# Using Compensation Studies Wisely

ESOP company leaders face all the usual challenges in setting executive compensation as well as a few that are unique. If you think of a well-constructed executive compensation program as a house, the outside compensation study is one tool that you have at your disposal to help build the house, but you must use the tool appropriately. Some companies treat compensation studies as a hammer and use them to whack every compensation issue that surfaces, while some companies never use this tool at all. The answer is somewhere in between, and this article discusses the proper use of this tool.

This article first discusses why companies use compensation studies, including a brief discussion of how compensation studies tie in to the governance process. It then goes into some detail regarding the types of studies available and what they do and do not contain. From there it discusses the process for selecting among the available studies and for matching jobs to the positions covered in the studies. Finally, it shares thoughts on how to use the data obtained from the study by viewing its use in the broader context of setting compensation, with a special focus on long-term incentives.

## Why Use Outside Compensation Studies?

For this purpose, a compensation study means the use of outside data. This can be data purchased directly from a survey provider or an industry association. Alternatively, a compensation consultant may purchase this survey data or conduct a custom survey for a client. The point is that the company is obtaining objective, outside data to assist in the process of setting compensation. So why use these outside studies?

In general, the natural tension that exists between the board of directors and executives is often lacking in a privately held company, where the board and executives often overlap. This is especially true in ESOP companies, where an executive might also serve as the ESOP trustee and therefore represent the ESOP shareholder as well. The Venn diagram of management, the board, and shareholders is often just one circle. Outside compensation studies help to inject a measure of impartiality into this otherwise closed process.

This does not mean that the outside study can be used as a hammer to simply nail down the governance considerations that arise when there are no outside board members to approve the compensation of top executives—far from it. To begin with, if you look long enough, you can find surveys or use matching criteria to produce almost any compensation you want to see. (This is discussed in more detail below.) Also, even if the study provides a good representation of the company, the compensation committee's meeting minutes should show a healthy deliberation regarding the use of the outside study in the overall process, such as why the study was or was not a good fit, plus other factors the committee considered, such as the executive's efficacy operating in the company's current market environment, competitive factors, and so forth. The outside study is valuable as one tool to be used in the overall compensation setting process, but it is not a substitute for the process itself.

Moving beyond governance, companies simply need to ensure compensation is competitive, and most companies periodically obtain outside data to do this. This is important when recruiting for key positions, making promotions, or maintaining competitive compensation to retain existing executives or outside directors. Here again, the data should be used judiciously. A key recruit may possess valuable industry knowledge or skills that command higher compensation. Alternatively, each company has a unique compensation philosophy. Your company's philosophy may stress performance-based compensation, for example. If so, you may provide a modest base salary paired with an above-market bonus opportunity. Matching the base salary determined by the outside study may then produce excessive total cash compensation (base salary and bonus).

Finally, a compensation consulting engagement with an ESOP company may begin as a more narrow engagement to structure a long-term incentive plan (LTIP). For this purpose, "LTIP" means any compensation arrangement where the amount is earned over a multi-year period or the payment of an amount earned is deferred for more than a year. Examples include stock appreciation rights (SARs), phantom stock units, stock options, restricted stock, and deferred cash compensation, but do not include amounts under a qualified retirement plan such as an ESOP or 401(k). There is market data—albeit more limited—for LTIP awards. However, even if a company obtains good outside study data for LTIP awards, it would be a mistake to use this data alone.

There are three main components of total direct compensation: base salary, annual bonus, and LTIPs. Most compensation studies provide data for base salary and for annual cash bonuses and sum these two components to arrive at total cash compensation (TCC). TCC is simply the sum of base salary and annual bonus. If you add in LTIP awards, you arrive at total direct compensation (TDC). TDC is the sum of TCC plus LTIP. TDC encompasses the three main components of compensation, but it does leave out other items, such as health benefits, perquisites, changes in pension values, and retirement plan contributions. Finally, the mix of pay is the percentage of TDC derived from each of the three main components. For example, if a CEO earned $100,000 of each of the three components, TDC would be $300,000, and the mix of pay would be 33%:33%:33% from base, bonus, and LTIP respectively.

If a company is already providing TCC at the 90th percentile, adding a generous LTIP may well place TDC above the market. On the other hand, if TCC at this company is below the 50th percentile (median), a mid-level or higher LTIP award may be necessary to ensure TDC is competitive. Hence, one should start with the more fundamental question of where the company is today versus TDC or where it wants to be. If the company has not obtained an outside study recently, it should broaden the scope of its inquiry to understand how the LTIP award fits within its compensation philosophy, how it shapes the mix of pay, and where it places the company on TDC.

