The board’s role in M&A transactions
Defining a “high-performance” board
How regulatory uncertainty will affect executive compensation and governance

Interviews with Steve Odland, President and CEO of the Committee for Economic Development, and Glenn Booraem, Principal and Investment Stewardship Officer at Vanguard
Board Leadership Forum
May 16, 2017, Dallas, TX | September 12, 2017, New York, NY

Co-hosted by Equilar and Nasdaq, this event will address investors' increased expectations for transparency around board refreshment and diversity and how they are voting on boards. Developed for public company board members and executives, this forum will look at how innovative boards are driving results and will empower participants to build higher performing boards through better evaluation and recruitment processes.

Executive Compensation Summit
June 12-14, 2017, Chicago, IL

Each year, Equilar gathers hundreds of executive compensation and corporate governance professionals for a three-day, in-depth event. The only conference dedicated to executive compensation, Equilar's Summit attracts the best and brightest visionaries in the field to explore the complex and interrelated issues around Say on Pay, pay for performance, shareholder outreach and executive pay.

Compensation Committee Forum
November 9, 2017, San Francisco, CA

Co-hosted by Equilar and Nasdaq, this forum will arm public company compensation committee members and senior-level HR and compensation executives with the necessary knowledge to make the right pay decisions for their businesses. Attendees will obtain independent viewpoints and noteworthy takeaways to drive long-term compensation strategies that will increase shareholder value.

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The most prominent consideration for today’s boards is how to balance short-term pressure to perform while keeping a focus on creating long-term shareholder value. As a result, many institutional investors and governance leaders are focused squarely on board composition as the No. 1 issue in 2017. Ensuring that good decisions are being made today is as important as ensuring the right people will be making them for the next 10, 20 and 30 years.

Our featured interviews in this edition of C-Suite highlight this interplay. Glenn Booraem, a Principal and Investment Stewardship Officer at Vanguard, spoke to us about why investors are targeting board assessment and refreshment. Steve Odland, CEO of the Committee for Economic Development (CED), identified the risks companies face when they have a singular vision on short-termism.

Our recurring feature, The Changing Face of America’s Boardrooms, once again highlights the contributions of new directors and the importance of bringing fresh, diverse perspectives into the fold, featuring support from our partners at the KPMG Board Leadership Center. And one of our regular contributors, TK Kerstetter of Boardroom Resources, wrote about how to measure a “high-performance board,” and he also conducted a Q&A with Liberty Advisors about the role of the board in M&A situations.

If you’re joining us at the 8th Annual Equilar Executive Compensation Summit in June, you’ll also notice an overarching, relevant theme in this issue. E*TRADE Financial Corporate Services, FW Cook, Korn Ferry Hay Group and Semler Brossy have contributed to a special section on incentive compensation, and Ask the Experts features input from the Center On Executive Compensation, Mercer, Nuveen, Reed Smith and Teneo about the potential influence political uncertainty will have on compensation and governance practices. Ron Schneider of Donnelley Financial Solutions looked at the evolving messages companies are communicating in their proxy statements.

In March, we proudly celebrated 17 years at Equilar. It’s amazing to reflect on what has changed in that time and how the decisions made today will influence the future. As always, please enjoy this issue and feel free to reach out to me directly with any feedback.

David Chun
CEO and Founder, Equilar
dchun@equilar.com
Incentive pay aims at generating lasting return

By Matthew Goforth

Since Say on Pay went into effect in 2011, the concept of “pay for performance” has been the foremost trend in executive compensation, both in principle and practice. In response to regulation and pressure from proxy advisors and investors, companies have moved away from discretionary annual bonuses and stock options and toward performance share grants over the last five years.

Public company compensation committees face a number of competing interests, and as a part of the board of directors, they are tasked with determining the amount and structure of the company’s executive compensation program. Recruiting and retaining the most talented executives is their initial focus, and executive pay typically reflects trends in the marketplace. Compensation planning becomes more complicated as boards attempt to adopt a pay philosophy they believe aligns the interests of management and shareholders.
The Evolution of Long-Term Incentives

An effective pay for performance philosophy balances executive incentives with investor return, and leverages the proper means to motivate executives and reward them for performance when it meets expectations. Long-term incentive (LTI) awards serve to balance the short-term goals of the company and its investors with a forward-looking vision, while balancing the risks performance-based pay might introduce for one constituent—management or the owners—more than another.

Following the economic recession and the implementation of Say on Pay, proxy advisory firms that make voting recommendations to shareholders deemed stock options a time-based, rather than a performance-based, award. That isn’t to say stock options have fallen completely out of favor—and in fact a majority of S&P 500 companies still grant them—but the practice of granting them has waned considerably. Five years ago, more than 80% of S&P 500 firms granted stock options, a figure that now includes less than two-thirds of the same companies, according to Equilar data.

In recent years, options have been leveraged more by companies in highly acquisitive and high-growth industry sectors, such as healthcare, where investors are primarily concerned with the capital appreciation of their investment. Moreover, options are not granted as deeply in organizations as they once were, reserved instead for the most senior management roles. In the meantime, compensation committees began awarding more restricted shares, but made them contingent on performance.

As a result of shareholder scrutiny and proxy advisor recommendations, compensation committees began structuring performance-based LTI in a manner that linked awards directly to performance goals set in designated areas. The measures of performance, or metrics, tied to performance-based equity morphed over the last five years as two measures of return came to the fore, according to the recent Equilar report Executive Long-Term Incentive Plans, which featured commentary from E*TRADE Financial Corporate Services, Inc.

Far and away the most common performance metric, relative total shareholder return (rTSR) is a measure of a company’s stock appreciation and dividend payments relative to a customized group of competitive peers or market index. rTSR was the logical choice for many companies since proxy advisor opinions on pay for performance, and thus their Say on Pay voting recommendations, are largely influenced by a company’s stock performance. This metric also benefits from a simplified goal-setting process, whereby compensation committees need only peg performance goals to a percent ranking within a peer group (in contrast to financial metrics that require a more complex and formal analysis to set firm goals). According to the Equilar report, which covered fiscal years 2011 to 2015, the use of rTSR in LTI awards for CEOs grew from 42% to 57% of S&P 500 companies (Graph 1).

“Interest in executive alignment with specific performance targets remains a priority. It is often driven by market conditions such as stock price and financial conditions such as return on equity,” noted E*TRADE in its report commentary. “Identifying the right business goals that work to drive executive performance and accountability continues to be a complex challenge for some companies.”

Graph 1

S&P 500 CEO LTI Performance Metrics

Matthew Goforth is a research manager and managing editor for Equilar research reports. For more information on the research cited in this article, please visit equilar.com/reports.html.
Over the same five-year period, another notable trend emerged. Return on capital (ROC)—which represents the aggregation of return on capital, return on invested capital, return on capital employed, return on investment and return on equity performance metrics—gained prominence. Meanwhile, other measurements like earnings per share (EPS) ceded ground to ROC.

While EPS was more commonly used than ROC in fiscal 2011, roles were reversed four years later. Revenue and operating income were comparatively flat over the same period (Graph 1). From fiscal 2011 to 2015, ROC for CEOs grew from 26.1% of S&P 500 companies to 30.6%. Perhaps not coincidentally, investors have signaled that ROC is a better metric to link executive compensation to company performance compared to rTSR, according to research from Stanford’s Graduate School of Business and Rivel Research Group.

“One reason why we are seeing companies use certain business metrics is that those goals may be more controllable and achievable than a market-related goal that isn’t always within the purview of an executive,” noted E*TRADE.

**Striking the Balance in Pay and Performance**

Once compensation committees have selected appropriate metrics, the next—and even more complex—step is figuring out how to trigger pay based on performance. Oftentimes, compensation designers will assign multiple metrics to the same award in order to balance performance priorities in one area against another.

“Companies often include more than one metric, allowing them to also track performance based on goals like internal restructuring, product growth or other business line measurements,” wrote E*TRADE.

When multiple metrics are linked to the same award, they must be assigned a formal weighting in order to determine the influence of performance in each area. Metric weightings are fairly straightforward to understand. If an award is strictly dependent on one metric, that metric is weighted 100%. If two metrics are used and weighted evenly, then each is assigned a 50% weighting, and so forth. Indeed, the most common metric weightings for LTI awards of S&P 100 CEOs are 50% (rTSR and revenue) and 100% (ROC, EPS and operating income), though weightings are distributed across the spectrum between 0% and 100% (Graph 2).

Compensation committees may also find more creative ways to include rTSR in their executives’ compensation structure, such as modifying an award’s payout that was originally determined by other weighted metrics. The most common way committees modify LTI awards is to apply a multiplying factor derived from rTSR performance that can adjust the payout downward or upward, according to Equilar data. Strategies to modify awards with rTSR keep management focused on business goals and help alleviate the chances that executives are unfairly rewarded or punished for factors outside their control that affect stock-price performance.

For any given metric, performance targets provide the baseline goal that executives must reach in order to reach their payout. While most awards will allow some payout for underperformance as well as some incentive for surpassing the goal, the magnitudes of these aberrations from target performance typically fall within a narrow range set by thresholds and maximums—i.e., a minimum, or threshold, level of performance below which no payout is merited and a maximum level, setting a cap on the award’s value. This is known as performance leverage. The same
The growing complexity of long-term incentives means that compensation committees and their advisors face a variable landscape populated by constituents with competing interests.

The process determines target, threshold and maximum payout levels, which are mapped directly to target, threshold and maximum performance goals, respectively.

