

# ViewPoints

## Chairing the compensation committee “in interesting times”

The members of the Compensation Committee Leadership Network met on October 15 and 16, 2008, in New York to share their thoughts on how compensation committees are navigating the current economic climate and other timely issues. Their discussions were informed and enlivened by special guest Stephen Davis from the Yale School of Management’s Millstein Center for Corporate Governance and Performance.

The following members participated in the meeting:<sup>1</sup>

- Michael J. Critelli, Eaton Corporation
- Dina Dublon, Microsoft Corporation
- Willem P. Roelandts, Applied Materials
- Daniel H. Schulman, Symantec
- Laurie Siegel, Embarq Corporation
- William D. Smithburg, Abbott Laboratories and Smurfit-Stone Container Corp.
- Jonathan P. Ward, Sara Lee Corporation
- John Anderson, Hewitt Associates
- Peter Miterko, Hewitt Associates
- Michael Powers, Hewitt Associates

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

- Lewis W. Coleman, Northrop Grumman
- Thomas J. Donohue, Union Pacific Corporation
- David R. Goode, Delta Air Lines and Caterpillar Inc.
- Stephen P. Kaufman, Thermo Fisher Scientific and Harris Corporation
- Robert J. Lawless, Constellation Energy Group
- Stephen W. Sanger, Wells Fargo
- Samuel C. Scott III, Motorola
- Wesley W. von Schack, The Bank of New York Mellon

*ViewPoints* reflects the network’s use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments made

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Note: *The Yale Book of Quotations* records an early instance of the phrase “May you live in interesting times” in the *American Society of International Law Proceedings* 33 (1939). The phrase is often cited as a traditional Chinese curse, but *The Yale Book of Quotations* states that “no authentic Chinese saying to this effect has ever been found.” See *The Yale Book of Quotations*, edited by Fred R. Shapiro (New Haven: Yale University Press, October 9, 2006), 669.

<sup>1</sup> The compensation committee chairs are identified by their board membership. John Anderson, Peter Miterko, and Michael Powers participated in their capacity as compensation experts.

during the meetings are not attributed to individuals or corporations. Quotes in italics are drawn directly from members of the Compensation Committee Leadership Network.

### *Executive summary*

CCLN members paint a bleak picture of the economy. All agree that we are witnessing the start of “the worst financial crisis since the Great Depression.”<sup>2</sup> Facets of this crisis in 2009 will include:

- Growing unemployment across the economy
- A consumer-led recession
- Underfunded state and local budgets
- A freeze on spending decisions in companies
- Almost-certain passage of the Employee Free Choice Act

Economic conditions already have scuppered a great many executive pay plans. Even where management has performed well, negative total shareholder return in 2008 means long-term incentive plans scheduled to pay out this year will not – and that should be of great concern to compensation committees. And as corporate performance cycles down, shareholders, politicians, and governance critics fully expect executive pay to cycle down commensurately. So do our members; but they also appreciate that attracting, rewarding, and retaining top talent are essential in both good times and bad.

The discussion at the meeting centered on several key questions compensation committees are asking in light of the economy:

- How should we exercise our discretion at the end of 2008?
- How do we define performance metrics when the evidence strongly suggests that forecasts are fiction and exogenous forces are sharply reducing management’s control?
- How do we structure plans going forward to retain high performers in a way that is fair and affordable to shareholders?
- How do we exercise leadership and manage perceptions in a period when shareholders are being battered?

There are no definitive answers to these questions, but members did express a number of important ideas that are summarized in the next section.

Our agenda also included two other important and timely issues:

- **Communicating with shareholders.** Although members are quick to point out that management is the primary voice of the company in the marketplace, they are increasingly willing to communicate directly with shareholders, even in “normal” times.<sup>3</sup> Professor Davis believes that say on pay will become law in 2009, and that the whole point of an up-and-down vote on pay is to encourage communication. In his view, boards should accept broader responsibility: to manage the politics of executive compensation. How this is done varies from

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<sup>2</sup> Jon Hilsenrath, Serena Ng, and Damian Paletta, “Worst Crisis Since ‘30s, with No End Yet in Sight,” *Wall Street Journal*, September 18, 2008. Available at <http://online.wsj.com/article/SB122169431617549947.html>.

