

Six Comp Chair Attributes

By David N. Swinford

The relentless scrutiny and growing regulation of executive compensation is making the Compensation Committee Chair role more demanding, as Boards endeavor to build great businesses in challenging economic times. Boards should seek out Chairs with specific experience but also – given the highly emotional issues around executive pay – someone who has demonstrated a keen sensibility in how to deal with people and personalities. We recommend the Governance Committees selecting a Compensation Committee Chair look for some key qualities:

- 1) **Character, courage and candor.** The Chair must be perceived on all sides as an honest broker: a straight-talking, open-minded leader focused on doing what is right for the long-term health of the organization, who would not hesitate to speak his or her mind but would not rush to judgment. If the Chair is smart and well-meaning but wishy-washy, the job will not get done.
- 2) **A consensus builder with a steel backbone.** Discussions around executive compensation can provoke strong emotions among managers who view their paychecks as a reflection of their value to the company. In potentially volatile discussions, the Chair must keep all sides productively engaged and focused on the issues. This means having a good sense of what needs to be done and not being easily intimidated or sidetracked by attempts to water down negative results, overplay good outcomes, or veer off on tangential debates over unimportant issues.
- 3) **Experience in running an organization.** We believe the best Chairs are those who understand the CEO's job in building and managing a strong, cohesive team because they have walked in those shoes. They have served in a public, private, or large non-profit organization where they faced the need to prioritize limited resources and deal with the emotional consequences of communicating pay decisions. Committee members whose previous compensation experience is limited to getting a paycheck are unlikely to be able to achieve such outcomes.
- 4) **The ability to be an external spokesman for programs.** This makes the General Counsel and the Head of Investor Relations uneasy, but there may be times when the Chair of the Compensation Committee may be a more credible spokesperson than anyone in management. Prepare for that eventuality by picking an articulate Chair with the discipline to stay on message in order to

avoid putting the company in a bad light or creating a regulatory problem by disclosing non-public information.

- 5) **Experience with more than one executive pay program.** It is rarely said aloud, but the bane of every Compensation Committee is a new member whose entire career was spent with one organization and comes onboard convinced there is only one way to do things. The Chair should have a broad enough perspective to recognize there is more than one way to skin a cat.
- 6) **A willingness to do the legwork and homework.** The ideal Compensation Committee Chair is a cross between a 30,000-foot thinker and a ditch digger. An effective Chair goes through the details as well as understanding the broad concepts, and prepares thoroughly for the meetings. These activities may require telephone time to understand what is not in the meeting materials. Faced with the multiple elements of executive pay programs, Committee members tend to focus on those elements on the current agenda. A good Chair ensures the Committee is always thinking about how all the parts fit together and the ramifications of any decision on the rest of the executive pay program and the company's business cycle – and ensures outside advisors and internal support staff do the same.

The upshot: If you have a great Compensation Committee Chair, stick with that person. Do not change simply because leadership has traditionally been rotated among members – the importance of the qualities needed to help the Compensation Committee succeed in its ever more demanding job outweighs the tradition of giving every member a turn at the head of the table. As has happened with Audit Committees, an effective Compensation Chair may end up serving substantially longer than in the past. However, members will have more assurance their time on the Committee will be spent productively. More importantly, Boards will have compensation plans that more effectively support long-term corporate success.

About the Author

David Swinford is President and CEO of executive compensation consultancy Pearl Meyer & Partners (www.pearlmeyer.com). He works closely with Compensation and Governance Committees as well as Boards on linking pay with business strategy, contractual arrangements, and incentive plan design, including the development of meaningful performance standards. He can be reached at david.swinford@pearlmeyer.com

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Pearl Meyer & Partners
Comprehensive Compensation[®]

www.pearlmeyer.com

NEW YORK

570 Lexington Avenue
New York, NY 10022
(212) 644-2300
newyork@pearlmeyer.com

ATLANTA

One Alliance Center
3500 Lenox Road, Suite 1708
Atlanta, GA 30326
(770) 261-4080
atlanta@pearlmeyer.com

BOSTON

132 Turnpike Road, Suite 300
Southborough, MA 01772
(508) 460-9600
boston@pearlmeyer.com

CHARLOTTE

3326 Siskey Parkway, Suite 330
Matthews, NC 28105
(704) 844-6626
charlotte@pearlmeyer.com

CHICAGO

123 N. Wacker Drive, Suite 860
Chicago, IL 60606
(312) 242-3050
chicago@pearlmeyer.com

HOUSTON

Three Riverway, Suite 1575
Houston, TX 77056
(713) 568-2200
houston@pearlmeyer.com

LONDON

Clifford House
15 Clifford Street
London W1S 4JY
+44 (0)20 3384 6711
london@pearlmeyer.com

LOS ANGELES

550 S. Hope Street, Suite 1600
Los Angeles, CA 90071
(213) 438-6500
losangeles@pearlmeyer.com

SAN FRANCISCO

455 Market Street, Suite 2000
San Francisco, CA 94105
(415) 651-4560
sanfrancisco@pearlmeyer.com

SAN JOSE

2880 Zanker Road, Suite 203
San Jose, CA 95134
(408) 954-7399
sanjose@pearlmeyer.com