

Compensation

The Consultant Zoo

It's a jungle out there, so the right advisor needs to be a breed apart.

By Peter A. Lupo

A solid reputation, technical expertise, objectivity, and integrity are obvious requirements for any compensation consultant. But a candidate's particular consulting style can ultimately determine the success of his or her working relationship with the compensation committee and management, as well as the ultimate quality of the decision-making.

Getting the right chemistry between the consultant and the committee requires that members consider what approach they prefer from an outside advisor and understand, upfront, how the consultant prefers to work. We offer a brief overview of some common consulting styles and how, taken to an extreme, they might not serve a committee's best interests.

The Lemming: Market practices are a routine consideration in many consulting assignments related to compensation programs. Directors today, however, are expected to base decisions on more than just what other companies are doing. That requires that the consultant's recommendations accommodate the organization's specific needs and evolving standards of reasonableness, even if that means deviating from peer practices.

The Ostrich: Consultants naturally strive for a smooth working relationship with the committee. But that does not mean putting their heads in the sand when conflicts arise, as inevitably they will. The advisor should recognize when it is appropriate to step forward to raise difficult or sensitive issues or to intercede to help members find common ground before a conflict gets out of hand.

The Chameleon: An ability to be flexible and open-minded are an asset to con-

sultants in fitting into the board environment. But some issues can be resolved only if the chameleon chooses to stand out. The consultant's proper role as the outside expert is not only to provide information and point out the pros and cons of various strategies, but to make a case for whatever course of action he or she feels is in the best interests of the company and its shareholders, based on his or her expertise—whether it is aligned with the committee's point of view or not.

The Bull: At the other end of the flexibility spectrum are consultants who overstep the bounds of initiative by trying to impose their opinions on the committee and/or management. A consultant's desire to move an issue or process forward is beneficial only if due consideration is given to the governance process. As a matter of good governance, even a take-charge consultant ultimately must respect the difference between being proactive and seeking to dominate the decision-making.

The Fox: As in any job, compensation consultants must successfully navigate the political waters in which they operate. It is proper that individual committee members should feel comfortable approaching the consultant directly in regard to issues or concerns. But the advisor should never become so entangled in board politics that he or she is no longer perceived as an objective and independent advisor.

Bald Eagle: Some committees believe the best protection is recruiting the highest profile consultant—usually with the requisite high fees—on the assumption that the resulting advice will be of the highest quality and less vulnerable to criticism by outside constituencies. But a committee

should never default automatically to the advice of any outside expert, no matter how highly esteemed. Members have a fiduciary responsibility to make decisions on shareholders' behalf that ultimately are based on their own best judgment.

The Jackrabbit: Experience and expertise are important, but a compensation consultant should never be spread so thin that he or she cannot give full attention to the committee at every stage of each assignment. The board should determine upfront that the advisor will attend meetings personally, rather than sending subordinates, and be reasonably available on an ad hoc basis.

The Dinosaur: A sense of history and perspective acquired from experience is valuable, but like the dinosaur, consultants risk extinction unless they adapt to a rapidly changing landscape. That means not being wedded to what worked in the past. The consultant should be proactive about recommending ideas to keep compensation programs aligned with both new regulatory requirements and changing shareholder expectations.

The Thoroughbred: Ultimately, the best consultants bring to the committee the right measure of each consulting style: a blend of reasonableness, respect, resourcefulness, and initiative that will help members provide the most effective oversight.



Peter Lupo is the managing director and head of the New York office of Pearl Meyer & Partners. He can be reached at peter.lupo@pearlmeyer.com.