 years.

Of respondents, 56 percent of respondents reported reductions in force in 2014, down from a high of 76 percent in 2003 and 72 percent in 2009. Looking ahead, one in three (33 percent) respondents anticipated layoffs in 2015, down from nearly one in two (46 percent) six years ago.

Written plan documents predominate to the extent that more than 80 percent have some form of plan document or employment agreement coverage. (See Figure 1.) The most common form for coverage at a company continues to be one plan for the CEO, one plan for the senior officers and one plan for all other employees (three total plans, as shown in Figure 2).

**M&A Mania**

Meanwhile, 2014 was a banner year for mergers and acquisitions (M&A). There was an estimated $3 trillion worth of M&As globally, up 50 percent from 2013. In the United States, billion-dollar deals were up 43 percent from the previous year, with several high-profile M&As, such as AT&T and DIRECTTV, dominating the business news.

With this increased corporate activity comes a renewed need to make sure that corporate severance and change-in-control plans are on sound footing from the acquirer’s and target’s standpoint and that the right elements are in place.

Yet relatively few organizations reviewed their severance and change-in-control plans in 2014. Of the organizations, 38 percent reported severance packages had been reviewed in the past 12 months, down from 62 percent in 2009. Reviews of change-in-control plans decreased to 30 percent from 44 percent those same years.

Those numbers show that with the decrease in layoffs, compensation professionals don’t see the need to address severance and change-in-control plans, Avalos pointed out.

“In 2009 and 2010, so much energy had to be put into things like severance,” she

---

**Figure 1**

“Which of the following phrases most accurately describes the documentation for your organization’s severance plan or plans?”

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed plans and policies in writing</td>
<td>52%</td>
<td>45%</td>
<td>37%</td>
<td>35%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Employment agreements and general plans and policies in writing</td>
<td>n/a</td>
<td>14%</td>
<td>15%</td>
<td>17%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>General plans and policies in writing</td>
<td>34%</td>
<td>23%</td>
<td>24%</td>
<td>26%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Unwritten or undocumented plans and policies</td>
<td>14%</td>
<td>12%</td>
<td>12%</td>
<td>12%</td>
<td>9%</td>
<td>15%</td>
</tr>
<tr>
<td>Employment agreements for top executives only</td>
<td>n/a</td>
<td>2%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>n/a</td>
<td>3%</td>
<td>6%</td>
<td>5%</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>
said. “Organizations had to get out their severance policies and dust them off. They were doing what they had to do to survive. There is just not as much interest now.”

The clear and present danger, of course, is that an organization can quickly become an acquisition target and, therefore, need to actively utilize executive severance and change-in-control plans.

Among the major findings of the 2014 survey:

- Three plans (for the CEO; direct reports to the CEO; and all other employees) continue to be the most popular severance approach. This has been true for all six surveys.
- More than two-thirds of respondents (69 percent) have general or detailed plans and policies in writing, another remarkably consistent aspect of severance and change-in-control plans over the past six surveys.
- The basis for severance calculation continues to be heavily related to years of service, position, employment agreement or pay, although position shows an increase from prior years. In addition, years of service is almost twice the response rate for the nearest-other basis for the calculation, which is position.
- The amount of severance continues to hover around one week per year of service or two weeks per year of service, accounting for a total of 40 percent of the respondents. (See Figure 3.)
- The maximum amount of severance compensation at 52-weeks increased to 30 percent in 2014 from 20 percent in 2009, which may come from an improving economy.
- Respondents have increasingly offered outplacement benefits to help employees who are laid off to better manage their job search. Only 18 percent offered no outplacement benefits in 2014, down from 25 percent in 2009.

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Of the organizations taking part in a 2014 survey, 30 percent reported that they have one severance plan for all employees.

Figure 2

“Which of the following best describes the coverage of your organization’s severance plan(s) (for severance resulting from not-for-cause involuntary termination resulting from any corporate event other than a merger or acquisition or divestiture)?”

