

Top Five Characteristics of an Effective Compensation Committee Chair

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The most effective committee chairs fulfill their responsibilities when they have a significant impact on how well the committee functions overall, often by exhibiting similar characteristics.

Note: We recognize that the trend of expanding compensation committee responsibilities has resulted in a variety of different names for the same committee, with other descriptors, such as “leadership and development,” “human capital” and “human resources.” For purposes of this article, our references to “committee” and “committee chair” relate to the Board committee that is responsible for executive compensation matters, among other things.

Here’s our list of the top five characteristics of an effective committee chair:

1. Be process oriented.

- a. *Annual Calendar* – The committee chair insists on developing and managing the committee’s activities against a comprehensive annual calendar, allowing it to be dynamic and flexible to account for evolving priorities throughout the year. The committee chair should also ensure that the committee’s annual calendar meets all the requirements set forth in the committee’s charter.
- b. *Meeting Cadence* – The committee chair, in conjunction with senior management and the committee’s advisors, ensures that preparation for each committee meeting begins several weeks in advance (e.g., 6-8 weeks in advance is typical) of the meeting. This advance planning allows ample time to confirm meeting priorities and prepare presentation materials, with multiple opportunities for feedback on key agenda items between company management, outside advisors and the committee chair. This cadence helps ensure that committee materials are fully vetted for alignment with corporate priorities. It also significantly reduces (and hopefully eliminates) potential surprises in the boardroom.
- c. *Two Bites at the Apple* – Advance planning with an annual calendar and robust meeting cadence allows the committee chair to be thoughtful about which topics the committee may effectively review and act upon in one meeting versus which topics would benefit from more than one touchpoint. A two-meeting approach provides a means by which the committee may effectively evaluate the latter topics. The committee may use an initial meeting to socialize such topics and provide an opportunity for committee members to offer preliminary assessments and the committee chair to set the future direction. Then, a second meeting can be used for preparing a more refined analysis or proposal that reflects the committee’s reactions and direction provided at the first meeting. This two-meeting cadence on certain critical topics often leads to better, more-informed outcomes.
- d. *Executive Sessions* – The committee chair routinely schedules executive sessions for the committee to meet and discuss sensitive matters without company management present. Executive sessions create a forum for each committee member to be heard without the perceived need to request a special session or to otherwise temper his or her opinions due to the presence of company management.

- e. *De-Briefing Session* – The committee chair arranges for de-briefing sessions with company management and the committee’s outside advisors to confirm approved decisions, open issues and next steps. De-briefing sessions are particularly important when a committee meeting covered numerous and/or complex matters which raised multiple opinions and debate for addressing the matter(s).

2. Focus on the value of a team.

- a. *Liaise with Management* – The committee chair appoints a person (or persons) on the company management team to be the principal liaison (e.g., CHRO, head of executive compensation or corporate secretary) between management and the committee chair (and the full committee). The committee’s management liaison is typically instrumental in sending all relevant parties notification of the time and date of each committee meeting and the meeting agenda, ensuring meeting materials include all relevant documents, forwarding the materials to all appropriate parties and preparing and distributing minutes of each committee meeting. Equally critical, the committee’s management liaison can “quarterback” input from the various company management functions and business segments to the extent necessary to inform the committee about the underlying rationale, business case and impact of management proposals and decisions made by the committee.
- b. *Maximize each Contributor’s Strengths and Expertise* – The committee chair will spend the time necessary to understand the strengths and expertise of each committee member and each member of senior management. This will allow the committee chair to better leverage this expertise and foster a more informed decision-making process.

3. Be a good listener.

- a. *Be Open to Education* – The committee chair will insist on regular briefings from company management and outside advisors on pertinent developments (e.g., incentive trends, investor preferences, corporate governance developments, proxy advisor policies, and regulatory developments) so that the committee may properly factor these developments into its evaluation of management proposals and decision-making.
- b. *Be Open to Alternative Perspectives* – The committee chair appreciates that there are rarely absolute “rights” and “wrongs” when it comes to executive compensation. Fully vetting all opinions and perspectives often leads to more informed decisions and better outcomes for the benefit of the entire organization.

4. Challenge ideas to promote understanding.

- a. *Be Willing to Challenge Management* – The committee chair challenges company management to articulate the business case and rationale for management proposals and confirms that management has conducted thorough due diligence on the expected impact and implications – both internal and external – of its proposals.
- b. *Encourage Committee Members to Challenge Colleagues* – The committee chair encourages and develops a culture of mutual respect and collegiality among committee

members, which is paramount to ensuring a well-functioning committee. Equally important, the committee chair also establishes an environment that encourages committee members to challenge of each other's views and opinions. Each committee member possesses a wealth of knowledge, experience and perspective developed over many years that can shed light upon how to evaluate and respond to the company's business circumstances, management proposals and the like.

5. Focus on committee evaluations.

- a. *Embrace the Intent* – Few people enjoy assessing (and being critical of) themselves and, in our experience, board members are no different. In fact, since board members are typically highly successful, accomplished professionals, some may even find the exercise to be an unnecessary and poor use of their time. In our experience, the most effective committee chairs will fight against that sentiment and embrace the evaluation process as a vital governance tool that should be taken seriously each year.
- b. *Make Evaluations Impactful* – The committee chair ensures that the committee's annual performance is subject to a well-designed evaluation process. The process can help identify the committee's and its members' strengths and areas for improvement. The committee chair will use the evaluations to promote discussion with and among each of the committee members, determine if there are actions that can make the committee more effective and then periodically follow up with the committee members to ensure that areas for improvement are being addressed.
- c. *Tone-Setting for the Organization* – We believe the most effective committee chairs appreciate that their attention and commitment to their own evaluation processes will serve to set the tone for company management to similarly engage in and commit to an evaluation process for the entire organization.

While the characteristics described above may seem obvious to many of us at first blush, too often we confront the consequences of committee chairs who do not focus on these characteristics and how it leads to suboptimal results for the Board, the organization and shareholders. Accordingly, we try to foster an environment that continually reinforces and promotes these characteristics for our clients.

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