Creative Compensation

Boards eye performance provisions to optimize executive pay plans

New strategies to engage sophisticated shareholders
Getting CEO succession right
Communicating with “passive” investors

Interviews with Andy Fastow, former CFO of Enron, and Anne Sheehan, former Director of Corporate Governance, CalSTRS
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Creative Compensation
Boards eye performance provisions to optimize executive pay plans
By Dan Marcec

Minutes
4 Russell 3000 Boards Are on Pace to Reach Gender Parity by 2048
5 Highlights from The Equilar Institute
6 Looking Critically at Company Culture
7 Report: CEO Pay Tops $3.5 Million in Canada

At-a-glance
8 Board Member Alma Maters
Which universities boast the most board member alumni?
Board Education
10 Building Better Boardrooms
Education forums provide networks to share best practices

Business Intelligence
18 Early Warning
How boards can detect corporate catastrophes before they occur
Interview with Andy Fastow, former CFO of Enron, by Dan Marcec

24 Dissecting Disclosure
Engaging sophisticated shareholders requires new strategies
By Dan Marcec and Alex Knowlton

Commentary
28 Passing the Baton
It takes a clear process to get CEO succession right
By TK Kerstetter

30 Passive Engagement
How companies can better communicate with their “passive” investors
By Ron Schneider

Special Section
34 Why Sponsorship Matters in the Push for Board Diversity
A Q&A with Catalyst Women On Board™

Talking Points
36 Ask the Experts
What issues should boards be prepared to address with shareholders during and after their annual meetings?

40 Getting on Board
Joining a board as a first-time director requires preparation and learning on the job

44 Reflections on the Evolution of Corporate Governance
Interview with Anne Sheehan, former Director of Corporate Governance, CalSTRS

The Last Word
48 Seymour Cash
Seymour’s Cash
Corporate Culture and the Responsibility of the Board

Boards of directors are responsible to be stewards for shareholder value and manage oversight of corporate risk. While the job description is straightforward, the skills needed to balance these duties are changing by the day.

Several features in this issue of C-Suite focus in some way on corporate culture and the inherent risks that boards face if they have blinders on outside of board meetings. Anne Sheehan, the former Director of Corporate Governance for CalSTRS, reminded directors that they serve all the shareholders, not just those in the boardroom. And Andy Fastow, the former CFO of Enron, spoke to us about a technology that measures employee tension, which he believes could have prevented the company’s bankruptcy—and his time in prison.

If you’re joining us at the 9th Annual Equilar Executive Compensation Summit, you’ll also notice another relevant theme in this issue. The cover story identifies how boards must balance those very things I mentioned—shareholder value and corporate success—through executive compensation. Pay sets the tone at the top, driving decisions from the CEO down. If incentives are not properly aligned with shareholder value and long-term strategy, or if targets are too easy to hit, that sends a clear message to stakeholders that the board is not fit to serve.

As always, please enjoy this issue and feel free to reach out to me directly with any feedback.

David Chun
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David has led Equilar from a pure start-up in 2000 to one of the most respected and trusted names in corporate governance.
Russell 3000 Boards Are on Pace to Reach Gender Parity by 2048

New data encourages optimism for the future of board diversity

By Dan Marcec

Due to accelerating growth in the percentage of women on boards at Russell 3000 companies, gender parity is now expected to be achieved by 2048, according to the latest Equilar Gender Diversity Index (GDI).

Thirty years may seem like a long way away—and it is. However, this projected timeline has shortened considerably in one year. The inaugural Equilar GDI, published in February 2017, found that women occupied 15.1% of Russell 3000 boards as of 2016 proxy statements, and at the rate of growth to that date, gender parity would not have been achieved until 2055.

“Even if it’s still 30 years away by this projection, I’m optimistic that the speed of change will accelerate significantly over the next decade due to a number of forces,” said Susan Angele, Senior Advisor with KPMG’s Board Leadership Center.

“The number of available board seats will increase as some directors may be asked to leave or opt out of their boards as board workloads continue to rise, good governance increasingly demands robust individual director evaluations, and board skill sets link more closely to company strategy,” Angele added. “In addition, baby boomer directors will begin to reach retirement age in large numbers, and board members who retire will likely be replaced by directors who are more diverse in terms of experience and skill set as well as gender.”

The progress made toward gender parity is a meaningful step on the path to more diverse representation in corporate boardrooms more generally, but there is still a long way to go. As of December 31, 2017, the Equilar GDI was at 0.33, meaning that just 16.5% of board seats at Russell 3000 companies belonged to women. That figure increased from 16.2% a quarter earlier.

“There is a lot in these numbers to be optimistic about—a date that achieves parity seven years sooner, fewer boards with zero women and more boards at gender parity,” said Blair Jones, Managing Partner, Semler Brossy Consulting Group. “Of course, there is more to be done to improve these values further, but the concerted effort of investors and companies is clearly making a difference.”

“Over the past few years, many large investors have updated their voting policies around board diversity. In addition, many of these institutions have asked issuers to provide further disclosure related to board member qualification metrics, board refreshment process and director recruitment practices,” added Brigid Cremin Rosati, Director of Business Development at Georgeson. “These combined efforts have set a high threshold for companies to meet, and in my view, these efforts and media scrutiny will ultimately continue to accelerate gender parity on boards.”

Check out www.equilar.com to see more highlights from this study, and to download an executive summary of the data as well as a list of the 32 boards that have already reached gender parity.
**Who Are the Highest-Paid Sales Executives?**

Top sales leaders at public companies are becoming more prominent in senior executive ranks, and their pay is increasing in parallel. Equilar analyzed how sales leadership roles have evolved as one of the top named executive officers (NEOs) at U.S. public companies in the recent past.

There were 218 top sales executives disclosed in annual proxy statements as one of the top five highest-paid employees at their respective companies in fiscal year 2016, and median compensation for these leaders was approximately $1.3 million.

The Equilar blog published a list of the 50 highest-paid executives in a sales-specific role (often the Chief Revenue Officer) that were disclosed in public filings for 2016.

**Detecting Signals to Connect With C-Suite Contacts**

The buck stops with the C-suite and the board of directors at every public company, and therefore, gaining knowledge that will help focus efforts to influence leadership at the highest levels is critical. After all, a cold call to a CEO or board member on any matter is likely to be fruitless. Only 1% of cold calls result in meetings as it is, and it stands to reason that the rate would be even lower at the highest levels of an organization.

Recognizing the right time to deploy teams for targeted outreach is one of the most consistent challenges for sales and marketing executives in particular. They are constantly on the lookout for signals that their teams can use to engage leading decision makers in the C-suite and the boardroom.

The good news is that information that can help you connect with C-suite executives and the board of directors is right at your fingertips. An Equilar blog outlined various ways to apply data and automated signals to help professionals build their executive networks.

**How Board Skills Vary by Director Age Groups**

Younger board members are thought of as providing new perspectives. To examine how director skills compare across age groups and identify whether this is true, a new study from Equilar looked at various age groups to see what skills each group has to offer.

The study was limited to 383 companies that disclosed board matrices in their annual proxy statements, inclusive of 3,570 board members.

Among the directors with disclosed board skills, 52% of them are over 60. These directors will eventually be replaced, and as the data suggests, certain skills will continue to be relevant, while others may become more prevalent with the introduction of younger directors to the board. As board matrices become more of a mainstay in company proxies, they will provide a clearer picture of how the new generation of board members looks in terms of the allocation of skills.
Looking Critically at Company Culture
Identifying culture risks and how they impact the boardroom

By Tatyana Mamut

The concept of company culture is not new. In the past, culture has been a “soft” category, something that has been the domain primarily of HR. However, in the last two years, we have seen a dramatic change in the way that culture is viewed, and it is becoming a strategic corporate asset.

It’s almost tragically naïve to consider foosball, happy hours and snacks in the lunchroom as markers of company culture. Truly assessing culture risk requires a level of understanding comparable with financial risk and cyber risk.

To look beyond this superficial understanding, the first thing boards have to do is to shift their mental model from culture as this feel-good thing about people getting along to a more critical conceptual view in terms of social dynamics and concrete behaviors. They have to look at an organization as a social field that generates norms of working. Doing so creates a tangible, mental model mapping relationships between people and how much fluidity, permission and innovation is allowed. You have to understand what kinds of people are welcomed and rewarded in that social field, as well as the rules of the game and the incentives to win on the field.

