The Ultimate Market Pricing Glossary

101 Key Terms & Definitions

Dartican

About This Document

The Ultimate Market Pricing Glossary provides a foundation of knowledge for the terminology used in today's compensation arena related to market pricing. Developed from years of experience and collaboration with several contributing authors working in the field, we think you'll find this to be a helpful resource for someone new to the field.

Organization and Navigation Tips

The basic structure of this glossary is that it has been organized so that terms are grouped together logically so that similar topics are near one another. There are eight main groupings:

1. Compensation Philosophy
2. General Background Terms
3. Salary Surveys
4. Beyond Base Compensation
5. Labor Market Economics
6. Statistics
7. Using Market Data
8. Executive Compensation

There is also an alphabetical listing of all of the 101 Terms and hyperlinks to quickly and easily navigate to a specific term.

When all else fails, there is always "Ctrl + F" key combination to search for specific terms.

About Dartican

Dartican LLC's compensation management software was developed for HR professionals by HR professionals. CompAccelerator is designed to solve the problems that you face every day. Deliver the actions you need, on the layout you want, with the calculations you need, all in a fraction of the time. Schedule a demo today and see how sophisticated functionality in an easy to use interface can save your team time, stress and money.

For more information, please visit our website.

Compensation Philosophy

Every organization has a compensation philosophy, whether they know it or not. For Market Priced organizations, a compensation philosophy is very important to articulate as this sets the foundation for how market pricing tactical decisions should be made.

The following seven terms describe the market pricing specific aspects of a firm’s compensation philosophy.

Compensation Philosophy

A compensation philosophy is a statement from senior leaders that becomes the backbone for every compensation program. A philosophy guides decisions on what gets rewarded. There's no such thing as the “right” compensation philosophy, but rather, organizations determine their philosophy based on the fit with the mission, vision, values and business strategy.

Tip:
Focus on "fit" when developing the compensation philosophy and use it as the acid test for designing and administering compensation programs.

Externally Competitive

The amount of pay that an organization needs to deliver to attract and retain the talent needed. Market pricing is all about being externally competitive.

Internal Equity

Internal equity is the perceived fairness within a company that jobs (or people) are being paid equitably based on their level of contribution to the company.

Tip:
In every organization, there is a balancing act between internal equity and external competitiveness. However, in market priced organizations, the scale is tipped in the direction to show that external competitiveness is the primary concern.

Market Positioning

Market Positioning is a key component of a compensation philosophy. There are three different positioning statements that are used: lead the market, lag the market, or lead-lag. All three statements guide compensation analysts on how far forward to age survey data.

Lead the Market

Leading the market means that the wants to stay ahead of the pack and they choose to age their market data forward all the way to the end of the plan year. Organizations with this philosophy are most concerned with attracting and retaining people and don't want to have a little thing like money get in the way.

Lag the Market

Companies who "Lag the market" set their structure to be competitive at the beginning of their plan year. Accepting that markets likely will grow throughout the year, the company will fall behind, or lag, the market.

Lead-Lag Market

A lead-lag market position, means companies set their philosophy to be ahead of the market for the first portion of the year, but they expect the market will grow beyond their structures and they will fall behind (lag) at the end of the year.

General Background Terms

The following ten terms are general compensation terms and concepts that are foundational in nature.

Compensation Intelligence

Analysis that goes beyond regurgitating the numbers found in surveys. Compensation pros aspire to provide insights and actionable information that help the business achieve objectives. Get to the "story behind the story" of your market data, and you have achieved compensation intelligence.

Emerging Markets

Labor markets that are just beginning to perform defined work activities. Survey data in emerging markets is scarce. Employers need to adapt their analysis techniques in these markets. Also, survey vendors operating in emerging markets may modify data collection and reporting outputs. A survey vendor that specializes in emerging markets globally is The Birches Group (www.birchesgroup.com).

Job Family

A job family is abroad collection of jobs sharing similar accountabilities. Examples of job families are: Finance, Engineering, Information Technology, Marketing, etc. Focus on the nature of the work and accountabilities when categorizing jobs into Families... not where the job fits on the organization chart.

Market Composite
The single data point derived from combining multiple survey data points. Data from each survey may be adjusted for age, degree of match, or relative weighting.