<sup>3</sup> Members have always agreed that extenuating circumstances can require direct communications between directors and shareholders – witness the case of The Home Depot – but most have questioned the wisdom of such interaction at other times.

company to company, but both boards and shareholder groups must develop the skills needed to interact effectively.

- **Keeping the full board informed and aligned.** Using in-depth examples of several members' experiences, meeting participants explored ways to involve and align the full board. These include one-on-one conversations as well as full board presentations and discussions.

### *Responding to the current economic climate*

Economic changes have placed many boards in *"uncharted territory."* A number of CCLN members tell us that their companies are experiencing slower growth, greater pressure for profits, uncertain share prices, and extraordinary demands for performance. At our network meeting, we considered the implications of these economic realities for executive compensation.

### **Surveying the economic landscape**

Despite the federal government's attempts to stabilize the economy, members agree that the only thing that seems certain right now is uncertainty: *"[The government] is just throwing a whole bunch of stuff against the wall and hoping it sticks. There is no rule book; there are no rules. We don't know what's going to work."*

Most members predict that the downward slide will continue:

- *"I think the recession we have been talking about is ahead of us. In terms of magnitude and how long it lasts, I don't feel confident in my own predictions."*
- *"I think the market is reacting to a number of different things, and [we all measure our] self-worth on whether the market goes up or down on a given day ... We should stop paying attention to the market and start paying attention to how companies react to the consumer-led recession that's ahead."*
- *"State and local government debts are big and only getting bigger. I don't think we can even tell yet how bad it's going to be."*
- *"My biggest fear is this increasing likeliness of the Employee Free Choice Act. That could take this problem and stretch it out over a much greater period of time."*

But some members don't think the impending recession will be as deep and as drastic as economists are forecasting. Said one: *"This is definitely a unique situation, but I'm confident that we learned from the Great Depression. I'm a bit more optimistic. I think we will definitely have a recession, but I think it will be more prolonged and [less severe], rather than shorter and deeper."*

Still members report that they are starting to see effects of the financial crisis in the *"real economy."* One member spoke of growing unemployment: *"[One of my companies] just announced layoffs of over three thousand people, and that's just the start. The construction industry alone is five million jobs ... Those are big numbers."* Another described how volatility in the market has stalled decision making: *"A couple of my companies [make] products that would produce phenomenal payback within six months, [but] the people we are selling to are afraid of whether they will even be around in six months, so they are not pulling the trigger ... Fear of [the] future is affecting some decisions in a way we have never seen before ... affecting otherwise rational business dealings."*

Members agree that the actions the new administration takes will be critical: *“The duration and severity of this [crisis are] highly dependent on what the new president and Congress do on Day One.”* Many are fearful of too much government intervention: *“More government control would be bad. We have a tendency to overreact during times of crisis – as demonstrated by the passage of Sarbanes-Oxley. [We need] better quality, not just more quantity.”* As a result, members believe the government has a significant role to play in setting the tone going forward: *“The tone set by the new administration will be key. If they blame a specific group of people or demonize them for their mistakes, it would be a huge error. We are very clever at finding villains, and oftentimes populism and protectionism go hand in hand. Those kinds of things create a very poisonous dynamic, so the new president has to set a different tone.”*

The economic climate is already having an impact on members’ compensation plans: *“The industry is in tough shape, and the packages aren’t paying out the way they used to. It has been an extremely difficult couple of months.”* As the economy continues to spiral downward and more packages fail, compensation committees will need to focus on several key issues that will influence the design of pay plans going forward.

