

Executive Summary

Study on Compensation Practices and Policies of the Board of Directors (BoD), the Executive Board (EB) and Senior Management (C-1) of listed and large unlisted companies in Switzerland

The study on compensation practices and policies of the Board of Directors (BoD), the Executive Board (EB) and Senior Management (C-1) of listed and large, unlisted companies in Switzerland was conducted by the Center for Human Resource Management at the University of Lucerne in the fall of 2016. The goal of the study was to investigate, using a structured questionnaire, the important features of compensation practices and policies delving deeper behind information that is publically available. The study focused on three pivotal compensation features: internal and external fairness and fair positioning in terms of company success (1). Consequently, the following aspects were explored in the questionnaire: total compensation structure, criteria for determination of compensation, performance evaluation criteria, determinants and structure of variable compensation, policy monitoring and assessment, internal consistency and external market positioning, the alignment of the compensation policy with the company and HR strategies, as well as governance. The final sample consisted of 41 companies (response rate = 8.3%). Based on the questionnaire data collected and in-depth follow up interviews that were conducted in early 2017, the Swiss Institute of Directors (www.siod.ch) nominated three companies with exemplary compensation policies and practices.

Key findings

- **Pay determination criteria:** Compensation of the BoD is determined mainly by the value of the position and fairness in terms of what the relevant market offers (benchmarking). Organizational performance is the most important determinant of EB compensation; in the case of senior management compensation, all four factors (value of the position, benchmarking, organizational and individual performance) are highly important.
- **Variable pay** is seen as an important component of compensation of the EB and senior management, but not of the BoD. The variable pay accounts, on average, for 45% of total CEO compensation. For both the EB and senior management, individual performance based variable pay is the most frequently used, followed by short-term profit sharing schemes, stock ownership programs and long-term profit sharing schemes.
- **Performance evaluation** is much more important for the EB and for senior management than for the BoD. The vast majority (93%) of the organizations have a formal performance evaluation system for the EB and senior management and they evaluate individual goal achievements at least once a year (88%). Moreover, the majority of the organizations evaluate the individual behavior that underlies goal achievement for the EB (81%) and for senior management (85%).
- **Determinants of variable pay:** In over 60% of the organizations, the variable compensation of the EB and senior management takes into account performance relevant risk factors. In 63% of organizations as far as the EB is concerned and in 50% of organizations as regards senior management, the bonus program is activated only if the company's performance exceeds a predefined value. In 38% of organizations, above average variable pay of the EB is only paid if the company's performance exceeds the performance of its relevant competitors.
- **Policy monitoring:** Whereas 44% of companies indicate that they review the BoD compensation structure annually, as far as the EB and senior management is concerned, it is 66% and 60%, respectively. About half of the organizations review fairness of EB and senior management compensation compared to relevant competitors annually, while only one out of four companies does this for the BoD.
- **Internal versus external fairness:** Over 80% of organizations strive for internal and external pay fairness for the EB and senior management. However, this proportion is much lower for the BoD (53% for external and 63% for internal fairness). 75% of organizations have a clear strategy as to how much should be paid to senior management compared to how much their competitors pay. This proportion is lower for the EB (66%) and much lower for the BoD (37%).
- **Strategic alignment and governance:** In most of the organizations (93%), the responsibilities among the General Assembly, the BoD and the EB for compensation policies are clearly separated, while in three out of four organizations, the compensation policies of the BoD, the EB and employees are aligned to each other.

(1) "Neues integriertes Konzept der VR-, GL- und Personal-Honorierung", Haupt-Verlag, Bern 2017