Organizations with no severance plans were excluded from this analysis.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>n=</td>
<td>696</td>
<td>605</td>
<td>522</td>
<td>702</td>
<td>478</td>
<td>489</td>
</tr>
<tr>
<td>One plan for all employees</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>30%</td>
</tr>
<tr>
<td>One plan for CEO, one plan for key officers/executives or direct reports to CEO, one plan for all other employees (three total plans)</td>
<td>36%</td>
<td>35%</td>
<td>42%</td>
<td>32%</td>
<td>31%</td>
<td>26%</td>
</tr>
<tr>
<td>No severance plan</td>
<td>18%</td>
<td>19%</td>
<td>14%</td>
<td>15%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>One plan for CEO, one plan for all other employees (two total plans)</td>
<td>13%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Figure 3

“What is your current formula for determining the amount of cash compensation for severance purposes?”

Only participants who did not select no severance plan or CEO plan only received this question.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>n=</td>
<td>559</td>
<td>473</td>
<td>447</td>
<td>609</td>
<td>414</td>
<td>408</td>
</tr>
<tr>
<td>One week per year of service</td>
<td>37%</td>
<td>32%</td>
<td>31%</td>
<td>31%</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Two weeks per year of service</td>
<td>22%</td>
<td>23%</td>
<td>20%</td>
<td>18%</td>
<td>21%</td>
<td>16%</td>
</tr>
<tr>
<td>Three weeks per year of service</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>1%</td>
</tr>
<tr>
<td>One month per year of service</td>
<td>2%</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>More than one month per year of service</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Number of weeks per year of service up to a tier, then flat amount thereafter</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>9%</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>No formula</td>
<td>5%</td>
<td>5%</td>
<td>7%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Based on existing pay grade or country law</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>34%</td>
<td>39%</td>
<td>40%</td>
<td>35%</td>
<td>32%</td>
<td>36%</td>
</tr>
</tbody>
</table>
The percentage of respondents subsidizing a portion of COBRA coverage has also continued to edge upward over the past few surveys. Now, 37 percent do not subsidize COBRA coverage, down 20 percentage points from 2009.

Change-in-control gross-up practices for golden parachutes and single-trigger vesting continue to be less popular with compensation committees than in previous surveys. Importantly, single-trigger accelerated vesting upon a change in control for stock options or other equity awards has been declining for some time, down to nearly half the levels in earlier surveys. This coincides with a clear governance emphasis for compensation committees to more carefully monitor this area in the future. (See Figure 4). In fact, the vast majority of employers in 2014 (95 percent) do not plan to gross-up executives or would cut pay back to the level that the excise tax would not apply on a change-in-control situation.

In a change-in-control situation, those respondents who “accelerate vesting and pay out” from supplemental executive retirement plans (SERPs) have declined dramatically, down to 9 percent from a high of 25 percent in 2009.

Change-in-control amounts have not changed appreciably since earlier surveys. Amounts of severance compensation for the top executive seem to have remained relatively stable for the past few surveys.

**Conclusion**
The Great Recession brought with it a heightened public sensitivity to responsible corporate governance. In the age of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, it makes sense to find time in an already crowded compensation committee agenda to periodically review severance and change-in-control plans for such plans’ timeliness and relevance. Some companies could wind up being unpleasantly surprised if they have not regularly reviewed and updated their plans.

Finally, the areas of severance and change-in-control plans continue to be expensive, high-profile and sensitive subjects. If these types of programs are not communicated well and administered properly, they can create serious operational, regulatory, governance and public-relations problems from which it may be impossible to recover.

For more information about the “2014 Severance and Change-in-Control Plan Survey” results, as well as the best practices it offers, go to: [worldatwork.org](http://worldatwork.org) under “Resources and Tools.”

Robert B. Jones, J.D., CPA, CEBS, CSCP is the CEO of Innovative Compensation and Benefits Concepts LLC. He can be reached at rjones5335@aol.com.

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**Figure 4**

“If your organization issues stock options and/or other equity awards, what is your eligibility policy for accelerated vesting upon a change in control?”