Threshold payout levels for S&P 100 CEO long-term incentives were most commonly set at 50% of the targeted amount in fiscal 2015 (Graph 3). When threshold payout is 50% of target, it is not possible for the executive to earn between 0% and 50% of the award. The gap from 0% to 50% can serve as a powerful incentive to meet, at a minimum, threshold performance goals. This payout structure diverts from a 0% threshold, where an executive would be eligible to earn even small percentages of the target award once threshold performance is achieved.

Maximum payouts were not as evenly distributed, and approximately 70% of the metrics identified in the Equilar study were assigned maximum payout at either 150% or 200% of target.

“Very few companies are designing their plans to pay above 200%,” noted E*TRADE, which bears out in the study, where only three metrics exceeded this value.

It’s worth noting that eight metrics in the study were of the “all or nothing” variety, where targeted performance must be met to achieve only one possible payout, with no separate threshold or maximum (Graph 3).

The growing complexity of long-term incentives means that compensation committees and their advisors face a variable landscape populated by constituents with competing interests. Striking the right balance in LTI award design can reap rewards not only for executives in terms of compensation, but also positive returns for shareholders over a longer-term period.

E*TRADE Financial Corporate Services, Inc. (E*TRADE) contributed commentary to this article. This commentary contains current opinions from E*TRADE Financial Corporate Services, Inc. and are subject to change without notice. E*TRADE is not affiliated with Equilar and all commentary is owned solely by E*TRADE.
Companies use their annual reports to communicate performance and policies to shareholders. While many will simply fulfill their legal obligation by filing a plain document, an increasing number of companies use this report as an opportunity to demonstrate their commitment to investors with stylized and innovative documents that go above and beyond required disclosures, finding unique ways that best demonstrate how they align pay and performance.

Reconciling Long Documents
In response to increased scrutiny on executive pay, the Compensation Discussion and Analysis (CD&A) has become arguably the most important section of the annual proxy statement for public companies in the U.S. The CD&A details what a company pays their executives, and how that pay reflects their performance.

Amidst a sea of information—whether meeting policy requirements or responding directly to specific shareholder requests—companies seem to continually add length to this section.

40 S&P 100 companies incorporated alternative pay graphs to best represent their unique pay situation in 2016.
of the proxy. Excluding a dip in 2014, average CD&A word count increased every year, according to Equilar data, ultimately rising 5.2% from 8,930 words in 2012 to 9,403 words in 2016. While many of these additions respond to aforementioned regulatory requirements, many companies independently add new disclosures to better enhance how they communicate their pay strategy (Graph 1).

“Much of the added length comes from voluntary context in addition to SEC-required information, and we think that contextual information plays an important role in enabling thoughtful voting,” noted Ron Schneider, Director of Governance Services for Donnelley Financial Solutions, who contributed independent commentary to the recent Equilar report, *Innovations in Proxy Design.* “A frequent criticism of CD&As is that they contain a lot of ‘what’ but not as much ‘why.’”

Besides adding to overall CD&A size, innovative disclosures may make historically included information superfluous—however, companies can be reluctant to omit old content because their absence may unsettle or confuse investors, even though they were reiterated in a new disclosure.

Companies are incorporating new disclosures that easily summarize information and provide quick access to specific sections. In this way, annual proxies are becoming reference documents that investors use to quickly find desired information, increasing the importance of navigational tools and summary information.

**Innovative Ways to Communicate Compensation**

Compensation program checklists give readers a place where they can skim common governance practices and immediately identify whether or not the company uses it. Often, companies even enhance these graphics by adding navigational features, such as pagination that links to an expanded section.

Since 2012, the prevalence of compensation program checklists in the S&P 100 increased from just over 5% to 66% in 2016. This jump dwarfs the prevalence growth of numeric, pay-related graphs. The disclosure type that saw the next largest growth was pay mix graphs, appearing in 64.3% of S&P 100 proxies in 2012 and 84.0% in 2016 (Graph 2).

Companies use these different pay graphs to best tell their pay story—while pay mix graphs have become a staple, alternative pay graphs and pay for performance graphs have become more prevalent.

**Graph 1**

*Average Word Count of S&P 100 CD&As*

<table>
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<th>Year</th>
<th>Word Count</th>
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</tr>
<tr>
<td>2013</td>
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</tr>
<tr>
<td>2014</td>
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</tr>
<tr>
<td>2015</td>
<td>9326</td>
</tr>
<tr>
<td>2016</td>
<td>9403</td>
</tr>
</tbody>
</table>

Source: Equilar

**Graph 2**

*Pay Graph Type Prevalence*

<table>
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<tr>
<th>Graph Type</th>
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<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
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<td>38.4</td>
<td>66.0</td>
</tr>
<tr>
<td>Pay Mix Graph</td>
<td></td>
<td>64.3</td>
<td>81.8</td>
</tr>
<tr>
<td>Alternative Pay Graph</td>
<td></td>
<td>36.7</td>
<td>61.4</td>
</tr>
<tr>
<td>Pay for Performance Graph</td>
<td></td>
<td>13.3</td>
<td>18.2</td>
</tr>
</tbody>
</table>

Source: Equilar
performance graphs appear less commonly. The former clearly illustrates what components make up executive compensation, and how the size of each component compares to the others. Pay for performance graphs demonstrate the alignment between company performance and pay, and they often impact Say on Pay votes. In 2015, the SEC proposed a rule that would mandate this type of graph, and nearly one-quarter of the S&P 100 disclosed some form of it voluntarily in 2016. With that rule unlikely to be passed given the current state of flux in the SEC leadership, it will be interesting to see whether or not companies continue to include this information.

In addition, 40 S&P 100 companies incorporated alternative pay graphs to best represent their unique pay situation in 2016—these graphs typically use calculations that deviate from SEC standardized pay methodology. Realized and realizable pay representations fall into this category, and companies often use them to more accurately reflect earned compensation during the year.

“Supplemental graphs are needed to really parse out what you might describe as ‘real’ compensation from accounting descriptions, and they can move you in the direction of better relating pay and performance,” said Christine Skizas, a Partner at Pay Governance, during the Equilar webinar “Communicating Compensation: How to Use the Proxy to Tell Your Pay Story.” “Companies have had to do a better job than just relying on target compensation values to explain the relationship between pay and performance.”

Demonstrating Pay for Performance

Pay for performance remains a priority for shareholders, but because each company possesses unique business characteristics and operations, these differences create challenges when communicating company performance and how it relates to executive compensation. In these situations, companies often use non-GAAP reporting, as opposed to generally accepted accounting principles (GAAP). Non-GAAP reporting allows companies to design and report their performance according to their unique business and operation model, and then explain how it corresponds with executive payouts. Since 2012, the prevalence of S&P 100 companies reporting with non-GAAP increased from 61.2% to 75.0% (Graph 3).

“For many companies, using GAAP or as-reported results would not appropriately reflect the business’ performance, which is reflected by the fact that most S&P 500 companies utilize adjusted measures in their investor presentations and/or compensation programs,” said Skizas.

The annual proxy could be called the essential shareholder engagement document because it is the primary vehicle companies use to communicate their policies and performance to their stakeholders. In response to the financial crisis and the effects of Dodd-Frank, this document has evolved dramatically in the last five years as companies aim to increase transparency and accessibility while meeting policy requirements. And as these policies remain in flux today under the new administration, companies will face new opportunities to strategize how and what information they disclose.
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Executive pay shifts toward performance stock

By Colin Briskman

While the talent markets for executives are becoming increasingly intertwined and globalized, tax codes and regulations have shaped compensation practices that continue to differ from country to country. For example, Canadian and American companies offer distinct compensation mixes to their executives, which are primarily reflected in equity grant practices.

In a recent report featuring commentary from Solium Capital Inc. and Lane Caputo Compensation, Equilar explored the evolving equity compensation design and granting practices at Toronto Stock Exchange Composite (TSX) companies over the past five years. The results show that despite continued differences, equity grant mixes have largely been trending in the same direction in the U.S. and Canada. TSX Composite companies are now relying more heavily on restricted stock awards and performance-based equity while, to a lesser degree than the S&P 500, reducing reliance on stock options.

**Canadian Companies Add Stock Awards**
The percentage of TSX companies granting stock increased from 50.0% in 2011 to 67.4% in 2015, but these firms continue to rely much less on stock awards than their S&P 500 counterparts. In 2015, 97.6% of S&P 500 companies granted restricted stock awards. Even as Canadian companies have more commonly featured a mix of stock and options (up from 40.2% in 2011 to 51.1% in 2015), the number of S&P 500 companies that offer both stock and options still remains much higher. Furthermore, more than one-third of S&P 500 companies offer exclusively restricted stock to executives, more than double the percentage of TSX companies that follow the same equity grant practice (Graph 1).

A confluence of factors has driven the ongoing shift from stock options to restricted stock awards. One cause applying to both Canadian and American companies is the growing influence of proxy advisory firms.

“As governance policies for proxy voting among service providers continue to advocate moves away from stock options, issuers face an uphill battle maintaining or growing option programs for fear of a negative vote recommendation,” said Luca Cutrone, Director of Client Service Management for Solium.

There are also some factors that uniquely affect the grant practices at Canadian companies. For example, Canadian companies face different tax regulations on compensation elements. Tax codes can alter grant practices by providing advantages to companies granting, or executives receiving, one type of equity over another.

“As a second—albeit lesser—consideration for TSX companies relates to tax uncertainty created by the Liberal
government in 2016, which threatened to remove the long-standing favorable treatment in Canada of capital gains from stock option awards,” Cutrone added. “Any move by tax authorities in this direction would likely accelerate the use of restricted stock.”

Furthermore, basic materials companies are much more highly represented in the TSX Composite index than any other type of company. As a result, any factors that apply uniquely to basic materials companies disproportionately alter the TSX landscape. More than 40% of the TSX Composite Index comprises companies operating in the energy or mining sectors.

