

The New York Times

April 8, 2007

Pressing for Independent Advice From Consultants

By [JULIE CRESWELL](#)











FOR more than three decades, Jeffrey S. Hyman advised companies on executive pay packages for [Hewitt Associates](#), one of the country's largest providers of compensation consulting and other corporate services.

Over the past couple of years, however, as corporate boards wrestled with concerns over whether consultants who provided compensation advice could also perform other work for the company, Mr. Hyman began losing some clients. So he recently joined a company started last year by former Hewitt employees called Exequity.

The new company's calling card as it tries to woo corporations? Independence.

The Pay Consultants

Executive compensation consultants engaged in 2006 by the 150 companies in The Times's C.E.O. pay survey.

COMPENSATION CONSULTANT	NUMBER OF COMPANIES USING THIS FIRM*
Towers Perrin	44 
Mercer Human Resource Consulting	29 
Frederic W. Cook & Company	24 
Hewitt Associates	24 
Watson Wyatt	8 
Pearl Meyer & Partners	6 
Buck Consultants	2 
Hay Group	2 
<i>Other</i>	9 
<i>None</i>	6 

*Includes engagements with the board of directors and excludes engagements with management. Some companies have engaged multiple consulting firms.

“The issue of independent consulting to boards is at the forefront of everybody’s thinking — I have personally been affected by it,” Mr. Hyman said. “I have had to resign my relationship with comp committees because my former employer had other business with the company or my former employer was precluded from bidding on certain services.

“It was an uncomfortable situation for me, and an uncomfortable situation for lots and lots of compensation committees,” he added.

It is also an uncomfortable — and challenging — new environment for companies like Hewitt, Towers Perrin, Watson Wyatt and the Mercer Human Resource Consulting unit of [Marsh & McLennan](#), which provide numerous corporate services, from advising on executive pay to devising employee benefit packages and 401(k) plans.

Some of the major consulting firms are debating whether to separate or spin off their compensation consulting businesses to avoid perceptions that they conflict with other services that the firms provide.

In the continuing debate over huge pay packages for chief executives in corporate America, some investors have seized on concerns that to win new, more lucrative contracts to oversee a company’s benefits or pension plans from management, compensation consultants may be loath to alienate a chief executive by recommending a lower pay package.

The issue took center stage last fall when Denise L. Nappier, who oversees Connecticut’s \$24 billion retirement plan as the state treasurer, and several other institutional investors sent letters to the leaders of compensation committees at the 25 largest United States companies in the Standard & Poor’s 500-stock index. The letters asked for information about all services that compensation consultants provided to management and whether policies existed that prohibited compensation advisers from doing other work for management.

Investor pressure on compensation consultants comes as new rules from the Securities and Exchange Commission require companies to disclose in proxy statements the names of their consultants and to describe the work they perform for compensation committees. Many corporations are going several steps further.

Companies like [Cisco Systems](#) and [Procter & Gamble](#) said they have already put policies in place that prevent compensation consultants from doing other work for management. Others, like [Verizon](#) and [Morgan Stanley](#), replaced their pay consultant (at both companies, Hewitt) with other companies that had no other ties to the corporations.

Hewitt declined to discuss why Verizon and Morgan Stanley dropped the firm.

Like other companies, Hewitt is struggling with what to do with its executive compensation group, according to people familiar with the workings of the company, to avoid what the firm refers to as “perceived conflict of interest,” or what it calls PCOI. (In an internal e-mail message obtained by The New York Times regarding Mr. Hyman’s departure from the firm, Hewitt executives noted that the “PCOI issue is one that has received lots of exposure recently.”)

A Hewitt spokeswoman stressed that Hewitt has no plans to exit the executive compensation consulting business. Towers Perrin also said that while the firm has considered alternatives for its executive compensation consulting practice, it has no plans to change its strategy.

“There have been a few cases where we have been told we will no longer be the comp consultant when we do other work for the firm, but those have been very few,” said Paula Todd, a managing principal and professional standards officer at Towers Perrin. “We would be foolish not to consider alternatives for the executive compensation practice, but we really don’t think it’s necessary to spin it off, and we don’t think it’s in the best interest of the firm to do so.”

Watson Wyatt and Mercer declined to comment for this article.

Yet many consultants say that it may be more difficult for large consulting companies that offer pay consulting to also provide other services to the same client.

“I personally think a lot of companies are putting their heads in the sand and hoping this will blow over,” Mr. Hyman said. “This has been a great business for large firms for a long period of time, and they are all thinking of strategies to address the matter, but so far, many have fallen short.”

Mr. Hyman declined to discuss Hewitt’s strategy or specific corporate clients. Mr. Hyman’s biography on the Exequity Web site says he has previously advised Verizon and The New York Times Company. Mr. Hyman has made a proposal to advise The Times, but its compensation committee has not made a decision.

The pressure on compensation committees to seek out independent pay advice is very likely to continue.

LAST month, the Council of Institutional Investors, which represents 140 public, union and corporate pension funds, adopted a platform to encourage companies to seek out independent pay advisers and to recommend policies on compensation consulting independence.

The council also said that companies should not agree to indemnify compensation advisers from legal actions or limit their liability.

Some state officials are taking an equally hard line.

“We have made inroads with several leading corporations on this matter by working side-by-side with corporate boards,” said Ms. Nappier, the Connecticut treasurer. “This is not a fly-by-night issue — we will continue to promote policies and practices that better align executive pay with company performance and long-term shareholder value.”