Only participants who did not select no plan or only CEO plan received this question.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Double trigger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single trigger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modified double trigger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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- Mergers & Acquisitions
- Compensation
- Severance.
Dedicating a team of pros can close the deal successfully.
HR organizations responded to requests to support mergers and acquisitions by scrambling to find warm bodies to execute tasks. The proposition of HR shaping the terms of a deal was one that many of my colleagues could not fathom during the nascent stages of their involvement in transactions. The notion of such frenzy will resonate with many HR practitioners who have supported deals without the strong foundation of a dedicated HR M&A practice. In the absence of strong M&A competencies in the HR organization, deals are handled in a haphazard way, with HR serving as a bystander in most acquisitions, providing just enough support to ensure that the basic people-related requirements in a transaction are met.
Today, our industry has evolved, and we are all well-versed in the value HR drives in transactions. According to Aon Hewitt research, between 70 percent and 80 percent of deals fail to achieve their objectives, and leading businesses cite HR-related issues as some of the most critical to ensuring the success of a deal. Given this strong supporting evidence for increasing HR’s prominence in the deal process, many organizations have readied their HR organizations to support the complexities of transactions by creating dedicated HR M&A functions. However, the path to ensuring a business’ HR team is up to the task of realizing its value in a deal is not always clear. Innovators who paved the way for the dedicated HR M&A function recount the challenges in luring capable resources from their day jobs to support transactions. Deal work was considered an evening job to be completed in addition to one’s day job. Eventually, HR professionals and business leaders alike began to see the value in dedicated HR M&A teams. What was once an interruption to the day-to-day is now a development opportunity for high-potential colleagues.

The pioneering efforts HR M&A leaders have done much to secure HR’s seat at the proverbial table. With transaction volume the highest it has been in the past decade, HR is poised to exert more influence over deal outcomes than ever. Organizations that have been able to evolve their HR M&A functions from mere tactical execution to strategic partners have several fundamental practices in common that ensure HR is able to shape deals, not simply support them.

Identify Your Core Team
Having a core team of experienced, knowledgeable professionals is critical to an organization’s ability to consistently and effectively realize value in transactions. The complexity and frequency of the M&A transactions will inform the staffing model the team should adopt, but identifying and readying the team require consistency and tenacity on the part of HR.

Rock Stars Are Great, But Team Players Are Critical
When selecting individuals for an HR M&A team, certain qualities and experiences make for good M&A team members. Look for high-potential individuals who will thrive in a dynamic, fast-paced environment. M&A work is often perceived as intense and exciting, and it attracts high performing, ambitious people that enjoy the thrill of the deal. However, it is far more important to have a team of collaborative, proactive team players who can come together to make sound decisions, rather than individual rock stars who are incapable of coming together in the ambiguous, time-pressure environments that often accompany transactions.

Get In Early
More and more, HR is being pulled into transactions in the earliest phases of due diligence. By partnering with the deal team early, HR can identify key people-related risks that might otherwise go unnoticed until it’s too late.

Partner with Corporate Development
In most organizations, corporate development drives M&A activity by identifying future acquisition targets and shaping overall strategy. Though involvement in due diligence is a best practice for HR, getting in the door even earlier — while corporate development is still assessing potential targets — affords the HR team a real opportunity to shape the deal, not just the integration. Early involvement also allows for the HR team to develop and maintain credibility with the business leaders who often overlook the importance of engaging HR. Partnering with corporate development early, and understanding the value drivers and strategic objectives of a deal, provides the HR team a
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a requirement for any HR M&A team. Every deal is different, and each poses a unique set of circumstances and challenges. Developing a commonly applied playbook creates a sustainable process for the HR M&A team, and a consistent and clear experience for targets and acquired employees.

**Give Your Team Some Time**

While readying your HR team for M&A, it’s important to understand that developing consistency in approach and outcomes involves trial and error. By evaluating the successes and failures of previous deals, teams can determine what absolutely must be repeated deal over deal — e.g., HR service delivery — and what needs to be loosely structured to accommodate the diversity of the business and unique elements and geographies of their acquisition.

**Leverage External Experts**

In addition to hiring experienced team members who have knowledge of the business and with transactions, external support can be an effective resource to ramp up the organization’s knowledge and tool repository. Of course, there are costs associated with hiring external professionals, but working alongside experienced external resources allows M&A team members to receive hands-on experience and training that can be applied in future transactions.

