Compensations Surveys

Things they won't tell you

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Would you feel comfortable standing in front of members or regulators and defending your executive pay program?

Would you be able to explain how it works, how it supports your strategic plan and the overall well being of the membership? The following article outlines the challenges of using traditional compensation surveys to answer these questions.

Executive compensation committees often start each year with the same question,"What are other credit unions doing?" It is understandable given today's regulatory environment and the overall public sentiment regarding excessive executive compensation. In the frenzy to obtain the latest salary survey, however, many committees simply overlook the most basic question, **"Is the survey actually any good?"**

High-performing credit unions are often characterized by straightforward compensation programs based on a clearly stated compensation philosophy that demands financial and member satisfaction results. Knowing what other credit unions are doing through competitive data helps to generate ideas, establish pay levels and provides a reference point for ensuring pay designs are within the bounds of market practices.

Unfortunately there is no perfect data source. Some are better at hiding their flaws than others, just as a movie director might use a camera filter to soften an aging movie actor's features. Here are some things your salary survey provider might not tell you.

1. **It's our survey but we outsource it to an outside vendor.** There are plenty of great statisticians out there doing compensation surveys that have no idea what a credit union is. A data dump without a knowledgeable author can lead to more questions than answers. It's like the difference between a bookkeeper and an accountant… A bookkeeper can add a column of numbers and get the correct sum but an accountant can add the same column of numbers and realize that the data might be wrong. Most surveys use self-reported data from participants. As such, the survey vendor collects data, processes data and reports data (rinse, lather, repeat). Many compensation committees have always questioned the validity of a process where executives could over-report actual compensation information in the hope that the results would prove his or her case that he or she is underpaid. An outside vendor simply may not have the experience to question self-reported data, which could ultimately skew final results.

2. **Our 2014 survey is actually based on data collected in 2012.** Data gathering for surveys is a labor-intensive task involving a lot of begging and pleading to get particpants. It's not uncommon for a survey to send out three or four reminders just to generate a reasonable sample size. And that's where the real fun begins. Data analysis, report creation and production take time. So while the cover might indicate it's a current year source, the data could be 24 months old. The impact for you is that you are making current decisions on stale data, which can be risky in a rapidly changing market due to the high number of executive transitions we have experienced in the last few years.

7. We know your asset size doesn't fall squarely into one of our asset bands but we can only present so many asset ranges. Credit unions come in all shapes and sizes, delivery channel strategies, product line offerings, etc.; a big challenge falls upon a compensation committee dealing with a "tweener." In basketball terms a tweener isn't tall enough to be a forward and not quick enough to be a guard. So scouts have a hard time figuring how the player will perform. In credit unions a tweener is a credit union that falls at the top of an asset band. Depending on the number of participants, a tweener could be significantly underpaid if the compensation committee of a $740 million credit union uses the 50th percentile of a survey's $500 to $750 million asset band. Conversely, the executive could receive a big windfall by graduating to the next larger asset band. Either way, a compensation committee must make an educated guess regarding proper placement.

It's particularly challenging for billion dollar credit unions. As of the end of 2013, they were only 207 billion dollar credit unions. One credit union survey we recently reviewed for a client used an asset band of $750 million and above but didn't state how many credit unions fell into the category. Depending on who participated, it could have been a huge windfall for an executive running an $800M organization, but a serious setback for an executive overseeing a $5 billion credit union. Most compensation committees would agree that the skill sets to oversee an $800 million organization may not be the same as a $5 billion one, but that's what this survey would have its readers believe.

Furthermore, some surveys argue that where a credit union is located impacts compensation. D. Hilton conducts a survey every two years to look at the correlation between geography and executive pay. For the last 10 years the correlation has been consistently weak. For those surveys that advocate geographical difference by providing regional data (e.g., Western Region vs. Eastern Region) they would have the reader believe that it costs the same to live in downtown Los Angeles as it does to live in Fresno.

From D. Hilton's perspective, if you are a chief executive overseeing 25 branches you won't be any less desirable to a credit union with 35 branches, yet some surveys would have you believe that a chief executive overseeing the 25 branches should be paid less.

8. We say your data is confidential but there's a chance we might give you away. Survey providers love to use cross tabulations to slice and dice the data for its readers. It's a great way to make a survey look larger than it really is but the usefulness hinges on the number of participants. The general rule is that a crosstab cell should have at leave five participants in order to publish the data. So if you are the only $3 billion organization from Iowa participating in a survey and there aren't any other credit unions your size in that particular survey, it won't take Sherlock Holmes to deduct who you are. D. Hilton has found that larger credit unions have shied away from survey participation because of this potential exposure.

9. Banks love when we report what the average credit union chief executive earns. A recent article reported on the highlights of a credit union industry executive compensation survey, discussing the average CEO pay. The article went on to say this particular survey reported that credit unions with $250 million assets or more tend to pay their CEOs higher in median base salary than CEOs at banks with $250 million in assets or more. Now we have a problem. Bankers had a field day reprinting the article in various bank trade association publications. When we thought we had to defend pay practices to members and regulators now we have bankers chiming in. Thanks to one little word, "averages." Just like the children of Lake Woebegon, no credit union is average.

You don't have to be a statistician to determine whether a salary survey will be useful to your organization or not based on the survey's mathematical methodology used in the report. A reputable survey report will publish its methodology and give an example of how to calculate it. Essentially, surveys that only publish average rates are not very statistically reliable. Weighted averages and percentiles are the most reliable. This is because averages (or means) skew the numbers in favor of either the largest employers or the highest/lowest payers. For example, if you pay at the 50th percentile (median), then you know that 50% of reporting organizations pay less and 50% pay more. There is an inherent impartiality in percentiles and deciles that does not favor employer size or extreme payers.