

Pearl Meyer



WomenCorporateDirectors
A Foundation Inspiring Visionary Boards Worldwide

Setting a Data-Informed Strategy for Executive Compensation in 2019

November 14, 2018

Speakers



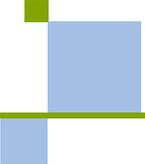
Susan Keating became Chief Executive Officer of the WomenCorporateDirectors Foundation (WCD) on December 1, 2017. Previously, she was President and Chief Executive Officer of the National Foundation for Credit Counseling (NFCC), the largest and longest-serving nonprofit credit counseling organization in the United States. Susan spent 29 years in financial services prior to moving into the nonprofit sector, serving as President and Chief Executive of Allfirst Financial, Inc., the 43rd largest US bank, and the largest US holding of Allied Irish Banks plc (AIB Group). Her additional experience includes managerial and leadership roles with NationsBank, MNC Financial and First Bank System.



Karen Smith Bogart is President of Smith Bogart Consulting and has served on 10 U.S., Canadian, and Asian company boards in semiconductors, building materials, chemicals, imaging, consumer products, online investment services, manufacturing, and batteries. She currently serves on the boards of NYSE-listed Mohawk Industries, and Michelman Inc., a private specialty chemicals company. Karen was recognized with a “Directorship 100” NACD award in 2016, and is an NACD Board Leadership Fellow. Previously, she was a senior executive at Eastman Kodak Company where she managed many of their largest global businesses and also served as Kodak’s Chairman and President of Greater Asia based in Shanghai.

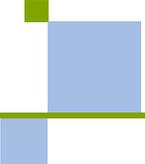


Jan Koors is a senior managing director with Pearl Meyer and president of the firm's Western region. She has more than 25 years of experience in executive compensation and governance, and has consulted to companies of all sizes and industries. She advises company boards and management teams on all aspects of executive and director compensation design, performance measure selection and calibration, and related corporate governance issues. She is also responsible for the firm’s annual Director Compensation Study, published in conjunction with the NACD. Jan is a co-author of the 2017 WCD Thought Leadership Report *The Visionary Board at Work: Developing a Culture of Leadership* and is a frequent speaker at WCD programs.



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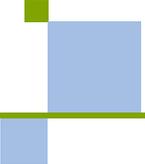
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Increasingly, the term “compensation” committee is a misnomer...

- Broad-based pay issues are getting board attention
 - CEO pay ratio disclosure and comparisons
 - Gender (and other diversity-based) pay “gaps”
- Rising unemployment creating a new “war” for talent
 - New focus on retention and talent development
 - Succession planning
- Reputational risk of culture-based issues
 - #metoo
 - Wells Fargo
 - Volkswagen

Increasingly Compensation Committees are focusing time and attention on non-compensation “human capital” issues...

