NACD THE FUTURE OF THE AMERICAN BOARD

COMPENSATION COMMITTEE BLUEPRINT

In Partnership With Pearl Meyer

ABOUT NACD

The National Association of Corporate Directors (NACD) is the premier membership organization for board directors who want to expand their knowledge, grow their network, and maximize their potential.

As the unmatched authority in corporate governance, NACD sets the standards of excellence through its research and community-driven director education, programming, and publications. Directors trust NACD to arm them with the relevant insights to make high-quality decisions on the most pressing and strategic issues facing their businesses today.

NACD also prepares leaders to meet tomorrow's biggest challenges. The NACD Directorship Certification® is the leading director credential in the United States. It sets a new standard for director education, positions directors to meet boardroom challenges, and includes an ongoing education requirement that prepares directors for what is next.

With an ever-expanding community of more than 23,000 members and a nationwide chapter network, our impact is both local and global. NACD members are driven by a common purpose: to be trusted catalysts of economic opportunity and positive change—in business and in the communities we serve.

To learn more about NACD, visit www.nacdonline.org.

ABOUT THE FUTURE OF THE AMERICAN BOARD

What is the Future of the American Board Initiative?
NACD convened the Future of the American Board Commission—a diverse, influential group of seasoned board leaders from top private and public companies and notable governance practitioners from across the investor, regulatory, and academic communities—to help guide boards through an increasingly turbulent and unpredictable future.

The Commission's perspectives and experiences shaped a comprehensive framework for board governance centered on 10 Key Principles that boards can use and adapt to ensure they are fit for the future. This framework, released in the fall of 2022, is accompanied by a set of practical blueprints, focused on the shifting roles of the key board committees, issued in the spring of 2023. Partners leading these working groups include KPMG (audit committee), Marsh McLennan (risk committee), Pearl Meyer (compensation committee) and Korn Ferry (nominating and governance committee).

What are the main takeaways?
The report's 10 Key Principles provide guidance for boards that is rooted in progress American boards have made since NACD issued the first set of Key Agreed Principles in the wake of the global financial crisis of 2008. These updated principles are reflective of intensifying pressures and expectations that will affect companies and their governance in the coming years. Most important, in a world that seems less governable, the quality of board governance will be increasingly vital to the sustainability of our enterprises and trust in our market economy.

How to use the report and the committee blueprints:
What is different about the report is that the Commission developed high-level principles with key questions that are meant to spur board discussion on critical improvements. The Commission understood that prescriptive, one-size-fits-all advice wouldn't be effective for individual boards and companies. The Commission expects that as boards confront these questions, they will come to different conclusions based on their level of maturity, the strategies they are pursuing, and the pressures they are facing. The four blueprints help translate the Commission's principles into practical guidance at the board-committee level.

COMPENSATION COMMITTEE BLUEPRINT

"In years past, we have counseled boards to go beyond best practices, to raise the bar and avoid standard executive compensation design, and to think strategically and act decisively. Those approaches are even more relevant in today's governance climate. We believe that boards are likely to encounter unforeseen and perhaps unpredictable challenges. Should our compensation committee expand its role to encompass broader talent management responsibilities?"

That 2017 introduction to Pearl Meyer's annual "Top Five" issues for the compensation committee[1] set the stage for an evolving dialogue that has grown more robust—and more real—over the last six years. As we fast-forward to 2023 and reflect on the recent publication of NACD's landmark guide, *The Future of the American Board*, the compensation committee is more than it has ever been: more strategic, more planful, more diverse, and more attuned to issues far beyond executive compensation. In short, this committee is more central than ever before to the effective governance and performance of any public or private company.

[1] Pearl Meyer, *Compensation 2017: The Top Five Questions Boards Should Be Asking* (Pearl Meyer & Partners LLC, 2017), p. 1.

What does that mean for the visionary directors who serve on today's compensation committees? Certainly, it means more responsibility, time, and effort. It also means there are many of the same practical and intellectual demands on these directors as there are on management teams, including the need for a deeper understanding of broader workforce dynamics and a recognition that human capital may be the make-or-break factor in the long-term success of an organization.

