

Five Building Blocks for a Better Compensation Committee

May 17, 2018

Pearl Meyer



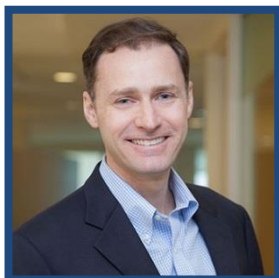
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Meet the Presenters



Laurie Siegel has served as a senior executive for several global companies. She was the chief human resource officer of Tyco International for a decade. While at Tyco, Siegel oversaw the total overhaul of the leadership team, initiatives to restore the confidence of the company's 240,000 employees around the globe, and many of the work streams associated with the spin-offs of Covidien, TE Connectivity, ADT Corp., and the merger of Tyco Flow Control with Pentair. Prior to joining Tyco, Siegel served in senior leadership roles at Honeywell International and as a management consultant. Siegel is currently a director of CenturyLink, FactSet, and Volt Information Sciences. She chairs the compensation committees of all three companies. Siegel is a senior advisor to the G100 Companies and a principal of LAS Advisory Services. Siegel has been named a fellow of the National Academy of Human Resources (2008) and to the NACD D100® (2017).

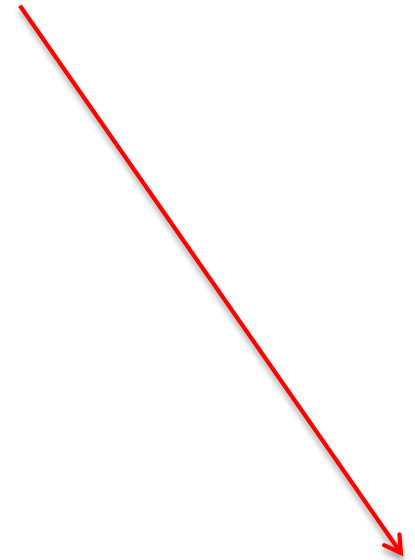


Terry Newth is a managing director in Pearl Meyer's Boston office. He consults on the design, development, and assessment of executive compensation programs that support each organization's business objectives, long-term business strategy, and organizational culture. His clients range from Fortune 500 organizations to pre-IPOs to private and family-owned companies in a wide range of industries. Terry's areas of expertise include pay strategy and philosophy development, market-based pay studies, incentive plan design, severance and CIC arrangements, outside director pay, transaction-related compensation, CD&A and supporting table disclosures, corporate governance and share plan authorizations.



Matt Molberger is a vice president in Pearl Meyer's Boston office. He primarily consults to companies in the technology, life sciences, and consumer goods sectors. Matt works with clients to develop comprehensive executive compensation programs that support long-term business objectives. He specializes in incentive plan design, pay benchmarking, security arrangements, proxy statement disclosures, and preparing for and responding to input from shareholder advisory firms. Matt's client experience ranges from pre-IPO planning to supporting Fortune 500 companies throughout the annual compensation cycle.

Presentation slides are available at www.pearlmeyer.com/five-building-blocks and within the webinar console.



