

BC Credit Union CEO Pay in Context

Starting this year, some BC credit unions are making their CEO compensation publicly available. This step is in line with guidelines issued by the Financial Institutions Commission. It provides the opportunity to analyze remuneration levels and the following analysis is intended to compare CEO compensation between credit unions and with other sectors.

Our research shows that when we take into account organization size and complexity, we find that on average BC credit union CEOs are paid less than their counterparts at public companies and at private sector financial services organizations.

Most compensation analysis starts by looking at the wider market to see how much others in similar roles are paid. The problem is that CEOs face very different challenges, depending on the sector they are in, the size of the organization, and how their business creates value for stakeholders. The CEO's role at a large publicly traded company is very different from the CEO's role at a smaller or less complex enterprise.

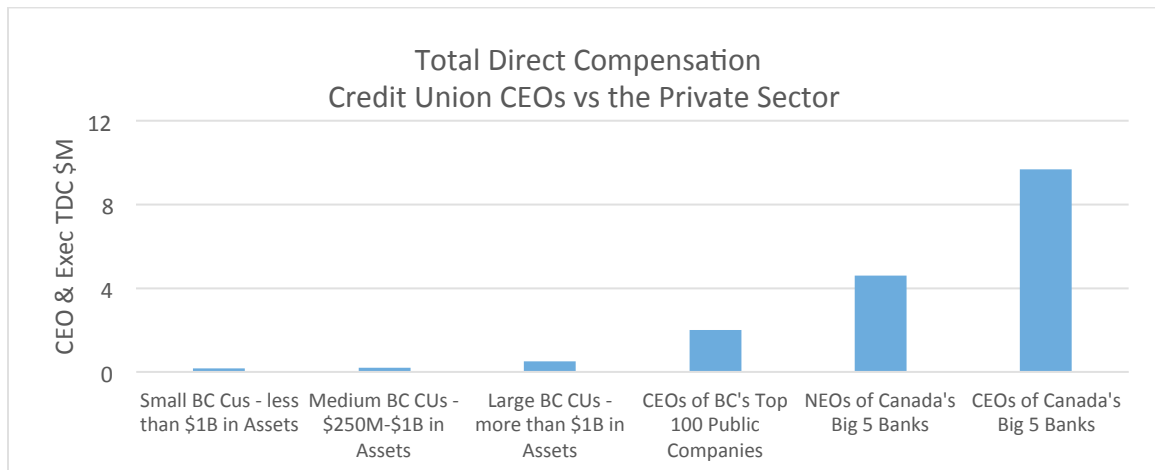
Even within the credit union sector, there are credit unions big and small and all have different strategies depending on the needs of their members.

“On average, BC credit union CEOs are paid less than their counterparts at public companies.”

Defining pay

For this analysis, we are looking at “Total Direct Compensation”. This includes base salary as well as any bonus or incentive. That includes not only cash compensation, but also equity compensation – shares, stock options or similar forms of compensation that are linked to an organization's shares. Credit unions don't offer equity compensation, but other companies do, and that contributes to the CEO's overall Total Direct Compensation (or TDC).

Our first analysis then is to look at TDCs for CEOs (or equivalent titles). Since credit unions vary in size, we can break them into three categories – small, medium and large – based on asset size. The table that follows compares median Total Direct Compensation for CEOs in each category to the median Total Direct Compensation of CEOs and Named Executive Officers in Canada's big 5 Banks and to CEOs in the Top 100 Public Companies in BC, as reported by *Business in Vancouver*, and where comparative data is available.



This means, for example, that when we look at median TDC values in each group, CEOs of BC’s largest credit unions (some of which are amongst BC’s larger businesses) receive just 25 per cent of the compensation of CEOs in the Top 100 Public Companies in BC list. If we compare within the financial sector, they also receive just five to 10 per cent of the pay of the CEO of Canada’s “big 5” banks.

The total direct compensation of CEOs in large credit unions ranges from \$378,520 to \$1,005,680. This wide range of pay levels is not surprising given that there are material differences in asset size (a key measure of organization size for credit unions) and other drivers of pay, even among the top 10 credit unions in BC.

