Set Board Pay by Median Vote

Draft by Mark Latham as of 2014-05-08.
Future versions at votermedia.org/publications.

Summary:

We Coast Capital Savings Credit Union members could determine our Board's total pay by voting on a menu of possible total pay levels, and then setting it at the median voted amount. The Board could then decide how that total annual pay budget would be divided among the individual directors.

Background:

In April 2013, Coast Capital members approved by special resolution that "…the members of Coast Capital establish the remuneration for the directors of the credit union…" The resolution, put forward by a group of members called Compensation Watch, did not specify a process for members to do that.

The Board then launched a process that involved creating a Director Compensation Task Force. But some members became skeptical about whether the Board's process would yield decisions that reflect the members' democratic consensus. So the Board's special resolution to adopt the Task Force recommendation failed to win member approval in an April 2014 vote. However, a members' special resolution to establish specific pay levels for directors also failed to win member vote approval in April 2014.

Thus the member-approved April 2013 special resolution has not yet been implemented. We still need to find a way for members to establish director pay, that would be approved by a consensus of members.

Total Board Pay vs Specific Director Pay:

Debates on appropriate pay levels sometimes focus on the total pay of all 10 Coast Capital Directors, and sometimes on the pay of specific directors, especially the Board Chair. Since many members are too busy to study detailed voting issues, it may be helpful to simplify members' decisions on pay by focusing on one number -- total Board pay. For example, this web page compares total pay in 2011 for the Coast Capital Board ($750,517) with that of the Vancity Credit Union Board ($366,382).

Median Voter Theorem:

With reasonable assumptions about the shape of voter preferences, if we ask each member what total Board pay level he/she thinks is best, then the median (midpoint or 50th percentile) of all those "best" numbers would win a majority vote against any alternative number. So the median is a reasonable estimate for the members' democratic consensus on what total Board pay should be.

Menu of Voting Options:

Most people find it easier to vote by choosing from a menu of specific options, rather than by coming up with a number of their own and writing or typing it onto the ballot. So for example, we could give members a menu like this:

> *How much should we Coast Capital members pay our Board, as annual total compensation?*

☐ $200,000
☐ $300,000
☐ $400,000
☐ $500,000
☐ $600,000
☐ $700,000
☐ $800,000

It may be helpful to also include an open option like:

☐ Other amount (please specify):_____

Subsequent Years:

It may not be worth the trouble to hold this vote every year. If, for example, the vote is held every three years, then a cost of living adjustment could be applied in the intervening years.

Also, each subsequent vote could use a narrower range of options around the median of the previous vote. For example, if the first vote set total pay at $400,000, and there was about 5% inflation in the three years leading up to the next vote, then the menu could be something like:

☐ $300,000
☐ $350,000
☐ $400,000
☐ $450,000
☐ $500,000
☐ $550,000
☐ Other amount (please specify):_____

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APPENDIX: An Example --

Suppose we got these numbers of votes for each of the options:

5 votes for $200k
12 votes for $300k
8 votes for $400k
15 votes for $500k
2 votes for $600k
0 votes for $700k
1 vote for $800k
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43 votes total

One way to find the median is to list each vote, sorted and ranked from lowest to highest:

1. $200k
2. $200k
3. $200k
4. $200k

5. $200k
6. $300k
7. $300k
8. $300k
9. $300k
10. $300k
11. $300k
12. $300k
13. $300k
14. $300k
15. $300k
16. $300k
17. $300k
18. $400k
19. $400k
20. $400k
21. $400k
22. $400k
23. $400k
24. $400k
25. $400k
26. $500k
27. $500k
28. $500k
29. $500k
30. $500k
31. $500k
32. $500k
33. $500k
34. $500k
35. $500k
36. $500k
37. $500k
38. $500k
39. $500k
40. $500k
41. $600k
42. $600k
43. $800k

Then the median is the middle vote, ranked #22, because there are 21 votes ranked higher and 21 votes ranked lower than that. Vote #22 was for $400k, so that's the median voted amount, and that's what we would pay directors in total for a year.

The way the median voter theorem works is to imagine if we had a two-choice vote between $400k and (let's say) $500k. It's a good bet that the voters who said $300k was best, would vote for $400k rather than $500k. Similarly, anyone who chose $400k or less would side with $400k rather than $500k => 25 voters. And anyone who voted $500k or more would side with $500k => 18 voters. So $400k would win that 2-way vote.

Thus the median satisfies the Condorcet criterion -- beating each other option in a 2-way vote. That seems like a good condition for choosing a consensus number.