Market Pricing Software
Compensation analysis software designed to manage and administer survey data and analysis of a company's pay practices. The more the market pricing software is integrated with other talent management activities, the better. Visit www.knowledgepay.com for more information.

Market Rate
A single number referenced from the surveys reflecting what people earn for a job. This single number usually represents the company’s philosophy such as the average or median.

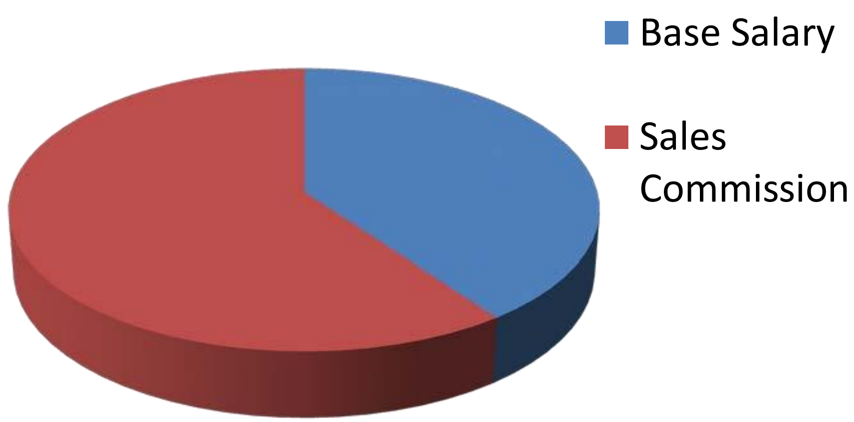
Market Reference Point
Also known as a Control Point, this data point represents an organization's view of the going market rate for someone who is fully functional and meeting expectations. The term gained popularity as organizations adopted broad banded salary structures. The dollar values for the low to high pay levels of the broad banded ranges are too wide to serve as a practical guide for making pay decisions.

Pay Continuum
The Pay Continuum recognizes that the market pays from the lowest low to the highest high...and any point in between. While many in compensation distill their market data down to a single number, others recognize that the market never pays a single value for any given job.

Tip:
Determining what to pay an individual employee involves figuring out where along that continuum is most appropriate.

Pay Mix

Sales jobs frequently have their targeted pay expressed in terms of their pay mix which reflects what percentage of the overall targeted earnings is being delivered as a fixed base salary vs. the portion delivered in sales incentive.



Pure Market Pricing

Exclusive reliance on data from the market to make pay decisions, without reference to any internal structure, grades or midpoints. In a competitive talent market, companies often succeed in attracting and retaining talent using pure market pricing.

Salary Surveys

The following twenty-nine terms relate to salary surveys, how they’re conducted and how the data gets reported.

Survey Vendor

Survey vendors are organizations that are in the business of collecting, reporting and selling market data. The most popular survey vendors include consulting firms, i.e., Aon Hewitt, Hay, Mercer, Towers Watson, etc., There are also several other smaller, niche survey vendors, i.e., Comptryx, Western Management Group, or Wage Watch, to name a few.

Benchmark Survey

The most common of salary survey types, a benchmark survey contains a broad collection of jobs from multiple job families. The survey participants come from a broad range of industries.

Club Survey

Certain surveys are invitation only. To be admitted to the "club", existing members will vote on possible members to include. Club surveys are much more expensive and involve additional reporting and analytics beyond the typical benchmark survey.

Ad hoc Survey

Surveys conducted outside of the normal schedule of benchmark surveys... There's a wealth of highly reliable information in the regularly scheduled benchmark surveys, but Ad hoc surveys can add value by providing deeper insights and supplement the broader market surveys.

Bespoke Survey

Same as an "Ad hoc" survey. In certain countries using non-American English," bespoke" is actually a fairly common phrase.

Self-Administered Survey

Some organizations will take a stab at conducting their own market surveys. These are sometimes as simple as a quick phone call to peer companies they'd like to share data with, but could also be quite elaborate with detailed questionnaires and report outputs that are shared with participants.

Tip:
Administering your own survey is "penny wise, pound foolish". There are real costs in trying to administer a survey. The time required is huge. Not to mention the legal risks.

Sherman Anti-Trust Act

The Sherman Anti-Trust Act of 1890 prohibits companies from artificially fixing prices. The law was designed to protect consumers. However, the same principles have been argued in the context of market pricing for wages. Instead of colluding to inflate prices, employers cannot collude to keep wages low. The Department of Justice (DOJ) is the enforcing agency.

