



Did You Know?

Optimal pay level and mix depends on a company's objectives and resources


Main Data Group's revised executive pay report

It is often said that executive compensation strategy, for all its complexity, boils down to "how much you pay and how you pay it." The "how much you pay" part focuses on the aggregate dollar value of an executive's remuneration package of base salary and various incentives, collectively referred to as Total Direct Compensation (TDC). The "how you pay" part considers the various components that make up TDC. Neither part is straightforward.

To attract, motivate, and retain valuable employees, companies must keep abreast of competitive pay levels ("how much you pay"); consequently, peer data forms the basis of many decisions regarding target TDC. In some cases, the value of retirement or other benefits may be included as well. As a matter of course, companies look at competitive pay levels on an annual basis but may have the need to revisit these incidentally—especially if the company experiences a significant change in revenue or industry focus.

While "how much you pay" boils down to determining a competitive range and identifying the optimal target within that range, the question of "how you pay" is more complex. Tax, accounting, or securities law changes may prompt a company to add, modify, or eliminate key features in their programs. However, the agent for change is as likely to be an internal disruption of some kind:

- An urgent need for fresh talent requires swift changes or exceptions to longstanding compensation practices;
- Intermittent constraints in cash flow or existing equity reserves redirect incentive compensation towards the most available resources;
- Maturing to a new stage of corporate development forces changes to pay practices that were more appropriate for start-up or early-stage ventures; and/or
- Entering a different line-of-business necessitates a realignment of pay programs to conform with the new industry's norms.



Any of these conditions will send the corporate HR staff back to the drawing board, possibly resulting in shifts to:

- **Fixed versus variable pay:** the portion of TDC derived from salary versus equity and/or incentive compensation;
- **Cash versus equity pay:** the portion of TDC derived from cash (including salary and cash-based incentives) versus equity compensation; and/or
- **Short- versus long-term pay:** the portion of TDC derived from salary and short-term incentives versus long-term cash and equity compensation.

Data derived from proxy statements are key inputs for both “how much you pay” and “how you pay” decisions. Companies may have to use multiple peer groups—a core group of competitors—to calibrate how much to pay, and one or more additional groups to gain insight about how to pay under specific circumstances they may confront. MDG’s revised executive pay report is a fundamental resource for decision-making, permitting users to download compensation data from a universe of over 4,500 public companies.

We have heard from our users that MDG’s longstanding version of the executive pay report provides a mountain of information but doesn’t necessarily present it in a form that best clarifies either “how much” or “how.” Consequently, we have recast the executive pay report to let users focus on which pay components they want to analyze and how they want to define each one. The new version can be accessed by clicking on “Executive Pay” under the Reports section of the Peer Group’s Executive Pay drop-down menu. It provides:

- Separate statistics for salary, bonus, cash-based LTI, performance-based options/shares, time-vesting options, time-vesting shares, retirement benefits, and all other compensation;
- Aggregate statistics for total current compensation, total long-term incentives, TDC, and total remuneration;
- Comprehensive pay mix analysis (fixed versus variable, cash versus equity, short- versus long-term);
- Year-over-year change in dollar value for each element;
- Choice of target or actual payouts for cash-based incentives;
- Choice of Black-Scholes, MDG-calculated, or intrinsic value models for equity-based incentives;
- Up to three years of data for each named executive officer; and
- Prevalence data for different forms of long-term incentives.

Users who prefer the old version can still access it, under the title “Executive Pay (Legacy)” in the drop-down list of reports.

About Main Data Group

Main Data Group is a provider of executive compensation benchmarking and corporate governance analytics. Its mission is to empower executive compensation professionals with comprehensive total rewards and corporate governance information in an affordable, easy-to-use online service. For more information contact us at info@maindatagroup.com or by filling out our contact form at www.maindatagroup.com.