The second thing that boards need to recognize, and a lot of them already do, is that culture is built from the top down. However, there are currently no tools for how that tone at the top should cascade through the organization. We developed a model of concentric circles with the CEO as the central anchor to make more sense in terms of how cultural dynamics work. That anchor’s principles and behaviors ripple out to the executive team, to management and then to the front line employees.

The third thing boards need to really understand is the risks they should be asking about. In my framework, there are five major culture risks boards should be looking at to identify and push concrete conversations around culture. (Editor’s Note: See below for an outline of the five major culture risk categories.)

**Five Major Categories of Culture Risk**

1. **SCALING.** This is common in high-growth companies. As you grow, the cultural model will need to be reassessed. Culture needs to keep up with rate of growth.

2. **FRAGMENTATION.** This often happens as you grow organically but can also occur in other ways, i.e., integrating new cultures after M&A. Unplanned and undesigned fragmentation of cultures into subcultures often creates dysfunction and absorbs a great deal of time, energy and morale.

3. **CONFORMITY.** This occurs when the top rungs of an organization are homogenous, fostering groupthink and missed opportunities. It’s particularly onerous to have conformity at the top of an organization when the people in top decision-making roles do not reflect the demographics of customers and front-line employees.

4. **ATTRITION.** This happens at all companies, and just like fragmentation, when it’s anticipated, planned and designed, it can be managed. When it’s none of these, it can destabilize an organization.

5. **STAGNATION.** This happens most often in mature organizations, but also in start-ups when the founder drives all the new ideas in the organization. It can also happen when cultures have ossified processes and don’t design mechanisms for innovation.

Tatyana Mamut is a former GM at Amazon Web Services and Founder & CEO of Culture Risk. Find out more about Culture Risk and building Cultures of Innovation at www.CultureRisk.com.
Report: CEO Pay Tops $3.5 Million in Canada

In 2016, CEOs at companies in the Toronto Stock Exchange (TSX) Composite were awarded a median $3.5 million, according to a recent report authored by Accompass, an advisory firm focusing on compensation and benefits. The report, developed through an analysis of data collected by Equilar, provides an overview of the executive compensation landscape in Canada with analysis and insights into specific pay practices.

The comprehensive report identified pay levels for all executive positions named in publicly disclosed documents (e.g., annual report, management-information circulars, corporate websites) as of August 2017, and included the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and the next three highest paid executives with compensation greater than $150,000 at each organization.

The report noted that although the focus tends to be on CEO pay levels, median compensation appears to have a $1 million floor across all executive positions. Because executive pay is a significant investment, “organizations must continuously monitor the compensation programs in place for their executive teams, ensuring dollars are being spent efficiently and effectively,” the Accompass authors noted. “This includes protecting intellectual property through retentive measures, linking pay to ‘positive’ performance, and investing in succession.”

The chart on the right is from the report and identifies both median and average compensation for top positions, as well as the highest-paid individual in each category.

Gender diversity is also sparse at Canadian public companies, not unlike their U.S. counterparts. The report noted that just six organizations included in the study (2.4%) have a female CEO, and Nancy Southern represented two of these organizations—ATCO and its subsidiary, Canadian Utilities. At Equilar 500 companies, 28 CEOs are women, representing just 5.6% of the group. Another parallel to the U.S. market: Women who are in the top position tend to be at larger organizations, the report said.

“As organizations across Canada continue to face dynamic and evolving issues around how to compensate their leadership teams, understanding the current pay trends within their respective industry is paramount,” the report’s authors wrote. “Organizations must acknowledge the impact of other issues such as increased scrutiny, compensation disclosure requirements, compensation risk, a defensible benchmarking process, say on pay and so on. The numbers don’t tell the whole story, [and] the process followed is much more important.”

To read more about trends in equity compensation, CEO age and tenure, breakdowns by industry and geography, and more, please request the full report here: http://info.accompass.com/canadian-executive-pay-trends

### Graph 1

Top NEOs Compensation — Highest Earners by Position, Average & Median Pay

<table>
<thead>
<tr>
<th>Position</th>
<th>Company</th>
<th>Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>Joseph Papa</td>
<td>$83.047M</td>
</tr>
<tr>
<td></td>
<td>Valeant Pharmaceuticals</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$3.16M</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$3.53M</td>
</tr>
<tr>
<td>Executive Chairman</td>
<td>Frank Hasenfratz</td>
<td>$11.987M</td>
</tr>
<tr>
<td></td>
<td>Linamar</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$4.55M</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2.92M</td>
</tr>
<tr>
<td>Chief Investment Officer</td>
<td>Stephen Peacher</td>
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</tr>
<tr>
<td></td>
<td>Sun Life Financial</td>
<td></td>
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<tr>
<td></td>
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<td>$3.41M</td>
</tr>
<tr>
<td></td>
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<td>$2.52M</td>
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<tr>
<td>President</td>
<td>Jay Mehr</td>
<td>$8.172M</td>
</tr>
<tr>
<td></td>
<td>Shaw Communications</td>
<td></td>
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<td></td>
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<td>$2.77M</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2.08M</td>
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<td>Chief Operating Officer</td>
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<td>Linamar</td>
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<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>$1.92M</td>
</tr>
<tr>
<td>Division President</td>
<td>Ignacio Deschamps</td>
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<td></td>
<td>Bank of Nova Scotia</td>
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<tr>
<td></td>
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<td>$2.16M</td>
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<tr>
<td></td>
<td></td>
<td>$1.46M</td>
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<tr>
<td>Chief Financial Officer</td>
<td>Paul Herendeen</td>
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<tr>
<td></td>
<td>Valeant Pharmaceuticals</td>
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<tr>
<td></td>
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<td>$1.96M</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1.34M</td>
</tr>
<tr>
<td>General Counsel</td>
<td>Deirdre Stanley</td>
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</tr>
<tr>
<td></td>
<td>Thomson Reuters</td>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
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<tr>
<td>Corporate Development Executive</td>
<td>Robert Rosiello</td>
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<tr>
<td></td>
<td>Valeant Pharmaceuticals</td>
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<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>$1.11M</td>
</tr>
<tr>
<td>Operations Executive</td>
<td>Glen McIntosh</td>
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</tr>
<tr>
<td></td>
<td>Celestica</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>$1.39M</td>
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<td></td>
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<td>$1.47M</td>
</tr>
<tr>
<td>Business Development Executive</td>
<td>David Hill Encana</td>
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</tr>
<tr>
<td></td>
<td>Encana</td>
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<tr>
<td></td>
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<td>$1.29M</td>
</tr>
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<td></td>
<td></td>
<td>$1.02M</td>
</tr>
<tr>
<td>Human Resources Executive</td>
<td>Gina Jardine Kinross Gold</td>
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<td></td>
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<td>$1.16M</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1.03M</td>
</tr>
<tr>
<td>Engineering Executive</td>
<td>Muhi Majzoub</td>
<td>$2.160M</td>
</tr>
<tr>
<td></td>
<td>Open Text</td>
<td></td>
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<tr>
<td></td>
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<td>$1.15M</td>
</tr>
<tr>
<td></td>
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<td>$1.10M</td>
</tr>
</tbody>
</table>

(Note: Reported data for executive positions outside the CEO and CFO positions is less robust due to the position and title variations between companies and industries.)
When it comes to the top schools for turning out board members at public companies, there are a couple of clear winners. A recent Equilar study using data from its BoardEdge platform uncovered the results.

The study included 2,385 board members at Equilar 500 companies with disclosed education details in their director biographies. Overall, those directors attended 741 schools, and nearly half of these institutions (362) boasted more than one director as alumni. A little less than 10% of the schools on the list (69 total) had more than 10 alumni sitting on boards. Directors with multiple degrees from different schools were counted twice, but if a director had multiple degrees from the same school, he or she was counted only once.

Harvard took the top spot among universities attended by corporate board members at the largest companies by revenue. Overall, 206 individuals currently sitting on an Equilar 500 board earned at least one degree there. That was nearly three times the amount who attended Stanford, which came in third place with 68 board members. In second place, the University of Pennsylvania—no doubt bolstered by a number of Wharton MBAs—stood well above all other schools besides Harvard, with 122 alumni serving as sitting directors at the top U.S. companies.