Safe Harbor Provisions

Safe Harbor Provisions are guidelines that spell out the minimum threshold for avoiding the risks of collusion and the wrath of the DOJ for violating the Sherman Anti-Trust Act. The Safe Harbor guidelines contain four elements that must all be satisfied:

- Data must be collected by a neutral 3rd-party,
- There should be at least five organizations making up the survey output for any job,
- No single organization can make up more than 20% of the sample, and
- Reported data needs to be at least 3 months old.

Salary Planning

Salary Planning refers to the budgeting process where companies forecast and model their future salary expenses. Market pricing plays a vital role in salary planning. Companies look for salary planning surveys from survey vendors or other organizations, i.e., WorldatWork or The Conference Board, to get a consensus on market projections for increase budgets.

Tip:
Take salary planning surveys with a grain of salt. They're conducted way too early in the year for companies to have a true sense for what their upcoming year's plans are likely to be.

Aging Factor

The amount of growth a company expects in the marketplace. The aging factor is the percentage change in a given calendar year. Organizations can have multiple aging factors for different labor markets based on job level, geography or even specific job families...

Survey Methodology

Survey methodology refers to the approach used by the survey vendor to produce the results. Some key components are going to include source of data (employer reported or self-reported), aggregated data submissions vs. raw data submissions, and submission timeframe (point-in-time, or rolling).

Survey Submission Kit

The materials that a survey vendor provides to survey participants that includes the instructions, templates, job summaries and important dates.

Participant Profile

Survey vendors always provide lists of participating companies, but the better ones also provide participant profiles to include information, such as revenues, assets, employees and even a thumbnail description of the participating companies. This information can be helpful in determining the relevance of the survey data and can also help determine how to position your firm's data against the reported statistics.

Self-Reported Data

The survey methodology where the participants are the individual employees. Compensation pros will probably always pooh-pooh on the use of self-reported data in their analysis, but be aware that this is often data that the employees themselves will have access to via the web.

Survey Effective Date

The date that each participating company is instructed to use as point-in-time of when the pay data they're submitting is effective. Most surveys will use an Effective Date of either March 1st or April 1st.

Rolling Submission

Surveys that allow participants to submit data at any point throughout the year use a rolling submission. The vendor will adjust the data in the sample that is older and will roll off data at a set point to make sure it stays fresh.

Aggregated Data Submission

Aggregated data submissions are when the participant is supposed to only provide one record of data for each unique job in a survey. The participating company needs to calculate the average pay value on each pay element if there is more than one incumbent in each job. These surveys tend to be less reliable.

Survey Steering Committee

Higher quality surveys will have a steering committee made up of compensation leaders at the participating companies. They provide guidance to the survey administrator on the design of the survey as well as potential survey participants.

Scrubbing

The process a survey vendor goes through to ensure that survey data submitted from participants is complete and reasonable. Each vendor will follow their own reasonableness tests, but essentially, they're looking for data points that are outside of a set tolerance that require further research or explanation from the submitting company.

Third-Party Administrator

A third-party administrator is a neutral party responsible for gathering the input data from survey participants and maintaining confidentiality of data so that no individual participant can see or determine the input from any other participant. A third-party administrator could be one of the popular compensation consulting firms, a niche salary survey vendor, or even a trade association or government agency.

Tabular Data

One of the more common survey output formats, tabular data means that the result are presented like a table that has rows of values.

Maturity Curve

A survey output where pay data is compared to years of experience, or since an educational milestone. This is the least common ways of publishing salary survey data, but it still exists for certain job families. Maturity curves had been more prevalent in the past, but have fallen off in popularity and usefulness. Decades ago, companies were more likely to have their pay programs set up to administer increases based on job seniority. Nowadays, performance and differentiating pay based on results is what matters...not time.

PQE

Years of post-qualified experience. Occasionally used in professions such as Legal or Engineering.

Job Matching
The process for assigning match relationships between jobs in your organization and the external salary surveys.

Job Matching Meetings
Higher quality surveys may provide an opportunity for the survey participants to discuss their internal job matching process prior to submitting data. These meetings are invaluable for maximizing the degree of confidence in the survey outputs and providing deep insights to the compensation professional accountable for interpreting and applying the data.