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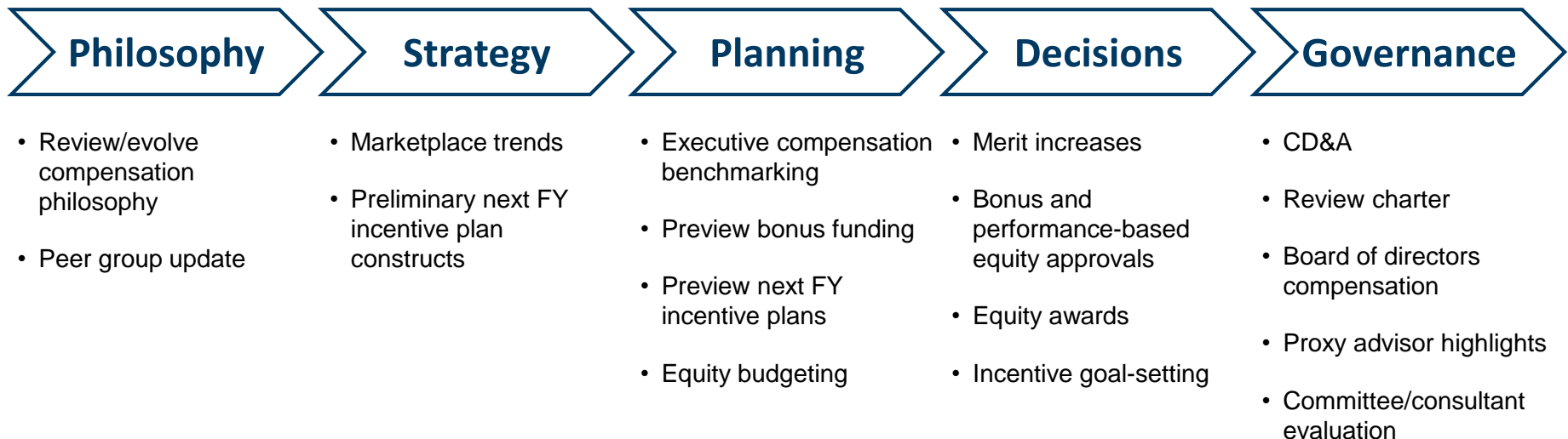
- I. **Process:** Develop a theme-based calendar
- II. **Philosophy:** Re-examine and evolve your compensation philosophy
- III. **Incentive Rigor:** Dig deep into your annual goal-setting process
- IV. **Wealth Sensitivity:** Model your realizable/dynamic pay plans
- V. **Proxy Advisor Plan:** Implement a before-and-after approach to proxy advisory firms

I. Process

Develop a theme-based calendar

- *Enhance your processes*
- *Check all the boxes*

Annual Compensation Committee Cycle



Fiscal Year End

Fiscal Year Start

Re-examine and evolve your compensation philosophy

- *Document your philosophy and review it annually*
- *Discuss whether evolution is needed given changing business needs or talent environment*



What is the purpose of your total rewards program and/or what are you trying achieve?

Poll Question #1: Philosophy

How robust is your committee's review of the executive compensation philosophy?

- *We have a detailed conversation annually*
- *We quickly review and confirm our current document or policy*
- *We include our policy document in our materials for reference, but do not discuss*
- *The topic is not discussed or covered elsewhere in our materials*

II. Philosophy (Continued)

What should the discussion entail?

External Considerations

- ✓ Changing market practices
- ✓ Labor market dynamics
- ✓ Strategy for setting target compensation opportunities
 - Which element(s)
 - Positioning vs. market
 - Tolerance for individual deviations

Internal Considerations

- ✓ Evolving business strategy and strategic initiatives
- ✓ Changes to executive team or broader employee population
- ✓ Motivational or retention needs
- ✓ Company culture

III. Incentive Rigor

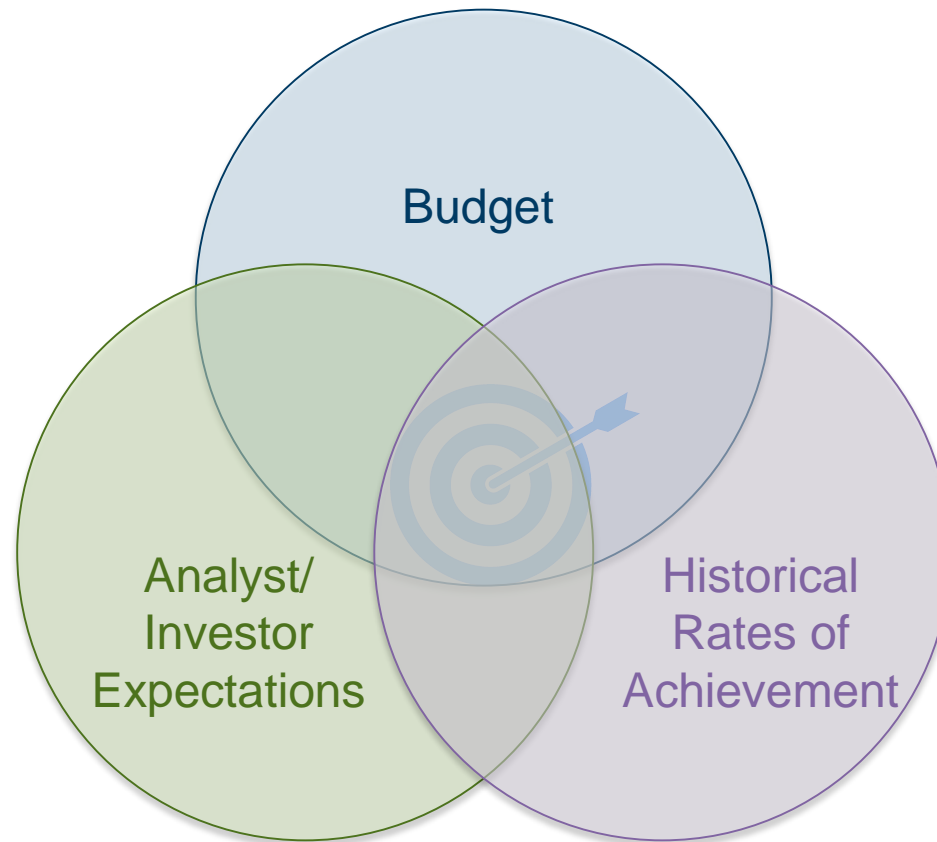
Dig deep into your annual goal-setting process