The median TDC for CEOs of large credit unions is \$491,000, compared with a median of \$2 million for the Top 100 Public Companies in BC, and \$9 million for CEOs of the “big 5” banks.

Recognizing that the “big 5” banks are vastly different in size to the credit unions, we can compare further down into the organization. If we compare to the next line of executives at the “big 5” banks (the Named Executive Officers whose compensation is publicly disclosed, excluding the CEOs) we find that the CEOs of BC’s largest credit unions receive 8 to 22 per cent of median TDC. (The large banks have many layers of executives, and we can use more complex job sizing comparisons to find jobs that are peers for our credit union CEOs. This is discussed in a later section.)

Clearly when we make this very basic comparison, the BC credit union CEOs in our sample receive less pay, on average, than those in our public company comparator group.

“CEOs of BC’s largest credit unions... receive about 25% of the compensation of CEOs in the Top 100 Public Companies in BC. They also receive just five to 10% of the pay of the CEOs of Canada’s ‘big 5’ banks.”

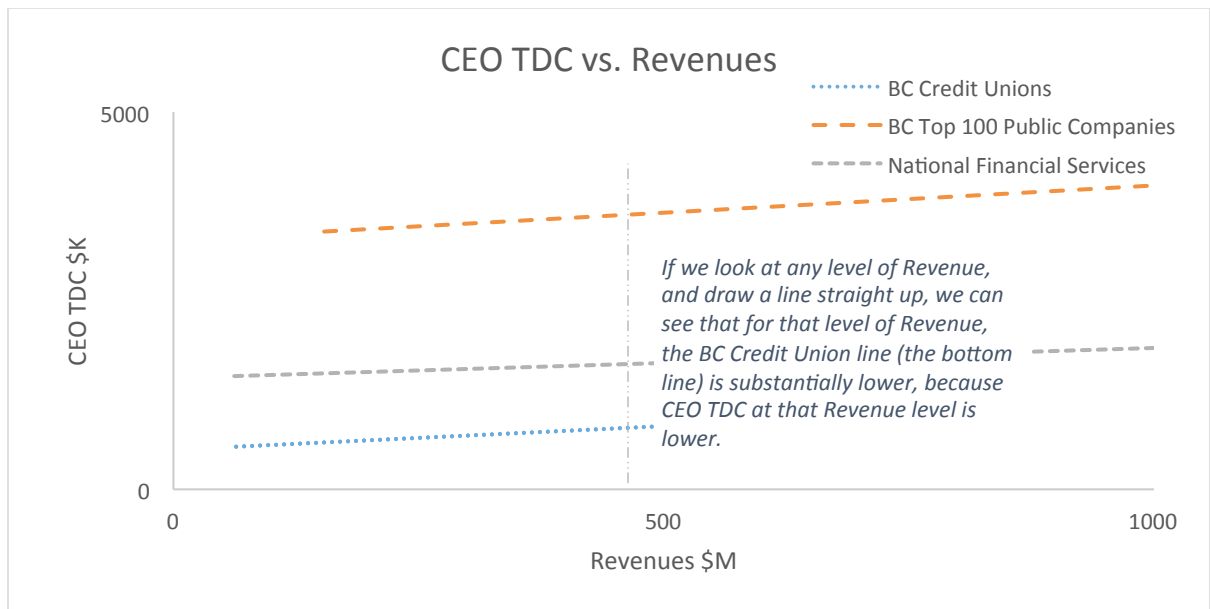
Comparing pay based on the size of organizations

Credit unions are often compared to each other on the basis of assets, so that may appear to be a good starting point for a size-based comparison, but it is not a perfect one. There are different business models in place for credit unions and other sectors. For example, in some organizations, the focus may

be on growing the asset base. In others, it might be on reaching more people with lower asset activities or on keeping assets low relative to the revenues they bring in or the profit they achieve from those revenues.

In the private sector revenue is often used as a measure of size. When we compare compensation using revenue, credit union CEOs are paid less.

Here is a simplified snapshot of how the compensation of BC credit union CEOs compares to the national financial services sector and to the BC private sector, based on revenues. Using linear trendlines simplifies the picture, which makes it easier to see trends while preserving confidentiality for any datapoints that are not public – but it is important to recognize that there is a lot of variability behind the scenes.