“The cyclical nature of resource-based sectors often results in stock options remaining underwater for the majority of their terms, all but eliminating the retention and incentive elements of these vehicles for plan participants,” said Michael Caputo, Managing Partner at Lane Caputo Compensation. “Companies in these sectors are shifting to vehicles that will deliver some form of value to plan participants.”

### A Shift Toward Performance-Based Equity

As shareholders and proxy advisory firms continue to emphasize a preference for performance-based executive compensation, the prevalence of performance equity has risen largely in tandem with stock awards. The percentage of TSX companies granting performance equity increased by 16.8 percentage points since 2011. The percentage of S&P 500 companies offering performance equity has increased similarly on a percentage point basis, rising from 65.4% in 2011 to 83.1% in 2015. However, that also means the S&P 500 has maintained a gap of roughly 40 percentage points in performance equity grant prevalence over the TSX Composite (Graph 2).

Meanwhile, options granted to executives have dropped for both indices, albeit much less so for Canadian companies, and there remains a sizable gap in option-only grants between the two countries. In 2011, about 80% of companies in both the S&P 500 and the TSX Composite offered options. Four years later, 75% of TSX companies were still offering options to their executives, while the proportion of S&P 500 companies doing so had fallen to fewer than two-thirds. Just 1.5% of S&P 500 companies offer only options to their executives, while 23.9% of TSX companies have such an equity mix.

The opposing trends of performance equity grants vs. option grants reflect influence from the major proxy advisory firms. Neither Glass Lewis nor Institutional Shareholder Services currently considers time-vesting stock options as “performance-based,” which, while not a universally held view, likely affects shareholder consideration on executive compensation and equity proposals. As “pay for performance” remains a hot button compensation and governance issue for shareholders, proxy advisors’ treatment of stock options encourages companies to grant stock awards tied to performance conditions in addition to, or instead of, time-vesting stock options.

“RSUs, unless performance-vested, cannot expire underwater and will always have some value. Without performance restrictions, RSUs will dilute shareholders and will provide some value to executives and employees, regardless of the shareholder experience,” said Caputo. “As RSUs will always carry some inherent value, institutional investors and proxy advisors are pushing for performance restrictions to ensure that minimum levels of performance are achieved prior to these vehicles vesting to executives.”

### Graph 1

**Performance Equity vs. Options Granted**

![Graph 1](image1)

### Graph 2

**Equity Grant Mix**

![Graph 2](image2)
Incentive Compensation Adjustments for Special Items

Perhaps one of the most important and difficult duties delegated to compensation committees is the annual discretionary evaluation of whether adjustments should be made to the calculation of incentive plan performance or the performance goals themselves to account for non-operational, unbudgeted, unusual and/or infrequent special items in financial results prepared under Generally Accepted Accounting Principles, or GAAP. This annual rite is applicable to both annual bonus and long-term incentive plans, and necessarily involves the application of some science and some art.

In practice, companies accomplish the science part by using one or a combination of the following approaches. The most common approach is to align the financial calculations used for incentive plan purposes with the same non-GAAP financial calculations reported to investors. This approach is straightforward and transparent, and avoids having to maintain multiple sets of books. Another approach is to establish general adjustment guidelines or explicit performance measure definitions that may or may not align with reported non-GAAP financial calculations. Some companies also establish a materiality threshold so that only material adjustments are brought forward for the compensation committee’s consideration. Under either approach, the compensation committee retains discretion to evaluate additional adjustments as circumstances warrant.

The art part is the subjective determination of whether a special item is operational or non-operational. Operational items typically include actions or inactions attributable to incumbent management, such as product recalls, compensation and interest expense, and labor disruption costs. Non-operational items typically include unplanned and unbudgeted events and uncontrollable items such as the following:

- Strategic restructurings
- In-process research and development
- Natural disasters
- Business portfolio changes/acquisitions and divestitures
- Foreign currency exchange rate changes and devaluations
- Accounting, tax and other regulatory changes
- Unplanned share buybacks
- Asset impairments
- Legacy litigation costs

In practice, compensation committees typically include operational items and exclude non-operational items in the calculation of incentive plan performance or the performance goals. However, the distinction between operational and non-operational special items is often not black and white and there are exceptions to the generalizations above based on the facts and circumstances. The intent of these adjustments is to eliminate the volatile distorting effect of unusual items, align award payments with the underlying performance of the core business and eliminate certain counterproductive short-term behaviors such as refraining from the acquisition of new technologies, deferring the disposition of underutilized assets, or deferring the settlement of legacy legal proceedings to protect current incentive payments.

With regard to business portfolio changes, most companies regard the one-time transactional costs as non-operational and exclude them from the calculation of incentive plan performance. The operating results from acquisitions and divestitures are typically either included or excluded from the calculation of incentive plan performance as determined by the compensation committee at the time of the transaction.

Finally, to avoid emotional surprises at year-end, a good and common practice is for companies to update the compensation committee periodically throughout the year on potential adjustments that may be requested at year-end.

Thomas M. Haines is a shareholder and Managing Director in the Chicago office of FW Cook, where he has over 25 years of board-level consulting experience in the design and implementation of executive and outside director compensation programs.
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Compensation and CEO Transitions

From initial recruitment to retirement—and often beyond—the career of a CEO comprises a number of transitions. Here we look at compensation strategies relevant to the recruitment of a CEO from the outside versus the promotion of an internal candidate to CEO, including the challenges inherent in each.

External Recruitment
When recruiting an external CEO, and negotiating that CEO’s pay package, the laws of supply and demand dictate that boards generally have less control than with an internal successor. Considering the uncertainty, we recommend that boards maintain a few finalists in case they are unable to reach agreement with their first choice on a compensation package that would fit the company’s existing compensation program, pay culture and internal equity structure.

With external CEO recruitment, we see considerable stress around unvested equity, unvested deferred compensation, and lost pension benefits from the previous employer. Candidates often expect to be bought out or made whole by the hiring organization. To achieve that goal but avoid building additional payments into the ongoing compensation structure, companies can structure a compensation package to include a one-off, up-front payment to be included in the first year’s compensation numbers.

It’s important to bear in mind that disclosure means that these up-front equity awards or sign-on bonuses are readily available not just to investors, but to anyone, including other members of the management team. Boards should consider both the potential impact of these packages, including any possible negative repercussions if company executives review them and feel their own compensation compares unfavorably to that of the incoming externally recruited CEO.

Internal Promotion
When promoting an internal successor to CEO, the biggest transition challenge is deciding how and how quickly to raise the new CEO’s compensation. A typical CEO’s compensation could be two or three times that of a member of the senior team named on the proxy, and raising an internal successor’s compensation to an appropriate level takes considerable planning.

Boards should be careful not to move too slowly making compensation adjustments upward for internally promoted CEOs, which could leave the company vulnerable to losing the successor to a competitor offering higher compensation. In addition, not appropriately increasing the successor’s compensation can inadvertently send the message to investors and other stakeholders that the new CEO is unprepared and does not yet have the confidence of the board.

But bumping compensation up too quickly or in too large increments may leave too small a reserve to reward the successor in meeting future development and performance goals. With all this in mind, plan to set a new CEO’s level of compensation at the lower end of the market range.

We generally recommend that boards bring in an internally promoted CEO at around the 25th percentile of CEO market compensation. This should be part of a larger plan to reach the market median level in three to four years utilizing a range of elements, including salary, bonuses, short-term incentives and long-term incentives.

Planning Ahead
By adopting these practices geared to smooth these and other CEO transitions, such as retirement and emergency replacement, boards will both engage key participants in the process to achieve their objectives. They will also assure shareholders with a strategically aligned, transparent process, that the company will continue to have effective leadership.
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Dennis Carey 215.656.5348
In recent months, institutional investors have taken aim at the pervasiveness of short-termism and implored companies to better communicate their strategic framework for sustained, long-term value creation. And, while the root causes for short-termism are varied and complex, the role of executive compensation often features prominently in the debate. So what’s a company to do to ensure its pay programs discourage short-termism?

1. Seek balance in program design
   First and foremost, avoid an “all eggs in one basket” approach, which overemphasizes a singular result, often over a single year. Using complementary metrics ensures that top-line, bottom-line, return, operational and strategic measures all get appropriate weight and focus.

   Companies should also reconsider the role of stock options (as one in a portfolio of vehicles) to provide a longer-term orientation to pay. In the past, long-term incentives were primarily delivered as options with seven- or 10-year terms. But, today, options have largely been replaced by performance plans with incentive horizons of only three years—hardly long-term.

2. Foster a culture and ethic of stock ownership
   Meaningful and sustained stock ownership is one of the most effective means to align long-term executive and shareholder interests. While an ownership ethic starts with the “tone at the top,” several structural elements can reinforce this ideal. First, go beyond the standard five- to six-times salary ownership guideline for CEOs (and three-times salary for other NEOs). Second, reevaluate what holdings count toward the guideline—unexercised options or unvested shares, for example, can “water down” the requirement. Finally, extend vesting and performance periods beyond the traditional three or four years, and consider “hold-to-retirement” (or even “hold-into-retirement”) provisions.