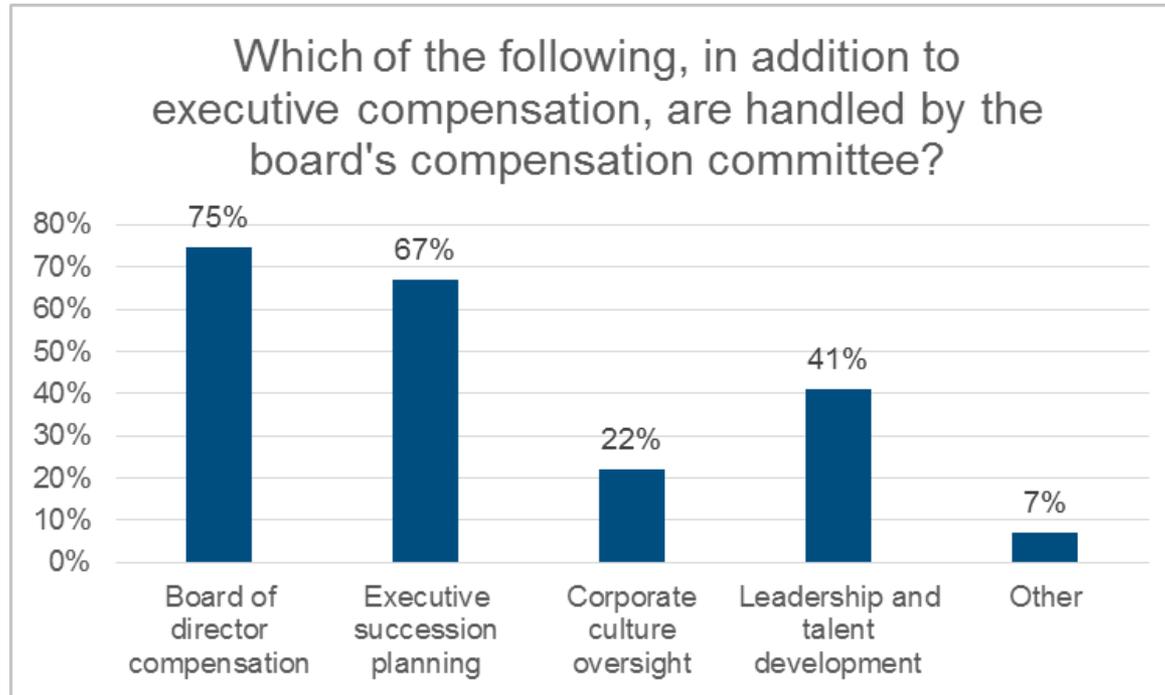


Polling Question #1

- Q1. Does your compensation committee's charter outline responsibilities beyond setting executive and director pay?
 - Yes
 - No
 - Unsure

Increasingly, the term “compensation” committee is a misnomer...

- Our recent survey found that committees are expanding their oversight

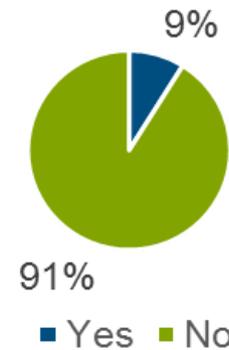


- As part of last year’s NACD/Pearl Meyer Director Compensation Study, we looked at “compensation” committee names as one indication of scope, and found that nearly 20% of the 1400 companies analyzed had renamed their committee to suggest a broader role.

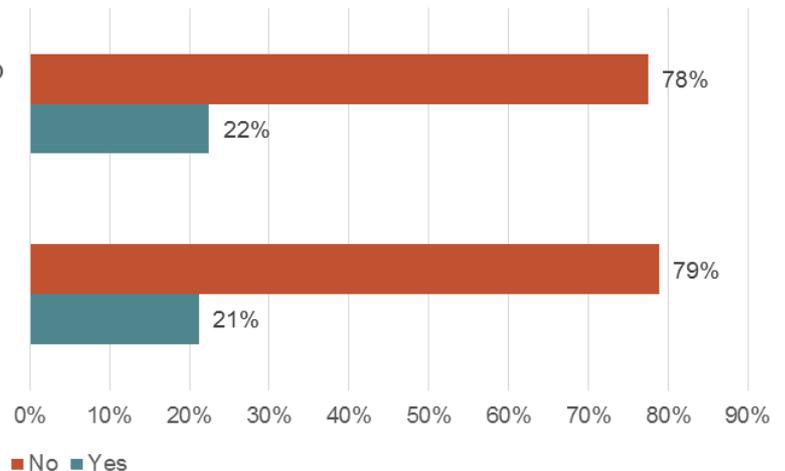
CEO Pay Ratio

- 2018 disclosure of the CEO pay ratio didn't generate the "buzz" many expected.
 - Modest coverage in the media
 - Few companies reported questions from employees
- That said, future year disclosures could pose additional issues.
 - Disparity of pay changes between CEO and median employee
- One potential "silver lining" of the disclosure is the opportunity for companies to enhance communication with employees about pay.

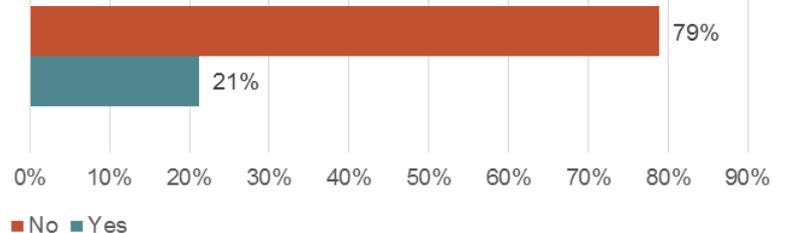
Is your organization fielding pay questions due to CEO Pay Ratio disclosure of median employee pay?