### **Exercising discretion at the end of 2008**

Our members largely agree on two points: (1) There will be no upward discretion for named executive officers (NEOs); and (2) the committee will pay special attention to management’s recommendations on what’s needed to ensure fairness for and to retain other senior executives, and will act where necessary. As one member said: *“I think you have two very significant stakeholders: shareholders and employees. To change the plan is fundamentally breaking your contract with one of those groups.”*

Members acknowledge that outside circumstances have unduly influenced performance metrics: *“We’re dealing with a very rare and uncertain environment, and we have to be alert to the fact that we might have to do something different ... You don’t want to throw the book away, but you’ve got to write some new chapters.”* Pointed out another member: *“Many of these events nobody could have foreseen, and as a result some of these plans are unachievable. [Management] can walk on water and still have bad results. So what do you do? People are working harder than ever. Do you say, ‘Sorry guys, business is down, and results are results?’”*

Indeed many members report that their compensation committees have been struggling to determine how best to adjust compensation plans in response to economic challenges: *“You’re forced to have strict objective measures, but the world changes in a year, and the things you thought were good [measures] a year ago seem to be irrelevant. I’ve been trying to get a little more judgment and interpretation in some of these compensation issues. It’s been tough because you don’t want to keep it too loose and make it entirely subjective, but nobody can predict how the year is going to go. Most of our salaries and goals are pretty hard set these days, and I don’t know if that’s really the right way to handle this when the whole industry is changing.”*

Ultimately they agree that unpredictable circumstances mean audit committees must exercise discretion: *“Total forgiveness is impossible in today’s environment – you can’t do that. However, you can still try to find a program that’s an incentive to management and still rewards shareholders in the end.”* Added another meeting participant: *“What I’m hearing from my compensation committees is ‘Yes, let’s use our discretion to be more forgiving, but let’s put some strings on it.’”* And a third member

remarked: *“When it comes to discretion, you should still make it performance related and only let it pay out if the shareholders win.”*

At the meeting, members talked about several ways for compensation committees to exercise discretion:

- **Consider midyear reviews.** *“We’re going to look at plans midyear and see how they are affecting the bonus element. We set the plan; [but] if circumstances change dramatically, we’ll reset the target. However, if they just aren’t hitting it yet, we’ll stick with it.”*
- **Adjust cliff levels.** *“We set cliffs very high, so I think we may feather those out to be a little less demanding.”* Responded another member: *“Yes, I think we’re going to make it more of a continuous curve. In theory, it will go all the way down to zero, but it is designed in a way that you wouldn’t really get there.”*
- **Adjust compensation for the next tier down.** *“I think what [we’re] going to do is have the NEOs stick with the plan we have in place and let it pay out as it is defined. However, underneath that we have people really working their hearts and souls out, so we’ll see what makes sense ... [We] may think about resetting some people who may have lost everything.”*

But all agree that if a compensation committee chooses to exercise discretion, it must be able to justify the plan: *“You have to pass the squirm test. If you’re at all unsure and you can’t stand up and defend it with integrity, then you’re in trouble.”* They also agree that the compensation committee should recognize that it can exercise discretion in both good times and bad: *“Discretion should not just be a topic when markets are down; we should use it in both scenarios. You could have a scenario where stock goes through the roof and your executive team doesn’t hit [its] targets. No one would suggest upward discretion, but I think it needs to work both ways.”*

### Setting goals for 2009

The turbulent economy is forcing a re-examination of current pay plans; it is also calling into question the processes and metrics used to set goals going forward. One compensation consultant described the difficult position companies – and compensation committees – find themselves in: *“Uneasy with the market’s volatility, companies are taking a hard look at the drivers of long-term economic value, reassessing performance metrics and realigning variable compensation with financial, strategic and operational measures instead of more traditional metrics such as ‘earnings’ ... But with so much uncertainty created by the financial market crisis, companies are struggling to set credible goals. While some companies can use a relative approach, tied to the performance of an external index or industry group, they need to be prepared to pay – and possibly pay well – for negative absolute performance.”*<sup>4</sup>

One member questioned the validity of the goal-setting process: *“I have a more fundamental issue with goal setting, and that’s that setting goals requires being able to predict the future, and I haven’t met anyone who can do that yet.”* Added another member: *“I think it’s very difficult to set goals. Oftentimes you’re trying to differentiate between rewarding bad performance and dealing with bad goal setting.”*

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<sup>4</sup> Michael Halloran, quoted in Mercer, “Mercer Issues Study of US CEO Compensation Trends” (press release, May 15, 2008), <http://www.mercer.us/summary.htm?siteLanguage=100&idContent=1307260>.

