

ViewPoints

Executive Compensation in 2008: Never a Dull Moment

The members of the Compensation Committee Leadership Network met on May 22 and 23, 2008, in Chicago to share their thoughts on the 2008 proxy season and how they plan to address pay for performance during a challenging economic period. They also engaged in lively discussions around such topical issues as separating the role of chairman and CEO, the board's involvement in executive compensation, and the 2008 presidential election.

The following members participated in the meeting:¹

- Michael J. Critelli, Eaton Corporation
- Thomas J. Donohue, Union Pacific Corporation
- William A. Osborn, Caterpillar
- Stephen W. Sanger, Wells Fargo
- Samuel C. Scott III, Motorola
- Laurie Siegel, Embarq Corporation
- Jonathan P. Ward, Sara Lee Corporation
- John Anderson, Hewitt Associates
- Michael Powers, Hewitt Associates

The following members took part in pre-meeting discussions but were not able to attend the meeting:

- Dina Dublon, Microsoft Corporation
- Bonnie Guiton Hill, The Home Depot
- Robert J. Lawless, Constellation Energy Group
- Daniel H. Schulman, Symantec

Executive Summary

Members are well aware of the turmoil in America's economy: Financial institutions have written off billions; credit has been severely curtailed in the consumer, producer, and financial sectors; inflation in the prices of oil and food has hit consumers hard; retailers and home builders are suffering; and GDP growth has slowed to near-zero.

As external factors impact corporate performance, compensation plans are coming under considerable pressure. It continues to be difficult to attract, incentivize, and retain top talent.² And criticism of executive-compensation levels often gets louder, increasing demands on compensation committee

¹ The compensation committee chairs are identified by their board membership. John Anderson and Michael Powers participated in their capacity as compensation experts.

² Mercer, "2008 US Executive Compensation Preview" (press release, March 19, 2008), <http://www.mercer.com/pressrelease/details/jhtml?idContent=1300750>.

chairs to bridge the gap between board and shareholders. In this dynamic context, CCLN members shared their experiences, perspectives, and insights in three broad areas:

- **A somewhat surprising 2008 proxy season.** Our members were ready and willing to face what they predicted to be an “*eventful 2008 proxy season*;” instead they have encountered a “*mixed bag*” of results in say-on-pay and other shareholder proposals. Although 81 proposals have been submitted thus far – up from 45 last year – support for these proposals fell short of expectations. Why? Members speculated that there are a variety of possible reasons for the decline in support for proposals, including increased communication between boards and investors, some shareholders’ realization that binary advisory votes are of limited use, and improvements linked to compensation disclosure.
- **Watching and tweaking compensation during this challenging economic period.** Members agree that their pay plans are designed to work in both good and bad times and that therefore it is important to “*let the chips fall where they may.*” But they also recognize that the compensation committee exercises judgment in determining total compensation. And they continue to emphasize the importance of leadership development.
- **Open-session issues.** In open session, CCLN members considered separation of the role of chairman and CEO, the full board’s role in setting and reviewing compensation, and the implications for executive compensation of the 2008 presidential election.

A Somewhat Surprising 2008 Proxy Season

Will We Hear More from the SEC on Disclosure?

In late 2007, the SEC sent letters to 350 companies expressing dissatisfaction with the transparency and clarity of their CD&As. In the 2008 proxies, the agency was looking for more concise and more thorough descriptions of executive pay packages, company peer groups, performance goals and metrics, and the degree of discretion afforded the compensation committee and management to deviate from set standards.³ At our meeting in January 2008, members reported that their priority was to “*simplify and shorten*” their CD&As rather than start with a “blank sheet of paper” as John White, director of the SEC’s Division of Corporation Finance, had suggested.⁴ Indeed, most members agreed with the compensation committee chair who said: “*We did much of the same thing we did last year. We looked to management to bring us the data we needed; we consulted with our lawyers; we brought in an outside guru to give us advice; and we tried to learn from last year without giving away the store. We refined our proxy, but we didn’t drastically change it.*”

Although members claimed they would be doing “*much of the same thing we did last year,*” an initial review of the 2008 proxies suggests that many compensation committees in fact did attempt greater compliance with the SEC’s disclosure rules (see the table on page 3).

