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Insights

WHY TENURE IS IMPORTANT FOR TODAY'S COMPENSATION COMMITTEE CHAIR

Partner Michael Brittian talks tenure with Boardroom Resources.

Posted by Michael Brittian on September 19, 2016

This blog is Part 1 in a Boardroom Resources series on compensation committee chairs. We discuss why rotating your compensation chair too quickly could impact your committee's effectiveness.

Compensation committees face a tall order in today's business environment. With regulators and investors shining brighter lights on executive pay, much of the committee's stress and scrutiny fall on its fearless leader, the compensation committee chair.

Aside from the standard skill sets (i.e., industry experience, finance experience, leadership, strategy development), today's compensation chairs are increasingly public-facing. As we discussed in a recent blog, shareholders are demanding greater transparency into the board's compensation strategy, which often requires chairs to engage directly with investors on matters of executive pay.

The importance of today's compensation committee chair is seldom overlooked. Yet, with growing attention on executive pay, boards must also begin to develop best practices for committee chair succession. Recently, we sat down with Michael Brittian (Partner at Meridian Compensation Partners) to discuss current trends in chair succession—and how long is long enough for a board chair to be effective.

Factors Contributing to Longer Tenure

Establishing guidelines for the succession of committee chairs should be a common board practice. According to Brittian, three years is a typical time period for boards to reevaluate and re-approve a committee chair. While it's good to have guidelines prompting the assessment of leadership and the committee's functionality, Brittian argues that a three-year cycle is just too short when it comes to compensation chair rotation. Here's why:

1. The executive compensation environment has become increasingly complex.

Compensation chairs need to know the ins and outs of a company's compensation program—particularly the incentive program. Yet in order to be truly effective in today's environment, the compensation chair must also be tuned into the dynamics that are happening externally, which influence both the design and implementation of executive pay programs. Together, influences like peer groups, market trends, regulatory and legislative developments, and changes with the proxy advisors create a complex environment; three years is simply too short to learn, develop, measure, tweak, repeat, etc.

2. As performance metrics become more long-term, so should the evaluation.

Today, a significant portion of CEO and executive compensation is dedicated toward long-term performance. With many of these performance metrics focusing on a three-year time horizon (or longer), it necessarily takes more time for these cycles to come to fruition—and requires more time for the compensation chair to assess whether there is good alignment with the incentive program and company performance outcomes.

3. Relationships are essential to trust. Relationships take time to build.

As executive compensation grows increasingly public, it's important for the chair to build strong relationships with management, the outside advisor, and even shareholders. Today's compensation chairs are taking a more direct role in shareholder engagement, often serving as the spokesperson for the company's compensation strategy. Backed by an effective strategy, a chair who represents a familiar face and consistent voice is an essential building block for investor trust.

Don’t miss the full episode with Michael Brittian here. When the timing is right for a compensation chair rotation, Brittian also outlines best practices for a smooth transition.