Ongoing discussions over the years with directors across industries, geographies, company sizes, and stages have revealed that the pressure is intense. If, when, and how to expand the scope of the compensation committee beyond its traditional purview is not a binary decision based on a single conversation. To accompany those on this journey—no matter how early-stage or well on their way they may be—this guide will

1. explore some of the irreversible and universally impactful tipping points that have set us all on this path;
2. provide real-world examples—from directors—of how committee discussions and deliberations are evolving;
3. outline some milestones that can help indicate when your committee may be ready to fully and formally embrace the synergy of compensation and leadership development; and
4. walk through the practical, process-oriented actions that must take place as committee governance advances.

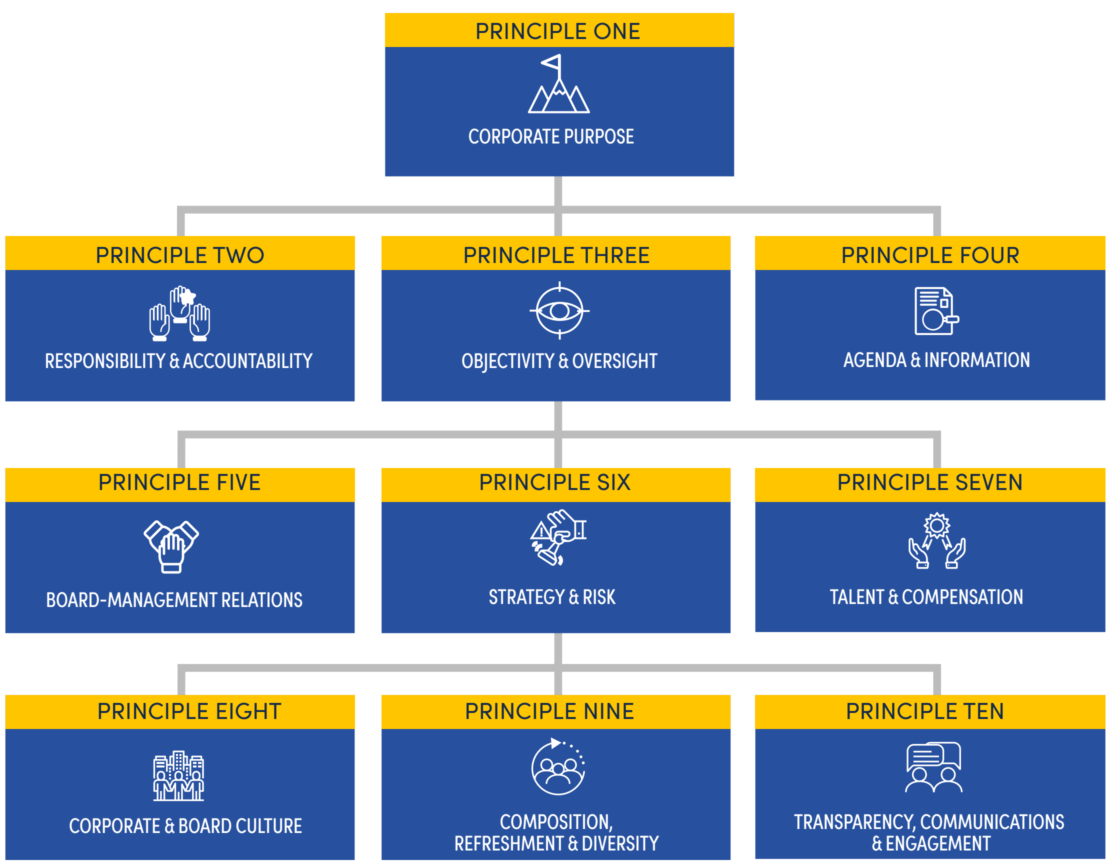
This blueprint for the next-generation compensation and human capital committee is based not only on the extensive work of leading consultants in executive compensation and leadership development, but also on the firsthand experiences and expertise of forward-thinking and change-oriented directors. The collective insight, advice, and encouragement to transform in service of a broad set of stakeholders will lead to multiple positive outcomes and, ultimately, to long-term value creation.