Is that improved compliance likely to satisfy the SEC? Many members say no. Several believe SEC staffers simply ran out of time; that they were forced to “*hit the pause button,*” and that compensation committees should be ready for the agency to take up the issue again soon. Also noteworthy is the fact

³ See the November 2007 *ViewPoints* for a discussion of the SEC’s concerns.

⁴ John W. White, “Where’s the Analysis?” (speech, Tackling Your 2008 Compensation Disclosures: The 2nd Annual Proxy Disclosure Conference, San Francisco, October 9, 2007). Available online at <http://www.sec.gov/news/speech/2007/spch100907jww.htm>.

that SEC Chairman Christopher Cox sees disclosure rules as part of his legacy. Said one member before the meeting: *“There’s got to be something that comes out of this proxy season that makes the SEC and Cox look good given the environment we’re in today. Are the proxies going to be better this season? Absolutely. But I don’t think that’s what they’re necessarily looking for at the SEC.”*

2007 and 2008 Proxy Seasons (*FORTUNE* 200)⁵

Key Disclosure Items	Proxy Season	
	2007	2008
Disclosed comparator group	84%	95+%
Median companies in comparator group	16	20
Disclosed annual incentive performance goals	44%	72%
Disclosed LTI performance goals	31%	56%
Maintain anti-hedging policy	33%	34%
Maintain recoupment policy	53%	60%
Maintain executive share ownership guidelines	91%	100%
Median CEO share ownership guideline	5x salary	5x salary
Median CEO deferred comp balance	\$5.5M	\$6.4M
Median CEO accrued pension benefit	\$8.9M	\$8.0M

Hewitt Consulting. The comparison examined proxy practices among *Fortune* 200 companies.

Certainly frustration with the SEC remains high: *“Some people think the SEC has lost the forest through the trees. I think they’ve lost sight of some of the bigger objectives. I could barely get through their [comment] letter, it was so specific and detailed.”* And the discussion on the metrics of compensation plans – giving *“yourself more wiggle room”* or sticking *“to the formula”* – is far from over. But, as one member remarked before the meeting, *“It seems like committees are a little tired of talking . . . about disclosure. . . . Maybe that’s just because they’re tired of debating how much to disclose and reviewing several drafts of the CD&A.”* Indeed, many compensation committee chairs are experiencing *“a certain measure of fatigue”* with CD&A discussions, and are anxious to move on to topics more directly related to improving corporate performance.

Have Say-on-Pay Resolutions Lost Momentum?

“Not long ago, the moment seemed ripe for shareholder activists to wring some of the [perceived] excesses out of executive pay packages. An election year marked by rising populist sentiment and a

⁵ Hewitt handout, pg. 12.

litany of economic woes – tumbling stock prices, declining real wages for most workers – set the stage for a lively annual meeting season.”⁶

Indeed, from the outset of the 2008 proxy season, proposals for non-binding shareholder votes on executive pay promised to be a central issue for corporate boards across all industries. Given the upward trend in proposals and the steadily declining market, all evidence suggested that say-on-pay would be the vehicle of choice for frustrated shareholders hoping to compel boards to rein in executive compensation. In 2007, investors filed 45 resolutions asking for a say on pay and got an average of about 42 percent of the vote.⁷ In 2008, more than 81 such resolutions were filed.⁸ Yet despite strong momentum going into the season, support for these proposals fell short of expectations: To date, just 4 have received a majority vote.⁹ And “at 10 of 16 companies where say-on-pay proposals were considered for a second consecutive year, they received fewer votes.”¹⁰