Do you think your employees understand how to appropriately compare their own level of pay to those in similar positions at other companies?

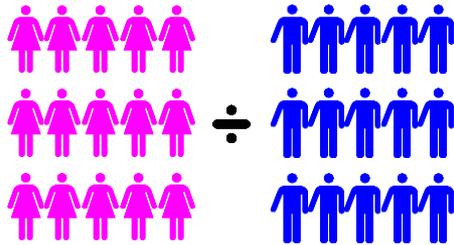


Do you think your employees understand how to appropriately compare their own level of pay to those of their internal colleagues?



Understanding pay “gap” vs. pay “equity”

Pay Gap



Median pay of all women divided by median pay of all men, regardless of position

UK Legislation
Popular in Press

Pay Equity

Equal Pay for Equal Work

Teacher = **Teacher**
Engineer = **Engineer**
Accountant = **Accountant**

Federal Legislation
(Equal Pay Act 1963; Title VII of Civil Rights Act 1964, Lily Ledbetter Fair Pay Act 2009)

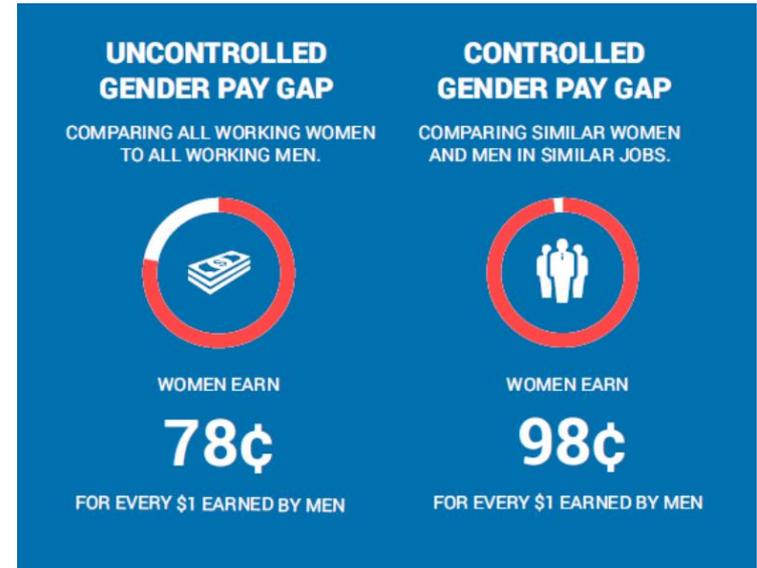
Equal Pay for Comparable Work

No specialized Training = **No specialized training**
Janitor = **Cafeteria worker**