Benchmark Job
A job that is easily recognizable by other employers in the marketplace. It is called a "benchmark" job because other organizations are going to have a similar job that can be used for comparison purposes. Note: to the chagrin of many, not every job is a "benchmark" job.

Degree of Confidence
Some organizations internally score their survey sources to provide users of the data guidance on how to interpret or position against the data. Factors that influence a Degree of Confidence assessment include, participant profile, age of the survey, the survey vendor's methodology for gathering and "scrubbing" data, etc.

Degree of Match
Degree of match answers the question of how closely a job inside an organization matches up to a job from a survey. Survey vendors will provide their own guidelines, but typically we look for a job to match at least 70% of the job duties described in the survey to be minimally acceptable.

Tip:
70% of what? Word count? No. The 70% threshold refers to the vast majority of job duties being a match.

Accuracy of Market Data

The rule of thumb has been that market data is accurate to within +/- 10%...and some days, even that feels generous. With all the statistical modeling techniques and effort to get accurate job matching, one would think that there's laser precision to all this. Key factors influencing the accuracy of market data include quality of participant profile, quality of job matching and survey vendor data scrubbing processes.

Beyond Base Pay

In Market Pricing, so much of the conversation tends to be around Base Pay. However, there are several key terms that speak to the Total Rewards Package.

The next eight terms introduce some of the key concepts to be familiar with that go beyond just the base pay component.

Compensation Elements

Compensation elements refers to the various types of compensation being delivered. Base Pay is one element, Short-Term Incentive is another element, Long-Term Incentive is another element, etc. Globally, the number of compensation elements will vary from country to country and may include elements such as car allowance, conveyance allowance, meals allowance to name a few.

Annualized Incentive Values

Incentive paid data submitted to survey vendors should reflect a full year's payment. Since most companies pro-rate actual incentives based on actual time worked, employees who were hired during the year have had their incentive payments reduced. Annualizing the incentive values gives a more accurate picture of what the incentive amounts are for the job.

Perquisites

Compensation elements that are above and beyond cash and equity compensation. There is not a single comprehensive list of what gets included in perquisites and the actual prevalence of perquisites varies considerably across the spectrum of industries and/or geographies. Examples of perquisites include, free / subsidized food, movie tickets, on-site medical services, etc.

Total Cash Compensation

The actual amount of cash paid to an employee within a given year for their performance in a job. This cash can come from base pay and short-term incentives/bonuses.

Total Direct Compensation

The sum of annual base salary, short-term incentives paid, and the value of long-term incentives received in a given year.

Total Remuneration

Total Remuneration includes base pay, short term and long term incentives, as well as the value of benefits and perquisites.

Targeted Earnings

The amount of money that the company plans to pay its employees when they fully achieve their goals. Used extensively in Sales Compensation where pay is delivered through a mix of base pay and sales commissions.

Targeted Total Cash Compensation

Targeted Total Cash Compensation is the sum of Base salary and targeted short-term incentives or annual bonuses

Labor Market Economics

Market Pricing is really about the supply and demand for talent. Generally speaking, the same rules of supply and demand that drive prices up or down for all other goods and services apply to the labor market as well. The “price” of talent is their salary.

The following seven terms introduce some of the more fundamental labor economics terms and concepts that are relevant to market pricing.

Labor Market

Labor market refers to pool of people a company could recruit for talent and/or where that same collection of people would consider going to work. The definition of the labor market will vary by job level and by job family. Organizations should define their relevant labor market in terms of geography, industry, and size.

Cost of Labor

Cost of Labor refers to cost, or wages that employers must pay to meet the demand for talent, given the supply of available talent.

Cost of Living

Cost of Living is a reflection of how much it costs consumers to purchase a basket of goods.

Tip:
An employer focused on market pricing looks for the Cost of Labor. Cost of Living, while interesting, is of far less concern to market pricer.

Hyper Wage Growth

Within some markets, we occasionally see subsets of jobs where the wage data is growing at two times the overall market or more. This is considered to be hyper wage growth and may drive significantly different actions by employers to remain competitive.

Wage Deflation

Normally, we expect to see wage growth over time. However, we occasionally see wages decrease. When wages decline, this is called wage deflation. While normally a fairly unusually event, it pays to monitor for this type of change and have a thoughtful approach for how to address.