### By the Numbers:

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<th># OF UNIVERSITIES</th>
<th># OF ALUMNI</th>
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<tr>
<td>362</td>
<td>two or more alumni</td>
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<tr>
<td>69</td>
<td>10 or more alumni</td>
</tr>
<tr>
<td>9</td>
<td>50 or more alumni</td>
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</table>

### The Top 20 Schools by Location

[Map showing the top 20 schools by location]
# The Top 20 Schools Turning out Public Company Board Members

<table>
<thead>
<tr>
<th>UNIVERSITY</th>
<th># OF ALUMNI</th>
</tr>
</thead>
<tbody>
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<td>Harvard</td>
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</tr>
<tr>
<td>U. Penn</td>
<td>122</td>
</tr>
<tr>
<td>Stanford</td>
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<tr>
<td>Northwestern</td>
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<tr>
<td>MIT</td>
<td>63</td>
</tr>
<tr>
<td>Yale</td>
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<tr>
<td>Cornell</td>
<td>57</td>
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<tr>
<td>Virginia</td>
<td>55</td>
</tr>
<tr>
<td>Princeton</td>
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</tr>
<tr>
<td>Dartmouth</td>
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<td>Michigan</td>
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<td>Berkeley</td>
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<td>Columbia</td>
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<tr>
<td>UCLA</td>
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<td>Chicago</td>
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<td>MSU</td>
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<tr>
<td>Purdue</td>
<td>30</td>
</tr>
<tr>
<td>Southern Methodist</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Equilar
Building Better Boardrooms

Education forums provide networks to share best practices

Panelists discuss the impact of technology on boardroom strategy at the Board Leadership Forum in San Francisco.

Board Leadership Forum: The Growing Role of Technology in the Boardroom

Key Themes

- The pace of innovation is accelerating. As proof, the U.S. has issued over 9 million patents. It took 100 years to go from one to 1 million. Then, it took 25 years to go from 1 million to 2 million. It’s taken four years to go from 8 million to 9 million.
- Your competitors are not only the companies in direct competition with you today.
- Twenty years ago, “digital” meant innovation. Today it means something very different. Just because your company is shifting to digital doesn’t mean you’re innovating. Boards can check some boxes and say “we’re going digital,” but it takes a very confident board to ask what management is going to do to push the envelope.

Key Quotes

“Culture needs to repel the wrong people as much as it needs to attract the right ones.”
Compensation Committee Forum: Getting Ahead of CEO Pay Ratio Communications

Key Themes
- It’s important to provide context around who the median worker is. Being able to provide a face to that employee helps institutional investors. For example, some of the highest CEO pay ratios we’ll see are in retail and hospitality. However, your median worker can be one who works nine hours a week.
- Avoid surprises when telling a comp committee about the ratio. Provide estimates, dry runs, broad ranges and mentally prepare the committee to let them know where you stand among your peers. Let them know how you got to the number and how you will communicate the results.
- Employee reaction depends on what the company’s culture is, how well the ratio is communicated and how compensation is determined. The more transparent and clear these are, the less chance there will be a significant reaction.

Key Quote

“We’re seeing a reactive approach because companies don’t want to elevate the importance of the CEO pay ratio.”
Boards eye performance provisions to optimize executive pay plans

By Dan Marcec
Executive compensation design has evolved considerably over the past decade. In particular, the introduction of Say on Pay in 2011—the mandatory shareholder advisory vote on executive compensation—has heightened the degree to which shareholders hold corporate boards accountable for executive pay decisions. Balancing a response to external pressures and their duty to attract and retain quality leadership, boards have initiated strategies to reward executives for their direct influence on both company performance and shareholder value creation.

Resulting from these trends, pay-for-performance strategies have altered long-term incentive (LTI) design for top C-suite executives. For example, over 82% of Equilar 500 CEOs received a performance grant in fiscal year 2016, and the percentage of Equilar 500 CEOs receiving at least half of their long-term incentive values based on performance awards increased from 33.3% to 60.8% from fiscal years 2012 to 2016 (Graph 1). Meanwhile, the prevalence of time-vesting stock option grants among Equilar 500 CEOs fell over 10 percentage points in that time frame.

**Graph 1**
Equilar 500 CEOs Receiving More Than Half Their Equity in Performance Awards

The costs of achieving pay-for-performance balance are potentially high, and the benefits of optimizing LTI design are potentially great for executives and investors. As a result, boards have implemented processes to maximize these benefits. To design a single LTI award for its CEO, a compensation committee must consider then select appropriate performance metrics; decide the amount of influence a given metric should exert on the final award payout (its “weighting”); set minimum, target and maximum goals for each metric; and finally map those goals to payouts. This process has become a year-round endeavor and is taken lightly by neither boards nor corporate shareholders.

“Executive compensation remains a high-profile and sensitive issue for companies, and the required public Say on Pay vote and codifications of voting guidelines by governance groups may make it more difficult for companies to experiment with unique plan designs,” said Kelly Geerts, Director of Advanced Solutions at E*TRADE Financial Corporate Services Inc., in commentary for the recent Equilar report, Executive Long-Term Incentive Plans. “As a result, we continue to see companies rely on standard performance metrics while adjusting the mix of targets and weighting within overall compensation.”

**Performance Pay Is No Longer Deductible: Will It Matter?**

One benefit to performance awards historically has been the ability for companies to deduct compensation in excess of $1 million from corporate taxes. In 1993, the amount of compensation that corporations could deduct from their taxable income was capped at $1 million for select executive officers (the CEO and the three highest-paid officers, excluding the CFO). The then-fresh change to the tax code came with a loophole. If the compensation was considered performance-based, it was exempt from the rule and could be deducted—even if the executive received compensation in excess of the $1 million limit.

In December 2017, the bill originally known as the Tax Cuts and Jobs Act was signed into law and, among other changes, ended the performance-based exemption to IRC Section 162(m).

At face value—especially given recent trends toward performance pay in executive compensation—the reduction in tax-deductible compensation is significant. Equilar found that Russell 3000 companies had been eligible for a total of $92 billion in tax deductions under this provision and would have included an addition $13 billion if CFOs had been included under 162(m) (Graph 2).

**Graph 2**
Three-Year Total Deductible Executive Pay, Russell 3000 (Aggregate)

On a per-company basis, the value of deductible compensation widely varied based on size. Because larger companies are more likely to offer performance-based equity awards to their executives (and those awards are likely to be larger given higher-valued shares), total deductible pay increased in direct proportion to market cap by a considerable margin (Graph 3).
Despite the absence of these potential tax credits, we shouldn’t expect to see performance-based compensation going anywhere any time soon. As an example, Netflix made waves in the executive compensation world shortly after the Tax Cuts and Jobs Act went into place, announcing that it would shift all of its bonuses to cash compensation. There was speculation initially that many companies would follow suit, but it turned out—at least so far—this was an anomaly, not a trend.

“It’s helpful to keep in mind when you’re talking about 162(m) changes that an increase in cash or time-based compensation could be a red herring,” said Nathan O’Connor, Managing Director at Equity Methods, during a recent Equilar-hosted webinar. “Companies do not grant performance equity to get a tax deduction. They do so because shareholders really want strong performance.”

In other words, no matter what happens with tax deductibility, the momentum of tying pay to performance is much bigger.

**Inspiring Innovation While Enriching Investors**

With pay-for-performance trends likely to continue on their current track, the question then becomes how compensation is structured and eventually paid out. And while there are some common best practices, there’s also a lot of flexibility available to corporate boards when making these decisions that will ultimately benefit their shareholders. Over the past decade, executive compensation has become more closely tied to corporate performance goals, in contrast to “pay-for-pulse” strategies that would award CEOs solely on keeping their jobs.

Time-based awards remain an important balancing agent for executive pay packages, but the bulk of stock awards are now provided with payout only occurring when specific performance goals are met.

Viewed through the lens of creating shareholder value, the design of executive long-term LTI awards has shifted to prominently feature total shareholder return (TSR). This is often measured relative to comparator companies (relative TSR, or RTSR) as a performance metric to determine payout levels of incentive awards.

In fiscal 2012, 43.4% of Equilar 500 CEOs received performance LTI tied to relative TSR performance, a figure that rose to 52.0% in 2016. Still, the growth curve of TSR usage flattened in more recent years relative to the early days of Say on Pay, and boards began to diversify incentive plans to include additional performance metrics, such as return on capital (ROC). Indeed, 36.1% of Equilar 500 companies provided compensation awards dependent on this metric in 2016, up from 30.0% in 2012. Earnings per share (EPS), the third-most-common metric reported in the Equilar study, remained flat over the five-year period.

In her commentary for the report, E*TRADE’s Geerts noted that market swings, industry-related circumstances and the life stage of peer companies can affect relative TSR. Therefore, boards of directors have introduced other metrics to balance executive incentive plans.

“By including ROC as a metric in executive compensation, the executive is encouraged to make thoughtful decisions on corporate investments, which in the long term may deliver strong financial results for the company and its shareholders,” said Geerts.