## Types of Studies

I am unique, just like everyone else. We all hear this phrase or some version of it, but when it comes to compensation studies, it generally is true. It is important to discuss the main types of studies and the suitability of these studies for a company that, like most ESOP companies, is privately held.

### Custom Studies

The first type of study is the custom study. This is most often performed by a compensation consultant. Sometimes a company commissions this study, and sometimes a group of companies in an industry commissions the study. A group of companies in a niche industry may feel that the broader studies do not reflect their unique characteristics and may commission a consultant to survey a carefully selected group of privately held companies. Care is needed here to ensure this endeavor does not amount to a restraint of free market pricing. Be sure to consult your legal counsel if you undertake this type of study. Such a study will likely yield very pertinent results— particularly for base salary—in a narrow industry or in an isolated geographic region. For executive bonuses and LTIPs, however, the customization of this narrow survey may be less helpful as each company will still have its own compensation philosophy and operating dynamics.

Contrast the custom study for privately held companies discussed above with the public company practice of building a peer group of other public companies. Public companies often set a peer group of 10 to 20 companies similar in size and industry focus. The compensation consultant then uses proxy search engines to quickly build a custom study showing base salary, bonus, and LTIP values for this peer group and showing how the client company compares to the 25th, $50^{th}$, and 75th percentiles in the peer group. Most public companies are required to report compensation for the CEO, CFO, and next three highest executives (collectively, the named executive officers or NEOs) in a standard format in the Summary Compensation Table as part of their annual proxy filing, so this facilitates ready comparisons. Public companies also disclose the amount and types of compensation paid to their directors. Even the LTIP is reported in a prescribed fashion based on the grant date fair market value, so public companies have some measure of comfort that the data they are viewing are mostly on point.

Should privately held companies employ this approach of building a peer group of publicly traded competitors? Maybe or maybe not. The primary rub here is that most ESOP companies are smaller than most public companies. For example, in the NCEO's 2019 survey of executive compensation at ESOP companies (the "2019 NCEO survey"), 62% of the survey respondents had annual revenue of $50 million or less. This is well below the revenue of most public companies. One certainly can find public companies in a similar or related industry in this revenue category, but the sample size is often small. Many proxy search engines use regression analysis to adjust the results from the sample to the company's actual revenue. Regression analysis is used to show how one variable (e.g., compensation) moves in relation to another (typically revenue). In my experience, you can use regression analysis to "bring down" the broad industry results to a small level of revenue, but when you step back from it the results sometimes seem off. This is likely due to a lack of sample companies on the bottom end of the revenue spectrum from which to draw appropriate comparisons.

For larger privately held companies, the public company peer group approach works better, but even here it has limitations. It is often said that pay differences in privately held and public companies are narrowing, and this may be true, but there is still a significant difference in the mix of pay. A compensation consultant can employ two or three databases when benchmarking compensation for a given client and take some average of these databases using his or her judgment to arrive at a figure for "market" compensation for a client company. Some of these databases might have a majority of privately held companies, and some might have a majority of public companies. Often, the base salary for a CEO at a mid-market company (e.g., with $250 million in revenue) is similar in the privately held and public databases, and sometimes bonuses are comparable as well. LTIP amounts, however, are often significantly higher in public companies, so TDC (the sum of base, bonus, and LTIP) is much higher in a public company database. This is no surprise, because public companies use their equity as a compensation currency and to stress long-term performance.

This is not to say that the public company peer group approach has no merit for privately held companies, but it should be used judiciously. Privately held companies sometimes want to specifically review the proxy filings of certain public competitors to understand how the public company structures its annual bonus goals or LTIP parameters. Larger privately held companies may indeed compete with public competitors for key executive talent, and in this case such information is valuable.

If a company wants to build a mock peer group of public company peers, a general rule of thumb is to limit the comparison companies to those with revenue from one-half to twice the company's revenue. For example, if a privately held ESOP company has revenue of $100 million, the public company peer group would generally be limited to companies with revenue from $50 to $200 million.

One advantage of considering public companies is that the ESOP company can compare its operating performance (e.g., EBITDA margin or total shareholder return) to the same metrics that are available for the public peer group. This provides a great way to assess the company's performance relative to industry peers. As an example, sometimes a company might say "we're a 75th percentile company." By comparing to actual industry data, a company can get an idea whether this general feeling is true, and this can help a board determine whether to target a 75th percentile compensation result. As always, the public companies might not be true competitors and often have a larger scale of operations, but this does at least provide one point for objective comparison.