3. Ensure share buybacks are a business issue, and not a compensation issue
   Share buybacks are front and center in the debate about short-termism and executive pay. And it’s no surprise given the popularity of earnings per share as an incentive metric. The challenge? Ensure the debate around buybacks focuses on capital deployment strategy, and not compensation. To this end:

   • Analyze the sensitivity of results to repurchase activity during the goal-setting process. How do incentive payouts vary if buybacks are accelerated? If variances are meaningful, consider widening the ranges between target and maximum. Also, be sure to look beyond earnings per share—return on invested capital, another common incentive metric, can be impacted if the definition includes cash in the denominator.
   • Consider whether buyback activity should impact results at all. The timing of buybacks is often opportunistic and may not align with annual budgeting cycles. Many companies believe annual incentives should measure operating results that management can control, and therefore exclude the impact of any variances in buyback activity. On the other hand, long-term incentives typically seek to measure results delivered for shareholders and therefore often include the impact of any variances.
   • Encourage back-end discussion to ensure results were achieved the “right” way. For example, did executives accelerate repurchases in the last half of the year? If so, did they act prudently in using capital, and do incentive payouts reflect the board’s holistic view of performance?

Each of these tools can be readily implemented in a variety of settings. By seeking balance in program design, fostering a culture and ethic of stock ownership and mitigating the potential that buybacks can become a lever to game incentive outcomes, companies will be better prepared to discourage short-termism in their executive pay programs.
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Executives in the S&P 500 typically receive annual incentive plan (AIP) awards, which are based on performance over the course of the year and pay out in cash. The metrics chosen to measure performance vary and are chosen based on each company’s goals and strategies. S&P 500 companies most commonly utilized three performance metrics per AIP award in 2016, with 24.0% of annual incentives linked to three metrics. Following closely behind, 20.4% of companies utilized two metrics.

Over the past five years, the three most commonly used performance metrics for S&P 500 CEOs and CFOs were revenue, operating income and earnings per share (EPS), while for NEOs, they were revenue, operating income and non-financial metrics. Non-financial metrics include operational and strategic measures, such as production goals in the oil & gas industry or customer satisfaction ratings at retailers or services businesses.

Another noteworthy difference between CEOs and CFOs and other NEOs lies in the use of division performance as a metric, with nearly 40% of companies using it in fiscal year 2015 for other NEOs versus about 12% and 14% for CEOs and CFOs respectively.

“As highlighted in Equilar’s study, the metrics selected for performance-based awards contemplate factors that will drive both shareholder value and incent executive performance,” according to E*TRADE Financial Corporate Services, Inc. “This is why in 2016, we saw a prevalence of business-specific goals as the second most common metric associated with AIP awards.1 One reason why we are seeing companies use certain business metrics (e.g., division line cost reduction) is that those goals may be more controllable and achievable than a market-related goal that isn’t always within the purview of an executive. This approach may also provide more balance for the executive against market factors, while also satisfying shareholders’ interest in seeing realistic and clearly defined goals.”

Notably, one of the least popular metrics for AIP awards across all executives included relative total shareholder return (rTSR). While over half of S&P 500 companies used rTSR for long-term incentive awards, only 2.4% of companies used rTSR for AIPs in 2015. Generally, S&P 500 companies are choosing to align their short-term cash awards with growth, profitability, operational and strategic measures.

“Companies are evaluating new ways to factor in restructuring initiatives and business goals into their performance measurements, either by changing the payout mix or the breakdown of the calculations to better align with long-term goals,” E*TRADE commented. “Companies are continuously reviewing strategies in an effort to provide a clearer, motivationally driven and realistic plan that aligns with shareholder goals and company strategy.”

Graph 1
Annual Incentive Plan Metrics

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1Data collected from the E*TRADE Financial Corporate Services, Inc. Equity Edge Online® platform. Data as of 6/1/16.
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Following a merger or acquisition announcement, executives and their corporate attorneys often play a game where they guess how long it will take for a lawsuit to be filed. (The fastest time I’ve heard was seven minutes.) So there is little debate that M&A activity is a lightning rod for criticism—and that only a small percentage of acquisitions are perceived to be a value-add for the acquirer.

With this article, we aim to get our arms around the role that the board can play to ensure that companies make good strategic and/or financial decisions with their growth plans. How can board members mitigate some of the risk associated with merger integration, which can sink even well-researched merger decisions?

To analyze the diligence nuances of M&A activity and the role of the board, TK Kerstetter, host of “Inside America’s Boardrooms,” sat down with Sean Lyons, Partner with Liberty Advisor Group, an expert in merger integration issues. Lyons shared his views on the steps a board can take to mitigate merger-related risk and ensure a successful integration. Lyons is also the co-author of an engaging article titled “The Seven Deadly Sins of Post-Merger Integration.”

TK Kerstetter, Inside America’s Boardrooms:
I would guess that the first thing boards should concern themselves with is, “Does this transaction fit into the company’s strategy (whether buying or selling)?”

Sean Lyons: Boards play a critical fiduciary role in maximizing shareholder value—and a key manifestation of that role occurs when a company is considering M&A activity. The board should be challenging management about what businesses they should pursue and how to pursue them in such a way to generate maximum value with an acceptable level of risk. And beyond the strategic lens, the board needs to ensure that the management team is objectively and thoroughly evaluating potential acquisitions and divestitures.

There are so many other dimensions that boards must consider with any M&A activity—from the cultural implications of bringing two companies together to the consolidation of technology platforms. Short-changing these steps during diligence often leads to serious pain during the post-announcement and post-close phases.
Kerstetter: I worry that some boards and possibly senior management teams take a collective sigh after the merger is consummated... but isn’t this really where the work starts to integrate the two companies?

Lyons: This is a common trap that we see. Beyond all the regulatory, legal, finance and accounting steps that are necessary to complete the deal, there is plenty of work to be done, for example, regarding (1) the governance process for the integration, (2) major mergers of technology platforms can be incredibly complex and arduous. There is a lot of work that can be done pre-close to position the combined entity for success post-close.

Another common mistake we see is when companies declare victory on Day 1. In our experience, Day 1 is the beginning of the race. Management teams mistakenly convince themselves that the bulk of post-close integration work can be addressed by a 100-day plan. Board members need to make sure that the management team is focused on completing the integration, lest they end up fighting battles years later due to lack of integration focus.

Therefore, it is imperative to assign dedicated resources to integration activities. In our experience, it is also an opportunity for the organization to identify and groom the next generation of leaders in the company. Board members should encourage management to seek out such rising stars as candidates for the integration teams.

Kerstetter: Every year, it seems that companies’ reliance on systems and IT (as part of their strategy or service delivery) is magnified. Has this phase of integration become more challenging every year? What questions should boards be asking to ensure that management is on top of this integration priority that’s so critical to success of the acquisition?

Lyons: Technology platforms are critical to supporting key business processes—so much so that it has effectively become a requirement for any executive or board member to be literate in basic, foundational technology concepts. When companies short-change technology integrations during an acquisition, they lose reliable sources of key data (related to their customers, products, suppliers and employees), which enable strategic initiatives during the M&A process, such as assessing top-line growth, internal efficiencies, etc.

Board members must ensure that their management teams don’t fall into this trap by posing basic questions regarding the combined entity: How many customers buy products from each of the legacy companies? What overlap do the legacy companies have in terms of products? What suppliers do both companies use and for what raw materials or common products? If the management team cannot answer these basic questions quickly, they probably have not done a good job with the technology integration of past acquisitions, which will only be exacerbated with additional acquisitions. To be clear, this doesn’t mean that they necessarily need a single platform; that’s often unattainable. The focus should be on common definitions of key data and mechanisms for accessing consolidated views of this data.

Another common technology topic that reaches the board level, particularly for the Audit Committee, is the company’s data security practices. It should be a priority in the context of M&A to ensure that the company does not overlook data security risks of a target acquisition or does not impair its data security practices with a given acquisition.

Kerstetter: What other words of advice would you offer boards whose companies are growing through acquisitions and want to provide prudent oversight and improve shareholder value?

Lyons: The biggest piece of advice I would give to anyone undertaking a transaction is that there is no replacement for sound, disciplined planning and execution. I realize that sounds obvious, but the point is that there are no magic tricks or shortcuts to being successful on these types of initiatives. You need to make sure you have the proper governance in place, you need to maintain a sense of urgency throughout the deal life cycle, you need to have a maniacal focus on hitting the financial objectives of the deal, and you need to make sure you don’t break the business by being distracted or enamored with M&A activities. And that’s the advice I would give a board member, executive or member of the integration team.
Executive compensation has become a complex and often highly technical topic. To gauge investor understanding and support for their programs, most U.S. companies annually hold Say on Pay votes, which—while not binding—are not inconsequential. Companies also need shareholder approval of equity compensation plans and their amendments. These and other compensation-related topics are discussed throughout the proxy, including:

1. Information about the board compensation committee and its role, composition and activities
2. The Compensation Discussion and Analysis (or CD&A)
3. The Say on Pay proposal itself
4. Any benchmarking of pay and performance relative to peer companies
5. Equity plan share requests and plan amendments

In evaluating this often voluminous disclosure, investors and their proxy advisors focus on many sub-topics including:

- Pay for performance alignment
- Internal pay equity
- Performance evaluation and succession planning
- The role, scope and results of investor engagement, consideration of the most recent Say on Pay vote results, and any actions taken in response

While compensation practices have many common elements, they also can vary widely. Some programs may include features or practices that management and the board believe are appropriate for the company and beneficial for its shareholders, but that don’t fit neatly into proxy advisor or investor voting guidelines or models. If misunderstood, these “outlier” practices can lead to negative Say on Pay and other votes. At that point, companies can either a) abandon such underappreciated practices (i.e., take the path of least resistance), or b) explain more clearly why these practices—though perhaps non-standard—make sense in their particular situations and are therefore deserving of shareholder support.