- *Ensure the correct management team members are participating in the discussion*
- *Create a process/methodology for setting goals*
- *Evaluate your goals through multiple lenses*
- *Calibrate the performance-payout scale appropriately*



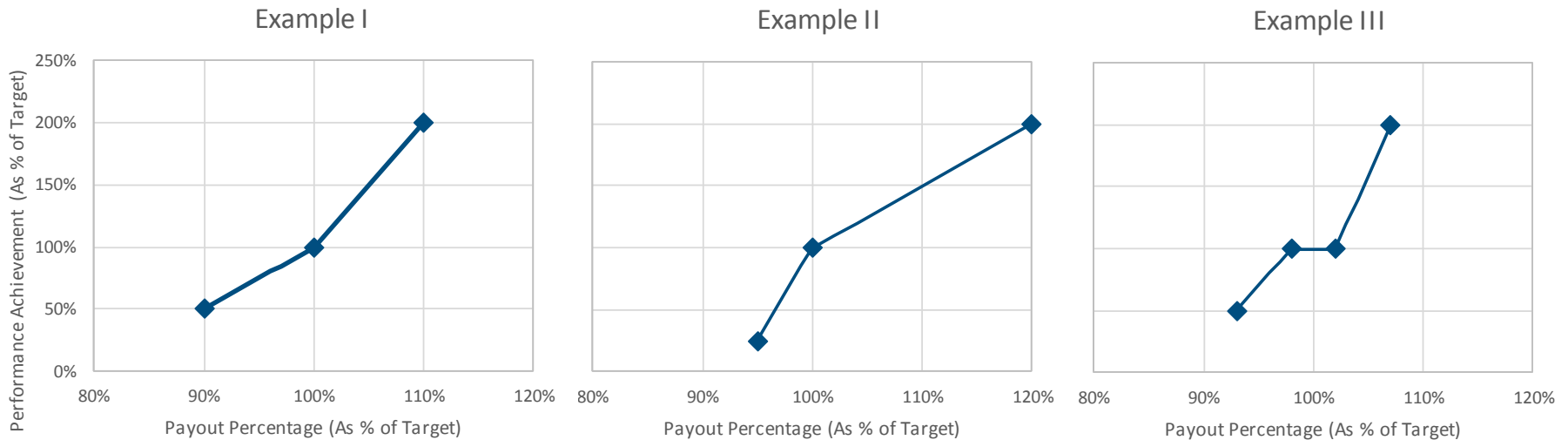
III. Incentive Rigor (Continued)

Consider your threshold, target, and maximum goals through multiple lenses



III. Incentive Rigor (Continued)

Set an appropriate performance-payout scale according to perceived goal difficulty and desired motivating effect