Geographic Differentials

The factor that is applied to a set of survey results in order to adjust the data higher or lower to reflect the cost of labor in a specific market.

Economic Indicators

Aside from just wage data, market pricing requires the understanding of other economic indicators such as manufacturing output, inventory levels and even other worker demographics such as age, birth rate, education level, etc.

Tip:

Use various economic indicators to provide insight and guidance beyond just what is provided in salary surveys. For example, economic data on housing starts, consumer confidence, inventory levels can give insight on the anticipated demand for labor in the near future which has an impact on wages.

Statistics

Compensation pros tend to be fairly comfortable with the various statistical terms that are used in market pricing. However, use this information to communicate to HR, line managers and even employees directly.

The seventeen terms discussed on the next several pages are defined in a way that it can be helpful to use when trying to explain these terms to other managers

Mean

The mean, also known as the Average, is the mathematical middle of a set of data. It is calculated by adding up all the values in a set of data and then dividing that sum by the count of how many records there were. Mean are simple to calculate, but they have a dark-side...means can be heavily influenced by high or low data points.

Median

The median is the physical middle of a set of data. A little more difficult to calculate without the benefit of a software program, like Excel. However, in compensation, the median is much more heavily used, because it is not influenced by extreme values the same way the Average is.

Mode

Ok, this statistical term is rarely used in everyday market pricing, but we threw it in here because it is the 3rd measure of central tendency that is covered in basic statistics.

Company Weighted Average

A measure of central tendency. Since it is an “Average” it is the sum of all salaries divided by the number of records. However, the "Company Weighted" part of this term indicates that it is a reflection of what the typical company is paying. The calculation first determines the average pay for a job at each unique company, and then calculates the average of those averages.

Tip:
Incumbent Weighted describes what the average person earns…not what the average company pays.

Incumbent Weighted Average

Yet another measure of central tendency and since it is an “Average” it is the sum of all salaries divided by the number of records. However, the “Incumbent Weighted” weighted part of this term means it is the average pay for each person in the labor market.

Trimmed Mean
A trimmed mean is simply the average after dropping out the extreme values at both the high and low ends of the data set.

Percentile
A percentile refers to the percentage people who are paid at or less than a specific amount. Percentile values can range from 0 (the lowest paid) to 100 (the highest paid). The 50^{th} percentile, also called the median, is the amount paid to the person who is in the exact middle of a sample.

Interquartile Range
Another measure of central tendency, the "interquartile range" describes the middle of the market. It is the range of values between the 25th and 75th percentiles. Exactly one-half of the labor market is paid within the interquartile range.

Independently Arrayed
Calculating the statistics of each pay element (base, incentive, etc.) separately is referred to as being independently arrayed. When compensation folks add together the average base salary and the average incentive from a survey, it is not going to equal the average total cash compensation.

Algorithm
An algorithm is a formula or set of procedures used to calculate a result. Algorithms are used in market pricing in many ways, not the least of which is when a survey vendor is trying to present market data for a job in a specific city. They may not have any data for that particular job in that particular town, but they do have a statistically reliable algorithm that allows them to predict what the market data would be.

Linear Regression
Linear regression is a statistical modeling technique used to correlate pay to some other variable, like. sales volume or company assets. The beauty of linear regression is that there can be a fairly high degree of accuracy in predicting the pay level of a job if you know the value for sales, or assets. Many executive compensation surveys will publish their results and include the straight line regression formula that describes the correlation between a given job and the sales revenue of the participating firms.

R-square

R-Square is a number that ranges from 0.0 - 1.0 that goes along with a linear regression formula and describes how accurate the formula is. The closer the R-square value is to 1.0, the more confidence we have that the regression formula represents the entire sample.

Tip:
R-square values of .8 or higher are considered good. R-square values as low as .5 can still be used, but be aware that this means the regression line is not all that accurate.

Exponential Regression

Just like the linear regression modeling described above, exponential regression is a statistical modeling technique that can be used to show the correlation between pay and some other variable. What makes exponential regression different is that the relationship is not a simple linear growth, but rather a geometric growth. The way this is used in the context of market pricing is when building a structure of midpoints based on market data where the midpoint growth form one grade to the next is a fixed percentage of growth, versus the fixed value growth that occurs in linear regression.