**Learn from Each Deal**

Every deal poses a unique set of challenges at the outset and, likewise, offer a unique set of lessons learned at the end. Taking the time to evaluate the successes and opportunities for improvement that surfaced from a deal is an effective learning opportunity for HR team members, and an efficient and valuable practice for continually improving M&A processes in the future.

**Don’t Just Check the Box**

Merely conducting a lessons learned session with the HR M&A team and moving onto the next task does a disservice to the long hours the team logged while supporting the completed deal, as well as the future deals the team will support. Transactions are complex, cross-functional engagements and, often, the opportunities for improvement lie in the connection points outside the core HR mergers and acquisition team. While conducting a post-mortem on a deal, be sure to include the stakeholders who were involved across the business — they will have valuable perspectives on how the team and process could be improved. Many organizations stop here, feeling good about having had the discussion about what could be improved. Over-achieving organizations are sure to take the necessary next step: Incorporate the lessons learned into the team’s tools and processes to ensure the next deal benefits from the last.

**Melissa Colpo** is an associate partner at Strategic Advisors and Transaction Solutions, Aon Hewitt in Chicago. She can be reached at melissa.colpo@aonhewitt.com.

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Reader Review

“This book is great. What I like about it is that it is easy to follow and understand and the visuals are very good and it is nice to have all the functions in one easy manual. I have attended Excel and Remuneration courses of Dianne and she has a great way of explaining formulas and tips that make it easy to follow and in this book she has done just that. Well done!” — Tessa Niemand
Practice what you preach. That was the challenge facing Johns Hopkins University Health System and MVP Health Care, and their responses have earned the two organizations the WorldatWork Alliance for Work-Life Progress Work-Life Innovative Excellence Awards. The awards honor organizations that create outstanding work-life initiatives and policies that enrich employees’ lives and achieve business objectives.

Johns Hopkins, a Baltimore-based university and hospital, had long advocated to patients and physicians the benefits of breastfeeding newborns. It realized it could do a better job of helping new mothers among its 43,000 employees conveniently pump breast milk when they return from maternity leave.

MVP Health Care, a Schenectady, N.Y.-based health insurer, realized that while its company mission and vision of “improving health, providing peace of mind” applied to its customers, it could do a better job of applying the philosophy to its own 1,700-person workforce.

By Jane Larson, WorldatWork
Compliance with the Patient Protection and Affordable Care Act (PPACA) and the efforts of hospital nurses who cared about breastfeeding got the organization thinking about breastfeeding support as a work-life benefit.

Here are highlights of innovations the winners used to match practice and preaching:

**Johns Hopkins Breastfeeding Support Program**
The university and hospital have top reputations in research and health care, but they had few rooms where mothers could pump breast milk in private. Compliance with the Patient Protection and Affordable Care Act (PPACA) and the efforts of hospital nurses who care about breastfeeding got the organization thinking about breastfeeding support as a work-life benefit.

The Office of Work, Life and Engagement gathered data about usage of existing rooms, annual numbers of births to employees, and the types of locations where mothers worked. The data illustrated needs — and challenges.

“To build something that would be able to be replicated, we knew right away that it could be centrally administered, but that it had to have a shared responsibility,” said Michelle Carlstrom, the office’s senior director.

They went to top leaders at the hospital and university to get support before even developing standards for establishing and equipping Mother’s Rooms.

With space at a premium on campuses, leaders ordered a space inventory, and moms began recommending closets and unused offices. The first Mother’s Room could serve a single user, and newer ones can serve up to three.

One key innovation was the use of key cards to access rooms, allowing for hard data on usage, Carlstrom said. The data documented increases from 5,500 visits to four rooms in fiscal 2010 to 23,000 visits to 14 rooms in fiscal 2014.

Another innovation: possibly, the first-ever vending machine for pumping supplies. All Mother’s Rooms have hospital-grade pumps, which save time but require kits to use. Moms who were missing parts of their kits could request emergency kits, but lifespan services manager Meg Stoltzfus had a better idea. Inspired by airport vending machines, she called around and found a vendor to customize a machine to hold breastfeeding supplies. It operates by credit card in the largest Mother’s Room, and more are envisioned.

Carlstrom offers these tips to peers wanting to duplicate Johns Hopkins’ program:

Education is important, too. Supervisors and moms need to know the organization’s policies and how to comply. The program also educates mothers on child-care referrals and other support programs, and lactation specialists are available for presentations.