Poll Question #2: Incentive Rigor

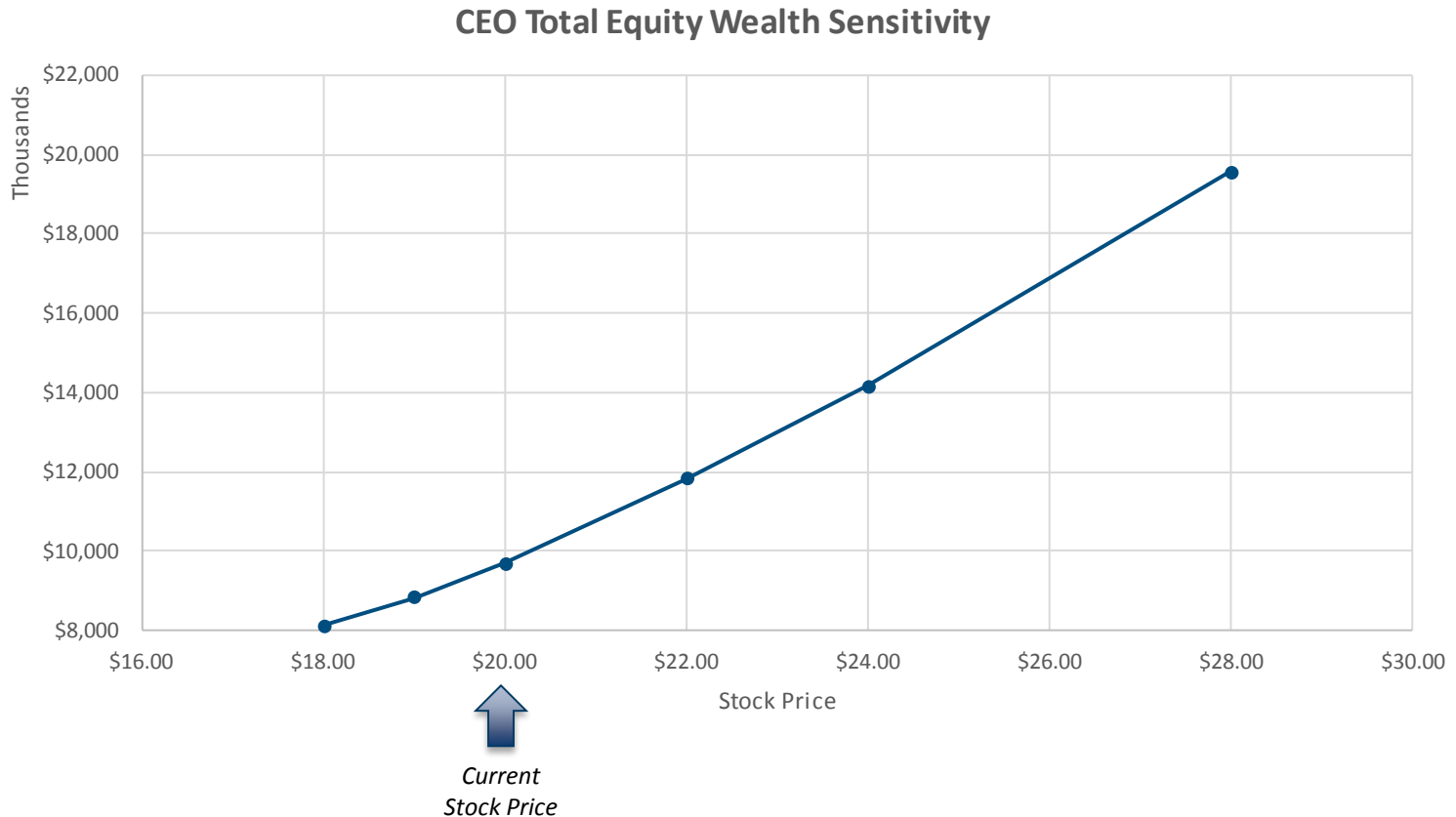
What does your committee's incentive goal discussion and assessment involve (select all that apply)?

