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# Canadian Executive Compensation Index

June 2016



# About the Index

ERI's Canadian Executive Index is a quarterly report that measures trends in executive compensation using 800 publicly traded companies in Canada. These organizations were ranked in the top 1,000 public Canadian companies by market capitalization in both 2013 and 2014. To account for the effect of company size on executive pay, the participant companies in this analysis are separated into three groups based on individual market capitalization as of August 2015. The breakdown of the chosen market cap groups is as follows:

- Small Cap - less than C\$25 million (295 companies)
- Mid Cap - between C\$25 million and \$500 million (245 companies)
- Large Cap - greater than C\$500 million (260 companies)

Unless otherwise noted, all values referred to in the index are in Canadian dollars. The 800 companies included in the June 2016 Canadian Executive Index collectively represent roughly 85% of the investable Canadian stock market. [Click Here](#) for a list the companies included in this index.

Each quarterly edition of the Canadian Executive Index will include compensation data for Chief Executive Officer and one other executive position. The June 2016 edition includes these titles:

- Chief Executive Officer
- Director

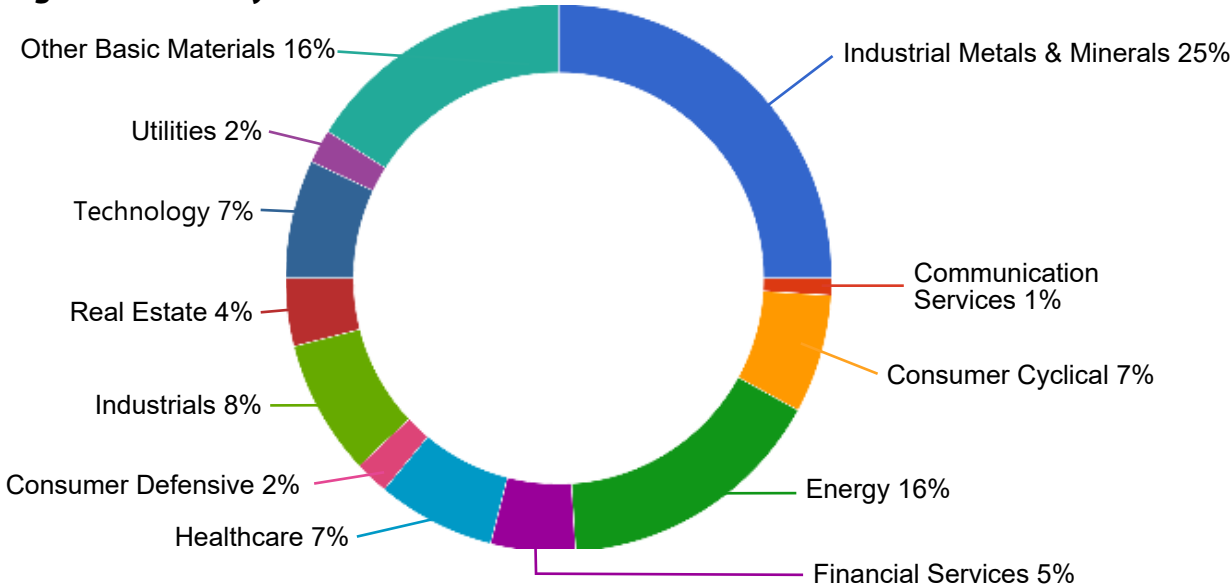
This report will also discuss the fluid landscape for the analysis and benchmarking of executive compensation packages. Analysis of Canadian public company information circulars will drive this discussion.

## Company-Level Data

Median revenue for the index increased 15% from 2013 to 2014. In 2014, the median revenue for companies in the index was just over C\$40 million. Manufacturers of Industrial Metals & Minerals represent 25% of the index, while Energy and Other Basic Materials manufacturers combine for an additional third of the participating companies.

**Figure 1** illustrates the industry representation of the Canadian Executive Index for 2014

**Figure 1 - Industry Sectors**



# Chief Executive Officer

Total direct compensation includes salary, annual cash incentive, and the grant-date value of stock and option awards in a fiscal year. The mid and large cap groups saw median total direct increases of 4.4% and 5.5%, respectively, over 2013. However, executives in the 75th percentile of the large market cap group experienced a 5% decrease in total direct compensation. The small cap companies saw a decrease in total direct compensation of 11% in 2014. This was mostly attributed to smaller equity grants in 2014, as well as an 8% decrease in median salary.

