

# Pay for Performance Methodology & FAQ

## United States & Canada

In 2020, Glass Lewis began incorporating new peer groups into its proprietary pay-for-performance model. The peer group methodology uses a mix of self-disclosed peers, peer-of-peer networks, and broader industry comparison groups while introducing new size-based parameters to help eliminate the potential for skewed peer selection. The peers will be created using Glass Lewis' new peer selection methodologies. The pay-for-performance model will continue to use existing measurement criteria to quantify and assess executive compensation and company performance.

## Overview

Glass Lewis recognizes that many of the factors that affect a given company's performance will also affect the rest of an industry. Therefore, executive compensation should be closely tied to a company's track record of performance relative to its peers. That is, management should be especially rewarded for directing the company in a manner that outperforms its peers.

The model evaluates five indicators of shareholder wealth and business performance. For most sectors, these five metrics are:

- change in operating cash flow;
- earnings per share growth;
- total shareholder return;
- return on equity; and
- return on assets.

However, not all metrics are relevant to all sectors. 'Change in operating cash flow' is replaced with 'tangible book value per share growth' for companies in the Banks, Diversified Financials and Insurance sectors, and with 'growth in funds from operations' for REITs, except for Mortgage and Specialized REITs.

The relationship between relative executive compensation and relative performance is the basis of the Glass Lewis model. It evaluates the compensation of the top five executives by benchmarking it against the compensation of the top five executives at appropriate peer companies. The model then compares the company's performance to that of those same peers. Glass Lewis uses the outcomes of these comparisons to evaluate whether the company's executives have been paid in line with the company's relative performance.

This focus on relative compensation and performance makes peer group selection a critical and highly scrutinized aspect of Glass Lewis' executive compensation analysis. As a result, Glass Lewis developed its peer group methodology in consultation with a large body of investor clients in addition to using the results of over 3,000 interactions and formal engagements with corporate issuers, consultants and advisors to help inform our approach.

## Peer Selection Process

Our peer methodology begins by building a peer universe for each company in the Russell 3000 and S&P/TSX Composite. The universe for a company contains its self-disclosed peers, peers of the self-disclosed peers, reverse peers and top peers from its industry and country. Glass Lewis refers to the industry and country peers as the investor peer groups.

Reverse peers are firms who have referenced a subject company as a peer, but that company has not referenced them. Industry peers are determined by a company's 6-digit GICS classification and country peers include similarly-sized firms based in the same country. Industry peers are more heavily weighted than country peers in order to emphasize firms with similar business environments. While less heavily weighted, country peers still provide a good view of company complexity, using market and firm size as a proxy.

The peer universe is then reduced through a variety of size and strength of connection tests to the 15 firms that comprise the final peer group for the subject company.

Ranges for market capitalization, revenue and assets are used to measure size. Mutual peer relationships and multiple peer group inclusions are used to measure strength of connection. Size metrics are also subject to a certain "floor" value so as to provide a sufficiently-sized group of comparators. These tests ensure that a firm is most likely to be included in a given company's peer group if it is comparable in size, in the same industry, and is mutually selected as a peer with the subject company.

Prior to 2020, the peer methodology selected peers without any consideration for firm size. These new tests were added in order to reduce the inclusion of aspirational peers with higher pay levels, the inclusion of smaller companies with less complex businesses, and the exclusion of larger competitors with similar businesses. Importantly, these criteria are reviewed on a blended basis rather than via simple one-strike elimination to avoid removing potentially meaningful comparisons.

Peers are updated twice a year, based on publicly-available information only. For both periods, Glass Lewis will accept submissions of self-disclosed peers from issuers.

Glass Lewis may also exclude peers from consideration if the peer falls into one or more of the following categories:

- Has not been publicly disclosed;
- Has less than three years of trading history from the most recent fiscal year end;
- Has been privatized, acquired or delisted;
- Is a non-US company or foreign private issuer;
- Is externally managed or otherwise does not disclose compensation details;
- Does not have three full, consecutive years of compensation data that aligns with the years that it has been publicly traded;
- Has changed the company's fiscal year end, such that the consistency of the financials used to calculate growth rates would be impacted; or
- Has experienced M&A transactions that would impact the consistency of the financials used to calculate growth rates.

## Grading Pay-for-Performance

The pay-for-performance model calculates a weighted-average executive compensation percentile and a weighted-average performance percentile. These two percentile rankings are compared to determine how closely the compensation tracks the relative performance of the company.