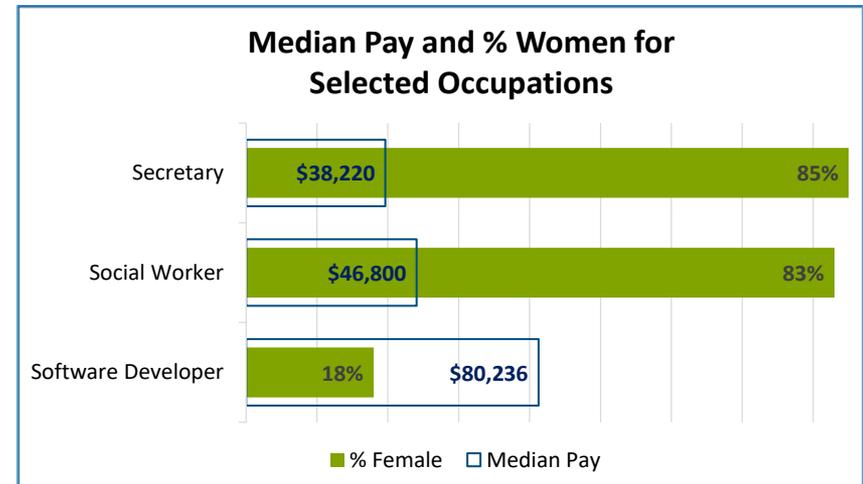
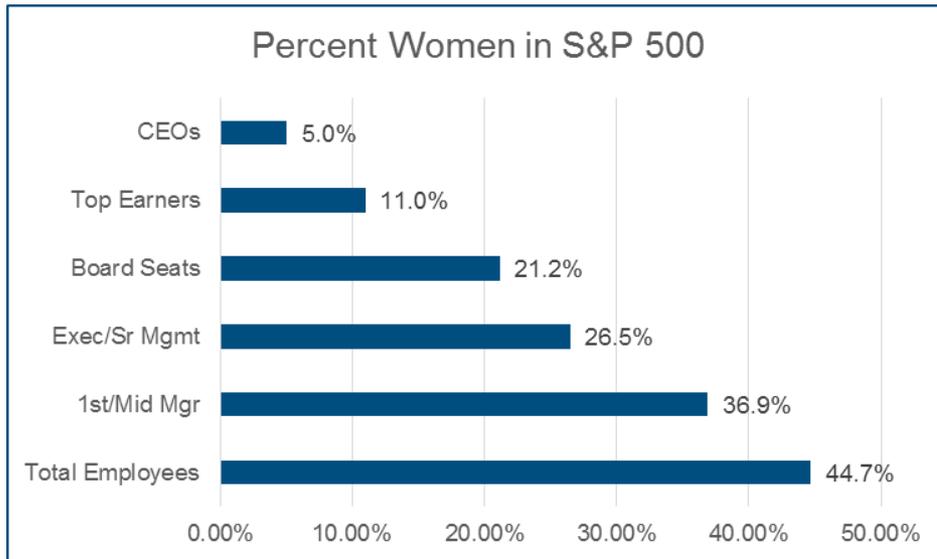
State Legislation
(MA, NJ, and CA as examples)

Gender pay analyses

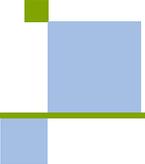
- There is a notable gender **pay gap** at most companies.
 - Driven by the relatively low number of women in senior positions
- However, **pay equity** differences are likely much smaller at most companies.
 - The pay equity comparison doesn't necessarily address the "pink collar" discount issue.



Source: PayScale



Source: Bureau of Labor Statistics

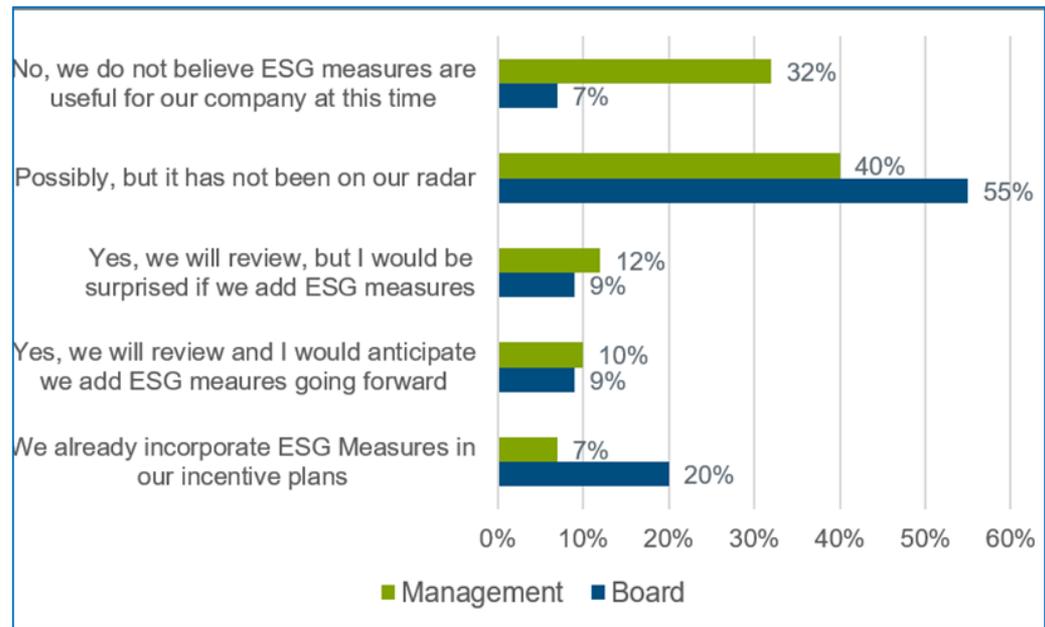


Polling Question #2

- Q2. Has your board had discussions with management regarding gender pay equity and/or the gender pay gap?
 - Yes
 - No
 - Unsure