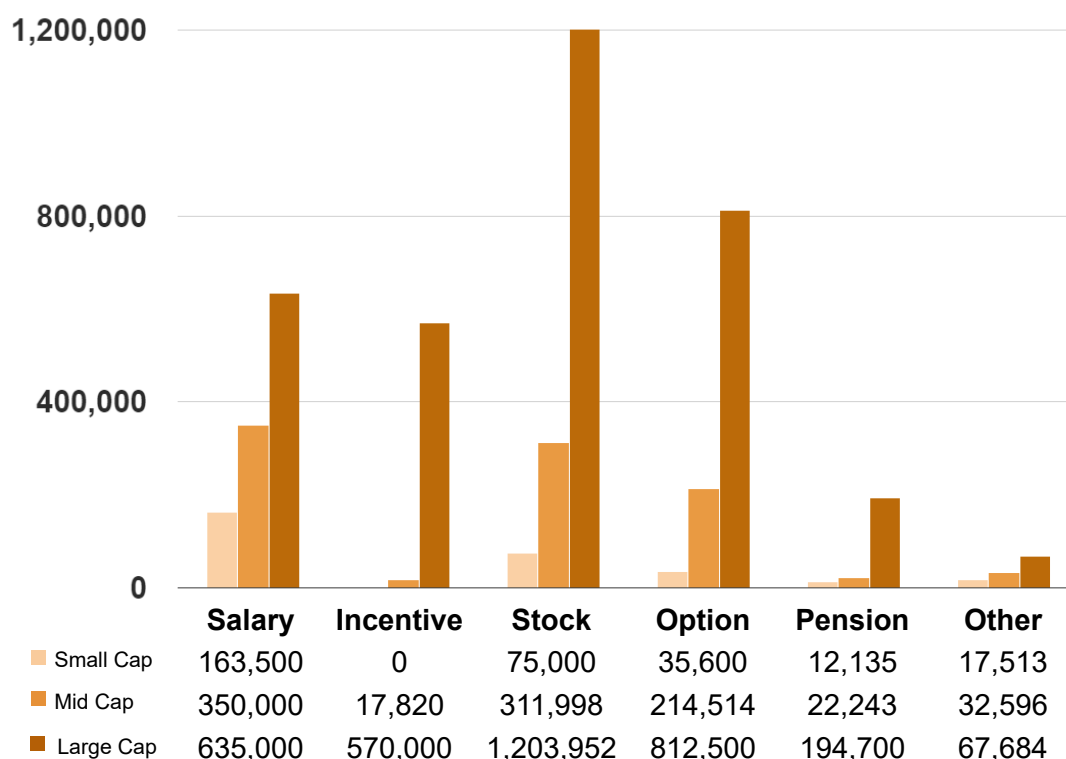
**Table 1** shows the median total direct compensation for Canadian Chief Executive Officers in 2014

**Table 1 - 2014 CEO Total Direct Compensation**

| Market Cap Group | Total Direct Compensation (C\$) |           |                 |
|------------------|---------------------------------|-----------|-----------------|
|                  | 25th Percentile                 | Median    | 75th Percentile |
| Small            | 120,000                         | 183,601   | 284,130         |
| Mid              | 358,713                         | 592,358   | 1,024,090       |
| Large            | 1,347,205                       | 2,566,013 | 4,583,279       |

Figure 2 shows values for two other traditional summary compensation table elements. *Pension* refers to above-market earnings in, or direct payouts to, retirement or non-qualified deferred compensation plans. *Other* refers to executive benefits and perquisites (e.g., use of the company aircraft) that are not included in one of the other categories. Although the small market cap group experienced a decrease in total direct compensation, CEOs in this group experienced significant increases in pension (57%) and other compensation (28%) in 2014. Meanwhile, CEOs in the medium and large market cap groups saw decreases in these areas.

