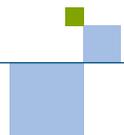


Video Transcript: Leading Minds of Compensation – The Strategic Plan

David Swinford: I really think that your outside advisor actually has to know the strategic plan. First of all, they have to recognize one when they see one, so that they'll know whether or not you really have one. Then they have to understand it. They have to understand your leadership development strategy. They have to know what it is you're trying to do to grow people or if you've elected not to grow your own executives for whatever reason, where are you going to be vulnerable to needing to hire from the outside and how are we going to isolate ourselves from any potential negative effects of importing other people's compensation philosophies and comp plans (because that's what you do when you hire from the outside, inevitably).

Third, they have to know the personalities of the people the committee is dealing with because all compensation is about psychology. The psychology of compensation is much more important than the economics of compensation and people are all different. They tick on different things. We don't pay money in order to give it away. We pay money in order to retain, motivate, and fairly reward great managers for the long term. Motivation is only partly about compensation. Fred Herzberg would have told you back when he was still alive that it wasn't very much about compensation at all. I think most of us think it's more about that. We at least know, like Pavlov, that if you pay somebody to improve cash flow, you will improve cash flow. But we also know that people's sense of fair treatment, their engagement, their pride in the culture, the success of the organization, their own growth prospects, how people around them are treated, whether or not you can be proud to say I work for the company—all those things help to retain and motivate people over time.

Your consultant actually has to understand how all that stuff fits together for you. So even though there are people who don't want the consultant to become embroiled in management and understand management, I don't think your consultant can do a good job unless they actually are that close to managers. Which means that you have to hire somebody who is not just technically independent, but rather somebody who is psychologically independent, who is not afraid to tell the members of the management team that what they want is unreasonable or impractical for whatever reason, and is not afraid to tell the board that, despite the fact that ISS says you should do it, it doesn't make sense. In the latter case, you should really be engaging



Pearl Meyer

major shareholders to show them why you're doing what you're doing and how it hangs together.

