First of Two Part Series on CEO Compensation
Part 2 will have more information on CEO Compensation, including the role of SOX and the Effectiveness of Board Controls

Stock Options—CEO Aspirants Want Them While the Institute for the Governance of Private and Public Organizations and the COMPAS Business Panel Have Serious Reservations

Weekly CEO/Business Leader Poll by COMPAS in *Canadian Business* for Publication Week of May 28th, 2012

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1.0 Introduction

Following an announcement by the Institute for the Governance of Private and Public Organizations expressing reservations about stock options for the CEOs of publicly traded corporations, COMPAS consulted the COMPAS business panel for its views.

Panelists, many of whom own their own firms, said that they themselves would overwhelmingly want stock options for themselves if placed in a senior position in a public company (table 2.3). But they have reservations that stock options are good for the companies themselves (table 2.2). A majority of panelists believes that

- stock options increase the possibility of high risk corporate behaviour to achieve short-term inflated stock prices;
- stock options increase the possibility of accounting misrepresentation of the true financial strength of a firm; and
- governments should eliminate all tax benefits (personal and corporate) that favour stock options as a means of compensation

Reservations about stock options come at a time of seeming increased reservations about the pay packages offered to the CEOs of public companies (table 2.1).

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine.

2.0 Details

Table 2.1: So far as you can tell, are the CEOs of public corporations… (%)

	MAY 2012	JUNE 2007	JUNE 2005
Greatly overpaid for what they do	40	36	25
Somewhat overpaid	33	35	45
Paid about right	22	26	25
Somewhat underpaid	4	2	2
Greatly underpaid for what they do	1	0	1
Don't know/Refused	0	2	2

Table 2.2: This week the Institute for the Governance of Private and Public Organizations proposed entirely abolishing stock options as a form of executive compensation. On a 7 point agreement scale where 7 means strongly agree and 1 strongly disagree, how much do you agree with the following opinions?

	MEAN	7	6	5	4	3	2	1	DNK
Board of directors of publicly listed corporations should set what they consider a fair and productive relationship between the CEO's total compensation and median earnings within the firm	5.5	32	33	13	7	4	8	1	1
Stock options increase the possibility of high risk corporate behaviour to achieve short-term inflated stock prices	5.4	28	32	17	9	7	5	1	0

	MEAN	7	6	5	4	3	2	1	DNK
Stock options increase the possibility of accounting misrepresentation of the true financial strength of a firm	5.1	26	25	13	17	7	8	3	1
Governments should eliminate all tax benefits (personal and corporate) that favour stock options as a means of compensation	4.6	27	15	11	11	12	12	10	3
Stock options should be gradually reduced as a means of compensating senior executives, with a goal of eliminating this form of compensation	4.5	21	20	15	8	13	12	9	1

Table 2.3: Suppose you were head-hunted for a new position as CEO of a public company and were asked for your preferences with respect to long term compensation. Which of the following would you most prefer? Please choose one. (%)

Long-term incentive bonuses based on corporate performance measures	73
Long-term incentive bonuses based on judgment of the quality of your leadership	16
Stock options	9
Restricted shares	2
Long-term incentive bonuses based on stock prices	0

The following verbatim comments provide a nuanced sense of respondent opinion:

Canadian CEOs [of publicly traded companies], as a group, are highly overpaid; however, if we legislate this away, all the good ones will become highly overpaid American CEOs.

Sadly, CEOs and their advisers are much smarter than the people who create rules to try and curb CEO and executive pay. It is a real shame that we don't have much of a "shareholding class", who are willing to hold compensation committees to account for having given away the store over the last 20 years.

Canada will not be immune to the Euro collapse. The hole in the boat is on the verge of getting larger and the bailing pail is getting smaller.

You keep asking about the Canadian economy. It will not significantly improve until either the US economy handles their debt, Canada quits propping up a failing US dollar, or a new World Trade currency is created with all other currencies floating against that currency (and not controlled by the US). We go through some turmoil and get the problem dealt with or the US completely defaults on their debt and we have a currency crisis instead of only the US having a deflation, followed by a super Inflation problem. There is no other option.

It seems to presuppose that the norm is overcompensated, "money-hungry" CEOs. CEOs, as all other employees, should be fairly, appropriately and competitively compensated. Yes, there are abuses and, yes, there are unethical, unscrupulous CEOs/executives/board members—and these individuals should be seriously held to account—but we should not lose sight of the shareholder and overall economic value of well-run corporations.

We have lost most of our manufacturing because of the rise in investment in the oil sands, causing a high Canadian dollar, but the USA has recently been found to have many times more oil than the Middle East. The Canadian oil sands are a temporary boost to our economy - not a long term safe wealth generator. We need to invest in new global class innovation in manufacturing - like my own company. We are currently locked in to an imagined permanent source of wealth, which is not what it appears to be.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted May 25 – May 30, 2012. 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 n=76 are deemed accurate to within approximate 11.2 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.