**Figure 2 - Median CEO Compensation by Market Cap Group for 2014**



**Figure 2** displays median values (in Canadian Dollars) for the four components of total direct compensation, separated by market cap group

## CEO Salary

CEO salaries decreased for the smallest public companies, but increased elsewhere in 2014. The medium and large market cap groups saw salary increases of roughly 5%, while the small group median salary decreased 8%. As a result, we saw a significant increase in the separation of typical fixed cash payments between small and large Canadian companies. As of 2014, the median large cap CEO earned a salary more than four times higher than that of his small cap counterpart.

## CEO Annual Cash Incentive

Roughly 48% of Canadian public company CEOs, primarily in the medium and large market cap groups, earned some form of annual variable cash in 2014. This is a decrease of 8% from 2013, but the general trend of the current decade is an increased focus on tying pay to objective company performance. We expect that the likelihood of performance cash plans will move back above 50% in the coming years.

## CEO Equity Compensation

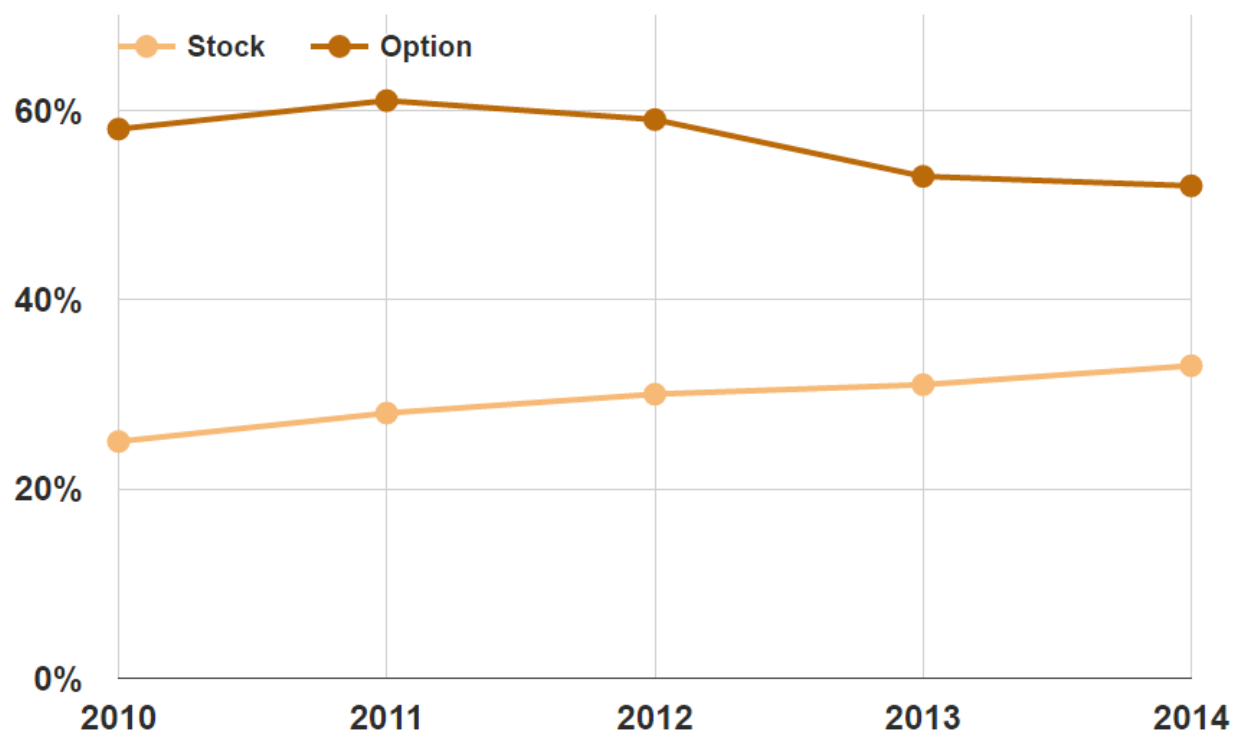
Larger companies tend to pay executives more than smaller companies in all pay categories. That difference is most dramatic when it comes to equity compensation. The median grant-date value of equity awarded to CEOs in 2014 was almost eight times higher for large cap companies as compared to small cap companies. The median value of 2014 equity grants for our large cap company group was C\$1,250,000.