For example, the chart shows that at all revenue levels the overall trend is that credit union CEOs are paid less than their counterparts. For example, at the \$100 million revenue level, the trendline for credit union CEOs is at \$600,000 in Total Direct Compensation, while it is at \$3.4 million for CEOs of the Top 100 Public Companies in BC and \$1.5 million for national financial services companies.

And at the \$500 million revenue level, the trendline for credit union CEOs is at \$840,000 in Total Direct Compensation, while it is at \$3.5 million for CEOs of the Top 100 Public Companies in BC and \$1.7 million for national financial services companies.

Revenue is not a perfect way to compare organizations. Consider that unlike many organizations in the private sector, revenue may not be a primary target for a credit union. They certainly need revenue in order to be sustainable, but their focus is value to members, so they will not be trying to maximize revenue – other things come first.

“Credit unions need revenue to be sustainable, but their focus is value to members... other things come first.”

The other challenge is in comparing to our national financial sector, because the revenue of the large financial institutions is much larger than revenue at BC credit unions.

We could compare by the number of employees, but that is also not the best way to measure size. Perhaps one credit union is very successful in generating more revenue and profit with fewer employees. That CEO might actually get paid more than one with more employees, in recognition of their ability to drive higher profit at lower cost.

Sometimes CEO compensation is compared to that of the average worker, to see if that ratio is reasonable. In general, these ratios are lower at credit unions than at large financial institutions. However, there are other factors, such as organization size and business model, at play in those ratios.

We could compare by the number of members or customers, but that doesn't serve us well either. For example, even within credit unions one might focus on serving more people, and another might have fewer members but focus on providing them with a deeper portfolio of services – or might focus on businesses rather than individuals.

The fact that organizations have very different operating models and that we are trying to compare across different sectors means that it is very difficult to find a simple single yardstick that gives us a meaningful comparison.

In fact, most organizations have a compensation philosophy for the CEO, describing what factors drive their pay decision. Performance is usually one of those factors, and it can look very different for different organizations.

Comparing compensation, while adjusting for size, scope, complexity, strategic demands and other factors

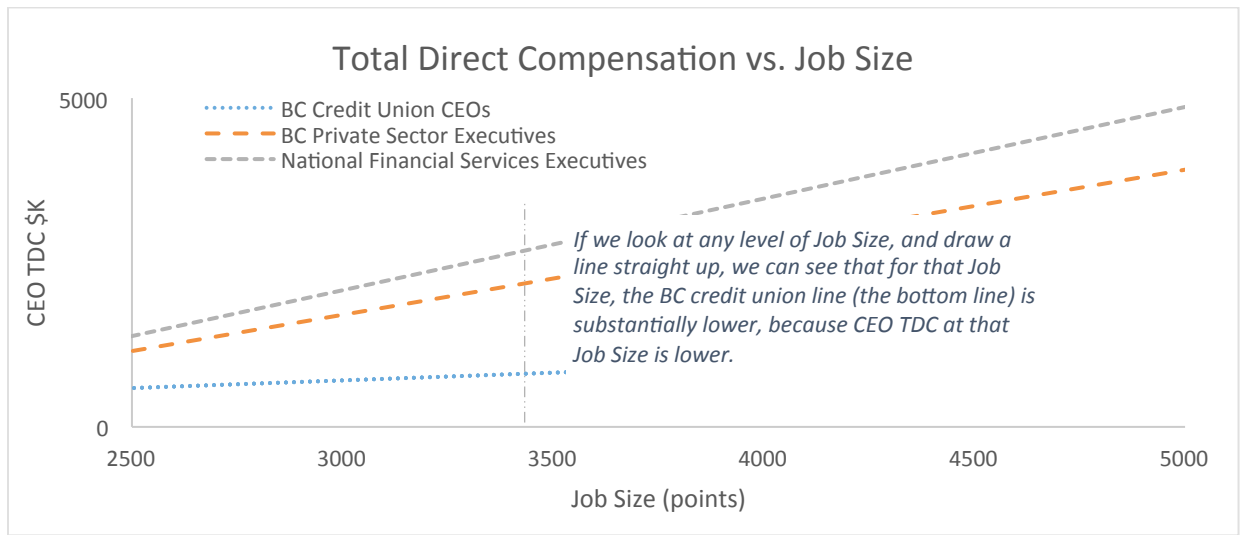
There are recognized methodologies for comparing jobs to each other based on common criteria called “compensable factors”. These are the factors that are widely recognized as drivers of compensation (including our measure, TDC). In shorthand, the resulting comparison is often called a “job size” comparison, where job complexity gets expressed in points.

