Pearl Meyer

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Understanding Strategy While Maintaining Compensation Consultant Independence

The following is based on a panel discussion with Pearl Meyer's Chairman David Swinford at the 2017 National Association of Corporate Director's (NACD) Leading Minds of Compensation East conference.

Q: An advisor has to have significant knowledge about the client company and its team in order to be effective. What are the most critical things a consultant must know about the organization?

A: Your advisor has to fully understand your business and leadership strategies. For many companies, it's much easier to explain the business strategies, and it's easier for most consultants to understand. But where it all comes together is in the complimentary nature of what you want to do with the organization and how you are maintaining the leadership capability to make it happen.

With a sufficient focus on a well-defined business strategy, the board and management team can together determine where they want the company to be in five or 10 years and what steps need to be taken to achieve that goal. We know that if you pay someone to improve cash flow, you will improve cash flow. So, if it's new product development that will drive your growth, then somewhere in your long-term compensation plan, you need to account for new product development. And in the short-term, account for the milestones that indicate progress toward a new product.

It can be trickier to uncover leadership development strategy as it's often less well-articulated. The board—and particularly the compensation committee—has to know whether its overall plan is to grow leaders and management teams within their organization or plan to hire from outside. Growing from within is a laborious but worthwhile endeavor for most firms, but has to be done very deliberately. Choosing to recruit can be an attractive short-term solution, but one that may come with some longer-term issues. Both scenarios heavily influence overall compensation philosophy and individual plans.

Q: Independence of the compensation consultant plays an important role, in terms of regulation, perception, and effectiveness of the advice. How do you dig deep into knowing

the organization, but maintain an outsider's perspective?

A: This is a balance, but achievable. To be an effective compensation consultant, the advisor has to know the personalities of the executives, individually and collectively. Attracting, retaining, and motivating are behavioral, not economic, challenges. Compensation is mostly about psychology. We know that people's sense of fairness, growth opportunities, their engagement in work, and a feeling of contributing to the success of the organization are drivers of decisions to stay or go elsewhere. A consultant has to have a clear sense of how all of this fits together for the company: they cannot be too distant from management, although many boards think they should be because of perceptions about independence. However, it's true that we do need to be *psychologically* independent—able to tell the management team that something is unreasonable or impractical for whatever reason, as well as able to tell the board what its best course of action is, regardless of the outsiders looking in—be they media, activists, or proxy advisors. I will add to that point by saying while the compensation committee is doing what it thinks is best for the firm, there does need to be clear shareholder communication about what's being done and why.

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.