Market volatility has been elevated in early 2018, Geerts noted. Since many companies align TSR and RTSR awards to prices measured based

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**Graph 3**

Three-Year Total Deductible Executive Pay, Russell 3000 (Per Company by Market Cap)

**Graph 4**

Performance Metrics in CEO Pay

(Percentage of Equilar 500 companies, 2012–2016)

- **Total Shareholder Return**: 43.4% ➔ 52.0%
- **Return on Capital (ROC) Metrics**: 30.0% ➔ 36.1%
- **Earnings Per Share (EPS) Metrics**: 28.3% ➔ 28.4%
Incentive plans are often as diverse as each company and the goals of each individual executive.

As a result, companies often pair metrics together in order to provide better line of sight on certain goals—like return on capital, for example—that can in turn drive shareholder return. A separate analysis of individual CEO incentive plans in the Equilar report confirmed the fact that TSR is often aligned with other metrics in order to support multiple goals to receive a certain award.

Exactly one-third of CEO incentive awards featuring TSR were fully dependent on that metric. By comparison, TSR was weighted to influence half of an award’s payout nearly 40% of the time. ROC and earnings per share (EPS) similarly were offered in conjunction with another metric a majority of the time. Each of these metrics was offered in a variety of award weightings across Equilar 100 CEO incentive plans, Equilar found.

Ultimately, incentive plans are often as diverse as each company and the goals of each individual executive. As a result, even if a pay package follows “best practices” and earns a passing Say on Pay vote, that doesn’t mean it shouldn’t be closely examined each year. And situations often change—a CEO leaves for a new position or retires, or the market dictates that performance goals be reevaluated. When these scenarios do occur, a close, ongoing relationship with shareholders is critical to ensuring those transitions go smoothly.

“Boards want an open line of communication to shareholders on an ongoing basis on executive compensation, and it’s tough to do that if they’re not listening carefully to solicit feedback,” said O’Connor. “At the same time, any time you are changing awards, executives must have good line of sight into the process. Sometimes that means having heart-to-heart conversations with key recipients explaining that the company is under scrutiny today in a way that it wasn’t five to 10 years ago. Among all these competing concerns, boards are trying to find that nice medium between executive incentives and shareholder gains. That’s part of the reason dual market- and performance-condition awards have really grown in popularity.”

**Graph 5**
Weightings by Performance Metric, Equilar 100 CEO Awards

For more information on the report and webinar cited in this article, please visit [www.equilar.com/institute](http://www.equilar.com/institute).
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Early Warning
How boards can detect corporate catastrophes before they occur
arbanes-Oxley and Dodd-Frank have introduced checks and balances to protect shareholders from corporate misdeeds that erode shareholder value, changing the landscape of corporate governance in the process. But like many other risk mitigation regulations, these legislative actions were reactive. To avoid corporate disasters on the scale of events like Enron, Worldcom and the events leading to the 2008 financial crisis, boards bear the responsibility to ask questions and manage risks before they occur. The question, of course, is: How can they identify the right questions to ask at the right time?

C-Suite had the opportunity to speak with Andy Fastow, who served as chief financial officer at Enron from 1997 until it declared bankruptcy in 2001 at the center of one of the more visible corporate scandals in recent history. Fastow is a keynote speaker at the Equilar Executive Compensation Summit in June.

In our interview, Fastow identified how Enron went under the radar of the company’s leaders and how these types of scenarios may be avoided. In the bigger picture, he is now invested in a company called KeenCorp, a software solutions firm that uses artificial intelligence to detect employee tension. Employee tension is highly correlated to the moment in time when governance, compliance and culture problems are created. For boards, the promise of new technology means better insight into what’s going on beneath the surface at the company. By using quantifiable information to support risk management, they may be better equipped to ask hard questions before an issue becomes a crisis.

C-Suite: What should executives and boards take away from your experience at Enron?

Andy Fastow: One of the biggest challenges that directors have is that they have limited information, and it’s not their role to micromanage a company. As a result, they often do not have the opportunity to address a situation before it becomes a problem, and they are repeatedly confronted with dealing with problems after they’ve become a crisis. Some of the most frequent phrases uttered at board meetings are “Why didn’t we catch this?” or “Why didn’t we know about this?”

What is the most interesting or surprising thing that you’ve learned based on your experience?

Fastow: The Enron disaster would have been avoided if the directors had the tools available to them today. Most governance, compliance and ethics programs only identify problems after they have metastasized into formal complaints, lawsuits or enforcement actions. Technology today exists to identify the problems when they are being created so that they can be remediated before they cost the company money and before they do permanent damage to an organization’s culture or workforce. There are now tools that allow companies to understand when their employees are actually uncomfortable with decisions a company is making. At those moments in time, directors should ask additional questions: “Why would employees be uncomfortable? What don’t we know that we should consider?”

From a risk management perspective, what are some of the critical questions boards should be asking that they may not be?

Fastow: There’s a fundamental difference between following the rules and doing the right thing. Many directors are too deferential to experts and advisors, meaning when an auditor or an attorney says it’s legal, the discussion often stops there. Directors should ask two questions, even after the advisors and experts have approved something.

The first one I call the private company question: “Would we make the same decision if this were a private company that I owned, that had my name on the side of the building and that I wanted to leave to my grandchildren in 20 years?”

For public companies, the answer to that question will sometimes be no. That doesn’t necessarily mean they shouldn’t proceed, but it indicates that an additional discussion is warranted, one that asks why a different decision would be made because this is a public company.

The second question boards need to ask is “How do our employees really feel about this decision?” I emphasize that word really. Directors are insulated, and key employees will not necessarily tell them what they are really thinking.

What are those tools?

Fastow: My objective in business life is to find or develop the tools to help companies identify these problems much earlier so that the financial cost to the company and damage to their culture can be averted.
A company called KeenCorp has a solution that is the single best tool I have found to do this. I invested in this company after I discovered their software. In my opinion, it is the best technology to identify when governance, compliance and culture problems are being created in a company. It gives directors and human capital management professionals the ability to address issues before they become lawsuits and enforcement actions.

**How does the technology work?**

**Fastow:** The software works like a dashboard warning light. When your “check engine” light goes on, you have an expert check there and check now, before your car breaks down on the highway. Most corporations do not have an early warning system, and they wait until the car is broken down.

There is an important distinction in that this is not what people would call “sentiment” software. Traditionally, sentiment software looks for key words, counts happy words vs. sad words, etc. This is based on psycholinguistics, which is more about what people do and how they react than what they say.

When a person becomes tense, certain things happen to his or her body. For example, if you witness a fight, even if you’re not involved, your tension levels will go up. Your blood pressure will rise, and your respiration and perspiration will increase if you see bad or questionable behavior. Other things happen as well, such as your voice inflection changes and your body language changes. If you went home after witnessing that fight, your spouse or partner would likely pick up on that tension, even if they were not involved. For example, if you witnessed a fight, you’re going to be tense for a while, and it will change your demeanor. Everything you write, even if you are not writing about that fight, will reflect that tension.

Here’s a concrete example. KeenCorp ran this software for a company that has 24 offices. The dashboard can be displayed like a heat map, and the company had a report with 24 boxes with various colors that represented tension level in each office. For three weeks, we ran the software, and every day it was all various shades of green, which is good. Then all of a sudden one of the boxes turned purple. That’s like the “check engine” light going on.

After investigation, it was found that the head of the office began having an affair with a young associate that week. As with many similar situations, most employees knew, but no one in the office called HR. No one complained or objected, but the situation caused the employees’ tension level to rise. The interesting thing was that the software picked up the employees’ tension level rising without anything being written in emails about that situation. No one wrote about this affair in any emails, but everyone knew about it and it made the atmosphere sufficiently tense that it was picked up as a statistically significant move in the data.

Because they picked up the signal, HR was able to remediate the situation quickly. The HR director told us afterward that remediation so quickly probably saved the company millions of dollars, and that it probably avoided damage to the culture and the loss of good employees.

There’s a famous philosopher Kahlil Gibran who said the truth of another is not found in what they reveal, but what they don’t reveal to you. In other words, if you want to understand your employees, don’t listen to what they say, listen to what they don’t say.

**I want to jump back to a really important point. How could this software have avoided the Enron scandal specifically?**

**Fastow:** LJM was the most infamous deal I did at Enron, and it later triggered the bankruptcy. On June 28, 1999, the board of directors approved this deal.