The Value of Communication

Many members believe that increased communications between boards and shareholders may explain why say-on-pay proposals are garnering less shareholder support. In fact, most members admit that more and more, engaging in a dialogue with shareholders seems to yield positive results: *“We had an interesting situation with our shareholders where they were proposing a large number of resolutions in opposition to the fact that we had [one consulting firm] as both our compensation consultants and working on our benefits. I . . . spent an hour on the phone talking about what we did in terms of our decisions, [walking] them through the whole philosophy, and eventually they dropped it.”* Key here, explained one member, is demystifying executive compensation: *“There is a measure of mystery about compensation. . . . Compensation committees are trying to get a lot of information out there, but [shareholders] still don’t understand. When you start talking about this stuff, [the shareholders] realize ‘Gee, these people really do understand, they really are trying to do a good job.’ It takes . . . the mystery out of it. I think we just have an issue here with how we present ourselves.”*

CCLN members unanimously agree that CEOs have a difficult time defending their own pay. One described the problems his company’s *“high-integrity leader”* had when *“we put her out there to defend her own pay, and it was clear it wasn’t right to put her in that position.”* He argued that *“if and when you choose to engage in a dialogue, we found a lot better traction doing it through the committee and the board.”* Another member agreed that *“the directors . . . are the ones [shareholders] are looking to for guidance. We might find when we talk to them, we make more progress.”* However, several members reported good results with dialogue initiated by other members of management. Noted one: *“We have had a lot of success putting our top HR people out there to discuss the issues with shareholders.”*

⁶ Barbara Rose, “Say-on-Pay Momentum Stalls,” *Chicago Tribune*, May 26, 2008. Available online at <http://www.chicagotribune.com/business/chi-tue-ceo-pay-may27,0,1754575.story>.

⁷ Claudia H. Deutsch, “Say on Pay: A Whisper or a Shout for Shareholders?” *New York Times*, April 6, 2008. Available online at http://www.nytimes.com/2008/04/06/business/06say.html?_r=1&oref=slogin.

⁸ Hewitt Consulting, “2008 Update: Developments in Corporate Governance and Executive Pay Disclosures” (presentation), p. 3.

⁹ David Ellis, “Investor Push on CEO Pay Sputtering,” *CNNMoney.com*, April 30, 2008, <http://money.cnn.com/2008/04/30/news/companies/shareholders/index.htm>.

¹⁰ Rose, “Say-on-Pay Momentum Stalls.”

One member shared an innovative approach his company is considering in an effort to enhance communications with shareholders around the issue of say-on-pay: *“In my dialogue with shareholders, it came out that they would feel better if it explained on our Web site that we have debated the decision whether or not to adopt say-on-pay and decided not to adopt it. At our next compensation committee meeting, we’ll talk about [the possibility of] issuing a statement on our Web page.”*

Another member concluded: *“My view is to still oppose [say-on-pay] but engage your shareholders in a dialogue to the extent that they want that dialogue. Much more constructive than the actual proposal anyway. [Say-on-pay] really is a blunt instrument, but I think if you can open up the channels of communication, you can at least set up the mechanism for the conversation to take place.”*

2008 Say-on-Pay Proposals: Voting Results Thus Far

Company	Support for Proposal	Company	Support for Proposal
Lexmark International	59.8%	PepsiCo	44.0%
Motorola	54.0%	Marathon Oil	43.4%
The South Financial Group	51.9%	Entergy	43.4%
Apple	50.7%	International Business Machines Corp.	43.3%
Waddell & Reed	49.5%	Anheuser-Busch	42.7%
Merck	48.3%	Citigroup Inc.	41.9%
Edison International	47.4%	EDS	41.4%
Boeing	46.2%	GE	40.0%
The Bank of New York Mellon	46.2%	Morgan Stanley	37.8%
Lockheed Martin	45.7%	Merrill Lynch	37.5%
Goldman Sachs	45.6%	Abbott	36.0%
Johnson & Johnson	45.0%	U.S. Bancorp	35.7%
DuPont	45.0%	Capital One	34.7%
Bank of America Corporation	44.9%	Burlington Northern Santa Fe Railway	33.5%
Occidental Petroleum Corporation	44.4%	The Coca-Cola Company	31.6%

Hewitt Consulting, “2008 Update,” p. 4.