The nature and size of the organization, diversity of operations, regulatory environment, industry complexity, and the specific design of the CEO role all contribute to their relative job size.

Job sizing approaches are more complete than simple measures like assets, revenue, employee numbers, and member numbers.

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The chart that follows shows TDC vs. job size for a sample of job sizes, focusing on where there is strong overlap between sectors – where CEOs of larger credit unions have similar job sizes to CEOs and other executives in the national financial and BC private sectors.



The chart shows that at all job size levels credit union CEOs are paid less on average than their counterparts. For example, at the 2,500 points level the trendline for credit union CEOs is at \$590,000 in Total Direct Compensation, while it is at \$1.2 million for roles of the same size in the BC private sector, and at \$1.4 million for national financial services comparators.

And at the 3,500 points level, the trendline for credit union CEOs is at \$825,000 in Total Direct Compensation, while it is at \$2.3 million for roles of the same size in the BC private sector, and at \$2.8 million for national financial services comparators.

This approach gives us a more complete view. We can see that again here, based on our sample, BC credit union CEO TDC is lower relative to job size, in comparison to the private sector.

This methodology also allows us to deal with the fact that CEOs of many of Canada’s financial services organizations run bigger companies than credit unions. Using the job size approach, we can compare BC credit union CEOs to roles that are closer peers – which might, for example, be an executive role below the CEO of a larger organization.

“Again here... BC credit union CEO TDC is lower relative to job size, in comparison to the private sector”

This deeper comparison takes into account size, scope, stage and complexity of the organization and the industry, the true degrees of freedom the executive has, the nature and complexity of problems and decisions, and the expertise and experience required to meet that challenge. For example, the business of banking (whether at a credit union, or another financial institution) is more complex than some other types of organizations. We can take that into account in our comparisons.

Clearly, assessing CEO pay is not a simple exercise. We can say, based on the different analyses discussed in this report that BC credit union CEO pay tends to be lower than our comparators.

A note about our analysis:

Comparisons are based on existing and accessible data sources, and are therefore based on a limited set of organizations. We have also illustrated trends with simple linear trendlines, when there are (depending on the analysis) different levels of variability and correlation. Therefore, while trends likely hold true, data should not be seen as precise; and it is important to recognize that there are datapoints above and below the lines, and other factors at play.

This paper is intended to help provide context for understanding BC credit union CEO pay, not for other purposes such as compensation setting.

For our Job Size analysis, we used the Hay Group Guide Chart-Profilesm Method of Job Evaluation for our analysis. It is widely and routinely used in executive compensation analyses to help Boards of Directors, executives and others make fair and reasonable comparisons in compensation.

Data sources:

Median CEO TDC Comparison

- CEO TDC for Top 100 Public Companies in BC:
 - List of companies from *Business in Vancouver* (2013)
 - Revenue, asset and TDC data from *Business in Vancouver*, public filings and Hay Group databases (TDC based on actual base salary + STI + LTI reported, not additional payments) – where available
- Credit union CEO TDC for Small, Medium and Large categories of CUs:
 - Categorization and TDC medians (as well as low and high figures) from Central 1 Credit Union (TDC based on base salary, actual STI and target annualized LTI)
- CEO and NEO TDC for Canada’s “big 5” banks:
 - Public filings (management proxy circular)

CEO TDC vs. Revenues

- BC Credit Unions: Hay Group databases
- Top 100 Public Companies in BC CEOs: see above
- National Financial Services: Hay Group databases

TDC vs. Job Size

- All data drawn from Hay Group databases because:
 - This analysis relies on job sizing using Hay Group’s methodologies
 - This analysis includes non-CEO executives from the private sector and national financial sectors whose roles are of similar job size to our credit union CEOs
- As a result, the BC Private Sector sample is not exactly the same sample as the Top 100 Public Companies in BC sample