**Published Compensation Studies**

In addition to custom studies using a peer group of either privately held or public companies, there are published compensation studies. These include industry-specific studies as well as broader studies. Companies can often obtain this data at a reduced cost by participating in the desired survey. Absent survey participation, companies can avail such data in several ways: (1) purchase the data directly from the survey provider at a higher cost, (2) directly hire the survey provider to consult with the company using said survey, or (3) hire a third-party compensation consultant who has purchased such surveys. Between industry consolidation and survey providers wanting to engage directly with clients, the amount and quality of data available for purchase as a non-participant or through a third-party compensation consultant seems to be shrinking.

Many ESOP companies often start with the study produced by an industry association since they may receive this as a free benefit of membership. These studies are helpful in that they often contain industry-specific job matches, such as a national accounts executive for an advertising agency. They might also convey broad industry trends in structuring compensation, such as pay premiums for hot skills in the technology consulting industry or common bonus metrics used by other engineering firms. Their downfall is often in sample size, especially when selecting bands based on revenue, employee size, or geography. Such studies almost never include LTIP information. There is no mandated format for privately held companies to report LTIP information, and as a result most survey providers do not attempt to collect this information. Consulting firms also conduct and publish surveys particular to a given industry. These are similar to the association-produced surveys, only they must be purchased—sometimes at a reduced cost for survey participants.

The next type of study is the national study produced by consulting firms. For many of these surveys, most respondents are public companies. It is important to understand the underlying demographics of the participating companies since this will influence the published results. National studies typically have a larger sample size than industry-specific studies. Most national studies allow one to adjust for industry, location, and company size by revenue or number of employees, but as with studies from industry associations, you might end up customizing the results until you end up with a smaller sample size than desired.

Some national studies do not include LTIP information, but some, particularly from the large compensation consulting firms, include LTIP information. It is important to understand the context of the survey to interpret the LTIP results. If the survey is mostly comprised of public companies, the LTIP information will likely yield larger LTIP results than seen at most ESOP companies because public companies emphasize equity heavily. Some consulting firms publish LTIP information specifically for privately held companies, but the smallest revenue cuts in some of these surveys are still too large to foster meaningful comparisons for some ESOP companies.

Finally, the 2019 NCEO survey mentioned above contains salary information for eight executive positions as reported by 421 ESOP companies. The 2019 version of this survey also includes information for board compensation, including for inside directors (i.e., employees), outside directors (i.e., independent), and affiliated directors (i.e., someone who is not a current employee but who has some tie to the company, its employees, or its owners). For executives, the survey includes base salary, bonus, and LTIP values. For directors, the survey includes retainer values, meeting fees, interim meeting fees, committee chair fees, and even LTIP values.

## Selecting Studies and Matching Positions

Suppose you are an ESOP company seeking compensation data. If you are not using a compensation consultant and are purchasing the study data directly, the first issue is whether any one study can accurately portray your company. Most studies have one or more weaknesses when set against your company, such as lacking data for certain positions you wish to benchmark, a lack of comparable companies within your industry, and so on. You may end up using two or more studies, picking studies so the strengths and weaknesses of one study are offset by another where possible. Sometimes you might use a simple average of the datasets and sometimes a weighted average. For example, you might use an industry study as one point of comparison and a broader national study to yield a larger sample for companies of your size.

Once you have identified the appropriate dataset(s), the next task is to match your executive— often called an incumbent—against a similar position in the dataset. Be sure to focus on the job role and description here and not the title. As an example, some controllers function as CFOs, and some CFOs function more as controllers. Some studies will also provide detailed job matching information, such as the scope of revenue responsibility for a division president. Match your incumbent's responsibilities with the studies' descriptions as closely as possible. As a rule of thumb, a job match is considered adequate if 70%–75% of the incumbent's core responsibilities are captured by the matching job description. If your incumbent functions in more than one role, you can consider creating a hybrid role that is a blend of roles in the study and weight the reported compensation figures appropriately, but this can be subjective.

Any of these approaches require judgment, but this is the inexact science of setting compensation. Even with a perfect job match in a seemingly perfect survey, the reported compensation figures should be the starting point for the committee's deliberations. Your incumbent will differ in some respects versus those comprising the sample in the survey (tenure, experience, competitive environment for this position in your industry, and so on).