Outliers

Outliers are the data points that are considerably higher or lower than the other data points. Survey vendors look for outliers when survey submissions come in from participants and they'll go through efforts to first validate if the data truly belongs as a match and they'll have protocols in place as to how to treat those outliers. For example, if the data you submit for a job in the survey is 30% higher than last year's 75th percentile, the survey vendor may first call to validate if the job match is correct or if there is a data error. After confirming the match, the vendor may still decide to exclude your data from the submission because it is an extreme outlier compared to the data from all other participants.

Market Ratio

A market ratio is an index calculated by dividing a person's pay by the market composite for the job. When an employee is paid equal to the market composite, the Market Ratio is 1.0.

Prevalence

The term Prevalence in market pricing refers to a survey determining the frequency of a certain compensation element, e.g..; does this job receive stock options? While prevalence data might be mildly interesting, without knowing the value being delivered, it's often a pointless statistic

Sample Size

Sample size is the number of participants, either the number of companies or number of employees that are included in the results. As a general rule, larger sample sizes are better. However, they have to be the "right" participants.

Tip:
Look at the ratio of employees reported vs. the number of companies. Is that ratio consistent with the number of incumbents you have? For example, let’s say there are ten companies reporting data to a survey you’re in and there 1,000 incumbents being matched in. If you were one of the ten participating companies, but only have two incumbents that match the job, that would mean that the other nine companies had the remaining 998 incumbents. Why is there so much of a difference between your size and the other participants?

Using Market Data

The following thirteen terms describe some of the more common issues related to how market data is used in companies.

Blended

The term "Blended" describes how market data from two different benchmark jobs are brought together to form a single market composite for a job. For example, a Financial Systems Analyst is a cross between Financial Analyst and Programmer Analyst. Market data from those two benchmarks can be blended to derive a market composite.

Discount

A discount in market pricing is the percentage applied to survey results to reduce the value. Discounts are applied when the job being market priced is smaller in scope or complexity than the survey job.

Tip:
We advise clients to use Premiums and Discounts sparingly.
When they are used, limit the adjustment of market data to somewhere between +/- 5-20% up or down.

Premium

A premium is the percentage applied to survey results to increase the reported value. Premiums are applied when the company believes their job is bigger than the job in the survey.

Weighting

Weighting refers to the relative importance one survey has compared the others used for a market composite. A compensation professional might assign job matches from three different surveys to one of their benchmark jobs. However, each of the surveys is going to have their own merits based on factors such as quality of the participant profile, age of the survey, quality of the survey job model, etc. Those quality differences can be accounted for by assigning relative weighting.

Gap to Market

Gap to Market can be either the ratio or absolute dollar difference between an employee and the market rate for a job.

Hybrid Jobs

Organizations are forced to restructure, de-layer, take out costs, etc., and as a result, end up combining jobs that used to be done by two or more people and dump the work onto just one person. The resulting job is a hybrid of two or more traditional jobs that each may have been benchmark jobs.

Hot Skills

Certain skills in the marketplace can see a spike in demand which causes greater than normal wage pressures. Some of the best examples are in the technology realm where new software has taken the world by storm and there aren't enough skilled developers to keep up with the demand. Hot Skills tend to fade over time as more people in the labor market acquire the skills, stabilizing the supply & demand curves. Until that happens, organizations have positions to fill and retain, so pay goes a little crazy.

Tip:
Can skills get so cold that they become Hot? Yes! Take the COBOL programming language as an example. Some consider COBOL to be the Latin of software and say it is dead. Universities are dropping COBOL from their curriculum; everyone wants to learn the new sexier languages, etc... Meanwhile, countless systems still exist that are written in COBOL and fewer people are entering the labor market each year with the training or interest in working with that language. The result? This cold skill is the new hot.

Scope Cut

A scope cut is a segmentation of the overall market population for reporting purposes. Standard scope cuts recognized are going to vary across the different survey vendors, but the cuts are based on geographies, industry, or size (as measured by Sales or Assets). Cutting the data allows participants to focus on the most relevant participants.

Tip:
Scope cuts can be valuable for getting a more focused look inside the overall market data. Use good judgment though. Often times, the only thing certain about highly selective scope cuts is that the sample size is smaller.

