Canada CEO Pay Doesn't Reflect Stock Performance

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TORONTO -- Canadian chief executives' pay packages don't appear to be linked to the stock-market performance of the companies they run, according to a study by the Ontario Teachers' Pension Plan.

The results highlight the need for Canadian corporate boards to do a better job of spelling out what they expect from top executives, said Brian Gibson, the vice president for public equities for Ontario Teachers, one of Canada's biggest pension funds with 96 billion Canadian dollars (US$87 billion) under management.

Mr. Gibson said he was surprised by the finding. In recent years, he said, most big Canadian companies have taken steps to align pay with company performance, in part by offering deferred or restricted share units instead of granting stock options. Such units tie the executive's wealth more closely to investors' returns and can also be paid out only if performance goals are met, Mr. Gibson said.

The study, which looked at 65 large Canadian publicly traded companies between 2001 and 2004, shows that "it's an unfinished job," Mr. Gibson said. Teachers' has been pressing Canadian regulators to require better company disclosure on executive compensation, including more details about the specific performance goals that an executive is expected to meet.

At many companies, "the performance standards are nebulous," which could account for the lack of a relationship between pay and stock performance, Mr. Gibson said. Regulatory filings also fail in most cases to clearly spell out the chief executives' total pay, and require investors to comb through footnotes and then add up different forms of compensation. Just this week, the chairman of the Ontario Securities Commission said Canada's securities regulators are looking at ways to address the issue.

U.S. studies of executive pay have found some correlation between higher pay for top executives and better returns for investors, "although not as much as one would like," said Lucian Bebchuk, director of the Harvard Law School corporate governance program. In the U.S., "there is a similarly too-weak link between pay and performance," Prof. Bebchuk said.

To analyze the data for the Canadian study, researchers compared the percentage changes in chief executives' annual total pay package, including base salary, bonus, stock options, restricted share units and long-term incentive plans. They then subtracted the company's stock price change from an industry median to determine the return to investors, and plotted all of the companies' returns against all of the executives' pay changes.

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