You Are Here

NACD's new *Future of the American Board: A Framework for Governing into the Future* is based on 10 principles that are "grounded in the common interest of boards, management, employees, shareholders, and other stakeholders in the corporate objective of long-term value creation."[2] The principles also map clearly to the governance practices of the full board and each of its committees and acknowledge and embrace the complex environment in which businesses operate today.

The framework is holistic and comprehensive. The recent changes it reflects—economic, societal, geopolitical, technological, etc.—have far-reaching implications for companies and have impacted management teams and the compensation committee in significant ways. There is a growing expectation that compensation committees will work more closely with management on an expanded set of talent management priorities. To understand how best to meet this expectation, it's important to reflect on exactly how we arrived at this unique point in time.

As the idea of "shareholder primacy" has been increasingly challenged by the notion of "stakeholder capitalism," there has been a fundamental pivot away from corporations focusing exclusively on shareholder returns and toward focusing on a broader set of strategic priorities and outcomes that include shareholder returns. Director Cindie Jamison observes, "Corporate governance changes slowly, but it *is* expanding."



[2] NACD, *Future of the American Board: A Framework for Governing into the Future* (Arlington, VA: NACD, 2022), p. 10.

The drivers of this change are numerous, but a few stand out as accelerators of this shift in thinking and accountability. Going back to the financial crisis of 2008 and the resulting Dodd-Frank Act, the implications of myopic profit-seeking without regard to its broader consequences sowed seeds of discontent and highlighted a widening gap in income inequality. Increasing political polarization in the United States and globally likewise ratcheted up "us versus them" public discourse.

More recently, the social justice movement highlighted persistent, and in some cases systemic, inequalities around race, gender, sexual orientation, and religion, among others. These issues have pushed the concept of diversity, equity, and inclusion (DE&I) to the forefront in board discussions. Then, we collectively faced the global COVID-19 pandemic. It upended economies, health-care systems, and supply chains. It wreaked havoc on transportation, family care, and education. And it caused many people to reevaluate their personal priorities and seek to redefine their relationship with work. In the shadow of the pandemic, there are now the challenging effects of inflation and economic uncertainty.

Director Diane Gherson observed that the shift started just five years ago, in the wake of #metoo. "Up until then, directors were more narrowly focused. Move the clock forward and now they are regularly asking questions about workplace culture, engagement, turnover, mental health, and well-being programs. It's amazing how quickly boards moved."

> "Today you have champions inside our companies in leadership roles who are not just complying with these changes, they're fully embracing them. They're leading the board as opposed to the board pushing. This is a sea change."
>
> —Director Cindie Jamison

Concurrent with these and other events, we now have four generations in the workforce and its impact is far more than a curiosity. Whether it's because of or despite the events of the past decade, younger generations are purpose-driven and have different views on employment, work-life balance, leadership, social responsibility, and success. And although they are represented in differing proportions across employers, they are the future leaders, and their views and priorities must be addressed. Jamison says, "The focus is moving from the Boomers to the Gen Xers and Millennials, and even the Zs. They're slowly but surely climbing into the corporate leadership ranks and these issues matter greatly to them. Today you have champions inside our companies in leadership roles who are not just complying with these changes, they're fully embracing them. They're leading the board as opposed to the board pushing. This is a sea change."

What it means for companies is profound.

When you combine the impact of these historic events with the generational swing that is well underway, the result is a swiftly emerging new expectation about the role of a corporation. It is no longer enough to create jobs and value. We are also looking to corporations to make meaningful improvements to the broad set of challenges we collectively face. This has become manifest in a variety of significant ways, including investors, employees, customers, and suppliers favoring relationships with companies that are good stewards of the environment, or that truly embrace diversity, equity, and inclusion, or that demonstrate socially responsible business practices and leadership.