Typical equity grants decreased slightly in 2014 for all three market cap groups

The percentage of CEOs earning full-value stock versus option awards remained flat in 2014. Option awards were part of 52% of CEO pay packages, while full-value awards were found in just 31% of packages.

Figure 3 displays the prevalence of these two equity payments over the past five years.

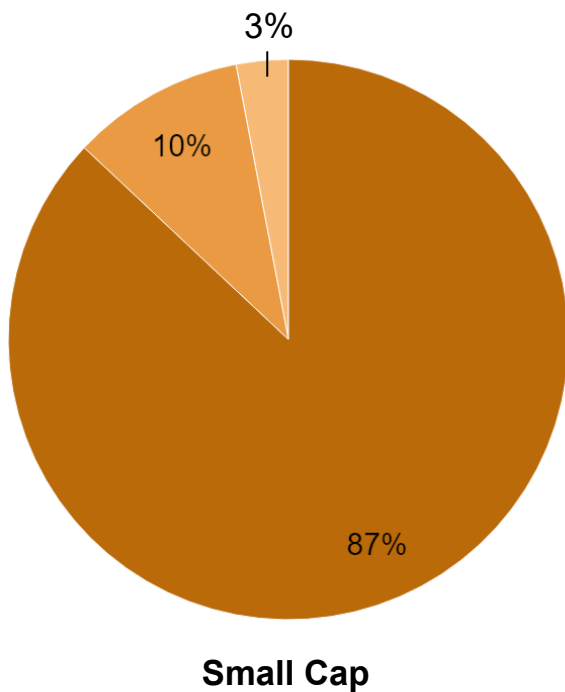
**Figure 3 - Percentage of CEOs Earning Stock or Option Awards by Year**



## Average CEO Pay Mix

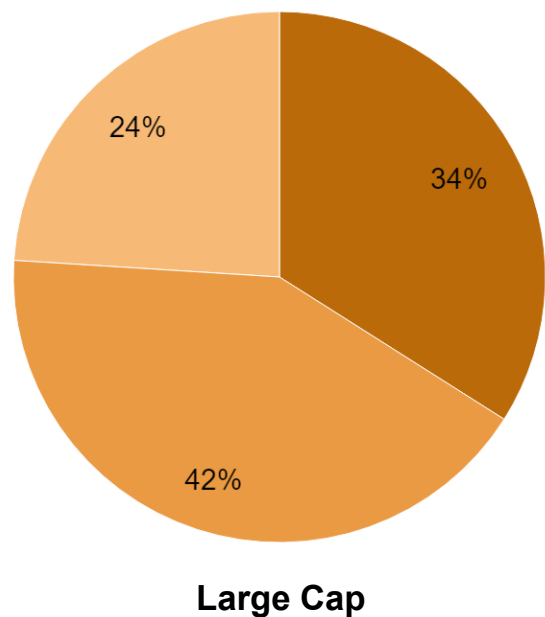
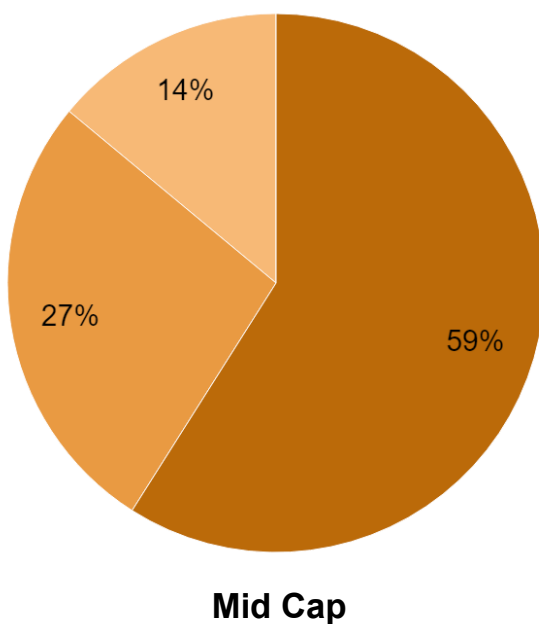
Variable pay, including short-term cash bonuses and long-term equity grants, is a much larger percentage of total direct CEO compensation at larger companies. For small cap companies, the average salary comprised almost 90% of 2014 direct compensation, and variable cash constituted just 3%. For large cap companies, the split between fixed, short-term variable pay, and equity grants was much more even, with equity grants dominating at 42%.