In evaluating how to best convey and even sell your compensation story, bear in mind that many investors’ top level question is: “How does pay support strategy?” Some proxies provide much detail surrounding this question, but most do not tackle and effectively answer it head on. However, this much is clear: Merely meeting SEC proxy disclosure requirements does not mean you are meeting the informational needs of a broad range of your investors.
Also, bear in mind that the voters at many of the large, heavily indexed institutional investors are not portfolio managers or otherwise experts about your company or industry. These individuals report that including some overview about your company and industry in the proxy will help them better understand the environment in which you operate and make decisions, and thus will help them to vote more thoughtfully. Many report that they have neither the time nor staff to also review the annual report, IR disclosures or research reports that typically contain this context, so building some of it into the proxy is helpful to them.

**What Should You Do?**
Consider adding voluntary and contextual information in the following areas:

- Include a business overview to help educate voters at large, indexed investors so they better understand the environment in which you operate and make decisions and can vote more thoughtfully. This context can be located within the CD&A or a proxy summary. Other companies choose to present this context in substantive cover letters from the CEO and/or independent board chair/lead independent director. Such substantive cover letters are generally read and therefore impactful.
- Provide a robust description of the compensation committee, its role, function and composition.
- Explain succinctly how pay supports business strategy. If this cannot be explained in a few clearly written sentences, perhaps it’s time to re-visit the underlying philosophy and administration of the pay program itself.

Consider including “at-a-glance” graphs and other visual elements including:

- A detailed table of contents (TOC) that includes location of key topics within the CD&A, or a supplemental CD&A table of contents (or “CD&A roadmap”) at the beginning of this section
- Pay mix graphs highlighting the percent of target pay that is performance-based or at-risk
- An abbreviated “elements of compensation” table that expands upon the pay mix graph, briefly discussing each element of pay, its purpose, how it is measured or earned, including performance metrics and page references where each element is subsequently discussed at length
- Tabular presentation of peer companies, including context for the size of the subject company relative to the range or median of peers
- Rationale for peer company additions and deletions
- Tabular presentation of performance metrics for short- and long-term incentive programs (disclosure in narrative format is more difficult to locate)
- Pay-for-performance alignment graphs
- Alternative (versus summary compensation table) pay graphs
- Pay-setting process timeline
- A timeline for engagement, feedback evaluation and change implementation
- Compensation and governance “dos and don’ts” checklists

Often such visual elements are used to supplement text. On other occasions, such visual elements can actually replace text. In either case, we think the inclusion of relevant visual elements is a win-win situation.

Other important tips include reviewing your peer company proxies to see how your peers are evolving and telling their stories. Often your peers are setting the bar for investor expectations regarding such disclosure. In addition, one of the most important things boards can do throughout the year is engage with investors, learn firsthand what they think of your current disclosures, and discuss what would make these disclosures more useful to them.

**Pay Pioneers**

The issue of tying pay to strategy isn’t new—some companies successfully addressed this issue years ago. Consider the following example from Ross Stores’ 1996 proxy. The disclosure can be found at the opening of the proxy on EDGAR: [bit.ly/2nCckKB](https://bit.ly/2nCckKB).

Relevant portions of the proxy statement’s robust, contextual cover letter included detailed information on compensation philosophy and the company’s restricted stock plan. The cover letter itself was not standard practice in proxy statements, so the additional discussion of these compensation issues was even more unusual. The company referred to a particular voting issue that included approval of amendments to various equity compensation programs which, at the time, represented investors’ primary opportunity to have a “say on pay” in the late 1990s.
Let me first start by saying, I’m as guilty as anybody. For 25 years I have contributed to creating board education programs that included the phrase “high-performance board” in the title. Never once was I asked to define a high-performance board—not by a board member, corporate secretary, investor, or even by my staff or editors. How exactly should a high-performance board be defined? Can a board be high-performance if it isn’t diverse or compliant with regulations?

To answer the definition question, I turned to the internet and found a host of descriptions that varied greatly. Unsurprisingly, the most common performance characteristic or measuring stick was whether the company was achieving a consistent growth of operating profits and shareholder value.

I wasn’t satisfied with my research, so I decided to ask industry gurus their views to see if I might gain some clarity when forming my own definition. I sought the counsel of the following sources: Doug Chia, the former assistant GC and corporate secretary for Johnson & Johnson and current Executive Director of the Governance Center at The Conference Board; Dr. Richard LeBlanc, a leading expert and speaker on corporate governance and boards and the author of The Handbook of Board Governance; and the CalSTRS team of Anne Sheehan and Aeisha Mastagni, who lead and support the retirement system’s corporate governance.
I posed two questions to this esteemed group.

1. “What is your definition of a high-performance board?”
2. “Can a board with stellar bottom-line growth and an ever-increasing stock price be labeled ‘high-performance’ if the board has no diversity?”

Did I find any notable consistency in their responses? The simple answer is no—perhaps a testament to the multifaceted nature of my questions. But I did gain some valuable insight from their answers. Here is an excerpt from LeBlanc’s description of high performance:

“A high-performance board is a board whose management and company outperforms its industry peers. This definition is narrow and is the way that activists view a board.”

Chia, on the other hand, was very methodical in his definition, citing several fundamental characteristics of good governance: an independent leader, a good rapport with the CEO, a willingness to meet with investors, a devil’s advocate approach and a keen sense of corporate culture. But I actually learned more about how he felt when he responded to question number two on diversity: “‘High performance’ is not something that can be measured in dollars,” he said. “It is very hard for an outsider to see. In fact, I don’t agree with people who judge directors and boards by financial metrics like revenues, EPS and TSR.”

Finally, there was the feedback from the CalSTRS team. Sheehan and Mastagni made some great points about the challenge of measuring any board or a particular characteristic over a short period of time. Without them saying it directly, I came away with the idea that the shareholders are perhaps the best judge of whether a board is high-performance or not. Unfortunately, not all shareholders think alike, as we’re witnessing with recent short-term versus long-term performance debates.

It was interesting that neither Chia, Sheehan nor Mastagni felt that a board with no diversity could be considered high-performance, regardless of its operating earnings and share price growth. LeBlanc took a much harder short-term activist view. “If a board has a stellar bottom-line growth trend and ever-increasing stock price, then yes, you are a high-performing board,” he said. “The focus should be on the value creation mindset of directors, first and foremost, and then diversity, not the other way around.” His book verifies that he is a great supporter of board diversity, but his point, in this case, seems to be that even a diverse board could fail. While the two are tied in many ways, a value-creation mindset is not necessarily dependent on a director’s diversity profile.

All my research and discussions proved helpful on my quest for a definition. In the end, I was able to settle on one I was comfortable with—its foundation stemmed from an excerpt of an old Heidrick & Struggles publication on building high-performance boards. I have taken the liberty to update it to fit today’s governance landscape.

“A high-performance board governs by continually challenging—in a positive way—every significant aspect of the company’s and the board’s operations: its structure and business models, its strategies and underlying assumptions, its operating performance, and its leadership and leadership development. In doing so, a board should seek to create a culture of rigorous, relentless examination and press for continuous improvement. This way, it can set a ‘tone at the top’ that reverberates throughout the organization—to employees, to customers, to shareholders, and to the communities served by the company.”

What I really like about this definition is that it eliminates any time reference from the measurement of performance. Whether one is talking about financial performance, stock price, environmental impact, board composition and/or diversity, the focus is on constant evaluation and an unceasing quest for improvement. In my mind, a board that is not constantly challenging itself and the status quo shouldn’t consider itself high-performance.

On whether a board with no diversity could be considered high-performance, by my definition above, I can’t believe that a board could be “constantly challenging itself”—including its strategies, its composition and its leadership—and not see the value in diversity of thought, skill set, gender, race and so on. I do look forward to the day when there is no reason to label board members as “a female director” or a “director of color,” but just a “corporate director.” Not sure I will be around to witness that moment, but hopefully my daughters will.
Director Spotlight

“What inspired you to seek a board position, and how has this experience shaped your professional outlook?”

As I was transitioning from the executive stage of my career, board service was a natural next step. I have had a 30-year global business career where I have provided strategic direction, driven growth and led transformation at major Fortune 500 companies. Board service would enable me to bring this breadth of experience and insights together to contribute to companies in a governance capacity.

More specifically, I also had a broad blend of skill sets and competencies across long-term strategy development; finance, M&A and capital markets; customer centricity; talent management; technology and digital disruption and had managed businesses globally across the US, Europe and Asia. I knew this mix of capabilities was a strength and was needed in a boardroom. It made me confident that I could add value in a board setting and I was prepared to commit to companies in a governance capacity.

On a more personal level, board service would enable me to be in a continual learning mode, intellectually stimulated and professionally challenged. A huge plus was the ability to continue working with very smart and highly accomplished board colleagues!

Board service has reinforced for me the critical importance of long-term thinking. The biggest constant in business today is radical disruption, rapid change and uncertainty. Boards have a fiduciary responsibility to always be one step ahead. The need to ask good questions about the future strategic direction of the company, and the level of preparedness in dealing with future scenarios including the underlying technology, risks, talent and innovation is an imperative for boards. The buck stops with the board.

Further, in this age of interconnectedness and real-time information flow, the complexity and judgment required in dealing with multiple stakeholders cannot be underestimated. Besides effectively engaging shareholders, boards also need to consider the needs of customers, employees, the community, supply chains and the environment to ensure the long-term sustainability and success of the company.

Lastly, for the board to be a real strategic-asset of the company, having a strong EQ that includes empathy, humility and a consensus-driven approach helps ensure the best interests of the company are always at the forefront.