As a result of this material change, where failing to meet expectations represents large-scale risk, boards are having to take into account their people more than ever. This encompasses more than just the leadership team and includes culture, engagement, and intrinsic motivations. While the shift means looking not just at the employee or the customer, but thinking about the entirety of populations that the corporation affects directly or indirectly, there is a very real need now for boards to think deeply about their broader workforce. "We are thinking about others in the company that the compensation committee needs to interact with beyond the CEO and I welcome that," says Director Patricia Fili-Krushel.

Directors understand, too, exactly how this expansion of their purview intersects with business strategy. In discussing the challenges of recruiting and retention, Director Laurie Siegel says, "There is a real risk to a company's ability to execute against either operational or strategic goals. But there's also upside in the ability to strategically be a winner in this evolving labor market."

Gherson agrees, noting, "Boards are asking about the company's overall people strategy and whether it can be a differentiator."

So it is not surprising that we are seeing what had been a nascent idea—formal expansion of the role and responsibility of the compensation committee—coming to fruition. Director Raj Batra says, "I find that it's an increasingly important role of the compensation committee that you wouldn't typically think of, but it's just reality. It's mitigating probably the singular enterprise risk when you're ensuring you're recruiting and retaining the best talent." Indeed, the compensation committee is in a unique position to provide leadership and counsel to the corporation with respect to its most important asset: its people.

Director Dynamics

As the compensation committee is asked to weigh in more frequently on a variety of human capital and organizational development concerns, not only is the discussion expanding, but also the dynamic is changing in the boardroom. Many directors are becoming more engaged and direct. As a result, the compensation committees they serve grow more agile and ready to take part in transparent discussions about the complexities of dealing with major crises and how to develop leaders who can rise to meet these challenges. Batra says, "You can't overestimate how important it is to have good emotional intelligence on the board. CEOs today need resilience on their board, and now you're going on a journey with them and helping navigate all the things that demand attention. Even the brightest and best CEOs out there need support."

Dynamics: noun—the forces or properties which stimulate growth, development, or change within a system or process

Fili-Krushel adds, "We're in such uncharted waters these days. It feels like it's all hands on deck in terms of how important the board is in adding value and being a resource."

Our experience with thousands of companies indicates the most successful CEOs are displaying more openness and partnership with their boards, as well as with their chief human resource officers (CHROs). There is a trusted partnership model emerging among compensation committees, CEOs, CHROs, and their advisors, and it is driving more productive and valuable dialogue. Gherson says, "It's more than a discussion, it's more active. Let's talk about the specific plan to get there and let's look at the milestones along the way."

At the same time, the board role of oversight, not management, is acknowledged and respected. Siegel observes, "It's okay for us to have a discussion about anything. We're not imposing on management's decision-making, but to the extent that we bring experience to those decisions, hopefully the board is helping problem-solve something that may be quite difficult for the CEO."

"There's no longer a tried-and-true way of doing things," adds Fili-Krushel. "Every corporate culture is so different. Now you feel more like you're a partner with the CEO, with the head of HR, with the general counsel. I think it's a new relationship."

Naturally, any successful relationship is built on a bedrock of trust and alignment. New and often difficult discussions between management and directors on topics that may never have been on the table before, but that are now essential for effective leadership and corporate governance, demand some new rules of the road. For compensation committees wanting to operate at maximum effectiveness in this new paradigm, there are a few level-setting guidelines to consider.

1. **Clarify the roles between independent directors and management, specifically in the realm of human capital.** To the degree possible, outline broadly those issues and challenges that directors want management to take on in order to improve leadership and advance the organization's human capital development. Communicate how directors plan to assist and advise management in these areas.

2. **Set the tone from the chair.** The committee chair should set the tone in partnership with the CEO and CHRO, communicating to all parties how issues of human capital management and compensation are viewed philosophically and will be addressed practically.
3. **Ask the right questions in the right way.** Be clear about discussions where the board is seeking insight and background, versus specific requests to management for data, dashboards, and progress against goals.
4. **Assess new information with timeliness.** Management will need to provide directors with requested information, but in turn, the board should be ready to review, assess, and provide appropriate feedback in a timely manner. Issues of talent and culture can be immediate. Waiting for management to produce a perfected document or until the next-scheduled compensation committee meeting to deliberate can mean windows of opportunity close before action can be taken.