- *Budget*
- *Analyst/investor expectations*
- *Historical rates of achievement*
- *Performance-payout slope calibration*
- *Value sharing between company and management*
- *Other*

IV. Wealth Sensitivity

Model your realizable/dynamic pay plans

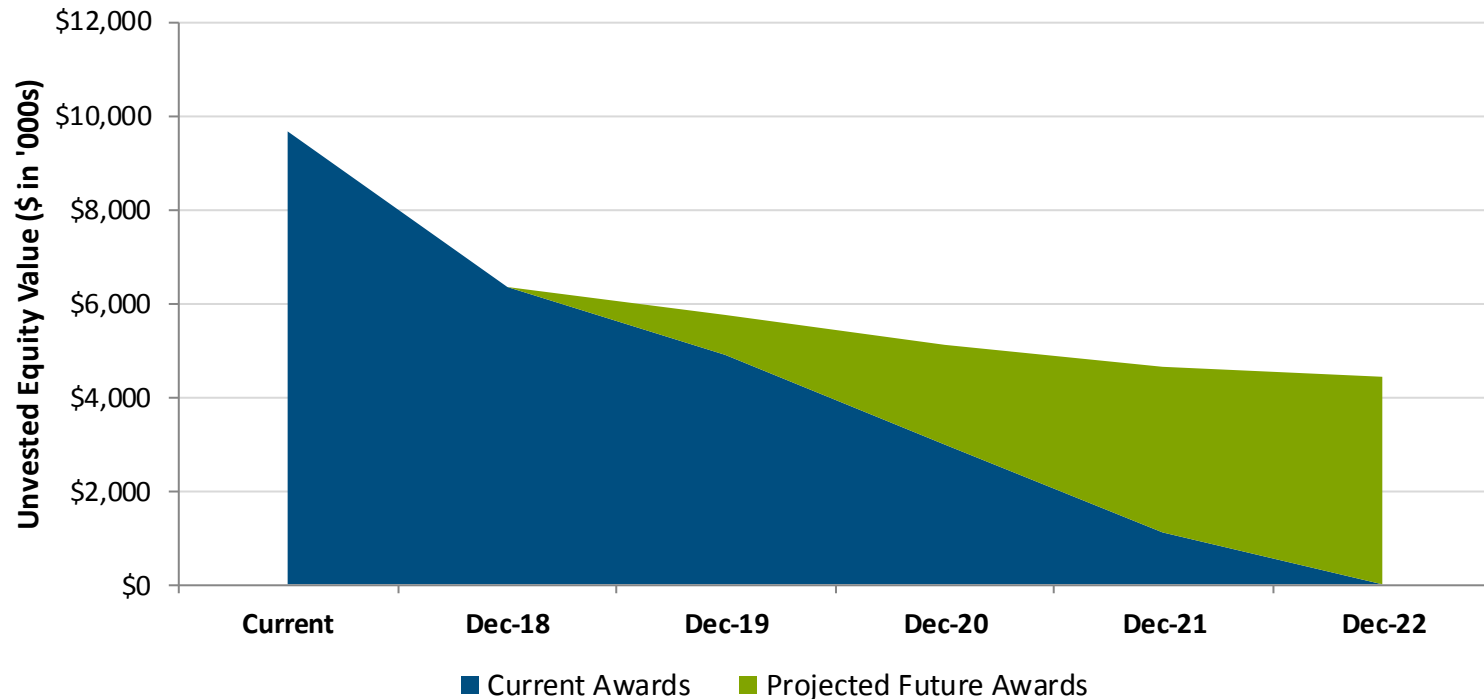
- *Understand your plans' leverage and wealth creation potential*



IV. Wealth Sensitivity (Continued)

Also, keep an eye toward the retention component of the wealth creation potential