Assess the need. Talk to leaders and find out your options. Even negotiating a corporate rate for at-home pumps is a start.

Resources can come from multiple places. Work-life staffs came up with the standards, communicate the program and advocate for moms. Responsibility for rooms is shared among owners or operators of the buildings, “room owners” and mothers.

“Sometimes that program seems too daunting,” Carlstrom said, “but there are parts of what we’ve done that are possible for everybody.”

**MVP Health Care’s Journey to Well-Being**
Three years ago, MVP Health Care was holding annual health fairs and hosting fitness classes and farmers’ markets in scattered locations. What passed for the company’s wellness program wasn’t focused or branded, and access to events wasn’t equal for MVP employees working in three main offices, satellite offices or from their homes in upstate New York and Vermont.

Daniel Harding, director of total rewards and employee relations, realized it would take resources, leadership and a strategic plan to make MVP’s mission of “improving
The money-management dimension, designed to reduce stress in a workforce full of young parents, saw hundreds of employees signing up ... "They teach baby steps so employees don't have debt in their lives," Harding said. "People say, 'This is better than a raise.'"

health, providing peace of mind" a reality in its own workplace.

His first step was to create a position and name clinical account manager Jana Wolff to take the lead on an improved wellness program. He then asked two of MVP's senior leaders to sponsor it. The third main step was creating a steering committee to set yearly strategies and objectives. The committee evaluates progress quarterly, and a cross-functional team of managers oversees logistics in between. An employee contest produced the name "Journey to Well-Being," and MVP’s marketing staff created the logo that goes on posters, water bottles and all program materials. In 2013, MVP's Journey to Well-Being officially began with a marketing blitz.

The program's innovation came in a more comprehensive, holistic approach that Harding and Wolff said aims to create a culture of wellness. It covers five dimensions of well-being:

- Friends, family and coworker relationships
- Mind and spirit
- Nutrition, exercise and medical care
- Money management
- Home, work and community surroundings.

Some efforts span multiple dimensions, such as when employees form teams to train for charity races in their communities. Each MVP location has a team leader, who uses the popular "Couch to 5K Running Plan" for training. The company also subsidizes participants' race fees, supplies MVP T-shirts and hosts a website where others can make donations.

The money-management dimension, designed to reduce stress in a workforce full of young parents, saw hundreds of employees signing up for debt-reduction workshops. MVP was careful to select a vendor that educates rather than sells. "They teach baby steps so employees don't have debt in their lives," Harding said. "People say, "This is better than a raise.'"

The "Journey to Well-Being" continues this year with a new policy to pay for only healthful menu items — pizzas are out, whole-wheat wraps are in — at meetings. MVP also will expand offerings on money management, elder care and child care.

Harding and Wolff offer these tips to those wanting to replicate their success:

- Secure executive sponsors. They'll spread the word for you.
- Brand your program to make it recognizable, and use the brand everywhere.
- Poll employees to find out what wellness means to them and what barriers they face. Use the data to create targeted programs and good incentives.

Jane Larson writes and edits for WorldatWork in Scottsdale, Ariz. She can be reached at workspan@worldatwork.org.

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For more information, books and education related to this topic, log on to www.worldatwork.org and use any or all of these keywords:

- Innovation
- Benefits
- Well-being.
From an opening keynote session focused on performing under pressure to a closing keynote on how success and happiness at work aren’t mutually exclusive, this year’s Total Rewards Conference & Exhibition addressed the changing profession and what today’s total rewards professionals need to be successful. Roughly 2,000 attendees, speakers and exhibitors participated in this year’s event, which was hosted at the Minneapolis Convention Center in Minnesota. Whether it was sessions that were standing-room only or crowds gathering at one of several book signings, engagement among attendees was high. There was a lot of positive energy throughout the event, too, including the exhibit hall, which was humming with a strong showing of service providers; of the 138 exhibitors this year, 50 were first-timers.

