

Insights



BEST PRACTICES FOR TRANSITIONING THE COMPENSATION COMMITTEE CHAIR

Partner Michael Brittian shares his thoughts with Boardroom Resources.

Posted by Michael Brittian on September 21, 2016

This blog is Part 2 in a Boardroom Resources series on compensation committees chairs. We identify the steps necessary for a smooth transition and outline action items for key players.

In Part 1, we discussed how the role of the compensation chair is becoming increasingly complex and public-facing. While three years was once a common practice for assessing chair rotation, several factors now suggest that time period is too short to master the nuances of today's executive pay environment.

Regardless of the board's rotation guidelines, however, transitions must be made—whether premeditated or abrupt. Meridian's Michael Brittian once again outlines best practices regarding compensation chair transition. He provides a checklist for the key players involved:

- Outgoing Chair
- Senior Management
- Compensation Committee Advisor

1. Outgoing Chair

The outgoing committee chair plays the most important role of the transition. In the weeks (even months) preceding the rotation, incoming and outgoing chairs should engage in several informal conversations between scheduled committee meetings.

Communicate tips for success.

Outgoing chairs should impart knowledge, tips, and tricks—not only related to the official duties, but also the subtleties of the position. The chair rotating out should cover topics such as: *how to run an effective meeting, how to manage specific relationships between management and the outside advisor, etc.*

Organize a trial run.

When it comes to learning the process, it's important to get the incoming chair's feet wet, stresses Brittian. Outgoing chairs should begin to include the new chair in pre-meeting discussions with management and the outside advisor. Brittian highly recommends a trial run, where the successor plays the role of 'acting chair' before the retiring chair has officially rotated off.

2. Senior Management

While the duties of senior management may be the most obvious, each one is essential to a smooth compensation chair transition.

Educate on the process.

Senior management must be prepared to provide the incoming chair with a thorough education of the compensation committee calendar, agenda, and charter. What's the timing and sequence for developing and approving executive compensation structures and packages throughout the year? What is the compensation committee's role in the CEO's performance evaluation?

Explain the history & philosophy.

Key members of senior management should have a robust conversation about the ins and outs of the program. This not only includes how the compensation program works now, but also the history of its development, which is becoming increasingly important to

communicate. What was the philosophy on which the compensation programs were developed?

Identify responsible parties.

Senior management must explain to the incoming chair *who's responsible for what* in terms of the development of materials. As Brittian explains, this will likely require introductions to key members of the company's compensation, legal, and HR departments, whom the future chair has not yet met.

3. Compensation Committee Advisor

The outside advisor or comp consultant should serve as a sounding board for the incoming chair and offer the opportunity to reinforce the committee's strategic point of view.

Clarify the nature of engagement.

The outside advisor must ensure that the incoming chair understands how engagement works between the compensation committee and the advisor. Does he or she understand how reporting works for the engagement documentation? The independence documentation?

Brief chair on external environment.

Outside advisors should also provide a brief education about what's happening externally, particularly with proxy advisors. Incoming chairs should rotate in with a good idea of what's coming down the road in the months ahead.

Expert Tip: Pick a date for all parties to gather at the company for a day-long meeting, says Brittian. This allows everyone to run through the above topics efficiently and with undivided attention. During the day, set aside time for the incoming chair to have one-on-one meetings with both management and the outside advisor. This enables all parties to start things off on the right foot. For more information on compensation committees, don't miss our resources below!