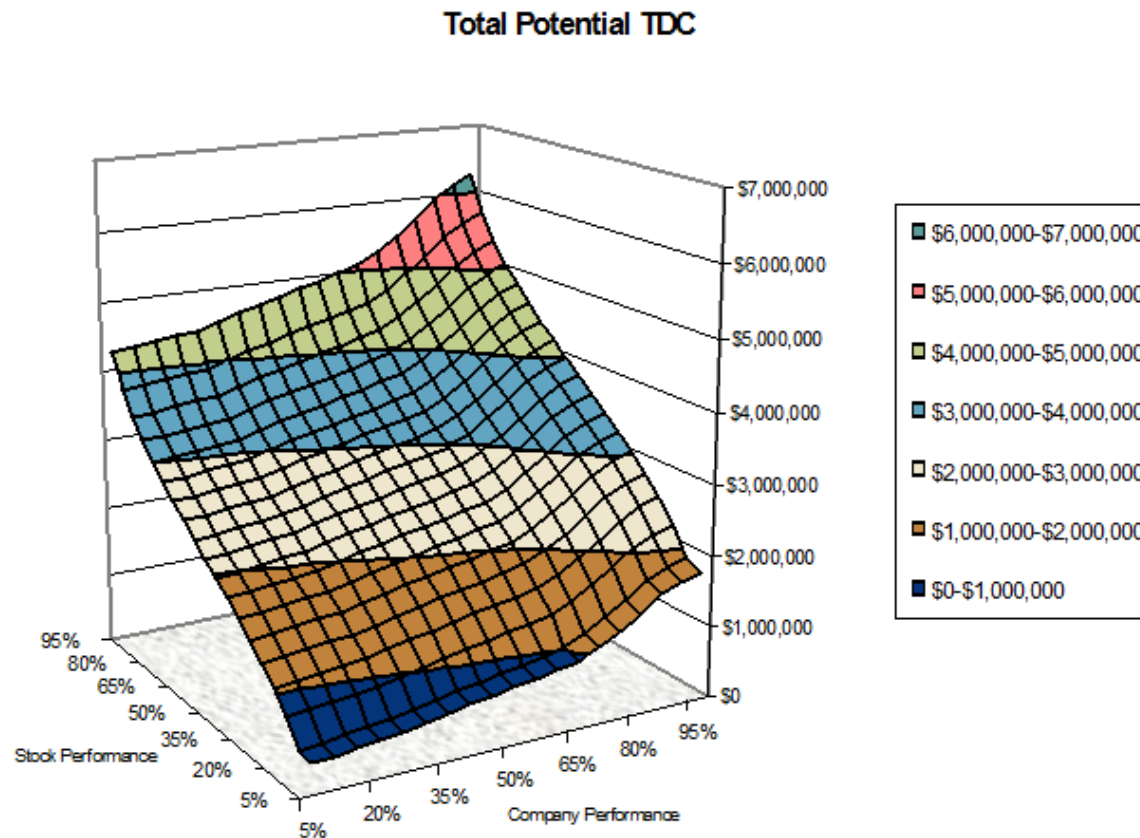
CEO Unvested Equity Value Analysis



IV. Wealth Sensitivity (Continued)

Consider a total compensation perspective

- Understand how much the pay outcomes are driven by financial and stock price performance, and where an incentive may create issues with risk*



Poll Question #3: Wealth Sensitivity

How much does your compensation committee understand the potential wealth creation opportunity of the executive compensation arrangements?

- *Strong understanding*
- *Good understanding*
- *Fair understanding*
- *Minimal understanding*

V. Proxy Advisory Plan

Develop a committee- or board-level viewpoint on the importance of the proxy advisory vote recommendations and commentary



Key Considerations

- ✓ Understanding proxy advisory influence within your investor base
- ✓ ...and in the context of recent company performance and historical say-on-pay outcomes
- ✓ Understanding gaps between current programs and policies and shareholder advisory preferences
- ✓ Understanding your tolerance for a negative outcome

Poll Question #4: Proxy Advisory Plan



What level of importance does your committee place on the results and commentary of the proxy advisory reports?

- *Extremely important*
- *Important*
- *Fairly important*
- *Not important*
- *Not applicable*

V. Proxy Advisory Plan (Continued)

Implement a before-and-after approach to proxy advisory firms

Before

- Committee review of important changes to proxy voting guidelines
- Run simulations of proxy advisory quantitative tests to get ahead of any potential concerns
- Read your CD&A draft through a shareholder advisory lens

After

- Committee-level review and discussion of proxy advisory commentary (compensation-related items)
- Equip shareholder outreach team with talking points to address any of the negative comments
- Schedule “offseason” call with proxy advisory firms directly, if desired

- ✓ Revisit your calendar and enhance your processes
- ✓ Dig deeper, particularly with regard to incentive plans
- ✓ Plan ahead



Questions

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