Scope Sensitivity

Scope sensitivity refers to the degree to which survey results change when you look at the various scope cuts. For example, most people would assume that the market data is higher when looking at only New York City scope cut or from companies of increasingly larger revenue size. However, when scope sensitivity is low, you'll find that the results do not vary when the scope cut is changed.

Custom Cut

Some vendors allow users to create their own custom cuts where the user can specify either specific named companies or through their own parameters of size.

Trending Report

Displaying market data results from multiple years, i.e., 3-5, is a trending report. KnowledgePay's market pricing software provides insights about how the pay levels for specific jobs are trending in comparison to the overall market.

Number of Matches

The number of matches refers to how many salary surveys are needed to determine a reliable market composite. The right answer will vary from company to company. At KnowledgePay, we advise our clients to do what makes sense for their philosophy and be consistent. The only "wrong" answer is when an organization attaches a seemingly endless collection of market matches, i.e., 5 or more. That's just flat out misguided.

Survey Shelf Life

While surveys don't come with warning labels or "Best Used by Dates", there is some practical guidance as to how long the survey shelf life is for a salary survey. Ideally, you would participate in and purchase surveys on an annual basis, but sometimes, that's just not possible. Every other year then is still considered to be acceptable. Going beyond two years though is when survey data generally starts to lose a lot of its credibility. Can survey data be aged more than two years? Sure, but be aware that the confidence level that people would have in data that is more than two years old really starts to wane.

Executive Compensation

We really could have written an entire book just on executive compensation and the special nuances of market pricing for executive level jobs. However, this glossary is really targeted to educating the basic needs of the compensation and HR analyst.

The top ten terms appear on the following pages.

Long Term Incentive Valuation

The complex nature of long term incentive plans requires compensation analysts to perform more difficult calculations to determine just how much these incentives are worth. A high level description of the more common valuation methodologies are provided below. For more in-depth, technical discussion, check out the WorldatWork resources.

Accounting Value

Accounting Value reflects the book value of the long term incentive as of the date of the grant. Relatively easy to calculate and compare across companies, however, it does not take into account the actual value being delivered to the recipient. The challenge with using the Accounting Value compared to the other methodologies is that this approach ignores the expected future value of what the executive is receiving.

Black-Scholes

The Black-Scholes valuation model is named after the two economists who developed the formula. Their research work was really focused on the valuation of stock options that are traded on the market and not for valuing employee stock options. The Black-Scholes methodology has become the most popular of valuation methodologies used in compensation.

Lattice (Binomial) Model

The Lattice model, also known as the Binomial model, is also widely accepted. Similar to Black-Scholes in some ways, the big difference though is that the Lattice model recognizes that most people will most likely exercise their options soon after vesting. As opposed to the valuation assumption under Black-Scholes is that the options will be held all the way until the date of expiration.

Realized Value

Realized value reflects the value that was actually received by the executive as of the date that any long term incentives are exercised.

Realizable Value

Realizable value is the value actually received by the executive as of the date that any long term incentives vest. For Stock Options, the realizable value needs to be continually updated for any options that have vested but not yet exercised.

Comparator (Peer) Group

Executive compensation market analysis involves intense scrutiny over which companies are included in the market data sample. Market analysis for the senior most executives is based on a set of named companies that have been carefully selected based on factor such as size, specific industry, market capitalization, business operating model or even their go-to-market strategies.

Proxy Data

The SEC requires public companies to file annually a comprehensive document called the Definitive Proxy Statement, aka, 14DEF, or Proxy. Among many other things, the Proxy contains a wealth of information about the compensation programs as well as actual pay, equity and benefits data for the top 5 executives for the prior three years. While intended for investors, compensation professionals are able to see detailed information from their competitors.

Form 4 Analysis

A Form 4 is the document that an organization must file with the SEC within two days of an equity transaction by specific individuals. Analyzing Form 4's can be quite tricky as they require calculating valuations. However, this type of analysis allows for getting the most up to date information about the value being delivered to the named executives at your competitors.

Layer

Some executive surveys will include an analysis of how many "layers" down a given job is from the CEO. This can be useful with executive compensation analysis for validating job matching, determining how to fit against the market data, or providing insights on organizational design.

If you'd like more information about how Dartican's compensation software can help you manage your compensation process, visit our website or contact us to arrange a free web demonstration.

www.dartican.com

888-390-5675