

# ON POINT

TIMELY, ACCURATE, INSIGHTFUL

## **PM&P On Point: Creating Engagement Through Executive Compensation Communication**

Executive Summary

## Introduction

- **What is “internal” executive compensation communication?** In general, it’s the information that companies provide to their employees who are eligible and/or participate in pay programs that include incentive plans. Communication is typically developed by members of company management (e.g., human resources) and may be distributed to employees in various ways (e.g., print, face-to-face, online).
- **About our survey:** Internal executive compensation communication is a growing priority among Boards and their management teams. Our survey was designed to gain insights on the communication approaches companies use to provide information about how they recognize and reward their people. The 2014 survey was conducted online between April 28 and June 8, 2014. The 212 participants included 162 executives and/or HR professionals and 50 outside Directors.
- **How to get more information:** The complete survey results are available for purchase at [www.pearlmeyer.com/creatingengagementreport](http://www.pearlmeyer.com/creatingengagementreport). Please contact Sharon Podstupka to discuss any aspect of these findings at [sharon.podstupka@pearlmeyer.com](mailto:sharon.podstupka@pearlmeyer.com) or (212) 407-9551.

So, what did we find out?

**Our findings fall into three key areas:**

Communication  
Scope, Vehicles  
and Content

**1**

**Things we already knew.**

*The Overall Communication Landscape*

Communication  
Focus and  
Importance

**2**

**Things that made us go “hmm.”**

*Interesting Views Between the Board  
and Management*

Communication  
Perceptions and  
Strategy

**3**

**Things that made us say “We hate  
to say we told you so, but...”**

*Correlations Between Quality, Understanding  
and Perceived Value*

## 1. Things we already knew.

**There is a lot to explain...**



**...and lots of ways to explain it.**



### Top Ranking Content:

- Link between pay and performance (93.1%)
- Plan mechanics (92.6%)
- Link between business strategy and pay (89.7%)

### Most Commonly Used Vehicles:

- Personalized statements (63.7%)
- Emails (58.5%)
- Town Hall Presentation/Webcast (24.1%)

# 1. Things we already knew.



## There are also lots of people who are tasked with writing it...

### Primary Content Owners:

- Head of HR (33.5%)
- Head of Comp & Benefits (28%)
- Comp Committee (13%)
- Member of Comp Function (10%)
- CEO/President (9.5%)
- General Counsel (2.5%)
- CFO (1.5%)
- *Other* (2%)



## ...and even more who have to review it.

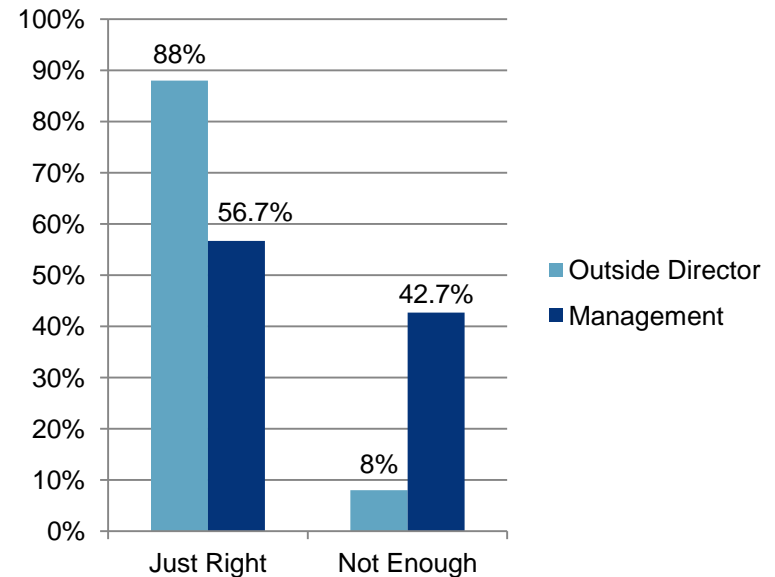
### Primary Content Reviewers:

- Head of HR (77.5%)
- Head of Comp & Benefits (41.8%)
- Comp Committee (39.3%)
- General Counsel (31.1%)
- Member of Comp Function (21.4%)
- CEO/President (17.3%)
- Member of HR (6.1%)
- CFO (4.6%)
- Communications (2.6%)
- Board (0.5%)
- *Other* (5.1%)

## 2. Things that made us go “hmm.”

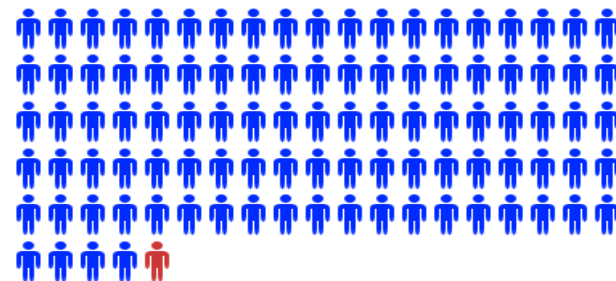
### There were different views about “the right” level of detail in communication.

- Most outside Directors said it was just right (88%), while only about half of management felt that way (56.7%)
- There was a more extreme variance on the flip side: only 8% of outside Directors said there was not enough detail, while 42.7% of management respondents said there wasn't enough.



### But almost all agreed on one thing...

- It's more important for executives to understand the aspects of executive pay than for shareholders (99%).