Is the Committee Ready?

As leading directors explore the expanding scope of responsibilities beyond traditional executive compensation parameters, some may quickly realize it requires more than their own individual interest in moving the needle on human capital management.

They may be working, alone or with others, toward a change of the committee's name, updates to its charter, and the ongoing, active, and productive discussions of multiple parties. And while tactical changes like these are valuable external signals and represent expanded involvement in talent management, it is important to evaluate the full committee's readiness for formally taking on the additional responsibilities that come with an expanded scope.

Is the committee leadership and membership fully engaged and routinely discussing broader human capital topics, ranging from succession planning and leadership development to environmental, social, and governance (ESG) issues and gender and racial pay equity? This will be the first indication of a unified group. Jamison reflects that many committees may be further along the continuum than they recognize. "We were already doing a lot in the area of human capital management on all of my boards."

For those committees in transition, one way to raise awareness and initiate conversations as to broader talent management topics is to incorporate an HR-focused agenda item at each committee meeting. An update can be led by the CHRO, intended to shine a light on key human capital issues currently affecting the organization. The topics can vary from meeting to meeting, and can include updates on turnover, talent acquisition and development, or progress on diversity initiatives. This provides a great opportunity to contextualize compensation discussions and often springboards into strategic discussions on key organizational imperatives. For example, by examining turnover, committee members are better positioned to offer suggestions about retention strategies and succession planning efforts. Batra offers an example. "We're looking at engagement surveys now, which are critical articles of evidence that give us insight into the pulse of the organization. The compensation committee wants to know if the culture is aligned with the leadership."

In fact, such dialogue and strategic engagement between the board and the CHRO is itself an acknowledgment of the elevation of workforce issues to the board level, and many boards are increasingly interested in who fills that seat. "The HR field is growing, learning, and expanding all the time," says Jamison. "The CHRO has become hugely vital, and finding a world-class CHRO—that's a hard job to fill."

A Readiness Checklist for Compensation Committees Evolving Their Charter

- ☐ Documentation of the committee's expectations and goals
- ☐ Committee meeting calendar, identifying timing and cadence of additional areas of focus
- ☐ Access to external advisors to support the committee in its expanded role
- ☐ Alignment with other committees and the full board as to the allocation of broader human capital responsibilities
- ☐ Committee chair and member skill set and experience that is sufficiently diverse to enable appropriate oversight and involvement
- ☐ Demonstrated support of the CEO and management
- ☐ Strong partnership with the CHRO and head of organizational development

An additional, related readiness indicator is how the board approaches its own turnover and talent management. Compensation committee members must have the experience and skills that add value to these conversations. Siegel says, "The board needs people with this expertise and skill set. We need to know how to ask the right questions or advise on issues related to human capital management and that proficiency did not appear on the skills matrix a few years ago."

Along with widespread committee engagement, and the right directors, the support of the CEO and senior leadership is also key. In recent years, stakeholder expectations about broader human capital concerns have risen quickly and significantly and this has not been lost on management teams. If the CEO and their direct reports resist overt compensation committee or larger board involvement in talent management issues, that dynamic may warrant a different kind of board conversation. Without a partnership approach to human capital management that goes two ways, there likely won't be much meaningful progress on the issues.

Of course, the committee will naturally face numerous challenges as it expands its scope. Perhaps the most glaring one—and potentially the most difficult to solve— is accommodating the additional time that these new areas of attention require. The core executive compensation responsibilities are not diminishing, so it will be important to be as efficient as possible with the committee's allotted time and come to a collective understanding about priorities, agendas, and an overall approach to how the committee's work is managed.

