



IGOPP Calls for Changes to CEO Compensation

Issues Policy Paper Calling for Better Metrics and Balanced Compensation Packages

Montreal, November 21, 2017 – Today, the Institute for Governance of Private and Public Organisations (IGOPP) released its policy paper entitled **Executive Compensation: Cutting the Gordian Knot**. The compensation of CEOs remains a contentious issue and, for the past twenty years, has drawn sharp and unrelenting criticism, much of it justified. At issue has been the fact that the ratio of CEO compensation to the average Canadian worker has increased from 61:1 in 1998 to 140:1 in 2016 (or 184:1 for bank CEOs), with a median compensation package valued of \$8.0 million (\$10.5 million for bank CEOs).

IGOPP notes that most boards of directors have adopted a “standard” compensation system, based on some Generally Accepted Compensation Principles. The current system locks corporations in a mold devised by consultants, generating long descriptions and large compensations, which may satisfy critical observers, but does not achieve what compensation programs should. This ritualized process provides reassurance by virtue of the large number of firms using it; but, as it turns out, many of the assumptions underpinning this compensation system are questionable: for instance, the use of “peer group” as a benchmark of the market value of the CEO, the misleading notion of “at risk” compensation and performance metrics linked to stock price, etc.

“The responsibility for change rests primarily on the Board,” said Dr. Yvan Allaire, Executive Chair of the Board of IGOPP. “Board Chairs and Compensation Committees must remain entirely accountable and responsible for establishing the system of executive compensation designed for their specific company and their particular industry. The goal is to design compensation programs that are fair, sensitive to stakeholder concerns and aligned with the long-term interests of the corporation.”

The policy paper, after reviewing the current state of executive compensation, makes several recommendations to Boards on changing the structure of CEO compensation packages. Furthermore, the paper stresses the need for some sort of forum where chairs of the board and chairs of compensation committees of TSX 60 companies could discuss issues of compensation and agree on some fundamental changes in the system.

The policy paper also calls on Canadian institutional investors to clarify their expectations and their understanding of what forms of compensation will, in their view, support a long-term management perspective, which is a stated goal of their investment policies.

The **[IGOPP's policy](http://www.igopp.org)** paper is available at www.igopp.org

About IGOPP:

Created in 2005 by two academic institutions (HEC Montréal and Concordia University – The John Molson School of Business), the Stephen Jarislowsky Foundation and the Autorité des marchés financiers, the Institute for governance (IGOPP) has become a centre for excellence about governance of public and private organizations. Through Research and publications, Seminars on value-creating governance®, Policy papers and Board evaluation and governance interventions, IGOPP has become a key reference on all issues of governance in the private and public sectors. For more information about IGOPP, visit www.igopp.org/en

For any information or to request an interview:

Majida Lamnini

Director, Strategic Initiatives, IGOPP

514.439.9301

mlamnini@igopp.org

www.igopp.org