If you hire a compensation consultant, you should still work closely with the consultant to understand their methodology for this process. The consultant should ask you foundational questions before beginning the job matching process, such as:

- What are your objectives for benchmarking this position?(immediate retention risk, ensuring internal pay equity among employees, simply ensuring compensation is competitive, etc.)
- Is there anything unique about this position or incumbent? (special skills, special value to your company given your industry)

Also, be sure to understand the important facets of the studies used by the consultant, such as methodology, sample size, and so on. These should be disclosed in the consultant's final report.

## How to Use Study Data

Armed with the results of the outside study or studies, you are now ready to consider the results. Start by revisiting your compensation philosophy. What is your target for compensation? Do you have a target? How much is enough, anyway? How does the ESOP play into the compensation equation? These are not easy questions.

Public companies have to disclose a lot about their executive compensation program in their proxy filings, including both numeric results and philosophy. Although privately held companies are not required to articulate a written compensation philosophy, this is a best practice that actually helps both the company and the compensation committee as they work through these issues. It is not the written philosophy statement that matters, but the deliberation process. The philosophy is just that, a philosophy. It should not be overly rigid. You will sometimes have to go outside of the philosophy to bring in a key recruit, for example.

Whether you have a written compensation philosophy or not (most ESOP companies do not, in my experience), you likely have compensation targets in mind. You should consider your targets for base pay as well as TCC and TDC. In my experience and from prior surveys of ESOP companies, many ESOP companies strive to pay a competitive base salary that is slightly below or at the median. This squares with my experience with non-ESOP companies as well. Most companies see no reason to pay base salary significantly above the median. As always, the general prescription is not for everyone. A recent ESOP-owned government contracting client relayed that they have to rely heavily on base salary because bonuses factor into their overhead rates and make them look less competitive when bidding on contracts.

Nonetheless, most companies prefer to let performance-based pay drive compensation above the median. In prior surveys of ESOP clients, 72% of the companies targeted TCC (base pay and bonus) above the median, and most of these wanted TCC to be between the median and 75th percentile.

The important point here is not to look at study results for base salary, for example, in isolation. If you emphasize a performance-based bonus, your base salary might be low compared to the study results and your bonus might appear high. When you look at TCC, however, you could be reasonably positioned versus the study results.

The study results for base salary, bonus, and TCC will be easier to interpret. The results for LTIP and for TDC (TCC plus LTIP) will likely be tougher. The LTIP information may be lacking altogether or based on a small sample size. There are a couple of ways to address this, though none is perfect.

One way for ESOP companies to address this is to choose the studies that best represent their market and use these studies to gauge base, bonus, and TCC. The 2019 NCEO survey may be one of these studies used for TCC or it may not, but it can then be used to consider LTIP values. Is it mixing apples and oranges if the 2019 NCEO survey was not used in developing TCC? Yes, but in an imperfect world we sometimes have to use imperfect solutions.

Most ESOP companies say they do not compete against other ESOP companies for executive talent. There are exceptions, of course, but this is what one generally hears. ESOP companies need to use the best data they can obtain for their industry, region, revenue size, and so on. Once this is done, LTIP information is usually still needed. Although ESOP companies do not generally compete for executive talent, they do share a common capital structure, and this is punctuated by the trend toward majority—and often 100%—ESOP-owned S corporations. These companies have little or no direct equity to grant via LTIP programs, they each have a repurchase obligation to monitor that is exacerbated by monetizing LTIP payouts under synthetic equity grants, and some of them are constrained in their LTIP practices by the Section 409(p) anti-abuse rules. Also, ESOP trustees tend to look at the aggregate value of these synthetic equity LTIP awards, and the pool size for these awards also tends to center around a normative value of 10% to 15% of fully diluted equity.

Collectively, these unique considerations tether ESOP companies to certain types of LTIP practices. Although the LTIP amounts can vary greatly, the LTIP vehicles tend to be phantom stock and stock appreciation rights. In one sense using the LTIP values reported in the 2019 NCEO survey is life imitating art. That is, if all ESOP companies grant the LTIP values reported by other ESOP companies this, in turn, further defines the LTIP market for ESOP companies. Nonetheless, ESOP companies are very interested in what other ESOP companies do with respect to LTIP grants, and this no doubt stems from the desire to "do right" by ESOP participants as well as fiduciary concerns.