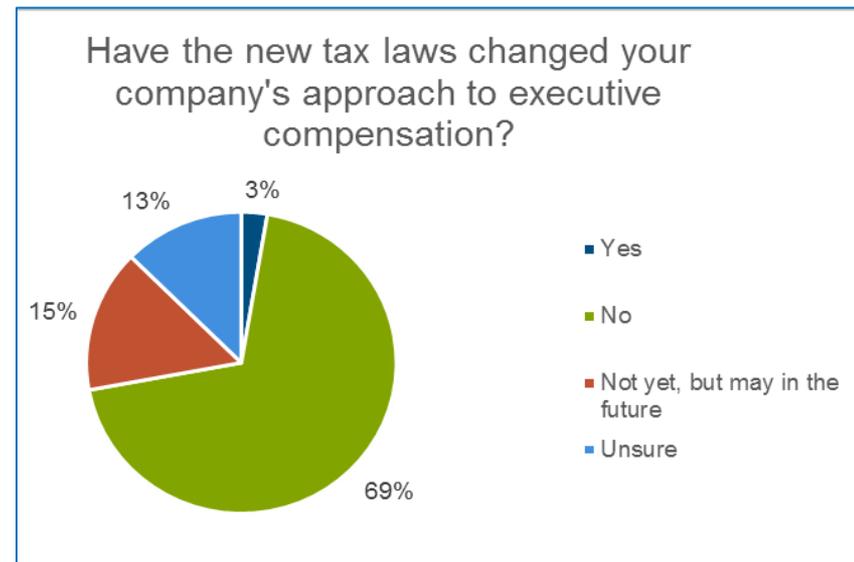
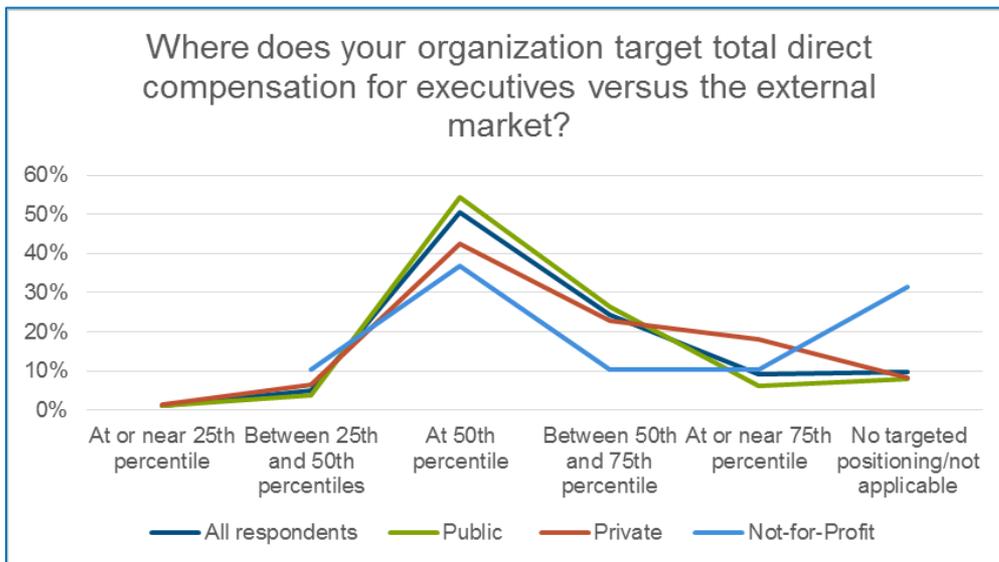
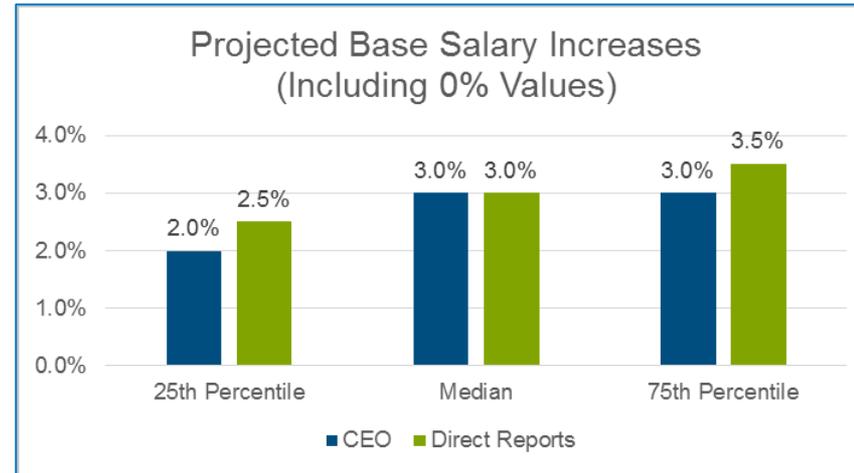
Other ESG issues