The Practical Implications

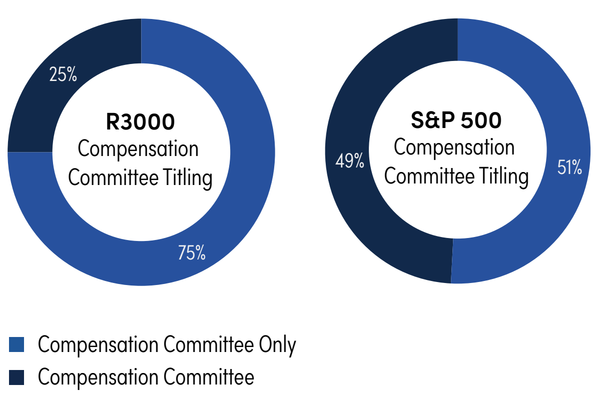
As we turn the calendar on three full years of pandemic-induced upheaval, it's clear that expanding committee oversight to include at least some broader human capital management concerns on some level is a given.

However, successful *formal* implementation of these expanded responsibilities is a separate endeavor. This maturation requires not only a committee largely unified in its philosophy, but also requires a great deal of advance planning and foresight, particularly as this step has several legal implications. As the compensation committee grows into its new role, there are several areas that will require attention, decisions, and communication. There are five specific areas for active governance change that will result from committee evolution.

1 THE COMMITTEE NAME AND CHARTER

Companies are increasingly choosing to overtly signal their oversight expansion by changing the committee name, the committee charter, or both.

According to proxy data from Main Data Group, in 2022, 49 percent of the S&P 500 and 25 percent of the Russell 3000 now have a committee name that implies a broader purview. A review of committee charters reveals even broader trends with 84 percent of the S&P 500 listing at least one "nontraditional" responsibility in their committee charter, including topics such as succession planning, culture, human capital, DE&I, and leadership and/or talent development.



Source: Main Data Group

Checklist for Charter Updates

1. Review and update charters on a periodic basis, typically annually.
2. Consider how the world, your industry or market, and/or your specific organization has changed since the last charter update.
   - Do those changes (e.g., investor pressures, regulatory rules, ESG concerns, human capital issues, etc.) fall under the compensation committee's purview or do they have a more appropriate "home" such as the full board, a different committee, or management?
3. If new circumstances naturally fall to the compensation committee, assess the following:
   - Do the current committee members have the skills to address these new circumstances?
   - Does the committee have the time to address the new issues, or will further meetings and time commitments be required?
   - Should one or more subcommittees be formed to address these issues?
4. Do not include specific duties and/or responsibilities that may be beyond the capacity of the committee. If the committee fails to accomplish a "must" item, fiduciary duty issues may arise. **If in doubt, frame additional duties as "may" rather than "must" or "will."**

The Evolving Scope of the Compensation Committee			
OVERSIGHT AND ADVISORY ROLE	COMPENSATION COMMITTEE	LEADERSHIP DEVELOPMENT & COMPENSATION COMMITTEE	HUMAN CAPITAL/TALENT & COMPENSATION COMMITTEE
Evaluate CEO performance	■	■	■
Establish pay levels for CEO and senior management	■	■	■
Administer compensation programs, including bonus and LTI measures, and manage equity pool	■	■	■
Conduct regulatory oversight (CD&A, say-on-pay, say-on-frequency, risk review, etc.)	■	■	■
Focus on executive retention	■	■	■
Select independent outside advisors	■	■	■
Set nonemployee director compensation	■	■	■
Succession planning and focus on "next level" bench strength		■	■
Begin to focus on employee-wide issues (pay equity, diversity, employee engagement)		■	■
Diversity, equity, and inclusion			■
Training and development			■
The talent pipeline down the organization			■
Culture and ethics			■
ESG			■

Source: Pearl Meyer

2 COMMITTEE COMPOSITION

Currently, the only required expertise on the board is that of "financial expert." However, most boards are grappling with the best way to handle oversight of an increasingly complex set of issues. Human capital management is one of these issues, but there are also calls for expertise in cybersecurity and IT, marketing and branding, ESG and sustainability, and more. It has become common practice for companies to publish a board skills and experience matrix that identifies the key strategic areas that are important to the company and identifies which directors bring such relevant experience and expertise to the boardroom.