The blue line on the graph represents the tension level of the top 150 employees at Enron, which KeenCorp analyzed using the emails the federal government made public from those individuals after Enron went bankrupt (Graph 1). So these were the executives who knew what was going on. On the graph, up is good, while down is bad, reflecting an unspoken concern or higher tension in communications.

**Graph 1**

KeenCorp’s Identification of the Change of Mindset at Enron

- **LJM deal approved**
  - 6.28.1999

- **Enron bankruptcy**
  - 12.2.2001

- **Employees react to LJM deal**

The most important thing to note here is that people do not have to be writing about what makes them tense in order for the software to pick up the changes. The software is not evaluating content. If you see that hypothetical fight, you’re going to be tense for a while, and it will change your demeanor. Everything you write, even if you are not writing about that fight, will reflect that tension.

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Over the two days after the deal was approved, the tension level of the top 150 employees spiked dramatically (a downward movement in the diagram)—statistically, this was like a Black Swan event. The KeenCorp Index was almost as low on June 30, 1999, as it was on the day of the bankruptcy in 2001. This indicates that the top 150 people in the company thought it was the stupidest decision and that it was an existential type of decision. But here’s the interesting thing: None of them raised their hands. No one challenged the deal.

If Enron’s board of directors had seen this graph on July 1, they would have stopped, called time-out, brought in top management and asked what they were thinking. If the board had seen this data and talked to management, they would have unwound this deal. But they had no signal that told them people were really concerned. So the board approved it and went about their business.

When I first saw the data displayed this way, my heart sank. The board of directors were all serious, smart people who wanted good things for the company, and if they had seen this, they would have undone this deal and history would have been different. You can see after that big dip in 1999, the index never returned to its highest level. This transaction caused permanent damage to the culture and the psyche of the organization.

Here’s the interesting thing: If the board had seen this data, and if they had undone the deal, you might have seen the opposite thing happen. The board would have sent a strong message to the employees that deals like this, which are characterized as “misleading,” would not be approved or tolerated. The culture would have been different.

Here’s an interesting postscript: A former CHRO from Enron contacted us recently when she saw this slide. At the time, her team was doing traditional surveys that were saying everything was great. So they didn’t pick up this huge dip in 1999 or the decline in 2000. She said they did start getting more complaints in 2000 and 2001 but dismissed them as opinion because all the survey data was positive.

Obviously, the corporate landscape has changed considerably since you were at Enron, particularly when it comes to things like technology, automation and even things like social media. What advice do you have for executives and boards today given these shifts?

Fastow: Be very, very scared. That’s my advice. Technology, and social media in particular, highlight board decisions and make it even more important to ask the question of whether, in addition to following the rules, we are doing the right thing.

There’s a big difference between ticking the boxes and asking the penetrating questions that make your company and its culture better.

Boards are confronted every day with a human nature problem. Management doesn’t always want to tell the board what they are really thinking. People don’t like to deliver bad news, especially if it might reflect poorly on them.

And on the other side, I understand why directors might sometimes be reluctant to ask that next question. They often have limited information, and they don’t want to be perceived as being adverse to management. But now there is more objective data available to give them reasons to feel comfortable to ask that next question.

Surveys are inherently flawed. The data is incomplete, it is biased, and it is usually dated. KeenCorp cracks the code on corporate culture. It takes something that was heretofore not measurable and makes it measureable—objectively, completely and in real time. It’s the technology that will replace employee surveys because, like the Enron CHRO example, opinion is easily dismissed, but data is not.

What are some of the things you’ve learned speaking to executives and directors now, long after the fact?

Fastow: I do not aspire to be a public figure. I hope that my talks, which are based on my failings, can lend some insight so that experts can figure out better ways of doing things.

Since I’ve been out of prison, I’ve been fortunate enough to have conversations with many directors. It seems you can generally lump them into two categories: directors who don’t really want to know what’s going on because they are afraid it might require them to do something, or that it will increase their liability if they don’t do something; and directors who really want to make their companies more valuable and do their jobs.

Every director has to take a hard look in the mirror and ask which one they want to be. If it’s the former, in today’s world, they need to step aside and make room for directors who want to proactively make their companies more successful.
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Engaging sophisticated shareholders requires new strategies

By Dan Marcec and Alex Knowlton
Since the passing of Dodd-Frank, investors have been empowered to push for more transparency from their portfolio companies. In light of regulations regarding executive compensation—in particular, the annual Say on Pay vote—the shareholder voice has increased in volume over the past few years, and companies have listened.

As investors demand a more direct and transparent view into companies’ corporate governance and executive pay practices, the transformation of the annual proxy statement (DEF 14A) is perhaps the most visible manifestation. Historically a compliance document, the proxy statement drastically changed with the introduction of the Compensation Discussion and Analysis (CD&A) section in 2006. The CD&A details the ins and outs of the executive compensation program, which is a primary focus for many investors, particularly as it informs their Say on Pay votes. However, due to sheer volume—and the time it takes to process and understand it all—the proxy statement may be overwhelming for shareholders trying to find specific information.

Complying with SEC disclosure rules while also keeping shareholders engaged presents a challenge to many companies. As a result, the section of the proxy statement dedicated to executive compensation continues to increase in length. As companies attempt to explain how mandatory disclosures of executive compensation align with corporate strategy and philosophy, the average word count of the CD&A section of Equilar 100 proxy statements grew to 9,490 words in 2017. The average increased every year between 2013 and 2017, up a total of 3.7% in that time frame.

“Compensation is often a complex, multi-layered topic, requiring detailed explanation. That said, creating a new CD&A or proxy by marking up the prior year’s document often results in additional information being inserted without any information being removed,” said Ron Schneider, Director of Corporate Governance Services for Donnelley Financial Solutions, who provided commentary for a recent Equilar report, *Innovations in Proxy Design: The Compensation Discussion & Analysis*.

“To break this ‘layering on’ cycle, consider starting with a blank sheet of paper and focusing on the important aspects of your company’s story while ensuring that all disclosure requirements are met,” Schneider added.

Despite growth on average, word count for the longest CD&A in this study actually decreased in each year since 2015, down from 18,706 to 17,911 words in 2017 (belonging to Prudential Financial in the most recent year). Berkshire Hathaway annually turned in the minimum word count for its CD&A, falling below 500 words in 2017 for the first time during the study period. Notably, the second-shortest CD&A in 2017—Amazon’s—totaled 2,623 words.

The information that companies are including in these compensation filings also varies. Nearly half (46.0%) of Equilar 100 companies included some type of graph depicting a pay calculation that differs from what is required in the summary compensation table (SCT) of the proxy, such as realized or realizable pay. Furthermore, 20.0% of companies included a graph that depicted executive pay in relation to company performance (Graph 1).

While the alternative pay graph and company performance pay graph are not insignificant in terms of prevalence—and have trended up slightly over a five-year period—both reached their peak usage in 2015, at 49.0% and 23.5%, respectively. The SEC proposed a rule in 2015 that would require companies to publish a graph showing realized pay vs. total shareholder return in relation to their disclosed peer companies. The proposal was never made into a rule, and the prevalence of such disclosures has declined since, albeit slightly.

The average word count of the CD&A section of Equilar 100 proxy statements grew to 9,490 words in 2017.
requirements. For this reason, even if disclosure requirements were to loosen, most companies would not significantly change their disclosure practices because investor expectations would remain high.”

Over the past five years, the prevalence of Equilar 100 companies disclosing their shareholder engagement practices in the proxy statement has skyrocketed as well. In 2013, just 28.6% of companies included details about how they engaged investors throughout the year. In addition, fewer than one in five explained what changes they made after engaging shareholders. By 2017, those figures had risen to 79.0% and 47.0%, respectively (Graph 2).

**Graph 2**
Equilar 100 Shareholder Engagement Disclosures

Notably, the number of companies disclosing responses to Say on Pay—the shareholder vote on executive compensation—has remained somewhat steady. This is likely due to the fact that very few companies fail Say on Pay, so most don’t feel the need to address the results. However, nearly one-quarter of companies is much higher than the prevalence of failures. Oftentimes, companies will address the results if they are less than optimal (i.e., below 90%), or if they alter their compensation plan in any way, shape or form, in order to maintain transparency.

It’s also worth noting that if a company doesn’t disclose engagement, that doesn’t mean they didn’t interact with their shareholders. The increase in these types of disclosures points more to the fact that issuers are “taking credit” for the work they’ve put in to speak to their constituents, said Schneider.