Sheila Hooda is an independent director, advisor to CEOs, former C-level operating executive with 30+ years of global experience. She has provided strategic direction, driven growth and transformed Fortune 500 firms. Ms. Hooda is CEO of Alpha Advisory Partners and serves on the boards of Mutual of Omaha Insurance Company and Virtus Investment Partners. Ms. Hooda has held senior operating roles at TIAA, Credit Suisse Investment Bank, Thomson Reuters and McKinsey & Co., across the US, Europe and Asia/India. Ms. Hooda is a lifetime member of the Council on Foreign Relations and also serves on boards focusing on Education, Women’s Empowerment and Global Policy.
Joining a Visionary Board

Equilar recently hosted a webinar with Susan Angele, Senior Advisor, KPMG Board Leadership Center, Irene Chang Britt, a board member for Dunkin’ Brands and Tailored Brands, and Angela Brock-Kyle, a board member for Guggenheim/Rydex Funds and Infinity Property and Casualty, to share their strategies for effectively navigating transition in board composition.

The increased focus on board composition and refreshment has inspired companies to shift from a “traditional board” to a “visionary board.” Traditional boards are typically made up of current or former CEOs, who are often from similar industries and share similar mindsets and leadership styles. Conversely, a visionary board— as defined by a recent WomenCorporateDirectors Foundation and KPMG Board Leadership Center publication— consists of a diverse mixture of board members that come from different industries and backgrounds with the expectation of bringing new ways of thinking to the table.

At top level, the hallmarks of a visionary board are about “being future-focused and expansive in your thinking,” explained Angele. “Companies need visionary boards because of the challenges in the business environment.”

The external focus from investors on board composition is likely to have a major impact on boardroom diversity in coming years. In 2016, the percentage of new directors elected to S&P 500 boards was below 10%, though it increased from 8.7% in 2013 to 9.9% in 2016, noted a recent Equilar report, Board Composition and Recruiting Trends. The technology sector witnessed the largest portion of this growth, with new directors accounting for 15.1% of all directorships. This industry also witnessed the second-highest rate of new female directors at 29%.

“Many investors at forward-leaning large funds are using diversity as a proxy to force new thinking,” stated Britt. “In the current fast-changing marketplace, sometimes a past CEO isn’t actually the best choice.”

With a larger influx of new directors coming into the boardroom, it is important to have an onboarding plan with the materials and guidance that will ensure each new director is able to contribute and add value to board discussions. The goal should be to provide all incoming directors with valuable knowledge, not only about the company but also about managing on the board level, which will help them throughout their board careers. “It’s not only about learning about the company, but also about managing their first board,” explained Brock-Kyle.

Each new director should be responsible for doing their own due diligence when joining a board. Reading materials, both internal and third-party, such as earnings releases, succession plans and survey results, will help give new board members a well-rounded picture of what the company is about.

“New directors should own the process. It’s your responsibility to dig in,” said Brock-Kyle. “Don’t be afraid to ask any questions, so that you can be the best director that you can possibly be.”
Unsettled Future

What effect might legislative and regulatory uncertainty have on executive compensation and governance matters?
The surprising November election results have created significant potential for reform with respect to executive compensation and corporate governance matters. From a legislative perspective, the House Financial Services Committee is expected to reintroduce and consider a version of the Financial CHOICE Act, which is likely to repeal the Dodd-Frank pay ratio, conflict minerals and proxy access mandates, as well as the financial industry incentive compensation and hedging requirements, adjust the clawbacks and Say on Pay requirements, and incorporate a new oversight regime for proxy advisory firms, among other changes. However, with health care and tax reform being the top legislative priorities, the initial action is likely to occur through regulatory changes at the SEC.

Regulatory changes are likely to be made more quickly than legislative changes, and the two approaches are not mutually exclusive.

In a statement titled “Reconsideration of the Pay Ratio Rule Implementation,” Acting SEC Commissioner Piwowar solicited comments from companies on the “unanticipated compliance difficulties” they have experienced in getting ready for the rule. Many companies and groups, including the Center, submitted detailed comments explaining the time, effort and expense companies have already spent in determining how to comply with the pay ratio even though few investors consider the information material. Commenters also explained how those burdens could be reduced. Acting Chair Piwowar directed the staff to reconsider the rule’s implementation and raised the possibility of additional guidance or regulatory relief. This raises the potential that the SEC may re-open the final rules and make changes, a process that could potentially delay the 2018 implementation. Earlier, the Acting Chair initiated a similar process for conflict minerals.

In the meantime, companies should share their pay ratio compliance experiences as part of the regulatory process that may revise these mandates, while continuing preparations to disclose their pay ratio in 2018 at least until directed otherwise.
CAROL BOWIE
Senior Advisor
TENEO GOVERNANCE

Carol Bowie joined Teneo Governance as a Senior Advisor in March 2017. Prior to her retirement in July 2016, Bowie was an Executive Director at Institutional Shareholder Services (ISS), where she headed the Americas Research group that provides proxy-based research, analysis and shareholder voting recommendations for thousands of public companies in the U.S., Canada and Latin America. Preceding that role, Bowie led Compensation Research Development at ISS for several years, and previously headed the ISS Governance Institute team that produced research and insight around key issues in corporate governance and coordinated ISS’ U.S. benchmark policy development.

In the wake of the contours of Republican legislative plans related to corporate governance and executive pay that have now emerged—including a likely rollback of many Dodd-Frank requirements, for example—much uncertainty remains, and the reform process may take longer than campaign language suggested. It is thus important for companies to continue outreach efforts to shareholders and ensure that their governance provisions are well-articulated and represent best practices.

Many observers expect that long-awaited Dodd-Frank requirements for disclosure of a CEO-to-median-worker pay ratio and TSR-versus-performance charts in proxy statements will ultimately be abandoned. Even rules related to clawback policies and hedging of company stock by executives and directors—potentially more acceptable to companies—could recede or be revised. Nevertheless, investors have made clear their strong interest in ensuring that executive pay is closely tied to long-term company strategy and performance, that top executives are not overpaid relative to what they deliver, and that pay programs do not incentivize risky behaviors that could have a detrimental, even devastating, impact on long-term shareholder value.

Increased Shareholder Engagement and Proxy Clarity

While the contours of Republican legislative plans related to corporate governance and executive pay have now emerged—including a likely rollback of many Dodd-Frank requirements, for example—much uncertainty remains, and the reform process may take longer than campaign language suggested. It is thus important for companies to continue outreach efforts to shareholders and ensure that their governance provisions are well-articulated and represent best practices.

Many observers expect that long-awaited Dodd-Frank requirements for disclosure of a CEO-to-median-worker pay ratio and TSR-versus-performance charts in proxy statements will ultimately be abandoned. Even rules related to clawback policies and hedging of company stock by executives and directors—potentially more acceptable to companies—could recede or be revised. Nevertheless, investors have made clear their strong interest in ensuring that executive pay is closely tied to long-term company strategy and performance, that top executives are not overpaid relative to what they deliver, and that pay programs do not incentivize risky behaviors that could have a detrimental, even devastating, impact on long-term shareholder value.

Codified Good Governance Outside of Regulatory Reform

Potential legislative changes could dramatically affect the executive pay and governance landscape in the near future. The uncertainty surrounding these possible changes impels companies to act offensively instead of defensively by considering the following items:

- Regardless of the outcome of potential legislation, recent public criticism and the increasing influence of populism will likely translate into the permanence of select “good governance” provisions—such as clawbacks and anti-hedging/anti-pledging policies—at nearly all companies.
- Proxy advisors and activist investors will continue to capitalize on the increased media attention given to pending legislation to strengthen their influence on companies’ policies through voting recommendation standards (for proxy advisors) and voting practices and shareholder proposals (for activist investors).
- Overall compensation program design should be thoughtfully (and to some extent continually) evaluated, and in addition to the quantum of pay, the impact of tax reform, increased scrutiny of non-GAAP metrics, and accounting changes could affect the design of future pay programs—and possibly give rise to litigation against companies in the future.
On the activism front, visions of excess cash flowing from promised tax repatriation and a cut in the corporate tax rate have garnered activists’ attention, but uncertainty about when and what Congress will actually enact likely means continuation of the trends seen in 2016—more targeted, tactical activism that carries the greatest chance of success.

Finally, the new administration’s dismissal of climate change as a significant risk has galvanized investor campaigns on corporate sustainability, which will be a prominent focus this proxy season.

In this light, companies should continue to reassure their owner base that good governance remains a priority, by:

- Productively engaging with key shareholders on an ongoing basis
- Ensuring clarity in proxy disclosures
- Communicating strong rationale for board and management decisions—especially in the areas of strategy, compensation and corporate responsibility

Shareholder engagement and casting the proxy statement as a storytelling medium will be vital to providing additional context and rationale for pay- and governance-related decisions today and in the future

Given its administrative complications, preparation for compliance with the CEO pay ratio rule should continue, while efforts to repeal or revise Dodd-Frank mandates should be monitored.

Overall, companies should be acutely aware of the dynamism surrounding potential legislative and regulatory matters so that internal and external resources are used optimally. Recent history has taught us one thing we can be certain of in today’s world: The final form of any tax or regulatory legislation could vary drastically from the current thinking and expected implementation time frames.

Craig Tanner is an attorney with Reed Smith LLP, a global law firm. Through his executive compensation and equity incentive practices, Tanner works with his clients to design and execute effective compensation programs. Tanner works with compensation committees, management and individual officers on designing and structuring compensation alternatives for all phases of the company’s life cycle—from start-up to public. The compensation tools typically include stock awards, derivatives, performance-based pay, deferrals, retention programs, transaction incentives and severance plans.

Approving Compensation Under Laws That May Not Remain

Directors and executives are well aware that executive compensation is heavily regulated and scrutinized. There is no shortage of legal and tax regulation impacting the design and disclosure of executive compensation. In addition, there are multiple government departments and agencies, including the IRS, SEC and DOL, as well as shareholder advisory groups and plaintiff lawyers, that carefully review executive compensation packages for compliance with the applicable laws and policies.