Clearly, human capital management is a critical strategic area for nearly all companies today. However, a review of the Top 200 largest companies by revenue in the S&P 500 reveals that just 44 percent list human resources experience and/or expertise as a criterion in their director skills matrix. While boards historically have accepted the broad leadership experience of CEOs to be sufficient human capital management background, the complexity of the issues—and many leading directors—suggest that deeper experience and expertise may be required.

Consider that the expertise you seek may not be a seasoned former CEO or CFO. Batra advises, "Something we should think about going forward is having more Generation Xers and Millennials on our boards. The board should reflect the environment we're working in."

If your board and its committees do not have a formal skills matrix or some other method of evaluating director experience, now is the time to implement this kind of road map to ensure the right people are in the right place and that refreshment is strategically executed. It can also be a very valuable way to communicate your board's priorities and competencies.

3 OUTSIDE RESOURCES

As boards evolve their philosophy with respect to human capital management and embark on a strategic refresh of the evolving director profile, there are opportunities (and perhaps imperative reasons) to pull in additional experience and perspective. With their deep functional experience, as well as knowledge of the organization's workforce and the role it plays in delivering on the company's strategic objectives, the role of the CHRO and their internal HR team becomes critically important as the compensation committee evolves.

Likewise, committees can look to external resources to fill in any gaps in board member experience and expertise. With a view into dozens or even hundreds of organizations, outside advisors can help identify trends and opportunities as traditional compensation objectives and talent management concerns converge. As areas of oversight expand, the committee can explore the value of experts beyond their traditional executive compensation advisors—or look to entities that can explore strategic compensation design and leadership development in a holistic framework.

How the committee plans to seek information and implement guidance—and from whom—should be a planful approach, discussed among the members at set intervals as the purview evolves.

Annual Compensation and Leadership Committee Calendar (Illustrative)

4 CALENDARS, MEETINGS, AND AGENDAS

The typical compensation committee calendar is already laden with traditional executive compensation deliberations and required activities. So, how should committees adjust the calendar, meeting schedules, and agendas to incorporate new, but critically important expanded areas of focus?

In the past, when board meetings were almost always held in person, specific committee meetings were held in sync. During the move to virtual, as forced by the pandemic, many companies decoupled the full board and committee schedules. As companies return to a mix of in-person and virtual meetings, this approach may provide some flexibility to rethink the annual calendar in a way that can better accommodate new issues. It may even be logical to broach the subject of adding virtual meetings. While still an extra lift in terms of the number of items receiving oversight and the amount or preparation and follow-through, the absence of physical travel may allow for this in some cases.

As such governance processes evolve from formerly tried-and-true expectations, it can also be helpful to structure certain agenda items as "discussion only" with related materials prepared in advance as a "pre-read." This can mitigate the very real potential for too much presentation and insufficient discussion, which can slow down meetings and decision-making. Gherson advises boards to be deliberate about these decisions. "To what extent can we compress time spent on traditional compensation issues so there's more time for these additional, related topics?"

Siegel agrees, "There are some traditional, important tasks that the comp committee takes very seriously, but they just have to be done more swiftly."

As you evolve your charter, thoughtfully update corresponding documents like annual calendars and agenda templates and be very planful about incorporating these new responsibilities in a demonstrable, reportable, way.

PHASE 1

MANAGEMENT-LED ONBOARDING

- Overview of company's pay philosophy
- Peer group and benchmarking
- Shareholder engagement program history
- Independent consultants
- Components of executive compensation
- Incentive plan metrics and alignment with company strategy
- Stock ownership guidelines
- Executive separation policy
- CEO pay ratio
- Committee meeting cadence and annual calendar

PHASE 2

COMMITTEE CHAIR ORIENTATION

- Chair expectations of committee members
- Current committee priorities/goals
- Review of clawback policy
- Review of most recent self-assessment

PHASE 3

OUTSIDE COMPENSATION ADVISOR-LED

- Onboarding
- Role of the outside consultant
- Emerging trends for compensation committees
- Historical review of executive compensation
- Status of current executive pay within peer group

PHASE 4

AVAILABLE CONTINUING EDUCATION PROGRAMS

- NACD
- Webinars
- Peer exchanges
- Relevant content: articles, blogs, and reports

Source: Pearl Meyer

5 DIRECTOR EDUCATION

Helping directors to stay abreast of compensation-related regulatory changes and marketplace trends is already no small task. Layering in additional information on broad human capital management, culture, and issues like DE&I and the social component of ESG may make the job begin to feel overwhelming. Thankfully, there are more resources than ever for directors—both new to the role and highly experienced—to get up to speed and stay on the cutting edge.