Consequently, many members report they will consider adjusting short-term performance targets in an effort to adapt to tumultuous economic conditions: *“I think for now we will be starting with a more moderate set of targets. I think management will be coming in with more moderate targets to begin with because they feel the burden of uncertainty as well. We are all operating with the same mindset.”*

### **Responding to retention challenges**

To be successful in a competitive market, organizations must attract and retain top talent, even – or perhaps especially – when the economy is performing poorly. As one CCLN member asked: *“How do you create that performance base that enables us to put out aggressive goals and yet, if bad things happen, we don’t lose the team?”* Another member commented: *“What I find the most difficult is when companies are going through a bad spell. You’ve got pressure from the outside not to pay, but those guys are really at risk, and I’ve seen a lot of them just ultimately jump ship.”*

For CCLN members, retention is one of the biggest concerns as they struggle to align pay with performance during this economic downturn: *“We are trying to think about what we, as a compensation committee, should be thinking about in terms of extenuating circumstances versus retention. We’re re-thinking how to motivate and retain our best employees going forward.”* However, as one member pointed out, *“retention is more of an issue ... in a weak economic climate than a strong one. You start to have issues like the ones we’re about to see: bonuses that don’t pay out, equity issues, and missed targets.”* Another member remarked that retention concerns extend beyond the ranks of senior executives: *“You need to be thinking about future leaders and future talent and whether or not you have the glue to hold them in place. I know there’s a lot of worry at [my company] right now that we’re going to lose the opportunity to hold on to a whole generation of talent.”*

Members discussed two primary approaches to handling retention concerns:

- **Adjust short-term incentives.** *“There are a couple of companies [that] have put in one-time incentive arrangements to kind of top up short-term plans to help employees hit targets in light of the fear about retention.”* Members agree that it’s the compensation committee’s job to garner support for short-term incentives: *“A real challenge for compensation committees is being able to challenge the board, government, and conventional wisdom and adjust the short-term metrics to reward the executives during a down economy and keep them from walking down the street to the company next door.”*
- **Adjust long-term incentives.** *“We are trying to step back and ask, ‘Is our LTI based too purely on performance, and are we not balancing it out with the need for retention?’ We might want instead to be motivating and rewarding management for focusing on more long range objectives.”*

### **Exercising genuine leadership and managing perception**

CCLN members are all too aware of the perceptions the public and many investors hold of executive compensation. As one member told us previously, *“At its most basic level, executive compensation has an ‘optics’ problem, and we struggle to justify the ... numbers.”* And members recognize that the problem is exacerbated during a recession – that when shareholder returns are down, executive compensation must stand up to even greater scrutiny.

And that scrutiny isn't just external. Members caution that the compensation committee and management in particular also must be sensitive to the internal "optics" around compensation during an economic downturn. Said one: *"If you are a CEO and you've hit your numbers by laying off thousands of employees, you probably shouldn't trumpet that."* Added another: *"It's not just 'optics'; it's compassionate leadership. If leaders are flaunting their compensation through the proxy statement, or the car they drive, I think that's ... in very poor taste."*

Indeed, members believe that tone at the top will be a significant issue as companies try to navigate the current economic climate. The compensation committee has an important role to play in holding management accountable: *"Hopefully all of our CEOs understand that this is about leadership and being a role model in these difficult times. However, if they don't understand that, then we need to tell them."*

### Shareholder pressure and increasing government regulation

Members are apprehensive about the mounting public pressure on executive compensation and the responses of shareholders, legislators, and regulators. Although the full range of responses is *"really hard to predict,"* members expect them to have a significant impact on compensation committees and boards as a whole going forward – and that's a subject they want to revisit in the coming months.