The regulation of executive compensation, however, will change in the near future. Both President Trump and members of Congress have stated that they favor the repeal or modification of many of the laws covering executive compensation. The targets for deregulation or modification are the Dodd-Frank Act, the Internal Revenue Code and the various laws that govern disclosures related to publicly-traded companies. The timing and scope of the potential deregulation or modifications to these laws, though, are uncertain.

In the meantime, companies are required to comply with the laws covering executive compensation that are in effect, including the Say on Pay requirements and related disclosures under the Dodd-Frank Act. Boards and executives are in the uneasy position of approving compensation packages under laws that may not be in effect when the compensation is paid. For example, the implementation of a deferred compensation program in 2017 may not be compliant or relevant when the compensation is scheduled for distribution if the requirements under Section 409A of the Internal Revenue Code are significantly modified in the interim.

Until the President and Congress repeal or modify the laws covering executive compensation, boards and executives must comply with the current legal requirements. The potential liability for companies and the risk of enforcement actions or lawsuits are too great for boards and executives to take action now in anticipation of change in the regulation of executive compensation.
Bess Joffe is Head of the Stewardship and Corporate Governance team at Nuveen, the investment management arm of TIAA. She joined TIAA in 2014 to lead, shape and drive the company’s corporate governance program and policies. This includes active ownership, public advocacy, proxy voting and engagement, consistent with our commitment to best practices in corporate governance and social responsibility. Joffe is a globally recognized senior leader in the industry and well-respected as a leading voice in this field. She previously served as Vice President, Investor Relations at Goldman Sachs, where she led the company’s outreach to institutional investors on corporate governance policies and practices.

Distraction from the Long-Term View
Both Brexit in the U.K. and the election of Donald Trump in the U.S. are reflections of the populist vote coming to bear. I would classify them as disrupters across the geopolitical, regulatory and macroeconomic realm. Whenever there are disrupters, you need to think about addressing them constructively and effectively, and being nimble in your environment, regardless of the regulatory backdrop. We’re aware that changes in the U.S. administration could affect corporate governance outcomes, for example, by reversing or replacing financial regulations already implemented by Dodd-Frank. In this environment, the relational engagement model that investors have built with portfolio companies over the last six to eight years, particularly at the senior management and board of director level, will become increasingly important.

It’s an open question whether the new U.S. administration’s policies will in effect be more favorable toward corporations. The reality is that Nuveen and other institutional investors are long-term owners of companies. Our clients have entrusted us with their money and financial futures, and whether your vantage point is from the investor side or the corporate side, we should all be on the same page regardless of the administration’s stance.

The relational engagement model between boards and shareholders that we have been building long before the administration change is the balancing element to this environment of uncertainty. It has been built on trust over time with the shared goal of enhancing long-term shareholder value. Meaningful conversations will continue, whether disclosure rules are relaxed or elements of Dodd-Frank are repealed, and regardless of the administration’s approach to the SEC and beyond. Communication is the cure for uncertainty.
Would you spend 12 minutes a week to be a more effective board member?

Michelle Edkins, Aeisha Mastagni, & Greg Taxin
Representatives from BlackRock, CalSTRS, and Spotlight Advisors give feedback for corporate boards.

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In the last several years, battle lines have been drawn over what should be the primary focus of a corporation with regards to short-term market gains versus long-term value creation. Any executive management team or board of directors worth its salt recognizes that a balance of both is required to run a successful business. However, many corporate governance leaders have a growing concern that the focus on quarterly earnings and short-term gains in service of immediate shareholder return at the expense of a holistic, long-term strategy is tipping the balance too far in one direction.

One of these voices is Steve Odland, currently the CEO of the Committee for Economic Development (CED) and the former Chairman and CEO of Office Depot and AutoZone. He recently co-authored a book that addresses this very topic, entitled Sustaining Capitalism: Bipartisan Solutions to Restore Trust & Prosperity. C-Suite had the chance to sit down with Odland and gain perspective on certain aspects of corporate culture—ones that he says pose a threat to capitalism’s long-term viability.

Editor’s Note: A short excerpt from the book follows the Q&A on page 40, courtesy of the authors.

In the book, you discuss the “shareholder-only” model and how that has become a pervasive trend. Why is this a shortsighted view, and how does it undermine company performance in the long-term?
Odland: Most of us who went to business school learned that our role was to develop shareholder value, and that is still true. But this shareholder-only model is misguided because there are many constituencies for the corporation to consider. As a public company CEO, I developed that point of view on my own. To me, CEO also stands for “customers, employees and owners,” and the fact that you have to know and serve all your stakeholders. You can’t just focus on one individual. For example, if you only focused solely on employees, you’d pay them astronomically and you wouldn’t care about shareholders or customers.

This notion of short-termism aligns with the shareholder-centric model, analogous to eating the seed corn now rather than planting it for later. That leads to layoffs, less training, and lower long-term investment and innovation, among other consequences. It’s also why we’re seeing private companies invest at more than twice the rate of public companies. Co-author Joe Minarik and I really underscore the tie between long-term thinking and innovation. You can’t innovate on a short-term model.

Odland: To me, CEO also stands for ‘customers, employees and owners,’ and the fact that you have to know and serve all your stakeholders.”

CED has been very outspoken about board diversity—why is this issue inextricably tied to long-term company vision?

Odland: Our view is that you shouldn’t throw people off boards to achieve board diversity. Rather, as directors retire, replace every other one with one gender then the other—companies that do so will eventually reach parity on their boards. To my point about serving all of your constituents—70% of our GDP is consumer-driven, and most purchase decisions are made by women. They comprise a majority of the population and a majority of college graduates, but represent just 20% of the people who are accountable for the largest corporate decisions.

That’s why we’ve weaved the diversity story together with all of these issues that are typically addressed independently. Our view is that these are interdependent. It’s up to business leaders to reengage and take these matters into their own hands. If they leave these issues on the back-burner, governments or NGOs (as they have in other countries) will take action. Business leaders need to clean up their own houses, and in so doing, we will evolve our system of capitalism and make everyone more prosperous.
The following is an excerpt from *Sustaining Capitalism: Bipartisan Solutions to Restore Trust & Prosperity*, by Steve Odland and Joseph J. Minarik. The text below appears on pages 52-54 as a part of Chapter 3, “Focusing on Long-Term Value: Reversing Business Short-Termism.”

**Causes.** If corporate short-termism carries such risk for the long-term interests of companies and the larger economy, how did it grow to be so pervasive? Research implicates a number of intertwined factors: incentive systems (both explicit and unstated), investor pressures, regulations, tax structures, financial metrics and accounting rules, trading technologies, and even business cultures and managerial mindsets.

Specifically:

- As noted above, the practice of providing quarterly earnings guidance leads financial actors, both inside and outside the corporation, to focus too heavily on reported earnings per share.
- Activist shareholders more frequently seek short-term interests than long-term ones. (Activists pressure for growth strategies only in one or two percent of instances, studies suggest.) Between 2008 and 2015, activists led over 220 campaigns against U.S. companies to increase payouts to shareholders, most frequently through stock buybacks or cash returned to shareholders. Such actions can drain the cash needed for long-term-value-increasing investment in physical capital and R&D, and harm the balance sheet and the long-term profitability of the firm.
- Many institutional investors, though their institutions nominally have a long-term investment focus, are in important ways short-term oriented. They measure the performance of their asset managers quarterly with short-term metrics and incentivize them to seek short-term performance. More broadly, their capital allocation and risk strategies may foster shorter-term investment behaviors within their organizations and in markets.
- The structure of executive compensation can contribute to short-term outlooks by tying performance pay to the achievement of short-term financial targets.
- Shortened tenures for CEOs naturally cause them to focus more on short-term results. Some evidence indicates the incentive of CEOs to fund long-lived projects declines as they approach retirement or the end of a contract period.
- Changes in technology and regulation have reduced the cost of trading securities, thereby encouraging trading and changes in prices in response to each additional disclosure, each business development, and each burst of market activity. Many actors in the investment chain—asset managers, short-sellers, high-frequency traders, even some managers—opportunistically have sought to arbitrage market responsiveness without consideration for longer-term consequences.

The end result is the reality—or at the very least, a public perception—that some investors and executives are draining value from those companies in the short run, personally profiting from it, and then leaving the weakened companies—and the employees and communities that depend on them—behind to deal with the consequences.

**Balancing the Short- and Long-Term.** We do not advocate ignoring shareholders, or the need for short-term results, or the beneficial role that some activist investors play. Investors who are too entrenched can stifle productive change. One of the strengths of capitalism is that investment can move to its best and most effective uses in light of changes in technology, demand and the effectiveness of an enterprise’s management.

Investors can withdraw their capital from companies that are not managing for the future effectively. The challenge, of course, is for investors to be able to discern when a company’s poor financial performance in the present presages deeper future problems versus when that poor performance is simply a temporary blip or the result of management appropriately incurring costs in the present to enhance the company’s future performance and sustainability.

It is challenging to strike the right balance between the short and the long term, especially given that directors and managers typically must make decisions under high levels of uncertainty arising from sources both external and internal to the company. Uncertainty about the future of government fiscal, monetary and regulatory policies is one source of uncertainty. Changes in markets, technology and other economic events present another set of challenges. The flexibility of directors and managers to make quick decisions in response to such changes and manage the associated risks is a strength of the U.S. economy that should not be underrated or lightly discarded.

What are corporate leaders to do in light of the grave harms of corporate short-termism, the set of pressures driving companies in this direction, and the admitted difficulty of striking the right balance between long- and short-term goals? Although we recognize the challenge of the situation, there are steps that corporate leaders—both members of corporate boards and executives—can take to move their companies toward greater focus on long-term sustainability, thereby benefiting not only their companies, but also the sustainability of capitalism as a whole.

