



Energy Insights



KEEPING PACE DURING GROWTH

How to Avoid the Lag in Compensation Practices That Occurs When Firms Grow Quickly

Posted by Jonathan Szabo on February 28, 2014

Recent headlines of Aubrey McClendon's American Energy Partners LP receiving a \$5 billion equity valuation and a flurry of energy IPOs in the last 12-24 months are reminders that change and growth can occur quickly, especially in the energy industry. This type of growth can result in:

- A higher bar for governance to withstand greater shareholder expectations; and
- A greater need for improved processes to ensure effective management of compensation programs for a growing number of employees.



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In other words, we observe that corporate governance-related compensation practices and processes often lag when companies grow at a rapid pace. How do Committees not just keep pace but anticipate and proactively address upcoming needs or issues during phases of rapid growth or change?

In our experience, adopting a formal and detailed Compensation Committee calendar, with meetings and standing agenda items scheduled at least a full year into the future, allows the Committee to be planful about making compensation decisions and creates a framework for identifying needs and issues in advance. Specifically, the calendar should:

- Include high level agendas with recurring agenda items, such as annual benchmarking analyses, peer group evaluations, performance updates, share usage analysis, risk reviews, proxy CD&A draft reviews, tally sheets and succession planning to ensure the Committee is continually monitoring competitive pay levels, equity use, retention concerns and preparing should there be a leadership departure
- Provide for more significant actions or decisions to be made over the course of two Committee meetings, where information is presented at the first meeting and then action is taken at the next meeting
- Include pre-meetings with the Committee Chair, HR and the consultant to preview meeting materials in advance of distribution to the full Committee, which helps set the stage for efficient meetings and discussions
- Set dates for mailing or distributing meeting materials to all members well in advance of the meeting (ideally at least one full week)
- Set time aside for executive session at every meeting, regardless of whether or not there is a predetermined topic or issue to discuss
- Include a copy of the calendar in the Committee materials for each meeting

Following a detailed process and calendar allows for expectations to be set well in advance of meetings and reduces the potential for surprises. This ensures that all parties can come to each meeting fully prepared and helps companies keep pace with their growth.