

Taking Inventory of Executive Pay Programs

By Matt Seto and Abby Brunks

With proxy season behind most calendar-year end companies, the summer meeting is an opportune time for compensation committees to reflect on compensation programs more holistically, and ask, are we meeting our objectives to motivate, attract, and retain key talent?

There are many tools available to inventory compensation programs and determine if they are operating as intended. Two of the most effective ones are compensation dashboards and tally sheets.

Compensation Dashboards

A compensation dashboard is essentially a cheat sheet of the executive pay program. It can be especially valuable to new committee members, as it provides high-level, current information on committee decisions to date. It is considered best practice to include the dashboard in each set of committee materials (refreshed quarterly), typically limited to two pages.

A dashboard can be customized to fit the needs and preferences of the company, but typically covers the following:

Foundational Items	Current Compensation Program Items
<ul style="list-style-type: none"> State compensation philosophy objectives or strategy List benchmarking peer companies 	<ul style="list-style-type: none"> Name, title, salary, target bonus, long-term incentive grant value for named executive officers or executives under committee purview Major design features of the incentive program, e.g., metrics, target goals, long-term incentive mix, vesting terms Equity burn rate, current dilution, and remaining balance in the equity plan Severance arrangements key provisions
Other Items	
<ul style="list-style-type: none"> Board pay program summary Key governance policies, e.g., ownership guidelines, clawback provisions, anti-hedging 	

Tally Sheets

Different from dashboards, which summarize compensation programs at an organizational level, tally sheets provide a more detailed perspective on individual executive compensation. For each covered executive, a tally sheet answers many of the questions committees are expected to evaluate.

Concluding Thoughts

Effective compensation governance starts with having access to the most up-to-date information. The pressures on committees to both make and explain informed pay decisions and programs during investor engagement have increased substantially over the

Tally sheet element	To answer the question...	And to further answer...
Current and prior year target total compensation	<ul style="list-style-type: none"> How have we targeted compensation over the past 3-5 years? 	<ul style="list-style-type: none"> Are increases aligned with individual and company performance? Does the pace of progression make sense?
Pay mix	<ul style="list-style-type: none"> How is pay being delivered, between salary and at-risk pay? 	<ul style="list-style-type: none"> Does the individual's pay mix align with our pay philosophy? Does it encourage healthy risk-taking?
Recent bonus and performance share units payouts	<ul style="list-style-type: none"> How do short- and long-term performance plan payouts align with preestablished minimum, target, and maximum payout levels? 	<ul style="list-style-type: none"> Are short- and long-term performance-based payouts in alignment with shareholder returns and expectations?
Value of outstanding equity awards at various stock price and performance levels	<ul style="list-style-type: none"> What is the cumulative effect of prior equity grants, reflected through stock performance? 	<ul style="list-style-type: none"> Do we have a retention issue? Should we revisit our long-term incentive design or vehicle mix?
Value of gains realized upon vesting or exercise (5-year lookback)	<ul style="list-style-type: none"> What has the executive earned from our compensation programs? 	<ul style="list-style-type: none"> Does the wealth created for the executive align with shareholders? If the executive has benefited from a substantial gain, are they a retention risk? Are there different realized outcomes across the team due to LTI mix? Tenure? Grant timing?
Stock ownership summary	<ul style="list-style-type: none"> What is the executive's economic interest in the company? 	<ul style="list-style-type: none"> What proportion of the executive's ownership is held through actual common share ownership?
Payments due under various employment agreements or change-in-control severance arrangements	<ul style="list-style-type: none"> What is the company obligated to pay upon a termination event? 	<ul style="list-style-type: none"> What is the cost to the organization if our CEO is terminated? If they retire? How valuable are change-in-control provisions to the team?

past decade. Dashboards and tally sheets summarize the state of the pay programs, including their strengths and opportunities for change, and may identify a need to prioritize a review of realizable pay-for-performance, severance arrangements, or a more comprehensive review of incentive design. **D**



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