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In the past few years, investors have become much more attuned not only to what happens in the boardroom, but also to who is making it happen. They recognize that the building blocks for a high-performing board are the right mix of people.

Access to information on board members and potential director candidates is increasing, whether that is brought to light by a shareholder activist campaign scrutinizing board performance or the company itself disclosing more about directors in annual filings. Overall, increased transparency on board composition has generated deeper interest in the topic from all investors—not just activists—as well as other governance professionals, observers and the general public.

C-Suite had the opportunity to speak with Glenn Booraem, Principal at Vanguard, regarding the investors’ perspective on this hot-button issue. He had recently joined Equilar for a webinar on the subject, and in responding to questions from the attendees, Booraem explored why board composition and recruiting are critically important for directors to address with shareholders.

C-Suite: We keep hearing that board composition is the No. 1 issue for investors. Given everything else going on in corporate governance, why has this topic come to the forefront? What are some of the catalysts in the past few years?

Glenn Booraem: We view the composition of the board (and its resulting performance) as perhaps the single most important governance issue for investors. Ensuring that the team of people who assemble in the boardroom brings to bear a complement of skills, experience and background that are well-suited to the company’s strategy is a key objective of ours.

We believe as a fundamental matter that well-governed companies will perform better over the long term. From this perspective, all roads lead to and through the board. So if we have the right people on the board today, and the right process to assess and evolve the board’s composition over time, we believe, as a general matter, that good things will follow.

Is poor performance of boards in governance and compensation issues the underlying reason for this focus on composition and refreshment?

Booraem: As I mentioned, we view board composition as THE governance issue. So our focus on who represents our interests on the board isn’t necessarily driven by concern with who serves in that capacity today. Rather, it acknowledges the special nature of the board as a self-perpetuating body that, absent shareholder intervention, gets to choose its own successors. Ensuring that
this process is rigorous and reflective of the company’s strategy for creating long-term value is central to our focus on the board. Corporate governance is, at its core, about creating a structured environment of accountability for long-term outcomes. We want to ensure that this accountability exists for the board primarily as a safety net, in the event that the majority of shareowners—the providers of capital—identify a need to effect change.

What is your perspective on age and term limits for directors as a check on board refreshment and succession? What are some other strategies to ensure regular consideration of board composition?

**Booraem:** Automatic tenure-limiting mechanisms, such as mandatory retirement ages and term limits, are blunt instruments to effect board refreshment. While they may serve as one component of the board’s process for evolving its composition over time, we believe that underpinning the process of board evolution must be a rigorous periodic assessment of the board’s needs, capabilities and performance. First and foremost, we want to ensure that the board, viewed as an amalgam of what each director brings to the table and how they function as a team, is “fit for purpose” in the context of the company’s strategic direction. Changes in the board’s composition should be expected over time as a natural consequence of updating and evolving the board’s capabilities in response to changes in the industry, the markets and/or the company’s strategy.

Data shows that there is higher prevalence of women at larger companies (e.g., the S&P 500 vs. the Russell 3000). What do you think may be some reasons for this? Do smaller organizations get a pass for having fewer resources, or are they scrutinized less closely?

**Booraem:** We have seen that, over time, best governance practices tend to be adopted more rapidly by larger capitalization firms. Structural governance provisions such as declassified boards, majority voting for directors and most recently, proxy access, are all more prevalent among larger capitalization companies. Gender diversity on the board is also following this pattern. Based on Equilar data, while about 21% of S&P 500 directors are women, approximately 15% of Russell 3000 directors are women. Further, 738 Russell 3000 boards had no female members in 2016, while only seven S&P 500 boards were all-male.

We believe good governance is important for companies of all sizes; the most significant companies to our small cap funds—both indexed and active—are, you guessed it, small companies. Investors in these funds, with ultimate, albeit indirect, exposure to these smaller companies have an interest in the same good governance practices as those prevalent at largest firms. Smaller firms shouldn’t get a “pass” simply because they’re small. That said, we want to work with companies to understand what they’re doing to move in the direction of best practices and hold them accountable through engagement for making adequate progress.

What do investors want to see when it comes to disclosure or engagement around director evaluations and assessments? What information is most meaningful to you as you try to understand company strategy?

**Booraem:** We want insight into the process the board utilizes to evaluate the qualifications and performance of directors (both individually and as a team) in the context of the company’s strategic needs. We want to understand the alignment between directors’ skills, background and experience and the board’s requirements—given, among other things, the company’s strategy, the industries in which it competes, its maturity as a firm, and the most significant risks it faces. Too often, the focus of discussion of board evaluations centers on getting quote-on-quote bad directors off the board. And while that may be the outcome in a small number of cases, we believe that the far more powerful outcome of a rigorous, ongoing evaluation process is getting the right directors onto the board through the identification of emerging needs.
Panelists: “Diversity on Boards Is Abysmal”

Investors at the Board Leadership Forum discuss the state of board recruiting

As reported in the Equilar Gender Diversity Index (GDI), it would take nearly 40 years to reach gender parity on Russell 3000 boards. While companies are slowly but surely adding females and other diverse directors to their boardrooms, in others, there is little accountability and responsibility being taken.

At the recent Board Leadership Forum, co-hosted by Equilar, NACD and Nasdaq in San Francisco, a panel of investors and governance professionals looked deeper at these issues to provide perspective on what expectations are for the board and how they can take steps to engage with shareholders around diversity.

A recent study conducted by the Stanford Rock Center for Corporate Governance and The Miles Group found that 57% of directors agree that their board is effective in bringing new talent—while that is a majority, it means that 43% felt they were not. Meanwhile, only one-third of respondents said they were positively planning for turnover.

If that’s the case, panelists posited, what message does that send to investors?

Major institutional investors represented at the Forum suggested that boards can keep this topic at the forefront by showcasing diversity in the proxy statement, even if it’s not required to be disclosed. That, alongside a skills matrix or other disclosure that represents the variety of viewpoints and experience directors are bringing to the boardroom, opens the door for shareholder engagement around this issue because it helps investors have a window into how the board is composed.

But overall, the panel agreed that despite some of the rhetoric out there, boards are not clamoring for more diversity as a general rule. The numbers are slow to increase because there is not enough commitment to change at a broad level, they said, and it will take strong efforts from investors and other governance advocates to prove to them they need fresh faces in the boardroom.

The fact of the matter is that there is not a supply problem when it comes to diverse candidates. “There are more qualified people available for board positions than there are positions available,” one investor noted. “The problem is being able to tell the current members when it’s time to leave.”

Additional Speakers

STEVEN BORDEN
Borden Media Consulting

CATHERINE BROMILLOW
PwC’s Governance Insights Center

JOHN CABECA
United States Patent and Trademark Office

CHRIS CLARK
National Association of Corporate Directors

CINDY FORNELLI
The Center for Audit Quality

MATTHEW HEALY
Nasdaq

JAN KOORS
Pearl Meyer

PAULA LOOP
PwC’s Governance Insights Center

RON SCHNEIDER
Donnelley Financial Solutions

WILL THIESSEN
J.P. Morgan Securities LLC

DEREK ZABA
CamberView Partners
**Featured Speakers**

LYDIA BEEBE  
Board Member  
Aementis Inc.

ELIZABETH FETTER  
Board Member  
Support.com, McGrath Rentcorp

ANNE SHEEHAN  
Director of Corporate Governance  
CalSTRS

KATHLEEN CAMILLI  
Board Member  
Unifirst Corp., AGF Management Ltd.

DAVID LARCKER  
Professor & Faculty Director, Corporate Governance Research Initiative  
Stanford Graduate School of Business

ANNE SIMPSON  
Investment Director & Head of Corporate Governance  
CalPERS

JIM COWIE  
SVP & General Counsel  
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Aeropostale Inc., HealthEquity, Tempur Sealy

CINDY PADNOS  
Founder  
Illuminate Ventures

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Visit equilar.com/equilar-events to view highlights of recent Equilar events and to learn more about the next Board Leadership Forum in New York City on September 12.
The value of “other compensation” reported for Fortune 100 executives—which chiefly includes benefits and perks—reached a median $126,550 in fiscal year 2015, representing a 14.5% increase from $110,557 in 2014, according to a recent Equilar report.

By comparison, median total compensation for the executives in the study increased 4.2% in 2015. Of course, total comp is inclusive of much larger figures. Median pay overall grew from $7.1 million to $7.4 million for the highest-paid executives at Fortune 100 companies, and despite that 14.5% growth, the spike in median “other compensation” in absolute dollars fell just shy of $16,000.

Still, the fact that perk values experienced double-digit growth is worth noting, given investor scrutiny around any executive pay that is not tied to performance, and special perks that are not available to employees across the organization. When companies do award perks with high dollar values, it behooves them to include detailed explanations in their SEC filings of why those perks are included.

**Popular Perks in 2015 for Fortune 100 Executives: By the Numbers**

Source: Equilar

<table>
<thead>
<tr>
<th>Executive Perks</th>
<th>Eligibility</th>
<th>Average Value</th>
<th>Largest Award</th>
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<tbody>
<tr>
<td><strong>Automobile</strong></td>
<td>43.9%</td>
<td>$24,676</td>
<td>$198,217 (Muhtar Kent, CEO and Chairman, Coca-Cola Co.)</td>
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<tr>
<td><strong>Aircraft</strong></td>
<td>52.1%</td>
<td>$108,767</td>
<td>$18,462 (John Tyson, Chairman of the Board, Tyson Foods)</td>
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<tr>
<td><strong>Personal Security</strong></td>
<td>37.5%</td>
<td>$117,283</td>
<td>$1.6 million (Jeff Bezos, CEO and Chairman, Amazon)</td>
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