

**Executive Compensation:
Shareholders' Legal Rights Should Be Strengthened as
Protection against Excessive CEO Compensation**

**BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in the *Financial Post*
For Publication June 18, 2007**



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1.0. Introduction

In the wake of recent stories about substantive compensation packages, the COMPAS panel of CEOs and business leaders was asked to revisit the issue. The main findings are that:

- ❑ Most panelists believe that shareholder rights on compensation issues should be strengthened under the law;
- ❑ CEOs of public companies continue to be perceived as overpaid;
- ❑ The idea of requiring independent directors to determine compensation was a desirable reform—yet, compensation committees earn relatively poor performance grades from the panel;
- ❑ CEO compensation, ideally a combination of salary and equity, should be tied more closely to company performance than heretofore.

These are the key findings from the past week's web survey of the COMPAS CEO and business leader panel undertaken for *The Financial Post* under sponsorship of BDO Dunwoody LLP.

2.0. Overview of Findings

According to the panel, shareholder rights on executive compensation should be increased, as shown in table 1. These views come at a time when public company CEOs continue to be seen as somewhat over-compensated, as shown in table 2.



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Panelists seem increasingly pleased with the reform requiring compensation to be determined by independent directors on the Board of a public company (table 3). Yet, these committees earn poor grades for their actual performance (54% on a school report card-type scale).

CEO compensation should ideally combine salary and equity (table 5), should be tied more closely to company performance than heretofore (table 6).

The following are some of the verbatim comments provided by respondents:

No one formula is appropriate to all CEOs and all sectors.

CEO compensation is a difficult subject. There are some that have received excessive packages, but that was set up by the Board/Owners at the time that CEO was brought in. More careful thought should be given at that time a CEO is hired to create a meaningful package, estimating the highs and lows under all conditions. Allowing huge packages will not reflect highly on Boards.

CEO compensation should be tied to the company's profit five years later - this would dramatically force the CEOs focus to the longer term, and this incentive income should be the total non-salary portion of their payments. CEO salary levels are far too high - until you consider the incomes of actors and professional sports figures - then you realize that it may not be fair, but it is the market.

The Conrad Black case epitomizes the problems with executive pay and perks.

Executive compensation should definitely be tied to performance. However, there should be some factor included that is based on the sustainability of the company and the long term effect the executives had on the company. Who knows this may slow down the churn of executives from company to company.

If executive compensation is in the form of shares, it should be using escrow shares that cannot be traded for some time.



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That would help assure longer term planning and avoiding the usual pump and dump.

It's easy to criticize executive compensation. The reality is that you need to pay market rates to attract the top talent. A strong equity market has probably inflated the equity component beyond what was intended but trying to suppress compensation based on some kind of retroactive emotive logic isn't going to fix anything.

One thing your survey doesn't take into account is the time over which performance occurs and the relationship of the reward. If the board/committee looks at the longer term, then salary can reflect the CEO's performance over time, and would prevent the Nortel experience of undeserving senior execs getting huge bonuses and the shortly fired. There is too much emphasis on the short term financial impact of quarterly reports and subsequent share pricing. Where is the incentive for longer term strategy and innovation? The Conference Board's criticism is right on.

*Table 1: (Q4) With respect to shareholder rights on executive compensation and other issues, do you think the law should:
[ROTATE POLES]*

	%
Greatly increase shareholder rights	16
Somewhat increase shareholder rights	48
Remain unchanged	32
Somewhat reduce shareholder rights	2
Greatly reduce shareholder rights	0
Don't know/Refused	2



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Table 2: (Q1) So far as you can tell, are the CEOs of public corporations...[ROTATE POLES]

	June 2007	June 2005
Greatly overpaid for what they do	36	25
Somewhat overpaid	35	45
Paid about right	26	25
Somewhat underpaid	2	2
Greatly underpaid for what they do	0	1
Don't know/Refused	2	2

Table 3: (Q2) Under changes to corporation law, CEO compensation should be determined by a committee of independent directors. Which of the following opinions about this requirement is closest to your own: [RANDOMIZE]¹

	June 2007	June 2005
A good innovation that will protect shareholders against compensation-hungry CEOs	48	41
A good innovation but not sufficient on its own to fully protect shareholders against compensation-hungry CEOs	34	47
A poor innovation that is inadequate to address the problem of inflated compensation	12	9
Don't know/Refused	6	3

¹ The wording of the 2005 question began with "Under Sarbanes-Oxley requirements,...".



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Table 4: (Q3) From what you have noticed about executive compensation, what grade would you give board committees for the job they do on CEO compensation? Please use a 100 point school report-card type scale.

Mean
54

Table 5: (Q5) Some people say that CEO compensation should be salary-based to deprive the CEO of an incentive to create short-term profits, real or imaginary. Other people say that CEO compensation should be equity-based because CEOs are hired, after all, to increase shareholder value. Should CEO compensation be...[ROTATE POLES]

	June 2007	June 2005
A combination of salary and equity or stock options	68	66
Mainly salary based	22	23
Mainly equity-based	8	6
Entirely salary based	1	1
Entirely equity-based	1	1
Don't know/Refused	1	4



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Table 6: (Q6) On a 7-point scale where 1 means strongly disagree and 7 strongly agree, do you think that executive compensation should be more closely tied to performance and company results?

Mean	7	6	5	4	3	2	1	DNK
5.6	39	28	13	7	4	6	3	1

3.0. Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted June 13 – 15, 2007. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 126 are deemed accurate to within approximate 8.8 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D. and Tamara Gottlieb.