Attendees had ample opportunities to connect and network with each other, too. From this year’s mobile app, which included the ability to post status updates and view session handouts, to The Hub, a central area for attendees to gather in between sessions to swap notes and discuss learnings. The ever-popular Monday-night social event drew
650 guests to the Mill City Museum in the heart of Minneapolis on the Mississippi Riverfront. A variety of music and great food and cocktails enlivened the spirits of those who attended, in spite of surprisingly cold weather that moved in that day.

“This year’s event drew a great crowd of attendees who engaged, asked critical questions and listened to an exceptional lineup of speakers,” said WorldatWork President and CEO Anne Ruddy, CCP, CPCU. “Based on this year’s turnout and how each year reveals to us an increasing level of commitment to the profession, we’re looking forward to an exceptional 2016 event in San Diego.”
“Thanks to everyone at WorldatWork for a great conference and to Minneapolis for being an amazing host city!”

Feedback

Recognition

From left, WorldatWork CEO Anne Ruddy, CCP, CPCU, Association Board Lead Director Dave Smith, CCP, CBP, CECP; and Society of Certified Professionals Board Lead Director Nathalie Parent, CCP, CBP, GRP, GSCP, CECP, CHRP, display an award in honor of Kevin Hallock, who was not able to attend this year’s event. Hallock, who serves as secretary on the Society of Certified Professionals Board, was to be given the award in recognition for completing 50 “Research for the Real World” columns in workspan magazine.
Potential changes to the reporting requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 along with continued public scrutiny of executive compensation could mean changes in 2016. Executive compensation professionals will need to be informed about potential new reporting requirements while ensuring they have a balanced package for the CEO. The organizations on the next pages can help you cut through the complexity of executive pay plans.
Compdata Consulting is where data we gather meet the insight necessary for designing and implementing effective compensation and benefits programs.

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Compdata Consulting exceeds expectations with customized, effective solutions for each client's most complex challenges. Our consultants place great value on providing constant support and attentive service throughout each project, and we promote ongoing partnerships to ensure continued success.

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Executive Compensation Survey Data from ERI

Executive Compensation Index
ERI’s Executive Compensation Index is a quarterly report that measures trends in executive compensation using analysis of the companies included in the Russell 3000 Index. The Russell 3000 is comprised of 3000 publicly traded U.S. firms that collectively represent roughly 98% of the investable equity market in the United States. This report also discusses the fluid landscape for the benchmark and analysis of executive compensation packages. Analysis of public company disclosures drives this discussion. The March 2015 edition of ERI’s Executive Compensation Index specifically highlights compensation for three executive positions:

- Chief Executive Officer
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profiles in career excellence

H. Robert Sanders, CPA, CCP, Strives to Be the Best

What is the No. 1 element that propelled your career forward?
My drive to always do the best that I can in anything that I pursue.

What role has professional development played in your career?
A tremendous role. Along with my master’s degree in human resource management from Washington University in St. Louis, my CCP with both my teaching for the past 20 years, plus my membership on the Benefits Advisory Council of WorldatWork, I have been exposed to various elements of compensation and employee benefits. Through these avenues, I always continue to learn and grow in my profession.

How has the use of analytics evolved over the past 10 years? What impact has it had on your career?
The use of analytics is so much more important than 10 years ago. The days of an HR professional making a proposal without some type of ROI no longer exists. Now, both financial and nonfinancial reasons must be provided for any type of HR investment. Due to my background in Finance and Accounting (I have a CPA), this evolution has actually benefited me professionally since I am often looked on as a liaison between the HR Department and the Finance and Accounting Department in coming up with analytics to support a project.

Why are adaptability and flexibility important characteristics for rewards professionals?
I believe that in today’s environment, an HR professional will not be successful without exhibiting these two characteristics. Because of the rapid change in technology and the need for companies to respond to the ever-changing needs of a diverse workforce, an HR professional must be willing to change in an instant and respond to an immediate issue. This may be a top candidate who has a competing offer to demonstrations held in your community that may impact your business. There are so many issues on a daily basis that HR must be ready to address them, and if you are in the C-Suite, you must always being looking ahead to anticipate what the next issue may be.

What are the qualities organizations are looking for when they want professionals with strategic business understanding?
Qualities include a financial management background: How do we make money? What are the biggest costs to the business? What are the biggest risks to our business? Qualities in HR strategies: How do we balance staffing needs with other resources that may be available and how do we integrate these steps into the business? Also, communication skills to articulate this information to upper management.