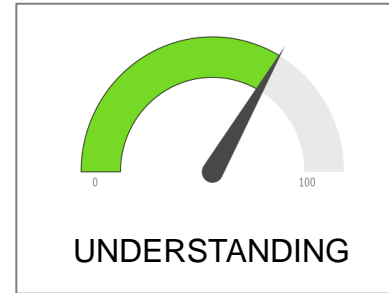


Executives Shareholders

### 3. Things that made us say “we hate to tell you we told you so, but...”



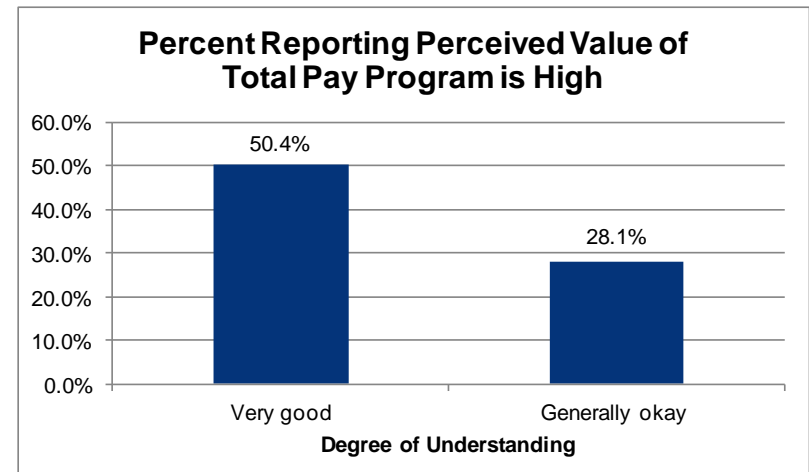
**Only about 15% reported communication quality as “excellent.”**



**67% reported pay program understanding as “very good...”**

- Of the 15% who said quality is excellent, the majority (87.5%) had the highest degree of understanding.
- As expected, level of understanding declined as quality decreased.

- Yet, only half (50.4%) of these 67% also think executives would rate the overall value of their pay program as high.
- When understanding is just generally okay, perceived value decreases by almost half (28.1%).



### 3. Things that made us say “we hate to tell you we told you so, but...”



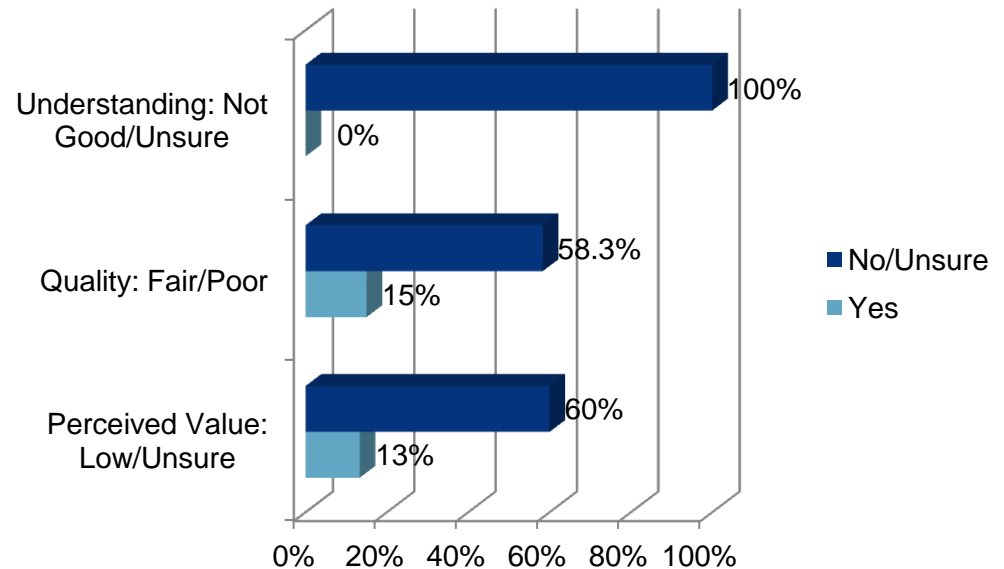
#### Even though the majority of respondents said **YES** when asked the following two key questions...

- Does communication strategy factor into plan design discussions when changes are being considered (57.4%)?
- Does communication strategy development generally begin from the first plan design discussion (52.2%)?



#### ...almost half (48%) said **NO/UNSURE**, when asked if the **Compensation Committee is presented with a communication strategy during plan design discussions.**

*These same respondents had bigger challenges in quality, understanding and perceived value than those who said they provide the Compensation Committee with a communication strategy.*





## So what are the big takeaways and what can you do?

**Everyone wants to know who is getting paid what and why... and companies are feeling the pressure.**

**Effectively managing messages about executive pay is complex, not to mention, daunting.**

**Communication should be viewed as a shared responsibility between Compensation Committees and Management.**

- ✓ Make sure your company is expending the same time and energy on planning for communication as it does on plan design.
- ✓ Challenge your tactics for communication strategy and implementation just as you would with any plan design recommendations.
- ✓ Document a strategy and implementation plan that outlines key messages, audiences, drafting/reviewing and approval roles and responsibilities, as well as the frequency and timing of communication when plan design changes are approved.

## About Pearl Meyer & Partners

*For 25 years, Pearl Meyer & Partners ([www.pearlmeyer.com](http://www.pearlmeyer.com)) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create long-term value for all stakeholders: shareholders, executives and employees. The firm maintains offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.*

## Contact Us

*For other information and guidance on compensation issues, or to learn more about Pearl Meyer & Partners' services, please feel free to contact any of our offices by email at the addresses listed below. Full contact information is listed on the next page.*

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