The Future of Say-on-Pay

Despite the progress members are seeing through improved communications, many compensation committee chairs are still concerned that legislation mandating say-on-pay might become a reality. With the major-party presidential candidates in favor of a law that would make the non-binding vote obligatory, members speculate that say-on-pay will continue to be a hot-button issue in proxy seasons

to come. (See page 11 for more on the implications of the presidential election.) Several members also point to the fact that the numbers this year were not *that* far from majority support: *“There are a number of folks who would say ‘45 percent approval — that’s pretty close to 50.’ I think we’ve heard some people say it won’t take much to push it over the threshold. So I don’t know if I would agree that it’s going away any time soon. It might seem like it has lost a lot of steam right now, but I wouldn’t say it’s going away.”*

Watching and Tweaking Compensation During This Challenging Economic Period

Members discussed several ways in which their boards and committees are working to adapt to the uncertainty that marks the current economic environment. While financial services and many other industries are experiencing the bottom of the economic cycle – slower growth, greater pressure for profits, and uncertain share prices – a number of other industries, including commodities and rail, are doing well. This volatility makes generalization difficult, which means each committee must work to ensure that the pay plan is right for the company’s particular environment.

Importance of Peer-Group Comparisons

Members believe peer-group comparisons are a valuable performance metric when the economy is affecting industries differently: *“Peer-group comparisons are very important. If you’re in a sector of the economy that’s really hurt by external trends, you have to think how you’re looking in comparison to your peer group. In one situation I was involved with, we had a great peer-group comparison, but it was an earnings decline and a ‘miss of plan’ that year. So you have to be sensitive to what the shareholders are going to be looking at.”*

For members associated with companies experiencing the high end of the cycle, the focus continues to be on improving transparency: *“We’ve spent a lot of time looking at our peer group and looking at the construction of our plans, and so now we’re in a ‘tweaking mode’ to make sure we’re doing all of it right. Each year, we get a little clearer and better.”* Members who find themselves ahead of the curve report that peer-group comparisons help prepare them *“so we don’t get caught in this bad environment.”*

Stick Rigidly to the Plan, or Adjust?

Several members spoke to the importance of preserving plan fundamentals. Said one: *“This is when we’re tested as board members. There’s always a place for judgment and a place for reason, but more or less you want to try and say, ‘Let the chips fall where they may.’”* Speaking before the meeting, another member said: *“You have to be careful. . . . We put together the plan and the measures for a reason. The plan should work under different circumstances – not just when the market is racing ahead – and the measures should reflect that. We don’t necessarily want to get in the practice of totally revamping the measures just because the economy has taken a turn.”* And a third member remarked: *“Plans that have longevity, that operate through good and bad, are really the best. I think to convey that and live with that take discipline.”*

Although members agree that sticking with the plan is a good approach, they also agree that certain carefully considered adjustments can be appropriate, even beneficial. One member talked about CEO incentives in this context: *“During a bad economy, . . . it is best if you give up one year’s incentive. What you do for the long term and the trust you establish is truly invaluable. The value you’re getting*

paid in the long term should more than make up for what you give up in the short term.” Others talked about the role compensation committee chairs play in helping CEOs keep the big picture in mind: “Everyone looks at what they got last year as the standard, and no one looks at this as an incentive plan. We have to remind people constantly that this is not a profit-sharing fund you’re just going to get more money from. That’s not something that’s always understood.”

Another suggestion was that CEOs forgo bonuses during a down year. In addition to the likely increase in shareholder trust, there can be an economic upside: Options have the potential to reload at a much higher price. One member described an instance where *“the benefit [the CEO had given up] ended up getting realized in the stock price later on, which ultimately dwarfed what the bonus would have been.”*

Members also shared best practices they have implemented during difficult times that allow them to make minor adjustments without revamping their entire compensation plan:

- **Distribute the retention pool unevenly.** *“At [my company,] there was a wide range of adaptability shown by select people, so we decided to take the retention pool and distribute it unevenly. It sent really strong signals to people. One of the things we found in this economic environment is that just like a rising tide lifts all boats, in a declining environment you really see the peaks and valleys. We actually didn’t lose too many people, but we did have the people that we feel good about give a good response.”*
- **Shift the balance of instruments used.** *“We actually shifted from performance shares to restricted stock. The accounting for us was [easier], but it was also done to make sure some of the younger employees could see some of the positive. At certain levels of the company, you get a different mix of equity. So a lot of these younger people [get] restricted shares, and it’s actually a good thing. I think you can tweak these plans a little, and it doesn’t take away from what you want to do in the overall framework.”*

CEO Tenure

Although participants at the May meeting have served CEO tenures of as much as 20 years, our members are aware that the average tenure of the contemporary CEO is dropping: *“If you go back 10 years ago, the cycle for a CEO was probably closer to 6 to 8 years, but that is significantly shorter now. . . . I’m not sure if it’s a trend or not; but if it is, then should we be adjusting?”* Responded one member: *“I think we are seeing a trend, and I think we want to manage as far out as possible. If it’s going to go from 6 to 4 to 2 years, then I’d like to know now.”* However, as another member pointed out: *“A 2-year cycle is failure. If you let your CEO leave with wealth after that, you’ve got a problem.”*

Members repeatedly emphasized that the compensation plan should be based on the assumption that the CEO will remain with the company for an average duration or longer. However, members agree that compensation committee chairs need to address what they feel is a change in CEOs’ attitudes: *“There is a different psyche of the guy in the corner office if he gets in at the wrong point in the cycle – people are realizing their window of opportunity is much different from what it was. It changes the equation.”* Added another member: *“It’s important to remember that in the middle of a 7-year cycle, there will be years you’ll be paid for great performance you had nothing to do with and others you won’t get paid for during times you did well.”* Still members agree that they will continue to design plans that focus on the long-term creation of value rather than react to potential negative scenarios.

SERPs and DB Plans: “A Shrinking Game”

Members also discussed the move away from supplemental executive retirement plans (SERPs): At some companies, *“You used to make more money in retirement than when you were working, but that’s changed.”* They offered three possible explanations for the recent trend:

- **More-independent boards.** *“When we went to more-independent boards, we became much more critical of what was going on. Boards are doing more of what they should have been doing in the first place.”*
- **Decline in the use of defined-benefit (DB) plans.** *“There’s been a lot of discipline by companies that have eliminated the DB plan. It used to be 60 percent in your head, but now it’s well below 50.”* Another member remarked: *“I think if you go back and look at historic DB plans, used to just be paid a salary. The whole shift in paradigm and value over time has changed.”*
- **Growing appeal of long-term incentives among young employees.** *“SERPs have become kind of a shrinking game. Part of this has to do with the significant shift toward LTIs.”* Added another member: *“I was talking about the 401(k) and retirement plans with younger employees, and when they heard the money would be free in 2050, they said, ‘I want it a heck of a lot sooner than that!’”*

Top-Talent Shortage: Is It a Matter of Pay?

Some members argued that the high demand for top talent, coupled with the uncertainty of retaining current executives, has made *“human talent . . . a very scarce commodity.”* Echoed another member: *“At the end of the day, there are too few good CEOs, and I think the situation is even worse because the baby boomers are about to retire. This issue is not going to go away.”*

Members suggested that CEO burnout could be one explanation for the increasing war for talent: *“I think there’s a psychological piece around the fact [of] burnout. . . . [An executive] once said to me: ‘It’s always another quarter, it’s like a treadmill.’ Sometimes they just burn out and have to go.”* Another member suggested that lower-tier executives – even those well positioned in the succession planning pipeline – will leave if they do not feel fully appreciated: *“When we lose people, there are usually specific personal reasons. I’ve never heard of pay being an issue. Usually there’s an uncertainty factor about whether the person feels valued or pursued. We very often don’t find out the real reason until after they leave.”*