What does continuous learning for a rewards professional look like?
One that always puts the profession into a learning mode. By that, I mean continuous updates in the profession that address the latest trends to what new legislation affects my business.

Why is it important to an organization?
It is important because, as an HR professional, you should always be
“You should always expect change and you should always prepare your executives for what can impact their workforce ...”

on top of things both culturally and legislatively. Your job should be that the CEO and CFO are never surprised by the latest HR trend and/or legislation.

Why is proactivity an important characteristic for rewards professionals? You should always expect change and you should always prepare your executives for what can impact their workforce (both positively and negatively) in the near future.

Name a characteristic or skill set that sets a total rewards professional above the rest. Business Acumen.
5 Key Elements of Executive Rewards

A company’s total rewards objectives for its executives will determine the appropriate mix of the five key elements of executive rewards: salary, short-term incentives (STIs), long-term incentives (LTIs), employee benefits, and supplemental executive benefits and perquisites. Let’s take a look at the purpose and intent of each of these elements of executive rewards.

**Base Salary**

Base salary is defined as the fixed, (usually) cash compensation paid to an executive for performing specific job responsibilities and is often the smallest portion of the executive pay package. It’s generally determined by the market and depends on the scope of the position’s responsibilities, leadership skills, experience, and performance. It serves as the foundation of executive rewards from which other elements build, so it’s important to get it right.

STIs are often referred to as annual incentives, reflecting the performance period, which is generally a one-year operating cycle. Payments are variable and tied to business and/or individual performance and usually paid in cash. Often this element has the greatest influence on executive behavior because of line-of-sight performance measurement and the short time frame. Incentive opportunities are often reflected as a percentage of salary and tiered by executive level; the CEO has the highest percentage.

LTIs typically cover performance periods of three or more years and are variable payments typically made based on overall business performance results. They may consist of cash or equity-based awards, or a combination. The most prevalent forms of LTIs are stock options, restricted stock shares/units and performance shares/units. These incentives afford holding power over executives because they reward over a long term. For more senior executives, they can be a greater motivator than STIs. LTIs offer an important link to shareholders because the use of equity builds alignment of executives with the interest of shareholders. Companies typically establish a dollar value for LTIs, often equal to a multiple or percentage of base salary (e.g., 150 percent of base salary) or a dollar amount (e.g., $500,000). Like STIs, LTI opportunities are often tiered by executive level and frequently represent the largest portion of executive pay.

In addition to employee benefits such as medical insurance, life insurance, disability, paid time off and retirement savings plans, executives may be offered supplemental executive benefits and perquisites that are beyond those permitted under tax qualified plans. These benefits often make up for the limitations on compensation and income imposed in qualified employee benefit plans. Examples include supplemental executive retirement plans (SERPs) and nonqualified deferred compensation programs.

In order to attract and retain executives, companies may provide perquisites (perks), which are special nonmonetary programs and benefits made available only to senior executives. Perks are a form of recognition, convey status and can enable executives to do their jobs more efficiently. Examples include tax and financial planning, company car/allowance and use of company aircraft.

While representing only a small portion of executive rewards, perks and supplemental benefits are heavily scrutinized by shareholders and have been significantly reduced over the past several years because of this negative reaction.

Sue Holloway, CCP, CECP, is the executive compensation practice leader at WorldatWork in Scottsdale, Ariz. She can be reached at sue.holloway@worldatwork.org.
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Trends in Employee Recognition

PERCENTAGE OF ORGANIZATIONS WITH RECOGNITION PROGRAMS

84% 87% 89% 89% 86% 88% 89%

Top 5 Recognition Goals
1. Recognize years of service
2. Create/maintain a positive work environment
3. Create/maintain a culture of recognition
4. Motivate high performance
5. Reinforce desired behaviors.

Top 5 Programs Offered
1. Length of service 87%
2. Above-and-beyond performance 76%
3. Programs to motivate specific behavior 51%
4. Peer to peer 48%
5. Retirement 34%

Source: May 2015 Trends in Employee Recognition WorldatWork
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