**Figure 4 - Average Mix of 2014 CEO Total Direct Compensation by Market Cap Group**



**Figure 4** displays the average pay mix for CEOs in the three market cap groups for 2014

- Fixed Cash
- Equity Awards
- Variable Cash



Small cap companies have been excluded from this analysis as Directors of organizations of that size are not frequently paid. Directors of both mid cap and large cap organizations saw increases in total direct compensation from 2013 to 2014. The largest increase in total direct compensation (21.5%) was realized by members of the mid cap group at the 75th percentile. Meanwhile, the large cap group saw the smallest increase in total direct compensation (4.71%) at the 25th percentile.

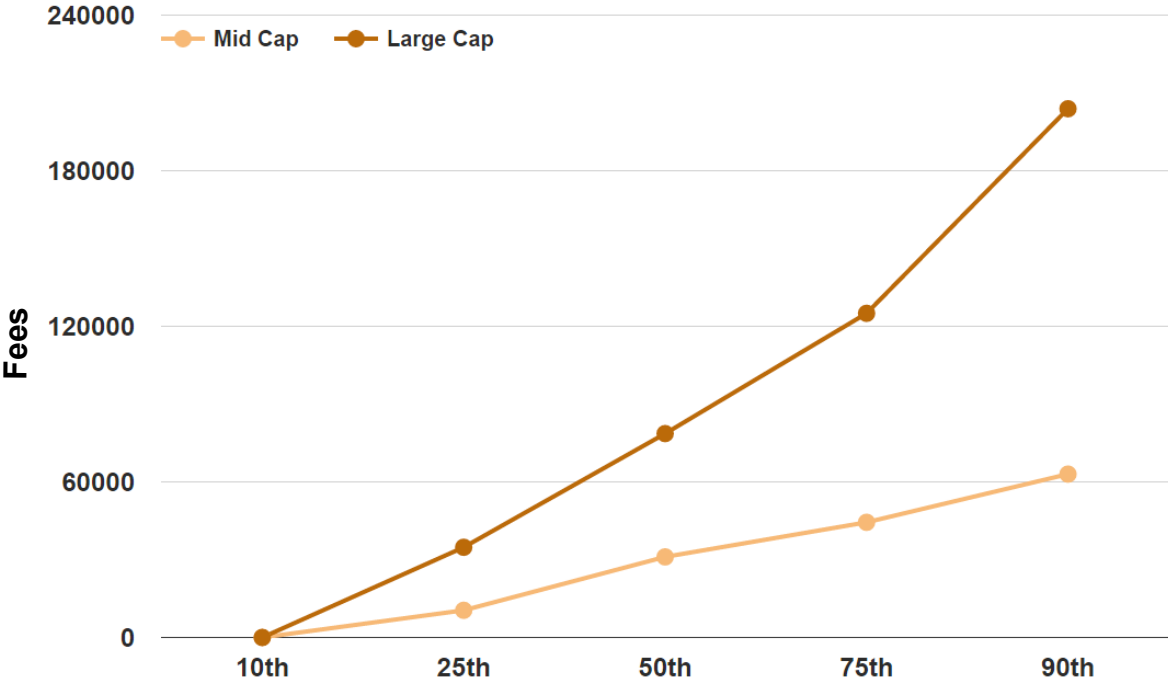
**Table 2** shows the median total direct compensation for Canadian Directors in 2014

**Table 2 - 2014 Director Total Direct Compensation**

| Market Cap Group | Total Direct Compensation (C\$) |         |                 |
|------------------|---------------------------------|---------|-----------------|
|                  | 25th Percentile                 | Median  | 75th Percentile |
| Small            | -                               | -       | -               |
| Mid              | 34,087                          | 52,456  | 101,906         |
| Large            | 113,367                         | 197,500 | 244,766         |

With a 232% difference in fee distribution at the 25th percentile, executives in the mid cap group experience the largest difference in fee distribution from their counterparts in the large cap group. The largest difference of fee distribution within a market cap group occurs between the 25th and 50th percentiles. In the mid cap group, the distribution of fees at the 50th percentile is 197% higher than at the 25th percentile. Additionally, in the large cap group, the distribution of fees at the 50th percentile is 126% higher than at the 25th percentile.

