

Beyond the Numbers: The Role of Compensation Committees in the Era of Human Capital Management

By Jeff Miller and Tina Murphy

The evolving landscape of corporate governance has encouraged many companies to consider expanding the responsibilities of their compensation committees beyond traditional executive pay oversight. As organizations face increasing pressure to address human capital management (HCM), the decision to widen the compensation committee's charter becomes crucial. In this article, we explore the considerations, benefits, and potential trade-offs associated with expanding the committee's role.

Considerations for Change

The decision to expand the responsibilities of the compensation committee should address the unique challenges and contexts of each company and its board and compensation committee. The following factors should be considered:

Increasing focus on HCM: As retail shareholders and institutional investors increasingly emphasize HCM concerns, companies may be compelled to integrate incentive payouts with HCM objectives alongside financial metrics. This dynamic should prompt compensation committees to gain a thorough understanding of the suitability and application of these measures.

Evolving responsibilities: Traditionally, compensation committees focused solely on executive pay and alignment with business strategies. Today, much more may be required. Expanded HCM responsibilities can include executive succession planning, leadership development, diversity and inclusion, employee engagement, culture, and other environmental, social, and governance issues.

Assessing committee capabilities: Before expanding the compensation committee's scope, a crucial assessment must be undertaken to determine if current members possess the necessary skill set for these new responsibilities; boards might want to consider the appointment of new members with expertise or experience in human capital matters. Moreover, it is advisable to encourage existing members to bolster their knowledge through participation in educational programs.

Aligning Structure With Intentions: Potential Benefits and Trade-offs

If the decision is made to expand the compensation committee's responsibilities, members should consider amending the

committee charter (and perhaps name of the committee) to reflect this broader role. A change in the compensation committee's name or charter may be an impactful way to signal to investors that the company and its compensation committee are responsive to investor and other stakeholder concerns. Keep in mind, however, that these changes must be coordinated with other committees and the full board to avoid fragmentation and to ensure seamless collaboration.

Additionally, the compensation committee should recognize the trade-off between additional time and resources required for new agenda items and core compensation committee responsibilities. A committee should avoid expansion of its duties and responsibilities that exceed its capacity and expertise.

Ultimately, expanding the compensation committee's role not only allows organizations to stay ahead of changing expectations, but also demonstrates to stakeholders and society the company's commitment to human capital management, fostering trust and enhancing reputation. Embracing a broader mandate positions the board as a strategic partner to management, ensuring effective oversight of all critical aspects of the business.

Looking to the Future

While the decision to expand the role of the compensation committee is influenced by various factors specific to each company and board, the importance of an intentional and informed approach remains universal. Boards that strategically expand their compensation committee's role, after balancing the potential benefits with the associated trade-offs, can help to address HCM matters and aid in sustained value creation for shareholders. With the increasing emphasis on HCM, the compensation committee's role is more critical than ever. 



JEFF MILLER (left) and **TINA MURPHY** are senior consultants at the executive compensation consulting firm Meridian Compensation Partners in Detroit.

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