Depending on the magnitude of the "gap" between the relative pay and performance percentiles, each company is assigned a letter grade: "A", "B", "F", etc. A very large gap between these relative rankings indicates a failure to adequately align pay with performance. Unlike school letter grades, "C" grades cover firms which feature the closest rankings between pay and performance.

## Say-on-Pay Analysis

Glass Lewis' approach to say-on-pay consists of two main components: (i) a qualitative assessment of the structure of a company's compensation program and the accompanying disclosure; and (ii) a quantitative assessment reflected in our pay-for-performance grade. As a result of this approach, a poor grade in our pay-for-performance analysis will not automatically result in a negative recommendation, and a favorable grade does not guarantee a positive recommendation. Our peer methodology does not affect Glass Lewis' consideration of qualitative factors not captured by a retrospective look at compensation levels and firm performance.

The quantitative approach is derived from the Glass Lewis pay-for-performance model, explained in the previous "Pay-for-Performance Analysis" section. The relationship between relative executive compensation and relative performance is the basis of the pay-for-performance model. The model evaluates the compensation of the top five executives against the compensation of the top five executives at peer companies. The model then compares the company's performance to that of those same peers. In comparing the outcome of these analyses, Glass Lewis is able to evaluate whether the company's executives have been paid in line with the company's relative performance.

In considering the qualitative merits of a compensation program, Glass Lewis reviews a range of factors including industry, company size, maturity, financial position, historical pay practices and any other relevant internal and external factors. Any compensation-related decisions or features that may be detrimental to shareholders' interests will be highlighted, and any significant gaps in the information will be noted as well.

The review of a company's practices also takes into consideration the compensation committee's response to previous say-on-pay votes. When a company receives low support for its say-on-pay proposal (e.g. below 80% support from disinterested votes cast), Glass Lewis believes the compensation committee should provide some level of response to shareholders' concerns, including engaging with large shareholders to identify the concerns driving the opposition. Shareholders should also expect adequate disclosure of any such engagement and any resulting feedback or changes being made to address outstanding concerns.

## FAQs

### Pay-for-Performance FAQs

Q: In which markets does Glass Lewis utilize a pay-for-performance model?

A: The pay-for-performance model and methodology (including the new peer methodology) outlined here is utilized for the United States and Canadian markets. Glass Lewis also maintains a separate pay-for-performance model for the Australian market, based on different methodologies.

Q: Why doesn't Glass Lewis utilize a pay-for-performance model in other markets?

A: It depends on the market. In general, the pay-for-performance model requires a market to have a standardized methodology for executive compensation disclosure, consistent yearly financial data available, and a publicly disclosed peer group of companies.

Q: How does the pay-for-performance model work?

A: The pay-for-performance model measures the company's weighted average executive compensation percentile rank for the CEO(s) and the next four highest paid executive officers against the company's weighted average performance percentile rank within a group of 15 peer companies. The model covers three years of pay and performance and is most heavily weighted toward the year in review.

Q: Where do the peers used on the pay-for-performance page come from?

A: Glass Lewis generates peer groups using our proprietary methodology based on a mixture of a company's self-disclosed peer group, a network of related peers, and Glass Lewis' investor peer groups based on industry and country. The top 15 peers are used in our pay-for-performance analysis.

Q: When does Glass Lewis update its market peers?

A: Glass Lewis updates peers twice a year.

Q: The peers listed for my company are not accurate, who should I contact?

A: You can submit your updated peer groups to Glass Lewis [via our website](#) at regular intervals.

*If you believe there is an error or omission in the compensation data, we encourage you to [report it immediately](#).*

Q: Which metrics does Glass Lewis use in determining pay-for-performance alignment?

A: The pay-for-performance model evaluates five indicators of shareholder wealth and business performance: change in operating cash flow, earnings per share growth, total shareholder return, return on equity and return on assets. Change in operating cash flow is replaced with: (i) tangible book value per share growth for companies in the Banks, Diversified Financials and Insurance sectors; and (ii) growth in funds from operations for REITs, with the exception of Mortgage and Specialized REITs.

Q: What timeframes are company performance measures based on?

A: Performance measures, except ROA and ROE, are based on the weighted average of annualized 1, 2, and 3-year data. ROA and ROE is calculated over one year.

Q: How are the pay-for-performance metrics weighted?

A: Glass Lewis does not disclose the weightings.

Q: How does Glass Lewis calculate compensation figures for a given year?

