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Compensation 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 2023 survey is actually based on data collected in 2021. Data gathering for surveys is a labor-intensive task involving a lot of begging and pleading to get participants. 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.

- 3 We may or may not tell you how many credit unions participated but we definitely won't tell you who they are.** While we applaud the commitment to protect participant anonymity, a survey that is not willing to share how many participants are included in the analysis may just be hiding the fact that there are not that many participants. And a survey that will not share the names of the participants can really lead to a situation where the blind are leading the blind. If there are key credit unions you want to benchmark against, using a survey that cannot confirm their participation may lead to a false sense of security.
- 4 This is our 25th annual survey but we really start over every year.** Even though the survey has been produced for a number of years, the process of gathering data starts afresh every year. This is called a convenience sample where credit unions decide to opt in or out. It is our experience that credit unions do not consistently participate in any survey. In fact as credit unions get larger, they generally opt out more frequently due to anonymity concerns. So the survey author must report what he or she gets. In a recent trade association survey, more than 40% of the participants were new compared to the previous year's survey. The question thus becomes did the market move up or down or was it simply a matter of who or who did not participate? A survey unwilling to present trend data also fails to address a key issue for compensation committee who are trying to get gauge the pace of compensation movements as they determine how fast they must address any compensation program shortfalls.
- 5 We matched job titles – you'll just have to guess if they match your jobs.** Many surveys provide job descriptions or definitions during the data gathering phase so that participants can provide data that best aligns with its business practices. Unfortunately these definitions fail to make it into the final report in many cases, leaving the user to make educated guesses about the utility of the data provided. We've found that the degree to which an organizational structure is tall (very few CEO direct reports) or flat (many CEO direct reports) can influence how an executive is compensated. When a survey does not specify organizational design frameworks, a credit union can easily miss the mark on a job match.
- 6 We focus on base salaries because that's all we can get from participants.** Most surveys do not provide information on pay philosophies so there is relatively little context as to why the participants pay what they pay. In the Fortune 500 world, large companies are quick to point out that their chief executives are making a big sacrifice by working for \$1. Lee Iacocca did it. So did Steve Jobs. While a great PR stunt, these men certainly were not paupers given their massive stock holdings. During the economic crisis of 2008 – 2010, some credit union chief executives forfeited bonus payouts, while others did not. It was misleading to lump these two strategies into an “average” payout figure, yet many surveys did. It is reasonable to assume that a credit union with under 7% capital may not be using the same strategy as a credit union with more than 10% capital. In the credit union industry, a compensation committee needs information on pay strategy just as much as compensation data. Do they pay for experience or performance or both? Do they use variable pay? Do they offer base pay with perks? Do they defer monies until retirement? When a survey provides only base salary data, the result is a skewed look at the marketplace. Even a credit union that doesn't offer incentives can benefit from looking at the total cash packages of its peers – in essence, striving to match its base pay to the market's total cash. When a survey does provide data on incentive compensation, one should make sure it provides “target” and not “actual” data. A compensation committee would not want to penalize its chief executive for others' poor performance and vice versa. Identifying target incentive compensation allows a committee to look at what peers were willing to pay and that's what they would be willing to pay your executive.

This article is in no way meant to discredit any survey provider but rather to encourage dialogue among credit unions to demand better data. By asking these tough questions to survey providers, compensation committees will receive more actionable data from which to make decisions. In our opinion, executive compensation committees who are overseeing compensation programs are dealing more with business decisions and less with human resource decisions. If a committee has a better grasp of the market and the nuances of how credit union pay practices are determined, the better opportunity that committee has in meeting its ultimate goal of attracting and retaining the best and brightest executive talent for its membership.



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 2022, they were more than 400 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 15 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 least five participants in order to publish the data. So if you are the only \$5 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.



About the Author

John W. Andrews, CCP, CSCP, SPHR, Executive Vice President, specializes in executive compensation, board governance, sales and variable pay design, market research and strategic planning. Andrews has demonstrated competency as an executive compensation consultant, human resources trainer and strategic planning facilitator.

John has also worked with KPMG Peat Marwick, the Center for Coastal Studies and the National Association of Insurance Women. He has served as expert witness and executive compensation consultant to regulatory agencies such as the National Credit Union Administration, the Pennsylvania State Department of Banking and the California Department of Business Oversight.

John has diversified consulting experience where he has served as an executive compensation and organizational development consultant to numerous corporate, not-for-profit and trade association clients. Not-for-profit clients include the Texas Methodist Foundation, the ELCA Mission Investment Fund, the Texas Municipal League, The City of Yoakum, and The Woodlands Ballet Theatre.

He holds a Master's degree in Organizational Communication from Emerson College, Boston, and a B.S. degree from the University of Tulsa. John has held the Certified Compensation Professional designation of the World- at-Work Association since 1993 and the Senior Professional in Human Resources designation of the Society for Human Resource Management since 1996. Areas of certified competency include Job Analysis, Quantitative Analysis, Pay Structure Development, Performance Manager and Employee Benefits.

John has published articles in The Credit Union Executive, The Federal Credit Union, Credit Union Technology, The Eastern Communication Annual, Today's Insurance Women, The Public Relations Student Society of America Journal and Ball State University's Public Relations Journal. He has served as co-editor for D. Hilton's credit union executive, staff and benefits compensation surveys since 2003.

He has given speeches to the National Association of Federal Credit Unions, the Credit Union National Association, Credit Union Conferences, National Association of Credit Union Presidents, the International Telephone Credit Union Association, the League of IBM Credit Unions, the National Association of Insurance Women and numerous state credit union leagues.



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