### Communicating with shareholders

Members appreciated the opportunity to exchange views with Professor Davis on board-shareholder communications, executive compensation, proxy access, and other aspects of corporate governance. In the discussion, Professor Davis identified a number of themes directors should be thinking about:

- **Increased shareholder access to boards is likely, whatever the outcome of the 2008 election.** "I think given the current economic environment we are definitely on the 'express train' to change. Both [presidential] candidates have publicly promoted increased shareholder access to boards."
- **Appointment of a "pension czar" is probable.** "Another pressure point going forward will be the Department of Labor, and an easy thing for the administration to do is to appoint a pension czar."
- **Say on pay is a sure thing in 2009.** "There is no doubt that say on pay will be the law of the land in the first six months of 2009." The point of say-on-pay is not the vote itself, but to trigger healthy conversation/engagement with shareholders before the vote.
- **Compensation committees must accept a responsibility to manage the "politics" of compensation.** No longer will it be adequate to simply win support from fellow board members. If 28 percent of shareholders vote "no", the committee ought to interpret that as a serious issue, rather than a clear win.
- **Boards should learn from say-on-pay lessons.** "Why did say on pay have to become such a big issue? It could have been headed off by an adult conversation, but now the umpire has to step in."
- **Communication is two way; shareholders need to get better at communicating with boards.** "The dialogue between the board and shareowners has to be done with the right

mindset. Very often you will have experiences with shareholders where you get nothing, and that's a real problem. This is not a one-sided forum. It needs to come from both sides."

- **Boards need to become more persuasive.** "If you are convinced that your strategies are best, then you have to be more persuasive. Companies ought to try different things when they are trying to start a conversation with shareholders."
- **Who should speak for corporate directors?** "In Washington, DC, the perception of the business community is driven by The Business Roundtable and the Chamber of Commerce. They lost a lot of credibility on governance issues in so strongly resisting say on pay. I am not sure how well they – or anyone else – speaks for you on governance matters."

At the meeting, members delved into the impending say-on-pay legislation and what it means for their companies. As predicted from the outset of the 2008 proxy season, proposals for non-binding shareholder votes on executive pay remained a central issue of discussion for corporate boards across all industries. In 2007, investors filed 60 resolutions asking for a say on pay and got an average of about 44 percent of the vote.<sup>5</sup> By the end of the 2008 proxy season, more than 90 such resolutions had been filed.<sup>6</sup> But despite strong momentum going into the season, support for the proposals fell short of expectations, with the average vote around 42 percent.<sup>7</sup> Still, members agree with Professor Davis that given the extraordinary economic events of the past several months, "say on pay is ... basically here."

Although members fear that granting shareholders a say on pay will lead to even greater proxy access, they acknowledge (1) that say on pay is likely and (2) that it presents an opportunity to improve communications between the board and shareholders: "*The [say-on-pay] vote itself isn't important. However, if you know you're going to receive a no vote and you engage in a conversation beforehand, you counter the 'blunt instrument' argument. You should know why you're getting a no vote.*" Added another member: "*My board's view has always been that as long as we get 51 percent of a yes vote then we're okay. [Before this discussion] I had never considered the idea that a 28 percent no vote should be a concern. However, if a third of your shareholders are unhappy, you should do something about it.*"

### Who should be speaking to shareholders?

For many members, that "*something*" is improving communications with shareholders. In fact a number of members are already making efforts to improve and maintain open lines of communication. Said one: "*We are going to start annually having our largest investors come and have access to our conversation.*" Several members believe that board-shareholder communications represent the essence of good governance: "*I think that as a board, we have a responsibility to be available and listen directly to what shareholders have to say ... They are the owners of the company after all. It's a philosophical and principle perception more than anything else.*" Added another: "*I am of the view that on the margin, we should be tilting governance in the direction of more listening and interaction with the shareholders, and I think it can be done in a constructive way.*"

<sup>5</sup> 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](http://www.nytimes.com/2008/04/06/business/06say.html?_r=1&oref=slogin).

