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Compensation Plays a Critical Role in Moving Leadership Forward

We have established that the pace of change happening in the world around us means that past success may not necessarily be indicative of future success. The skills that were critical to lead a company a decade ago may no longer be sufficient in the current environment. Accordingly, boards need to redefine leadership—even in their own ranks—and ensure that reward systems will attract and retain the best talent.

To enact this redefinition, identify the attributes believed to be crucial, document those fundamental attributes, and source candidates—whether internal or external—who meet these criteria. It is easy to fall in love with candidates who have the “traditional” qualities of a good leader (industry experience, a proven track record in leadership roles, confidence, etc.), but much more will be needed to lead most companies going forward.

Many boards understand it is time to rethink leadership and make it more reflective of the employee and customer/client base. Adaptive skills such as listening, cognitive flexibility, and being willing and able to pivot based on current facts and circumstances versus pulling a play out of a dated playbook are increasingly in demand. If boards focus on defining the qualities believed to be most important for the long-term success of their company, commit to screening for those attributes, and can avoid ignoring “red flags” throughout the process, they will find success. It’s worth noting that diverse boards are likely to come out on top during this process, as they will have the advantage of evaluating future leaders from multiple perspectives.

From a rewards perspective, it’s not about motivating leadership to do the right thing, but about hiring people who will do the right thing and then rewarding them appropriately for the success that will most assuredly follow. Although the best leaders are seldomly vocal about their own pay, they intuitively seek a fair reward for their time, effort, and results. Accordingly, developing reward systems that create this type of alignment and designing incentive plans that align with the strategy and vision of the leadership team, while allowing for flexibility during uncharted times, is the key. This will create the strong linkage between pay and performance that the best leaders are always seeking.

Finding and retaining the right talent is going to require a shift in approach. Understand who you need and then be diligent about hiring to that set of criteria.

1. Update your skills matrix.

Traditional Experience, Expertise, or Attributes		Today's Needed Attributes and Characteristics
General management and business operations	→	Multi-stakeholder approach
CEO experience		Diversity of background and opinion
CFO experience		Integrity
Profit and loss experience		Humility
Industry knowledge		Ability to pivot and think creatively
Risk Management		Principles-based and purpose-driven
Decision-making ability		Authenticity

2. Hire and promote in accordance with the updated matrix.

- Assess your current leaders and succession candidates based on your updated matrix.
- Always have a diverse candidate pool when hiring.
- Promote from within if possible, but be willing to go outside the organization if necessary to acquire the needed attributes and skills.
- Find ways to foster talent early, for example partner with local organizations to invest in the pipeline of the future.

3. Design and deploy incentive programs.

Create programs that will retain and motivate the kind of leaders you are seeking. Here are points to discuss as your compensation committee considers the specifics.

- *What* are we trying to accomplish? What metrics align with the strategy and vision for the future success and long-term viability of the company? Many companies and their boards are good at the "what"
- *How* can we best accomplish these objectives? How do we treat our employees, customers, and stakeholders? How do we manage short-term versus long-term priorities? How do we adapt to changing market conditions? Our current environment demands that boards watch the "how" more closely and frequently, understand how results are achieved, and build flexibility into compensation designs to recognize success.
- *When* do we want to see results? When will we know that we have been successful? A clear vision and reasonable expectations of when the board can expect to see progress and results should be communicated to management.
- *Why* are we on this path? Why will these programs lead to superior and sustainable performance? Similar to timing, boards can help enact change with clear communication; demonstrate your conviction of why it is important to have the right people in the right jobs working to achieve the right goals in the right timeframe.

It's important to think carefully about retention on an ongoing basis, after so much effort is spent on identifying, hiring, and motivating the right leadership talent. Retention is often

discussed in terms of how difficult or painful we can make it for a leader to leave an organization, but wouldn't it be better if we could focus on thinking about how to make it interesting, exciting, and rewarding to stay? Finally, create milestones, track your progress, and celebrate your successes. This is a journey.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.