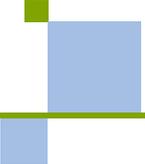
- Increasingly ESG issues are part of institutional investors' focus.
 - Blackrock, Vanguard and SSGA have all opened ESG-focused investment funds.
 - Activists (such as JANA, Trian, and ValueAct) have cited ESG issues as reasons for either investing in or avoiding certain companies.
- In response, we see a number of analytic “tools.”
 - Yahoo!Finance provides a “sustainalytics” score.
 - ISS includes an ESG QualityScore in its reports (although to date the score is informational only).
- But, we are not yet seeing this translate into inclusion of ESG goals in executive incentive plans.
 - In a recent On Point survey, PM asked if companies were incorporating ESG metrics into incentives – more than 50% said “No.”



The looming war for talent has not yet resulted in big changes

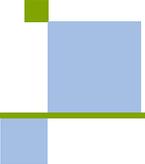
- Despite the lowest unemployment rates in years, companies are not projecting big salary increases.
 - PM's survey results for executive increases are consistent with WorldatWork survey results for 2019 broad-based salary increase budgets (3.0% median).
 - Furthermore, the changes to 162(m) have not persuaded public companies to make changes to executive pay programs.
 - Most companies are still relying on the "safe harbor" of median pay positioning.





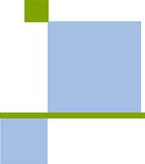
Spotlight on Director Compensation

- ISS has announced that it will look more closely at Director Compensation starting with the 2019 proxies.
- Their quantitative test for “excessive” director compensation will be pay that is above the 95th percentile of comparators.
 - Pay ranges for director compensation tend to be much tighter than executive pay.
 - For example, for the GICS 3030 code (Consumer Staples, Household and Personal Products) the 95th percentile director pay is only +14% higher than median.
- When looking at Director Pay, pay attention to:
 - Meeting fees
 - Initial election equity grants
 - Fixed share equity grants
 - Ad hoc (compensated) assignments for specific individuals or committees
 - Transitioning executives (usually a retiring CEO) who may have high compensation as a Non-Executive Chair



Polling Question #3

- Q3. Will your Board review its Director Pay levels against the ISS quantitative test?
 - Yes
 - No
 - Unsure



Key Takeaways

- Compensation Committees are expanding their areas of oversight.
 - Have a conversation with management about how the Committee can best support management's human capital strategies
 - Review the current charter and annual agenda to determine how any new responsibilities will be incorporated

- Broad-based pay issues will increase in importance.
 - Don't ignore year two of the CEO pay ratio
 - Gender pay equity (and other inclusion and diversity issues) is about fair pay and fair opportunity
 - Findings may require different "fixes"

- Keep an eye on recruiting and turnover trends.
 - Data on pay increases, pay positioning, etc. are lagging indicators.
 - Other data, such as employee turnover and open position times, may say more about current trends.

- Don't forget to look at Director Pay
 - Given ISS focus, companies should consider at least a cursory competitive review every year.



Questions?