“It’s to a company’s advantage to re-envision how they are engaging on governance issues as opposed to simply layering it on to existing investor relations,” said Kern McPherson, Senior Director of North American Research for Glass Lewis, a proxy advisory firm. “Start with a blank slate, make sure that you make it a dialogue, and jump straight to the issues that matter. Being transparent about recognizing areas of concern and whether or not you’re taking action is important.”

As the proxy statement becomes longer, more complex and contains increasing amounts of pertinent information, streamlined navigational features are paramount. Companies may attempt to cut through the density with a proxy summary—a short overview at the top of the DEF 14A containing information commonly sought by shareholders. While including a summary sounds obvious, 74.0% of Equilar 100 companies included a proxy summary in their most recent annual statements, and that figure represented a 21.4 percentage point increase compared to 2013. Many companies already had been including a similar executive summary just for their CD&As—increasing 3.7 percentage points from 76.3% of companies in 2013 to 80.0% in 2017. Finally, as a way to promote easier navigation specifically within the CD&A, a separate table of contents for that section has increased in prevalence, more than doubling from 10.3% of companies in 2013 to 24.0% of companies in 2017 (Graph 3).

**Graph 3**
Equilar 100 Proxy Navigational Tools

The continued evolution of the proxy statement provides a window into the relationships among investors, issuers and their boards. The design features highlighted in this report are only a handful of elements signifying the proxy statement’s shift from a corporate compliance to shareholder communications document. They also represent some of the most notable and common ways companies are looking to peers for best practices in proxy design and shareholder engagement. [5]
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It takes a clear process to get CEO succession right

By TK Kerstetter

BOARDROOM RESOURCES LLC

It’s not a stretch to say that CEO succession is one of the most critical tasks of the board. Ask any investor, analyst, regulator or seasoned board member, and each will confirm that one of the most important and foundational duties of the board is to select and retain a highly competent CEO.

While research conducted by Corporate Board Member, PwC and The Conference Board affirms that board members are assigning great importance to CEO succession, the studies also reveal a significant lack of confidence among directors who often feel that they have not adequately addressed succession or met the expectations of their various constituencies.

Now just to be clear, there are both planned and unplanned CEO succession scenarios, and boards must be prepared for both. Most of us think of retirement as the primary reason that CEO succession is required, but CEO terminations could fall into both planned and unplanned buckets. Determining that a change is necessary due to retirement or performance can be discussed in advance, yet there are also circumstances where health or poor personal decisions outside the office might mandate an immediate replacement.
Why CEO Succession Continues to Be a Difficult Topic

Year after year, why do so many directors continue to express a lack of confidence around CEO succession? While I’m not 100% sure, I do have some theories, which have been supported in many of my one-on-one conversations with directors.

First, the air around a good CEO is often one of immortality—no one accepts a CEO position thinking that they are going to fail at their assignment or get hit by a bus. This leads to the second reason: CEO succession is simply an awkward topic for boards to bring up with the CEO, especially if you’ve just brought on a new leader.

Most directors I’ve talked to say it’s not a typical meeting agenda item or topic at the planning retreat. Many feel that they’ll handle it when the time comes, particularly when the CEO is getting close to retirement. That’s a nice idea, but most of us recognize that it doesn’t always work that way.

As a stock owner myself, I place great value on a board’s CEO succession preparedness, since an unexpected CEO termination can be very hard on a company and its operations.

One company that has always been the poster child for CEO succession planning is the global fast-food giant McDonald’s. In 2004, the company was faced with the sudden death of then-CEO Jim Cantalupo and immediately appointed insider and COO Charlie Bell as chief executive. Just 16 days after that appointment, Bell was diagnosed with cancer and within months was replaced by insider Jim Skinner. All this happened without a hitch, and the McDonalds’s board demonstrated how careful succession planning can transform an otherwise disruptive event into a seamless transition of leadership.

Elements of Sound Succession Planning

As I was doing my research for this article, I took the opportunity to talk with two sitting board members who served as chair of their board’s CEO search committees. One director chairs the nominating/governance committee of a large-cap company, while the other provided a mid-cap perspective. Both described CEO succession planning as highly process-oriented, requiring excellent project management skills.

Both directors also described to me the same foundational exercise, which entails looking at both the present and the future to create lists of performance and leadership priorities. This exercise has two components:

1. A must-have list where you are not willing to compromise, and
2. A nice-to-have list where some skill set search committee negotiation is possible.

This foundational exercise allows board committees to visually map and evaluate whether an internal senior officer who has been groomed for the CEO position is still the right candidate—or whether an outside search is necessary to meet the company’s must-have performance and leadership skill sets. Small companies sometimes lack the management depth to select from the inside management team versus large companies, and both chairs said the entire process (including the executive search firm process) took six to seven months. When I asked the directors about other critical elements of a successful CEO succession process, they both emphasized communication. Communication among the committee, search firm, full board, existing management and even the candidates is often the difference between a smooth and rocky succession process.

The Current CEO’s Role in an Effective Succession Process

When was the last time your board discussed CEO succession? It’s an uncomfortable and yet critical task for a company and its governing board. In my opinion, this is where a self-confident CEO can step in, provide leadership on this topic, and ensure the board considers both an emergency succession plan and a long-term plan.

Now, I’m hardly proposing that the CEO take ownership of selecting the next chief executive, as that is the board’s job. However, if a CEO has the company’s best interest at heart, he or she can let the board know early on that it needs to have a viable succession plan and that the CEO is ready to help however he or she can. I can assure that the emphasis and the open dialogue will be much appreciated by the board. Boards that plan for succession will not only find themselves able to make quick and sound succession decisions, but they’ll likely also find that they spend fewer dollars on CEO compensation packages when they aren’t required to conduct a harried search for a new leader.

My message to CEOs: Help the board feel less awkward and do what is good for the company and shareholders. Directors and boards: Follow what Nike has told us for years—Just do it!
How companies can better communicate with their “passive” investors

By Ron Schneider
DONNELLEY FINANCIAL SOLUTIONS

In evaluating which companies to own, actively managed investors typically focus on company strategy, competitive advantage, quality of management, and board skills and oversight. Once they own companies, many investors exercise varying levels of ongoing stewardship over these portfolio companies, monitoring their performance and progress in executing the strategies the investors initially bought into. Thoughtful proxy voting is a major component of effective stewardship, and major inputs include close reading of company proxy statements, proxy advisor analyses and direct engagement with portfolio companies.

Passive Investors Practice Active Oversight
Over the past few years, there has been a marked flow of investor funds from active to passive management styles. The “big three” of Vanguard, BlackRock and State Street Global Advisors collectively own 20% or more of many U.S. companies. While “passive” may describe their portfolio selection approach, they are far from passive with respect to stewardship over their portfolio companies. In fact, because they cannot simply sell companies they are dissatisfied with, and thus consider themselves to be permanent investors, they most acutely feel the need to exercise active stewardship over their portfolio companies in an effort to boost returns.

The Passive Investor Communications Challenge
Because passive investors do not have equity analysts and portfolio managers analyzing individual companies, they often are not receiving or digesting your ongoing IR communications. In fact, these investors have been described as “IR-immune.” Compounding the challenge, their stewardship teams, which exercise responsibility for company engagement and proxy voting, are often resource-constrained, with a handful of people responsible for overseeing their broad U.S. as well as global portfolios.

Thoughtful voting requires some knowledge of company-specific context, which issuers typically provide through their IR communications, the annual report/10-K, investor days and quarterly earnings calls—all of which are supplemented by independent research reports. Unfortunately, resource-constrained passive investors report

Download the Donnelley Financial Solutions Guide to Effective Proxies to access additional examples of effective shareholder communication at http://info.dfsco.com/Proxy_Guide.
they often lack the time to perform such broad-ranging research, relying principally on a company’s proxy statement, proxy advisor reports and their own analyses in arriving at voting decisions. These investors say, “If you want us to consider something specific when voting, put it in the proxy.” This same sentiment also applies to many actively managed firms at which engagement and proxy voting are handled by distinct groups often working independently of their investment management teams.

For these reasons, motivated by a desire to meet the informational needs and resource constraints of proxy voting teams at passive and active managers alike, an increasing number of companies are providing additional, non-SEC-required, voluntary information in their proxies. This can include:

- An overview of the company, its business, strategies and key market conditions
- A discussion of the company’s climate change risk as part of overall board oversight of risk
- A description of the executive compensation program and how it is aligned with and supports company business strategy
- An explanation of how the board contains the right mix of experience, skills and qualifications to oversee the company in the present, as well as in the foreseeable future

Companies Are Stepping up to the Plate with Proxy Communications

Responding to an intensifying focus on company boards and executive compensation over the past couple of years, we have seen more companies respond to investor scrutiny by providing greater clarity into these two major issues. For each of these issues, we present an example from 2018 proxy filings that demonstrates how companies can and are addressing these contextual informational needs.

