

On Boards

By Dennis Carey



Meet the New Comp Committee



This was the guy they needed. Not unlike how a franchise quarterback can anchor a team for a decade or more, this engineer had all the tools the company needed to pull off its digital transformation. He had been singularly responsible for creating more than \$100 million in market value for the firm's top rival. Trouble was, the competition knew how valuable their star employee was—and paid him commensurately. Convincing him to switch teams would mean offering a compensation package not only above market rate for the position but also worth about the same as the CEO's.

In years past, this wouldn't even be a question for a compensation committee. There's no way any company

would pay someone three or four times market rate, and they certainly wouldn't pay them more than the top boss. But today, particularly in the aftermath of the pandemic and purpose movement, these types of talent considerations are coming up more and more, as both financial and social goals drive hiring decisions. Compensation committees understand that they have to pay to play, which is why the franchise engineer in the above example ultimately got the dream offer—market rates and CEO be damned.

To many in business, the compensation committee is a shadowy limb of a corporation's board of directors. They wrongly assume its primary job is to set pay. Yet its main responsibility is actually to hold management accountable, with money the barometer of performance.

Portraits: Studio Nippoldt, Astrid Nippoldt

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That's all fine. But there's a case to be made that to be more effective in today's business environment, the comp committee's remit must expand beyond just budgeting to talent acquisition. Market gravity is forcing boards to address issues like diversity and inclusion, innovation, corporate culture, risk, and strategy. The foundation on which all of those rely: talent.

Despite the near-universal view that talent is the most critical component to a firm's success, it's stunning that there really is no board committee devoted to assessing the company lineup. Sure, there's some discussion around CEO succession and a once-a-year review of high performers, but that's about it. Boards meet, on average, for about 50 hours per year, and talent is discussed for, at most, a handful of those hours. That's not nearly enough—talent

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A compensation committee wedded to talent—rebranded as the Talent, Compensation, and Execution Committee—can better formulate strategy and assess risk for the rest of the board. For instance, it might prevent a bad deal by probing into the culture and people of the proposed acquisition. Identifying key players, how they are compensated, and what they will need to stay on long-term are topics rarely addressed by boards, yet they are the most critical factors to success. Consider that, generally, 2 percent of a company's employee base creates more than 90 percent of its total value. Most boards don't know who those 2 percent of employees are, much less if they are compensated in a way that makes sense.

With dedicated comp committees, boards will have clearer insight into skill gaps as business conditions change. They will be better equipped to develop succession pathways for not only the CEO but also other key C-suite roles. It all comes down to fundamental logistics: Compensation attracts talent, so uniting the two will give this once obscure committee the power to influence overall performance. Importantly, it will make sure companies are getting what they're paying for. //

Carey, coleader of Korn Ferry's Board and CEO Services practice, coauthored, with former Vanguard chairman Bill McNabb and business advisor Ram Charan, the new book *Talent, Strategy, and Risk: How Investors and Boards Are Redefining TSR*.