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How Compensation Committees Are Battling Uncertainty, Talent Woes

By Mandy Wright

Some experts say attracting and retaining talent isn't all about the money. But amid the Great Resignation, what else are compensation committees thinking about? To discuss this and how boards are managing uncertainty in their pay plans, NACD in late March brought together speakers Eric Hosken, partner at Compensation Advisory Partners; Lori Miller, partner at Farient Advisors; Matt Turner, a managing director at Pearl Meyer; and Christine Y. Yan, a board member at Ansell, Cabot Corp., Modine Manufacturing Co., and Onsemi. Lindsey Baker, NACD director of partner relations, moderated the event. Below are key questions and answers from that conversation.

How can companies keep incentive plans effective and relevant in this uncertain environment?

Turner: Number one is the category of performance measures themselves. Performance measures are drivers of value. But are there things you can do to tailor the measures to remove some of the variability? You want your management team to be responsible for all aspects of how value is created, but you also want to make sure that they're focused on the things they can control.

Number two are the performance ranges. Most of my clients have widened their performance ranges not only for profit, but also for revenue growth for 2022, reflecting the increased expected variance of results. A good rule of thumb is to avoid plus or minus X percent just because that's what peers are doing. What are the factors that are driving the expected variability in your results? That may lead you to a plus or minus threshold. It might even be asymmetrical. You might say, "We know where the downside risk is. We know what the upside risk is. There's more on one side than the other." Factor that in.

Number three is the number of measures. We're seeing an increase in the number of performance measures in short-term and long-term plans. Part of that is driven by the [environmental, social, and governance] agenda. But part of it is companies taking a good look and saying, "We want to make sure we have covered the full range of performance aspects that lead to value creation for shareholders." That might mean an incremental measure in your plan.

Finally, don't discount the use of discretion, the ability to look at the results at the end and recognize that you know that doing this job can't always be reduced to a couple of performance measures.

How have the boards you are involved with shifted conversations to reflect more recent human capital needs?

Yan: Seventy-five percent of my boards have changed the compensation committee to human capital and compensation. A lot of companies have changed not just the name, but also the charter to reflect that human capital is the most important asset of the company. The committee looks at hiring practices and diversity, equity, and inclusion. For diversity, we look at workforce representation from minority groups, pay equity, and talent and leadership development. How do we keep our employees safe during COVID? We also talk about flexibility and work policy post-COVID. With employee engagement surveys, we look at turnover stats and employee engagement scores to see how engaged people are beyond the CEO and their direct reports.

One of my boards would go to operating locations a couple times a year before COVID to visit locations. The board had opportunities to interact with employees. One of the trips, we had a picnic and we invited all employees. Any employee could walk up to a board member and ask any questions and vice versa. That open environment gives the board a chance to directly see how the organization is truly living and breathing the company's value and purpose, and feel the company's culture deeper down in the organization.

Another thing I like to do is arrive at a board meeting the day before and have dinner with an affinity group and have open dialogue with them. Some topics [I would discuss with them] include what is going well for them and where improvement needs to be made. Is our company providing the right opportunity, making sure everybody's voice is heard, and driving a culture of openness and inclusion? These informal interactions provide a lot of insights into company culture.

How has COVID-19 impacted the market for executive talent and what are the implications for executive compensation?

Hosken: It doesn't matter where you're located. There is competitive pressure on wages for executives and it's giving executives more flexibility. The positive side for some companies in smaller cities, where you may feel like you don't have as many options for talent (and where, historically, you had to not only find the right candidate, but the right candidate that was willing to relocate to your city) is that now those companies are realizing that they can compete for talent elsewhere, but also that they have to pay a nationally competitive wage to do it.

You also have the potential for people to move or to decide they don't want to live in high-cost cities like New York anymore. They may want to go somewhere with a lower cost of living, and it doesn't necessarily mean that they're going to have to take lower pay. Many companies have different salary structures for people in different locations, and there's going to be pressure for that to go away. For more and more talent, the United States is going to see a national labor market, especially for jobs that aren't rooted to a single place.

Some executives feel like it's very important for the management team to have face time together, even if there are people that are located in Hong Kong—they want them to spend time with the executive staff in the home office. Zoom doesn't really replicate that discussion-in-the-hall type of situation. Some companies are going to approach hybrid work as, "We want you in the office, and out of the office on an exception basis." But other companies, by the nature of their workforce, are going to be remote a lot of the time. The biggest impact on executive compensation is the change in the market from local to more national.

With increased expectations of the compensation committee, how have committee chairs' relationships with management, consultants, and the board shifted?

Miller: In the past, our relationships used to be more routine and predictable. Now, we work a lot with the committee chair and management to talk about what should be on the agenda. Committee meetings are much more fluid. In addition to the standard agenda items, more topics are getting raised that require follow up at the next meetings, such as talent management and retention. What's going on with attrition? How are we losing people? What insights do we get from the exit interviews? We're working a lot more with the committee chairs to help design how the meetings should flow. The committee chair is driving what's important and they don't want to hear, "Well on this day, we normally do goal setting, and on this day, we do compensation levels."

The amount of time that I've seen the chairs commit to these committees is exorbitant. They almost feel like they are employees. Committee chairs are having a lot of meetings in between, too, dealing with whatever new issues are coming up and raising questions, providing guidance. What do we need to work on? How do we want to make this meeting run? What does management want to talk about? I'll have clients who will tell me, "I had three board committee meetings last week because we're dealing with the issue of workforce safety, or we're dealing with talent." The relationship [between management and the board] is much closer right now. They are seeking out advice from the directors more often.

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