Pearl Meyer

TRENDS & ISSUES

Weigh the Human Factor When Communicating the CEO Pay Ratio

AUTHOR

Sharon Podstupka
Principal

Watching the movie *Sully*—the true story of Captain Chesley "Sully" Sullenberger's emergency landing in the Hudson River after US Airways Flight 1549 struck a flock of geese—got me thinking about the CEO Pay Ratio. (The film follows the investigation of the 2009 accident, the swirling publicity, and Sully's internal agony about his fateful decision and whether he made the right choice.)

With every passing day, it's becoming more apparent that Congress is not going to rescind the CEO Pay Ratio rule, a key provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Therefore, public companies will have to provide CEO Pay Ratio disclosures in their 2018 proxy statements. So, what does that have to do with landing a plane in a river?

Over the past several months, we've been watching companies carefully sort through data and crunch numbers to identify the median employee whose pay will determine the ratio. We've talked to clients about how we can help them make sure their methodology is appropriate based on their industry, size, and operational complexity. Now of course, as compensation technicians and legal experts, it's our collective job to make sure we thoroughly scrutinize all the data. We have a responsibility to ensure that the numbers disclosed are compliant and correct—just as it was the National Transportation Safety Board's (NTSB) responsibility to investigate data that led to Captain Sully's decision to land in the river.

> *"If we silo our focus on the pay ratio as only a compliance exercise, we could find ourselves in a very dangerous position."*

Now here's the twist (and a spoiler alert). In the film, all of the hard data compiled by the NTSB, including multiple computer-generated landing simulations, indicated that Captain Sully could have landed his aircraft safely at LaGuardia Airport instead of jeopardizing the lives of the crew and passengers by landing in the river. However, what the NTSB failed to

As published in *WorldatWork Compensation Focus*

August 2017

consider in all of its calculations was the human factor and the few seconds Captain Sully had to decide. Again, what does this have to do with compensation disclosure?

The data used to determine median employee pay will be accurate in most cases. Those numbers are driven by facts. But as companies are focused on their calculations, we cannot overlook the human aspect of the rule. From an individual worker's perspective, the median employee pay is not rooted in data or even necessarily facts. First, the median employee pay represents an actual person, a co-worker, and the amount that person earns. Second, most people won't care to think about the data that led to the disclosed number. Most will think about how their pay compares to that number and will internalize the data and assign meaning in a unique and possibly unpredictable way. Every person with any knowledge of the ratio will have some feeling toward it. Some will be ambivalent, but many will care greatly—and they pose the highest risk of distraction to your organization and a potential danger to productivity and engagement.

The human factor connected to the CEO Pay Ratio should be as important to your organization as the disclosure itself. One way to approach this challenge is to think of it as if it were a significant corporate event, such as an acquisition or a layoff, where a highly employee-centric approach is warranted. This means that while your team continues to work on the calculations and develop the disclosure narrative, you should also be outlining:

- Who the key internal stakeholders are and the critical information they need to know about the CEO Pay Ratio;
- Our key messages about the methodology behind the calculation, the defense for the actual ratio itself (especially if it's a huge number), and the rationale for the median employee pay and how it relates to the business; and
- The collateral materials and other potential activities/plans we need to develop beyond the disclosure narrative to support our communication objectives.

It may be helpful to hold a brainstorming workshop to inventory the many possible questions or concerns that employees might raise with management, discuss among themselves, or quietly mull over. Look for themes and identify the issues that are most likely to be voiced. Work with your HR, internal communications, and/or PR teams to create thoughtful answers that are honest, accurate, and concise. Then, you can decide how and when to use your content with your various stakeholder groups. For example, you may decide to create frequently asked questions that can be distributed broadly or to distinct populations. Or, you may decide you need to hold training sessions for managers to ensure they can comfortably address a range of compensation topics (e.g., how pay is determined, how performance plays a role, why comparing compensation to that of the median employee may not be the best comparison, etc.), as well as triage questions to any other appropriate resources (e.g., HR business partners).

As with any communication strategy, your approach will be unique based on your organization's culture, communication practices, total rewards and/or compensation philosophy, and employee engagement strategy.

So back to Captain Sully and the NTSB. As compensation experts, we are wired to look at and rely heavily on data—from benchmarking to pay-for-performance analysis. It drives almost everything we do, especially when it comes to designing compensation plans and making decisions. But like the key message from the movie, we cannot always take the humanity out of our calculations and modeling. Pay can be a highly emotional issue to address with employees. It can drive short- and long-term behaviors—both positively and negatively. If we silo our focus on the CEO Pay Ratio as only a compliance and data-driven exercise, we could find ourselves in a very dangerous position.

About the Author

Sharon Podstupka is a principal in the New York office of Pearl Meyer. She is a key member of the firm’s Thought Leadership team and is focused on executive and broad-based employee pay communication consulting. She works closely with her clients in a wide range of industries to develop internal communications that educate and engage people in their pay programs. Ms. Podstupka also has extensive experience in developing critical shareholder communications that clearly explain pay-for-performance in the context of today’s challenging say-on-pay environment. Her key areas of expertise are communication strategy, stakeholder management, and content development.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer’s global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Francisco.

Pearl Meyer

NEW YORK
570 Lexington Avenue, 7th Floor
New York, NY 10022
(212) 644-2300
newyork@pearlmeyer.com

ATLANTA
One Alliance Center
3500 Lenox Road, NE, Suite 1708
Atlanta, GA 30326
(770) 261-4080
atlanta@pearlmeyer.com

BOSTON
93 Worcester Street, Suite 100
Wellesley, MA 02481
(508) 460-9600
boston@pearlmeyer.com

CHARLOTTE
3326 Siskey Parkway, Suite 330
Matthews, NC 28105
(704) 844-6626
charlotte@pearlmeyer.com

CHICAGO
123 N. Wacker Drive, Suite 860
Chicago, IL 60606
(312) 242-3050
chicago@pearlmeyer.com

HOUSTON
Three Riverway, Suite 1575
Houston, TX 77056
(713) 568-2200
houston@pearlmeyer.com

LONDON
Collegiate House
9 St. Thomas Street
London SE1 9RY
+44 (0)20 3384 6711
london@pearlmeyer.com

LOS ANGELES
550 S. Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6500
losangeles@pearlmeyer.com

SAN FRANCISCO
1390 Market Street, Suite 200
San Francisco, CA 94102
(415) 651-4560
sanfrancisco@pearlmeyer.com

For more information on Pearl Meyer, visit us at www.pearlmeyer.com or contact us at (212) 644-2300.