



Business Reporting  
for Better Decisions  
by Managers, Investors, Governments and Citizens



HUGESSEN  
CONSULTING

# 18<sup>th</sup> International XBRL Conference

## Executive Compensation – Current Issues (October 2008)

Ken Hugessen  
Founder, Hugessen Consulting Inc.

Hosted by [xbri.us](http://xbri.us)

# Executive Compensation - What are the Issues?

- 1. Leadership - succession & retention**
- 2. Pay for performance**
- 3. Shareholder, public & regulatory demands**
- 4. Underwater equity & unattainable performance goals**

# Leadership - Succession & Retention

- Ensuring incumbent CEO develops successor(s)
- Compensating the first time CEO while containing pay levels and practices
- Retaining runner-ups
- CEO pay multiple relative to direct reports
- High cost of hiring external candidates

# Pay for Performance / Failure

- **Reduce/ Eliminate pay for failure**
  - **Median pay (or better) for chronic underperformance**
  - **Excessive severance pay**
    - **Reward for failure**
- **Line of sight**
  - **Should stock price be the dominant performance metric?**
- **Accountability for risk?**
- **Use of claw backs**
  - **Under what scenarios**

# Shareholder, public & regulatory demands

- **Say on pay**
- **Majority voting**
- **Calls for legislative constraints**
- **Increased Board accountability**
- **Claw back provisions**
- **Increased transparency via new disclosure rules**
- **Limitations on compensation (i.e. 162(m), 409A)**
- **Continuing scrutiny of pay and performance (large institutional investors, proxy advisory groups)**

# Underwater stock options & unattainable performance goals

- **Balancing the need to retain talent with responsible compensation decisions**
- **Pay for failure versus incentive to drive future performance**
- **Impact of decreased equity value on SOG**
- **Misalignment of interests when stock options are underwater versus need for management to have “skin in the game”**
- **Economic rationale versus alignment with shareholder interests**
- **To reset incentive plan goals or not?**

# How might XBRL help?

- **Facilitate competitive pay analysis with greater accuracy and lower costs**
- **More efficient analysis of performance**
  - **Relative measures (capability of reading / converting different accounting rules)**
  - **Easy to identify and analyze the components of performance ratios (RIO, ROA, ROE, EPS)**
- **Increased transparency in reporting due to ability to analyze underlying calculations**
- **Enhance current electronic capabilities (i.e. Equilar)**
- **Increase the scope of organizations that are more efficiently analyzed**