A: Glass Lewis captures the sum of all cash and equity compensation paid to the five most highly paid NEOs including the CEO in their roles as continuing executives, net of severances and director fees. Glass Lewis performs its own stock and option valuations and exclude any cash severance or changes in pension value.

Q: How does the model treat mid-year CEO changes?

A: If a company changes CEOs in the year in review, compensation paid to the outgoing and incoming executive is partially pro-rated for time served and aggregated as compensation paid for the position of CEO for the year.

Q: How do mergers or acquisitions affect the model's analysis?

A: Glass Lewis may exclude a company's pay-for-performance analysis or growth rate calculation if there are M&A transactions that would impact the consistency of the financials used to calculate growth rates.

Q: How is compensation data for Canadian peer companies treated?

A: For Canadian peers, equity awards are normalized using the grant date exchange rate and cash compensation data is normalized using the fiscal year-end exchange rate.

## Say-on-Pay FAQs

Q: How do pay-for-performance grades affect Glass Lewis' say-on-pay recommendations?

A: The pay-for-performance analysis provides a quantitative view of a company's pay and performance alignment, information which is considered alongside other qualitative factors, including the company's compensation structure, the compensation-related decisions made in the past year and the company's operations.

Q: If a company receives an "F" in the pay-for-performance model, will Glass Lewis automatically recommend Against the company's say-on-pay proposal?

A: No. A company that receives a failing grade will not automatically receive an against recommendation on its say-on-pay proposal. Likewise, a company that receives a passing grade will not automatically receive a for recommendation on its say-on-pay proposal. As noted above, Glass Lewis' approach to analyzing advisory votes on executive compensation is based on both a quantitative and qualitative assessment of the company's compensation practices.

Q: Why are the figures in the CEO Compensation Breakdown table different from the Summary Compensation Table figures or the Pay-for-Performance Analysis?

A: The CEO Compensation Breakdown table reflects compensation granted but not necessarily earned in the year in review. It also excludes changes in pension value and non-qualified deferred compensation earnings ("NQDCE"). When there is a significant discrepancy between the figures displayed in the CEO Compensation Breakdown table and the Summary Compensation Table, it is often due to: (i) differences in when long-term cash is accounted for; (ii) substantial changes in pension value or NQDCE; or (iii) companies that grant longterm incentives for the year in review following the fiscal year end. The Pay-for-Performance Analysis also makes adjustments on a consistent basis, including the revaluation of all equity awards and proration for a single "CEO pay" figure in years of top executive transitions.

# Connect with Glass Lewis

Corporate Website | [www.glasslewis.com](http://www.glasslewis.com)

Email | [info@glasslewis.com](mailto:info@glasslewis.com)

Social |  [@glasslewis](https://twitter.com/glasslewis)  [Glass, Lewis & Co.](https://www.linkedin.com/company/glass-lewis-co)

## Global Locations

### North America

#### United States

*Headquarters*  
100 Pine Street, Suite 1925  
San Francisco, CA 94111  
+1 415 678 4110

New York, NY  
+1 646 606 2345

2323 Grand Boulevard  
Suite 1125  
Kansas City, MO 64108  
+1 816 945 4525

### Asia Pacific

#### Australia

*CGI Glass Lewis*  
Suite 5.03, Level 5  
255 George Street  
Sydney NSW 2000  
+61 2 9299 9266

#### Japan

Shinjuku Mitsui Building  
11th floor  
2-1-1, Nishi-Shinjuku, Shinjuku-ku,  
Tokyo 163-0411, Japan

### Europe

#### Ireland

15 Henry Street  
Limerick V94 V9T4  
+353 61 534 343

#### United Kingdom

80 Coleman Street  
Suite 4.02  
London EC2R 5BJ  
+44 20 7653 8800

#### France

*Proxinvest*  
6 Rue d'Uzès  
75002 Paris  
+33 ( )1 45 51 50 43

#### Germany

*IVOX Glass Lewis*  
Kaiserallee 23a  
76133 Karlsruhe  
+49 721 35 49622

## DISCLAIMER

© 2025 Glass, Lewis & Co., and/or its affiliates. All Rights Reserved.

This document is intended to provide additional information on Glass Lewis' Pay-for-Performance analysis

The material in this document is for informational purposes only. The information included herein is subject to change without prior notice. Glass Lewis makes no representations or warranties with respect to this document or with respect to the information described herein. Glass Lewis shall not be liable for any damages, losses, costs or expenses, direct, indirect or incidental, consequential or special, arising out of, or related to the use of this document or the information described herein.