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The Compensation Culture



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Transcript

Jan: How do we think about how we, as consultants and experts in the field, how do we think about the way it should be? How should comp be supporting leadership development, succession planning, strategy, the other topic that we haven't talked about that's in the report is a culture that supports and promotes innovation. What are the things, tangible things, that we should be advising boards around in that regard to improve the current state of affairs?

Aalap: Setting up a compensation program based on the prevalence of practices amongst your industry, your peers, your general industry, or however you define your marketplace doesn't make any sense because it destroys your competitive advantage. It doesn't customize your compensation program to your culture, the talent pool you currently have in place. Let's be honest, not every CFO is created equally.

Jan: No, absolutely not.

Aalap: Some are extremely experienced, some are more junior to the role, some are more risk oriented, some are less. When you go to the marketplace and say, "This is an appropriate comp structure for a CFO," that doesn't necessarily mean it is the appropriate comp structure for your CFO.

Melissa: I also think that when you think about compensation and you think about individuals, one of the things that when I'm talking with different board members as it relates back to CEO pay is, to really understand as a board member, what drives the individual? What are the behaviors modeled through that particular CEO. Being able to understand an individual's drive and behavior, and maybe even tailor a compensation program to fine tune right into that is an interesting way of thinking about compensation going forward. You can't do that for 40,000 employees if you're that large of an organization, but you can use it in strategic ways.

Jan: It's interesting. Your immediate thing was, "I can do it for a CEO. I can do it for a CFO. I can't do it for 40,000 employees." Yet, you think about the benefits that an organization can get in terms of cultural and employee engagement-

Aalap: Oh, yes.

Jan: And talent development. You think, "Gosh, there's all this talk about big data out in the world. Can we really not do it for 40,000 employees?"

Aalap: That would be my challenge as well. I think you can do it for 40,000 employees or whoever your employee population is within parameters. I think what that basically means is use things like big data to understand your employee population a little bit better but have more introduction of choice in their compensation programs within set parameters. We focus a lot of time in the board room and compensation committees on, what is the appropriate pay mix for our senior team? It's almost an afterthought of, what is the appropriate pay mix for our employee population? Given, it makes sense that it's a little bit of an afterthought because those structures are less complex, but they if you were to introduce more of this customization, I think you sort of have that loving embrace and that engagement from your entire employee population. It's not necessarily in just monetary compensation programs. I always have this saying that runs through my head is, "Go small or go home." What I mean by that is that smaller organizations are doing this really well, where they are not afraid to allow for more customization in their compensation programs.

About the Authors

Jan Koors is a senior managing director with Pearl Meyer and head of consulting services. In this role, Jan is focused on leveraging the firm's consulting capabilities and enhancing relationships with our national marketing partners. She is a member of the leadership team which guides the firm's strategy.

Aalap Shah is a managing director at Pearl Meyer. With more than 20 years of experience, Aalap advises public and privately held companies on executive compensation issues, with focus on pay governance, pay-for-performance alignment, and incentive plan design. Of particular interest is the intersection between business strategy, people strategy, and compensation strategy, believing alignment of all three is required to design effective programs.

About Pearl Meyer

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