Several members shared their experience instituting a sabbatical program to address some of the issues associated with retention. They pointed out that these programs are aimed not at the very top but at key people in the next tier down: *“We just instituted a sabbatical program because we got the sense that there were people who didn’t want to quit, they just wanted time. . . . We did it because there are going to be people who we want to keep in technical or valued functional roles.”* Added another member with sabbatical-program experience: *“We have had [a sabbatical program] since the early 1990s, and I have done it several times. Our leadership actually encourages it, and I think it’s great.”*

Members also discussed how a strong visionary CEO can significantly help a company in the battle to retain top talent: *“One thing we haven’t talked much about [in this meeting] is the importance of buying in to a leadership style and buying in to a vision of where the company is going. The first thing*

we dealt with as a board when we [recently] lost [a key executive] was [looking] at whether it was about compensation or vision. I think as compensation committee chairs, we have to be responsive to pay and competitiveness; but I think there's another big issue of how well the CEO aligns people around a vision. I know we spend a lot of time with [the CEO] asking, 'Do you have the right financial tools?' But we should also be asking: 'Do you have the emotional tools to keep the glue together through both good and tough times?'"

Members also believe that CEOs can play a significant role in attracting top talent if they are given the right support by the compensation committee: *"What we did with compensation is give the CEO a certain amount of discretion. The CEO needs to attract talent, so we'll give him a pool and give him a cap, and he'll report to me afterward. In a fast-changing environment, he can't sit around and wait to reach me. I ultimately ended up giving him more power in this fast-moving environment, and it has worked very well so far."*

Succession Planning: The Long-Term Plan and the Fire Drill

In addition to carefully considering the elements of the compensation plan, CCLN members report that they will continue to focus on management development and succession planning in 2008. Members echoed the sentiments they expressed in January on the necessity of maintaining both long-term and short-term developmental plans. And they would still agree with the member who remarked: *"We have a lot of candidates who are the same age as the CEO, and what we've done is go down to the next level and look at the sequence of jobs the next level has to have to hit CEO after the next six or seven years. . . . You really need to bring someone in seven years out and nurture [that person]."*

Members also report success in giving CEOs greater discretion and control over succession planning: *"We have actually pushed for more action on the part of the CEO. In reality, I don't think the CEO thought he could do so much, but because the board was aligned and said he could do it, he went ahead and made changes to the management structure and got more people into the mix. I think the board does play a very meaningful role in actually encouraging and pushing more risk and bringing more people around."*

Members acknowledge that while they often have some form of disaster-recovery plan in place, they are intrigued by the idea of a "fire drill," maintaining a short list of five to ten people who would be able to move quickly into the role should the need to replace the CEO arise unexpectedly: *"We were feeling pretty good three to five years out [after hiring our CEO], . . . but without telling anyone we brought in an external search firm that gave us a short list of people. Therefore, if we ever [need an immediate replacement], we would have a plan. It's certainly not bulletproof; . . . it's more like a fire drill to make sure we have a process in place. It all started when our [current CEO] came forward with her own fire drill plan, and we realized that it wasn't going to cut it but it was all we had."* One member described implementing a plan: *"At [my company], not only did we have a CEO resign, but then he went to a competitor. So it was very helpful that we had a plan in place [that told us] who was on point immediately."* Hearing this best practice for the first time, another member remarked: *"We have new CEOs at almost all the companies I'm associated with, and there isn't really any form of emergency succession planning . . . in place. So this sounds like a great way to make sure you're prepared."*

Open-Session Issues

Involving the Full Board in Compensation

The issue of the board's involvement in executive compensation was raised by a member who said: *"I think boards are nervous [given the current regulatory environment], and they feel like they have to have top of mind how the CEO is paid and how he's positioned. . . . I now find that what starts out as a 10-minute report always ends up being a 20-minute discussion. We usually just say, 'Let's put an hour on the board, and I'll walk you through where [the compensation committee] is,' but I've been hearing from my colleagues that boards are saying, 'No, we want to approve more and play a greater role in these compensation decisions.'"*