<sup>6</sup> Katayun I. Jaffari, "The Future of 'Say on Pay' in Current Economic Times," *The Legal Intelligencer*, October 30, 2008. Available online at <http://www.law.com/jsp/ihc/PubArticleIHC.jsp?id=1202425644318>.

<sup>7</sup> RiskMetrics Group, "2008 Postseason Report Summary," Governance White Paper, October 16, 2008. Available online to registered users at [http://www.riskmetrics.com/system/files/private/PSR\\_2008\\_Short\\_final.pdf](http://www.riskmetrics.com/system/files/private/PSR_2008_Short_final.pdf).

Proponents of increased board-shareholder communications share the views of the member who pointed out that *“the more you communicate with shareholders during the good times, the easier it will be to discuss and communicate with them during the bad times”* and of the member who suggested that *“the best way to evolve and develop is to not wait for the pressure ... and not just respond when there is a threat, but to have some meaningful interaction beforehand.”*

Several members whose boards were reluctant to interact with shareholders have overcome that reluctance by building board-shareholder communications into the board’s education agenda. One member explained: *“Sometimes I get long-term investors to come to a director education day. I think putting it as part of director education is actually a non-threatening, constructive way to create some form of dialogue, and I think my fellow board members have found it pretty interesting.”*

But several members believe the board should engage in dialogue on executive compensation with shareholders on an exception basis only. Said one: *“I think the board should be a last resort consultation. It’s something that should be saved, not something that should happen regularly. There are occasions when the only ‘person’ you can have a dialogue with is the board.”* And another member cautioned: *“You don’t want to take control away from management. You don’t want to be sending out two messages. Also, boards don’t understand the company as well as management does, so it makes sense that [management] should be the primary voice.”* And a third member proposed a compromise: *“I think with the exception of a handful of cases, the better solution is to (1) task the CEO to report shareholder dissatisfaction and (2) give the CEO the direction to go and figure out a way to satisfy them. If the CEO ultimately comes back and says he disagrees, then the board can engage in the conversation and offer an opinion.”*

In the end, members may not have reached a consensus on communications with shareholders, but they agreed that the discussion was a good one. One member summarized it this way: *“This discussion ... has been very eye opening for me. On all of my boards we have avoided this like the plague, but we need to get better about getting out there and telling our story.”*

### **A question of time**

Our members recognize that an increase in board-shareholder communications means an increase in directors’ already-demanding schedules: *“Adding this responsibility ... creates ... another constituency we have to educate. We’re just loading up our workload ... Now we’re persuaders [too].”* A second member warned: *“I think [the increased time commitment] is going to start influencing who you can get on boards. There is going to be a shift from experienced business leaders to professional board members.”* And a third pointed out: *“Communicating with shareholders is emotionally appealing, but I find as a compensation committee chair you’re now dealing with so many constituencies and viewpoints that it’s going to be kind of a ‘damned if you do, damned if you don’t’ situation. How are we going to accumulate all the data points and still find time to be able to respond?”*

### **Keeping the full board informed and aligned**

Members agree that the compensation committee chair has a responsibility to maintain constant communication with the rest of the board, a process that many find frustrating: *“My biggest challenge as a compensation chair is how to keep the full board informed and relaxed. From time to time, members read an article and stress out ... [They] don’t have the full context of what’s been going on with the compensation committee, and they want to just jump in. I think it’s really ... the role of the*

*compensation committee chair ... bringing the board along and keeping them informed without letting them get unruly.” Added another member: “The flashing light for me was when current [compensation] issues would pop up [in the full board meeting], and it would be difficult to discuss them in the context of the committee report. Also certain compensation issues would keep resurfacing every six to twelve months, and it was clear the board has some concerns we were not addressing.”*