On page 28 of its proxy statement, Public Service Enterprise Group (PSEG) outlines board diversity, including not just the data points about gender, ethnicity, age, tenure, background and qualifications, but also why this mix of skills meets the company’s unique current and foreseeable needs (Figure 1).

Second, Edwards Lifesciences Corporation details CEO compensation and how it is evolving to align with what may be an evolving corporate strategy (Figure 2).

What’s in It for Companies?
Many companies are learning how a relatively small group of large, long-term
Figure 2
Edwards Lifesciences Corporation Chart Detailing CEO Compensation

EDWARDS’ CORPORATE STRATEGY INFORMS PAY DESIGN

Financial Drivers
- Revenue
- Net Income
- Cash Flow

Focus
- Singular focus on the large unmet needs of structural heart and critically ill patients

Innovation
- Pioneer breakthrough technologies with superior evidence

Leadership
- Lead groundbreaking standards of care through trusted relationships

Market Drivers
- Total Share Price
- Share Performance

Equity Vehicles
- Stock Options
- Restricted Stock Units ("RSUs")
- Performance-Based RSUs ("PBRSUs")

Our Corporate Strategy is translated into Strategic Imperatives

Financial Results
- Evaluated relative to target goals
- Results weighted 50% Revenue, 30% Net Income, 20% Free Cash Flow

2017 Key Operating Drivers (KODs) (Measure execution against Strategic Imperatives)
- Lead and accelerate the adoption of transcatheter therapy for aortic valve patients
- Lead in emerging structural heart therapies
- Extend leadership for heart valve and critical care patients
- Business excellence

Performance Objectives
- Assessed against individual objectives focused on financial measures and operational goals within a named executive officer’s area of responsibility

Annual Cash Incentive Compensation
Determined by multiplying financial measure achievement by KOD achievement by achievement of individual Performance Objectives

Long-Term Equity Compensation
- 55% Options
- 20% RSUs
- 25% PBRSUs

PASSIVE ENGAGEMENT planning for proxy success

mainstream investors—often employing primarily passive investment strategies—can make or break a director election. Say on Pay vote and other critical proposals requiring shareholder approval. By explaining “why” in addition to “what” you do, companies may foster greater understanding and even support for non-standard practices. Addressing the informational needs of investors, and thereby making their jobs easier, public companies can mitigate the impact of negative proxy advisor recommendations and fare better in the face of activist challenges, providing you with more time to focus on running the enterprise as effectively as possible.  

Boardroom Accountability Project 2.0: Engaging Diversity Disclosure

The New York City Comptroller’s Office, which oversees the New York City Pension Funds, has been particularly active in studying and prodding companies on board diversity and director qualifications. Starting with its 2014 push for proxy access, the Comptroller’s Office has publicized its “Boardroom Accountability Project 2.0,” which challenges companies to demonstrate sufficient board diversity (gender being but one such measure). Here, the implicit threat is that “Boardroom Accountability Project 3.0” could include using proxy access to place new and diverse candidates on boards. The following is how the Comptroller’s Office describes this initiative:

“Launched in early September 2017, Comptroller Stringer and the NYC Pension Funds escalated their push for corporate board diversity, independence and climate expertise with the Boardroom Accountability Project 2.0. The trailblazing “Boardroom Accountability Project” was launched in 2014 to give investors a real voice in who sits on corporate boards. This next phase of the campaign will ratchet up the pressure on some of the biggest companies in the world to make their boards more diverse, independent and climate-competent, so that they are in a position to deliver better long-term returns for investors.”
Would you spend 10 minutes a week
to be a more effective board member?

Cindy Fornelli
Executive Director,
Center for Audit Quality

Troy Paredes
Former Commissioner,
Securities and Exchange Commission

Priya Cherian Huskins
Board Member,
Realty Income Corporation

Paula Loop
Leader, PwC’s Governance Insights Center

William Chandler
Former Chancellor,
Delaware Court of Chancery

Ben Heineman, Jr.
Former SVP & General Counsel,
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Why Sponsorship Matters in the Push for Board Diversity

A Q&A with Catalyst Women On Board™

Women comprise a majority of the U.S. population and nearly half of the U.S. workforce. Yet women are in top corporate leadership roles, including on boards of directors, far less than their overall representation in society. However, there have been meaningful signs of progress in the past several years, and organizations like Catalyst Women On Board™ are leading the way.

Catalyst has been around for more than 50 years. What is exciting about the progress we’ve seen in recent years in adding women to boards? What are some continued impediments to that progress?

Catalyst Women On Board: We see some bright spots, and women are making some inroads. Catalyst, as part of the Alliance for Board Diversity (ABD), participated in a study conducted by Deloitte that found that Fortune 100 companies are outperforming Fortune 500 boards in terms of representation of women and minority directors—35.9% of women and minorities held Fortune 100 board seats, compared with 30.8% in the rest of the Fortune 500.

Other good news reported by Spencer Stuart’s U.S. Board Index shows 36% of newly appointed S&P 500 directors in the past year were women, the highest percentage ever tracked in this report, and just over half of incoming directors on S&P 500 boards are women and/or minorities. Furthermore, boards with zero women have been declining. Just a little over 10 years ago, 9% of S&P 500 boards had zero women directors. In 2017, it was about 1%. When you broaden the pool to include the Russell 3000, nearly 25% of companies (738) had zero women board directors in 2016, but that figure dwindled to just over 600 by the end of 2017, according to Equilar data.

While there have been some gains, they have been modest and certainly not representative of the broad demographic changes we have seen in the United States in the same period of time. For example, women of color are vastly underrepresented on S&P 500 and Fortune 500 boards. The ABD/Deloitte report found that women of color held only 3.8% of Fortune 500 board seats.

Why do you have for women in terms of building their networks, especially if they are early- or mid-career and just starting to think about board service?

Catalyst Women On Board: For early- to mid-career women considering board service in their future, building their networks by seeking out sponsors is of key importance. For women of color in particular, mentorship and sponsorship is essential to advancement and building board readiness skills. Catalyst research demonstrates there are two key strategies that exist for women to advance their careers: making accomplishments known and gaining access to powerful others (sponsors). Clearly communicating achievements and aspirations to a manager is critical and may also help cultivate sponsorship from senior leaders with significant organizational influence. Having someone in your network to advocate on your behalf behind closed doors and identify you for “hot jobs” or high-visibility, mission-critical roles with P&L responsibility and international exposure is paramount for building the skills and experience needed for serving on boards.

Why is sponsorship a critical tenet of the Catalyst Women On Board initiative? What are the qualifications and responsibilities of an ideal sponsor?

Catalyst Women On Board: Catalyst research and programs demonstrate that sponsorship works. Sponsorship is the active support by someone appropriately placed in an organization who has significant influence on decision-making processes and advocates for, protects and fights for the career advancement of an individual.

The Catalyst Women On Board initiative demonstrates the impact of sponsorship by pairing a CEO, board chair or experienced corporate director with a senior executive woman who aspires to board service for a two-year partnership. The mentors/sponsors provide valuable advice and counsel and, critically, introduce the women candidates to their network of sitting directors and board search professionals. An ideal sponsor acts as a differentiator and advocate for board diversity by sharing their personal knowledge and experience, as well as tapping into their personal network of influencers/leaders to advocate for their mentee’s candidacy for boards. Catalyst Women On Board makes sponsorship a reality. And sponsorship is a deliberate way to make change happen in the boardroom.

Please visit catalystwomenonboard.org for more information on the initiative.
Catalyst Women On Board™ accelerates change in the boardroom using a simple and powerful tool: SPONSORSHIP

MEET YOUR NEXT BOARD DIRECTOR

LINDA L. ADDISON
Immediate Past Managing Partner, United States
Norton Rose Fulbright

CLAIRE BABINEAUX-FONTENOT
Former Executive Vice President and Treasurer
Walmart Stores, Inc.

VICTORIA L. DOLAN
Chief Financial Officer
Revlon

MARIE T. GALLAGHER
Senior Vice President and Controller
PepsiCo, Inc.