Organizations like NACD are a gold mine for directors to learn the basics, advance, and explore emerging new ideas. Fili-Krushel says, "I find a lot of value in these organizations, in panel discussions, or access to consultants. We leave it up to individual board members, but I think it's not a bad idea to incorporate guidance." There are also many opportunities for meaningful peer engagement within the board community. And as suggested previously, bringing in advisors to counsel your board and offer fresh insights can lighten the burden.

Think about implementing a documented new-director onboarding process to develop an understanding over time of both general executive compensation and human capital management concepts and "best practices," as well as an understanding of the company's unique programs and policies. Including an ongoing director education component in this onboarding schedule signals and allows for the expectation that all on the committee will engage in educational pursuits.

Moving Ahead

Despite the obvious challenges and the all-encompassing nature of suggesting compensation committees broaden their purview into human capital management, both data and anecdotal evidence show it *is* happening. And leading directors understand philosophically and practically that it's time. In conversations with directors, informally and in consulting engagements, it is clear that fiduciary responsibility and the risks to the organization that arise from talent concerns are multifaceted and intertwined. Jamison notes, "There's a *lot* of unappreciated risk."

Fili-Krushel observes an emerging new employer-employee dynamic and brand concerns. "The power has shifted to some degree to our employees. They have much more of a voice and there's associated brand risk."

In addition to the brand, Siegel points out the operational concern. "I'm hearing companies say things like, 'We're behind on this important initiative because we can't get the people.' And it's not in one area, it's in several areas. It represents real risk toward strategic plan execution."

Finally, examining an additional angle, Gherson says, "It's a leadership risk if we don't have the right leaders for the moment to navigate through all of this."

Pearl Meyer's chair David Swinford has famously reiterated "You need to ensure you have the right people, in the right jobs, doing the right things, and with the right reward system if you want to create an effective culture and deliver returns to all stakeholders."

Boards are beginning to think through the criticality of their workforce and leadership teams as executors of strategy and as competitive differentiators in their market. There is more at play than mitigating risk. There are also opportunities to be an employer of choice, to make meaningful change in areas that are important to stakeholders, and—either at the same time or as a result—create new levels of corporate performance and shareholder value.

Ultimately, the compensation committee is taking natural next steps. As Batra notes, "If we go down two levels below the CEO, we're not going to architect the direct reports, but we do need to know how does diversity look. How does engagement look? It's all about understanding the cornerstones."

In its work on the Future of the American Board initiative, NACD has defined those cornerstones. Pearl Meyer has in turn, in our work on this new blueprint for the compensation committee of the future, laid out an evolutionary guide that reflects advancement on each of those 10 points. In fact, for those committees that have been steadfastly developing compensation structures that align to the business strategy, incorporating human capital management makes perfect sense, and is a logical expansion of its oversight. Compensation programs that incentivize and reward management teams who demonstrate long-term vision must naturally include consideration of the broader workforce, as well as developing leadership excellence.

Pearl Meyer's chair David Swinford has famously reiterated "You need to ensure you have the right people, in the right jobs, doing the right things, and with the right reward system if you want to create an effective culture and deliver returns to all stakeholders." This broader talent management model represents the expanded purview of the compensation committee of the future, but the time to begin the journey is now.

ACKNOWLEDGMENTS

Pearl Meyer and NACD thank our panel of visionary directors for their insight on the evolution of the compensation committee's scope and its expanding sphere of influence.

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ACKNOWLEDGMENTS

The Commission recognizes, with appreciation, the contributions of the NACD Future of the American Board team for their work on this initiative (in alphabetical order):

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