Another survey is the U.S. Mercer Benchmark Database-Executive. In this study, Mercer has pulled in a large amount of data to analyze the typical LTIP for executives based on the level of base pay. The analysis does not look at position (e.g., CEO), company size, or industry. Instead, it simply tracks the typical LTIP among those who did receive an LTIP award and correlates this to base salary. The result is an LTIP built on a large sample size. For example, in one version of this survey, for someone earning base salary between $150,000 and $175,000, there were over 3,000 observations used to calculate the reported LTIP value. There are even results specific to privately held companies. Like all outside studies, using this one requires judgment, but it is one more tool to use.

## Special LTIP Considerations

Once you have decided on the LTIP values to use from outside studies, you can now judge the picture for TDC as well as the overall mix of pay. Consider how the anticipated LTIP grant will influence your overall mix of pay and whether this squares with your overall compensation philosophy. On this note, the compensation committee should think carefully about the design of the overall program, including the performance thresholds required for executives to receive an LTIP grant. If you have a written compensation philosophy, include this information. Either way, be sure to document these deliberations in your meeting minutes. Such documentation helps evidence a reasoned process and shows that the committee thought about the tie between the executives' efforts to earn the LTIP and shareholder value.

Another planning issue that is rising to the fore is the need to integrate the compensation philosophy with the ownership philosophy, and this affects both the annual bonus and the LTIP. For example, I worked with a company that was owned in part by an ESOP and in part by other employees who held shares directly (direct shareholders). The company had an ownership philosophy that would seek to continue this structure, but for this to happen a new group of direct shareholders would need to step into the shoes of the retiring direct shareholders. The company hoped the next generation of direct shareholders would purchase the shares of the retiring direct shareholders, but bonuses were down and employees simply didn't have the wherewithal to purchase more shares. This was an example where the compensation philosophy and ownership philosophy were not in sync. Part of the issue was solved with a compensatory LTIP where recipients had to earn restricted shares based on company performance. All of these scenarios needed to be evaluated in the context of anticipated company performance to gauge employee bonus values (cash purchasing power), share values (cost to buy out direct shareholder and value of LTIP grant), and a net expansion or contraction in outstanding shares.

What about the ESOP itself? This is a polarizing question. Companies often ask whether the ESOP should count as part of the LTIP bucket when considering the three main components of pay: base salary, bonus, and LTIP. In my experience, and based on a survey of some ESOP clients, most companies do not attempt to count the ESOP as a long-term incentive. It is a retirement plan, and it represents ownership. A minority of companies will factor the ESOP directly into their LTIP calculations, however.

Although the ESOP normally does not offset LTIP grants directly, ESOP companies must consider the ESOP when making LTIP grants. They need to consider both the repurchase obligation for the ESOP and the future cash outlay for any phantom stock and SARs. They also need to ensure that executives appreciate the ESOP's contribution to their total compensation and retirement package. Multiple studies show that ESOPs provide an average benefit that is significantly higher than the average benefit provided by non-ESOP plans (e.g., 401(k) or profit-sharing plans). ESOP companies must consider this higher benefit in both their cash planning and in their communications with executives.

On that note, a lot of ESOP companies struggle to derive benefits from the ESOP message during the recruiting process; new recruits simply do not appreciate the ESOP because they have never seen one and discount the stories they hear about its success. Even worse, these recruits often have other equity awards that may provide cash before the pay-at-separation ESOP. This leads some ESOP companies to design their LTIP awards as more of a mid-term award to provide a bridge between the annual components of base salary and bonus and the pay-at-separation ESOP.

Another recommended practice, especially for new LTIP programs, is to consider how you will calculate the targeted grants and consider how these awards affect the annual valuation. Phantom stock grants are easier than SARs. Consider an example where a company uses outside studies to determine that it wants to provide an annual LTIP grant worth $50,000 to the CEO. Assume the units vest and are paid five years from the date of grant. If the most recent share price for company stock, as determined by the independent appraiser, is $100 per share, the company would grant 500 phantom stock units (500 x $100 = $50,000) to the CEO. But what about SARs? How many units should be granted today to be worth the $50,000 target? SARs are an appreciation award, similar to stock options, and technically they should be valued for accounting purposes using the Black-Scholes or a similar lattice or binomial model. Such models are sometimes seen in privately held ESOP companies, but they can be difficult to apply given the lack of share price points.

If you grant cash-settled awards such as SARs, you must amortize the value of the award over the service period during which the employee earned the award. Intrinsically, appreciation-based awards such as SARs have no value at grant if the grant price is fair market value (which is normally the case). Although there is no intrinsic value of an appreciation-based award granted at fair market value, other key factors in these option-pricing models contribute to the present value determination, including the term (how many years they can be exercised), the risk-free interest rate (to measure the value of alternative uses for the money), and the volatility of the underlying stock. Often, the grant-date present value ends up in the range of one-third of face value, but with a lot of variation. One often-confusing factor is that the higher the volatility, the more valuable the award, because it can be exercised at a high point and ignored at a low point. Less volatile stock has lower highs and (ignorable) lows.

