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ASK THE EXPERT INTERVIEW | AUG 2017

# Leadership Development Strategy: A Three-Step Framework

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*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. How should a board member respond if questioned by an investor about leadership development?**

A: This is a very important responsibility of the compensation committee. Long before fielding any questions on the subject, directors should ask themselves a simple question, "Does our executive compensation program develop the acquisition, growth, and maintenance of a strong leadership team over the long run?" If this is in fact the foundation of the exec pay plan, having this conversation with the investor will be very straightforward. That said, getting to an ideal state in terms of leadership development does require some work and often some refocusing on the part of the compensation committee.

**Q. Are there any guidelines for boards who don't feel their compensation and leadership development plans align?**

A: Broadly speaking, yes. There are three basic elements: consistency, the impact of equity, and growth opportunity.

The first analysis is determining whether or not you have a compensation structure that is consistent from the bottom of the organization to the top. What this means is that as people move up the structure, how their compensation opportunities will increase as a reward for their growth and development is very clear. We've become so focused on proxy advisors and say-on-pay that a disconnect has developed between the design of the compensation for named executive officers and how we structure comp for the next-in-line and the rest of the organization below the NEOs.

The second thing to think about is the increase in executive wealth as they move up the ladder. Think about this at the levels below which they will be subject to stock ownership guidelines and then beyond. With a certain level of equity, you know the CEO will be thinking about the investor's perspective when making strategic and key operating decisions. There is a balance in this on managing risk—enough skin in the game that risk factors are appropriately considered, but not so much to lose that there's a paralysis in decision-making.

Finally, think about growth over time and the ability to transfer executives across the organization. Make sure you don't put anyone in a position to have to take a pay cut in order to gain necessary skills and experience for a senior management position. Managing career growth rather than marking every job's price to market all of the time allows you to do this. Your star performers and future leaders are looking for the next step. Do they have increasing opportunities with rewards for accomplishments along the way and a reasonable expectation that with success over time they'll have a chance at the top job?

## About the Author

David Swinford is chairman of Pearl Meyer. He is a senior advisor to the firm's leadership team and serves on the firm's board of directors. In his consulting role, Dave works closely with companies to align executive compensation with business and leadership strategies, helping clients build and maintain strong executive teams that create value over the long term.

## 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.