Several participants at the meeting have bridged the information gap by setting aside time on the board’s agenda for a comprehensive discussion of the compensation plan and design: *“At [my company], we took two hours on the agenda [for] a complete overview of how we pay our top officers and how the pay-for-performance link works. We discussed the relevant issues, and then we shifted to where we are going and ... the changes we anticipate for 2009 and beyond. At this point the meeting is really just meant to say to the other board members, ‘Here is what we do, and here is where we’re going – we’d really like you with us on this.’”* Another member reported: *“We have a compensation review with each of my boards once a year, and usually I chair the meeting and set forth all the compensation practices and how we’ve interpreted them. At that point everyone is fully informed on what our procedures are and how we pay. Part of the meeting explains your philosophies and your practices, and another explains what your criteria are and how you pay out.”*

A separate meeting to discuss compensation can also help with those board members who do not always take an active interest in compensation issues: *“My sense was that our compensation reports were going in one ear and out the other, and it didn’t feel like [the information] was actually being absorbed. I felt like many people were thinking, ‘That’s not my issue; I’m in audit.’ So this whole notion of bringing these issues back to being real to the board is important.”*

To ensure the meetings are effective, members highlighted several specific practices that have proved successful:

- **Distribute pre-meeting materials.** *“We did a major revamping of our compensation plan, and there were lots of implications over time; but the arguments that were happening in the compensation committee were never actually debated with the whole board. So in my last compensation report I decided I would write my own summary to the full board, and it was done as a teaser that addressed the most dramatic changes.”*
- **Engage other directors in one-on-one discussions.** *“I met individually with our non-committee board members, and they raised some interesting points. We sat down with one board member who wanted to say to us, ‘Be out there and change the paradigm [of executive compensation]. Do something fundamentally different.’ Hearing him out helped both him and us to better understand where he was coming from. This also allowed us to better explain the issues.”* Added another member: *“One-on-one conversations are the best way to actually elicit the comments that don’t always come up in a full board discussion.”*
- **Maintain constant communication.** *“I’m quite involved in trying to keep the board current on what our thinking is. I’ll send out a copy of our compensation book to give a full readout of where we are, and I’ll meet individually with directors. People don’t like to be dragged along and get surprised. I think this communication issue can’t be overstated.”*
- **Lead the meeting.** *“I think if management organizes these meetings, there is potential for there to be some self-interest at play. If you have a compensation committee chair leading the discussion, there is less of that.”*

Although members agree it's important to keep the full board informed, they stress that the final recommendation must be the committee's: *"I've seen circumstances where other members of the board disagree with the conclusion that the committee reached, but they voice their opinion, and the usual procedure is to proceed as the committee decided. It's not a rubber stamp by any means, but they do acknowledge that the compensation committee spends a great deal more time with this than the rest of the board."*

All of the members agree that the compensation committee has a significant role to play in keeping the full board informed and engaged, and they hope this will be a growing trend. One member explained: *"What we're doing now is vastly different from what we did ten years ago. These plans are far more sophisticated, and the full board needs to understand the philosophy, where you stand, who your competitors are, what your actual payouts are, and where it's all meaningful to you."* Another member added: *"I really enjoyed this conversation on what you can do to help the full board understand. I don't think it's happening as much as it should. I am frequently thinking about what compensation committee chairs should be doing more of, and I think this is one [example]."* And a third had this to say: *"It sounds like [other members] have been doing this as a matter of routine, and I don't know if this is true for most boards ... This will be regular practice for my boards going forward."*

### Conclusion

Early in the year, CCLN members were looking back on the completion of the CD&A and predicting that they would be *"getting back to business in 2008."* But as the year comes to a close, members find themselves in *"uncharted territory,"* overseeing compensation in an extraordinary period of change, bracing for outspoken criticism of executive pay packages, and anticipating potentially sweeping legislative and regulatory reform. Although compensation committees may indeed be getting back to business, it is far from business as usual.

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