Response to the increased involvement of boards in the review and design of the executive compensation package was mixed. Some CCLN members believe boards are experiencing an *"increasing feeling of stewardship toward compensation"* and therefore have a right to become more involved. Others agree with the member who said, *"My view is that CEO pay determination is solely a committee decision. Is it fair to give the board that decision when [board members] often get only a very brief briefing?"*

Most members maintain that decisions around the compensation package should be left to the committee, but they also want to keep the board involved and aware: *"The whole point is that [the board] understands what's happening and why."* And they offered several ways in which compensation committees can help increase the board's awareness of the company's executive compensation plan and philosophy:

- **Management presentation.** *"What we have done . . . is have [management] present the company's view on executive compensation. There are a lot of details around this, but most of our board members are former CEOs who are pretty savvy businesspeople. It gives them a foundation and understanding of our philosophy."*
- **External compensation expertise.** *"We actually have an external compensation consultant brief the board annually on the competitive landscape, so [members] can get a better understanding of why we make the decisions we do. We say what our peer set is, and that helps provide context. [Board members] don't necessarily have to carry [the information] with them; it's just to let them know and keep them informed."*
- **Board education series.** *"It sometimes helps to provide some education of what our programs are. I know of one board whose members were suddenly surprised by a large payout because they had forgotten how the plan works. It was fairly sensitive at first, but it ended up being something where they stepped back and talked about the philosophy in place, and it was actually a very effective opportunity to affirm what was going on in the compensation committee meeting and to educate other board members. It's good to do this every one or two years."*
- **Open compensation committee meetings.** *"We always have an open invitation for outside directors to join the compensation committee meeting. Sometimes it can be difficult because they bring different opinions, but the option is there."*

Splitting the Role of Chairman and CEO

Members believe that if a major organization adopted a proposal to separate the role of the chairman and CEO, the landscape of contemporary corporate governance would change significantly. The issue was raised at the meeting in light of the then-pending annual shareholders' meeting at Exxon Mobil Corporation, where a proposal was being held to a vote for the second consecutive year. Although CCLN members acknowledged the limited support for the proposal, they noted that *"if Exxon Mobil is able to bring this back, it will be a big issue."* However, at the Exxon Mobil meeting on May 28, only 39.5 percent of shareholders voted to create an independent chairman, almost exactly the 40 percent margin the proposal received last year.¹¹

Predicting the Impact of the 2008 Presidential Election

How is a new administration likely to affect executive compensation? That question led to a spirited discussion.

Members acknowledged that executive compensation had played an important role in the primary campaigns to date, that each of the three major candidates had taken action and made statements that suggest executive compensation – particularly say-on-pay – will remain a prominent issue in the fall campaign. But they do not believe it will go on to become a presidential issue: *"Whoever it is, whatever list they have in their pocket they can just throw out because the foreign-relations issue is going to take the front seat."*

Still, one member had this advice: *"What's best interest for us is to go about our business and be prepared for anything. . . . Be prepared, proactive, professional, and don't think it's all over."*

Conclusion

At the start of the year, after undergoing *"a critical sorting-out process,"* CCLN members predicted they would be getting back to business in 2008. But the political and economic contexts within which compensation committees operate continue to change. Members expect new demands from the SEC and political calls for legislation from whichever administration enters the White House next January. And economic conditions are likely to spur activist shareholders, who will continue to use executive pay as a wedge to pry open corporate-governance policies. These challenges lead one member to conclude: *"It is amazing to me that you can get ten leaders together across such different industries, yet we all seem to share the same tasks. Hearing that [many of you have] the same intent and doubts about how to discharge duties in a real way is really nice and reinforcing coming from this group."*

The views expressed in this document represent those of the Compensation Committee Leadership Network. They do not reflect the views nor constitute the advice of network members, their companies, or Tapestry Networks. Please consult your counselors for specific advice.

This material is prepared by Tapestry Networks. It may be reproduced and redistributed only in its entirety, including all trademarks and legends.

¹¹ Russell Gold, "Exxon Withstands Activist Proposals," WSJ.com, May 29, 2008, http://online.wsj.com/article/SB121197702311525895.html?mod=hps_us_whats_news.