A key assumption for all such option-pricing models is volatility. These models were designed to analyze hundreds or thousands of data points for share prices as found in public companies. Even a mature ESOP company may only have 25 years of appraisal history, so this is a non-starter from a statistical validity perspective. One approach is to use the volatility of an industry index of public peer companies. Your accountants will work with you to value the SARs from a financial accounting perspective, but that is not the focus here. The purpose in mentioning this issue is to consider how a certain number of SARs will be communicated to executives as delivering, for example, $50,000.

In short, it is more difficult to calculate the precise value of a SAR at grant. The models used by your accountant and/or appraiser to do this, however, provide a reasonable approximation of how these compare to phantom awards. In general, companies issue two to four times more SARs than phantom awards to reflect the fact that SARS have no intrinsic value at grant.

One best practice is to work with your independent appraiser to develop a long-term valuation model that considers the impact of the LTIP awards. The cash payout of the LTIP awards will reduce corporate cash flow and have some impact on future share value. Your appraiser can help you understand how your chosen LTIP awards will impact the valuation and can also shed light on the anticipated future value of these awards. In many cases, companies grant a number of units anticipated to deliver a given amount (say, the $50,000 figure used above) using the results of the iterative process with the appraiser. For example, if a company worked with its appraiser and determined that today's $100 share price at grant would grow by 10% per year, the share price in five years would be roughly $161, yielding a spread of $61 per unit (i.e., $161/unit at payout less $100/unit at grant). It would take a grant of approximately 820 units (i.e., 820 x $61 = $50,000) today to be worth $50,000 in five years (ignoring present values).

Finally, once you have determined the number of shares or units to grant to an individual executive, consider the total number of shares or units that will be needed under the entire arrangement by summing the LTIP values derived for each executive. Most LTIP documents will authorize a total number of shares or units that may be granted under the plan. These plan documents may certainly be amended if you underestimated the number of units needed, but the ESOP trustee will want to consider whether the aggregate value of the LTIP is appropriate considering the ESOP shareholder.

In setting the total number of shares or units under the entire LTIP, consider the number of executives covered today, likely promotions, and needs for attracting future recruits. Allow a cushion for unforeseen needs and definitely allow a cushion if you use appreciation-based awards such as SARs. The number of SARs you grant each year will depend on your expectations for future appreciation. If you grant 820 units today assuming a 10% annual appreciation rate, you would need to grant more than twice as many annual awards at a constant 5% annual appreciation rate.

This is the bottom-up approach, where the LTIP pool is built using the appropriate individual award amounts determined via the processes discussed in this article. By contrast, in the top-down approach the LTIP document would simply authorize units equal to 10% of fully diluted equity, but this may happen before the compensation committee has ascertained whether this number of units is sufficient to deliver the individual award amounts.

## Conclusion

Setting compensation is an inexact process. Compensation studies are one tool ESOP companies can use to assist in this process, but they should be viewed as a mile marker and not an exact GPS coordinate. Compensation committees should understand the suitability of each study they use and should document their discussions surrounding the selection process for the studies. They should also document their ultimate decisions for adjusting compensation using the study results and other factors unique to each incumbent position. Long-term incentive plans are the most difficult compensation component for privately held companies to benchmark using outside studies. Compensation committees should evaluate long-term incentive results considering the resulting mix of pay and the ending total direct compensation and consider these awards in the context of their overall compensation philosophy. Integrate the long-term incentive awards into your valuation model and ensure they align with your strategic growth plans. Also, consider whether the compensation philosophy and ownership philosophy are mutually supportive, and do this in the context of the company's strategic plan. Despite some shortcomings, outside compensation studies are a valuable way for ESOP companies to introduce outside data into a sometimes closed compensation-setting process.

## About the Author

Matt Keene leads Chartwell's executive compensation practice. He works with privately-held companies to obtain relevant pay data and achieve key goals for compensation programs, with a special focus on ESOP companies and equity-based incentives. His passion is helping companies implement successful ownership transition strategies while aligning shareholders, executives, and employees in the achievement of mutually beneficial outcomes. For over 30 years, Matt has worked with companies on all aspects of qualified and non-qualified plan origination, operation, and termination.