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Reframing the Role and Impact of the Comp Committee



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It is often the case that reframing a situation can lead to breakthrough results. As an example, I occasionally recount a story about The Coca-Cola Company during the tenure of Roberto Goizueta. In my recollection of this story, the company embarked on an amazing growth trajectory after reframing their business from being a purveyor of “soft drinks” to being a purveyor of “consumable liquids.” This seemingly simple redefinition of their business and addressable market unleashed the power of their people and brands to further serve customers and create value around the world.

Compensation committees are going through a similar reframing of their responsibilities and accountabilities. The “addressable market” for compensation committees is being expanded from executive compensation to executive talent. The latter certainly includes compensation (i.e., “soft drinks”) but also includes talent acquisition, talent development, organizational culture, leadership effectiveness, and succession planning (i.e., “consumable liquids”). This is a profound reframing for compensation committees, and it creates the same opportunities to unleash the power of a company’s people to achieve extraordinary results.

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However, meaningful change and impact are not achieved by simply changing the name of the committee or adding responsibilities to the committee’s charter. These are necessary but insufficient conditions for success. What’s required is a reimagining of the compensation committee, its relationships with management, and its relationships with independent advisors. As the work changes, people and processes also need to change. Although the long-range future of the compensation committee remains unclear, here are a few things we believe are coming into sharper focus today.

The Committee

The committee itself needs to be positioned for success. We often think of this as “the 3 Cs” or composition, charter, and calendar. The key issue with composition is whether the committee members have the skills, capabilities, and experiences needed to provide appropriate oversight of the expanded areas of responsibility and accountability. The key issue with the charter is whether it provides clear and appropriate levels of authority to the committee with respect to these newer responsibilities. The key issues with the calendar are whether it incorporates all the committee’s responsibilities and whether it sequences them in a way that allows appropriate interaction. For example, is it organized so that executive development and succession planning are considered when making compensation adjustments?

Relationships with Management

Most committees already work closely with the CEO, CFO, CHRO, and general counsel. However, the expanding responsibilities of the committee will likely require more frequent and more substantial interactions with the CHRO and additional members of the HR organization. This will require a careful balancing of the committee’s oversight responsibility and the HR teams’ management responsibility. The committee’s success will often hinge on the trust in these relationships and on the quality and effectiveness of the CHRO and the broader HR team. Building these relationships and assessing capabilities will take time and effort but is essential to efficiently and effectively addressing the committee’s expanding responsibilities.

Relationships with Independent Advisors

Just as the committee’s traditional responsibilities often require the assistance of an independent executive compensation advisor, the committee’s new responsibilities may also require the assistance of independent advisors. In some cases, management may already have consultants in place to assist with matters such as executive coaching, leadership effectiveness, organizational culture, etc. Over time, the committee may supplement or replace these consultants with independent advisors engaged directly by the committee as part of the overall governance structure to seek holistic independent advice and counsel on the committee’s chartered responsibilities.

It’s said that “if you have a hammer, you see every problem as a nail.” The governance reframing that is underway provides the committee with more tools to address more areas that are increasingly impactful to company performance and long-term value creation. However, we want to make sure that these tools are in the hands of skilled builders following a sound blueprint, with independent inspections along the way. With this unique opportunity in mind, let’s go build something special!

About the Author

Greg is a consulting team leader with 25+ years advising compensation committees and executives on executive and non-employee director pay, including performance metrics, governance, and SEC disclosure.

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.