**Figure 5 - 2014 Fees Percentiles by Market Cap Group**



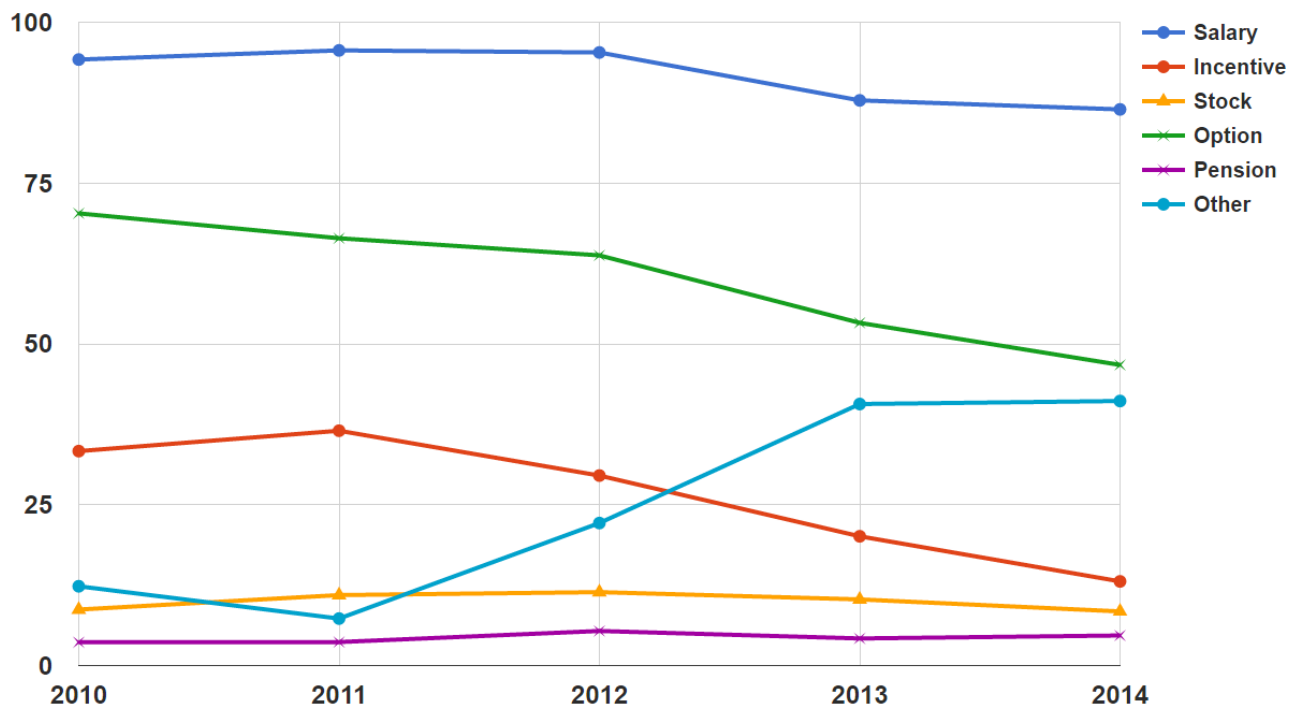
**Figure 5** displays key percentiles describing the distribution of fees by market cap group

# Supplemental Information

## CEO Compensation in the Industrial Metals and Minerals Industry

Figure 6 summarizes how the prevalence of various components of compensation for Chief Executives Officers in the Industrial Metals and Minerals industry has changed since 2010. While many of the components of total direct compensation have decreased in the past four years, the percentage of CEOs who have received stock awards has remained fairly stable. Additionally, the decrease in CEOs in this industry who received option awards aligns with a general trend of decreasing option awards for Canadian CEOs. The most notable difference has been the increase in Other Compensation awarded to CEOs in the Industrial Metals and Minerals industry. As defined above, Other Compensation includes executive benefits and perquisites (e.g., use of the company aircraft) that are not included in one of the other pay categories.

**Figure 6 - CEO Pay Elements in Industrial Metals and Minerals Industry**



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### Canadian Executive Compensation Index – June 2016

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