KAREN M. GOLZ
Former Global Vice Chair
Ernst & Young
Global Limited

STEPHANIE C. HILL
Senior Vice President of Corporate Strategy & Business Development
Lockheed Martin Corporation

DR. ILHAM KADRI
President & CEO
Diversey

CHRISTINE KATZIFF
Corporate General Auditor
Bank of America

LESLE StARR KEATING
Executive Vice President, Supply Chain Strategy and Transformation
Advance Auto Parts

JACKI KELLEY
Chief Operating Officer
Bloomberg Media Group

GALE V. KING
Executive Vice President and Chief Administrative Officer
Nationwide Insurance Company

LORRAINE M. MARTIN
Executive Vice President and Deputy, Rotary and Mission Systems
Lockheed Martin Corporation

LORI MITCHELL-KELLER
Global General Manager
Consumer Industries
SAP

DIANE S. REYES
Group General Manager and Global Head of Liquidity and Cash Management
HSBC

SUSAN STALNECKER
Retired Vice President, Finance and Treasury
DuPont

ANNE TAYLOR
Vice Chairman and Managing Partner
Deloitte LLP

MELINDA M. WHITE
Chief Executive Officer
Transit Wireless

MENTORS/SPONSORS

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Chairman and CEO
UPS

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Chairman
Bloomberg LP

DOMINIC BARTON
Global Managing Partner
McKinsey & Company

MARILYN A. HEWSON
Chairman, President and CEO
Lockheed Martin Corporation

URSULA BURNS
Chairman
Xerox Corporation

MICHEL LANDEL
CEO Emeritus
Sodexo

DOUGLAS R. CONANT
Chairman
Kellogg Executive Leadership Institute

IAN COOK
Chairman, President and CEO
Colgate-Palmolive Company

MARC LAUTENBACH
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Corporate Director
VISA, The Chemours Company, MyoKardia

CATHERINE ENGELBERT
CEO
Deloitte

MAGGIE WILDEROTTER
Retired Chairman and CEO
Frontier Communications

To learn more, contact:
Meesha Rosa, mrosa@catalyst.org
Catalyst Women On Board™ accelerates change in the boardroom using a simple and powerful tool: SPONSORSHIP

Special thanks to The Rockefeller Foundation for its generous financial support of the Catalyst Women On Board™ US initiative, our Corporate Sponsors, and to our Program Partner, 30% Club US.
Be Prepared for Gender Pay Gap Questions

The new CEO pay ratio disclosure was supposed to be the highlight of the 2018 proxy season. Based on the tepid initial reaction, it is not all it was made out to be by its proponents. While the intent may have been to shame CEOs by drawing attention to their pay relative to the rank and file, the reality is CEO pay levels have been highly visible for a long time. What was really new in the disclosure requirement was disclosing the pay of the median employee, and now that the information is public, there is a recognition that it is not meaningful data. Compensation of the median employee varies across companies for many reasons (e.g., industry, location, outsourcing, etc.). Even within the same industry at companies with similar workforces, the methodology used to determine the median employee and to calculate the pay ratio can vary. At this point, critics of the pay ratio can feel somewhat vindicated, as nobody really knows how to use the CEO pay ratio disclosure.

However, if we look over to the U.K., we can see the first gender pay ratios being disclosed, and the findings give greater cause for concern. While it is natural to expect CEOs to be paid considerably more than rank-and-file workers, there are not as many obvious reasons for women to systematically be paid less than men.
Data Trust Is Today’s Headline Board Risk

We don’t have to look any further than Capitol Hill and the stock market to see the impact that data trust has had on today’s top technology companies. Board members have all become accustomed over the past few years to reducing the somewhat inevitable impact of data breaches and have sought to manage that risk with insurance. Audit committees have generally taken on the burden of conducting regular security reviews, and the appointment of a Chief Information Security Officer (CISO) has become commonplace.

Data privacy is also top-of-mind for any multi-national company that has business or employees in the EU. Many of us have hired the top audit firms to assess risk for General Data Protection Regulation (GDPR) compliance with the upcoming May 25 deadline. But given the recent hearings for Facebook and the potential damage done through data usage, how should we now tackle the impact of data trust?

Let’s first define it. Data trust is the combination of three things: security, privacy and accountability. Security and privacy are being tackled. Accountability, including the appropriate use of data, is the added element that is new to the boardroom. Given the recent Facebook discussions, the U.S. may in fact become the leading regulator about the appropriate use of data. It’s important for forward-leaning boards to start preparation and discussion today on accountability.

Data trust can and should be guaranteed through people, process, and, perhaps most importantly, technology. The software industry has long used data encryption, firewalls and other approaches to secure data going into and out of the company. The next technology wave needs to be focused on the policies that companies can use to control the what, when, who and how data is used. But first the policies need to be in place. And policy oversight is or should be a board responsibility.

At your next board meeting, ask the questions. What data do we own? Do we understand what part of that data is regulated or sensitive? Have we done an audit of where it is? Can we control appropriate use—where, when and how it is used? And most importantly, can we prove our accountability to that data, our company and its brand reputation through audit-ready reports?

It’s now our job.
AMY BILBIJA  
Managing Director  
STRATEGIC GOVERNANCE ADVISORS  
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Communicating the CEO Pay Ratio: 2018 Approaches and 2019 Considerations

Pay ratio disclosure is here. In this inaugural year, most companies are finding it is not as bad as many feared, and life will go on relatively uninterrupted. Some have even posited it to be one of the most useless points of disclosure mandated in quite some time. That said, a few points are worthy of note.

First, “bad boy” lists are in the works, propelled predominately by geographically-driven compilations and sector or industry-based. We would also expect socially responsible investors to continue heightening visibility of perceived pay inequity. Companies finding themselves on these lists should be attentive to any traction they may garner in the press or otherwise, and ensure there is a well-defined internal process, as well as coordinated messaging, for fielding inquiries from each constituency.

Second, while the employee base was the primary area of concern across most industries, there is no immediate evidence that employee morale has systemically suffered. Nonetheless, it is critical for HR professionals to keep current with internal and peer company data, have their ear to the ground in case any negative rumblings gain traction, and be prepared to address concerns succinctly and expeditiously. Going forward, also be prepared to address any significant deviations in the ratios and/or median employee compensation amounts.

Third, looking forward to 2019, what if anything should companies be thinking about? Year-over-year comparability is top-of-mind for most. The disclosure methodology is not uniform across companies, and facts and circumstances invariably change, thereby impacting companies’ and peer
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In each issue of C-Suite magazine, we highlight stories of public company board members who have started their first directorship within the past two years, providing perspectives and impressions of their new roles.

Getting on Board

Joining a board as a first-time director requires preparation and learning on the job.

This article is brought to you through a collaboration between Georgeson, KPMG, Semler Brossy and the Equilar Diversity Network (EDN). Learn more at www.equilar.com/diversity.
Know How to Weigh in From Day One

What was your path to joining the Nasdaq board of directors, and how did you know it was the right fit?

Melissa Arnoldi: I’d wanted to serve on a board to diversify my knowledge, gain expertise outside of technology and ultimately understand how boards work.

Initially my CEO introduced me to a director at Nasdaq, and I was excited for the opportunity to work with high-caliber, experienced directors. Adena [Friedman, Nasdaq’s CEO] and others are making sure that the board is collaborative, open and trustworthy, and has a different set of skills. Given that my background is in technology—and at the end of the day, Nasdaq is a fintech company—I felt I could add value quickly and apply to that industry.

Ultimately, I decided it was a company that I felt strongly I could get behind, and there is a benefit to sitting side by side with a female CEO in action. It’s exciting to see her excel in the way she manages the boardroom and her team.

Have there been any surprises in terms of what you expected from the responsibilities of a public company director?

Arnoldi: Of course, directorship comes with a high degree of responsibility, and you need to be thoughtful and diligent about aligning yourself with a company and becoming passionate about it. That may not be a surprise, but it takes a lot of preparation. There is lot of pre-work to study and understand that business, and if you’re going to advise against strategy or governance, you need to have done your homework. You need to know how to weigh in on that from day one, which is an immediate reminder of the fiduciary responsibility you have.

One pleasant surprise is how supportive this board is of one another. There had not been many new board members before me in the past few years, and one more has joined since. They have a framework that pairs new board members with existing directors.

What advice would you impart to other executives seeking their first board seats?

Arnoldi: I met with a couple of board recruiting companies, and while that is an important stage in the process, I found that they were interested in recruiting women to join boards ... if they have board experience already. So I found personally that relationships really helped me, and recruiting goes hand in hand with networking.

My other advice is not to just take the first board offer that comes your way. Be thoughtful about it. It must align with your interest, and you have to be confident that you can contribute to the discussion, even if it’s an area in which you don’t have history.

Finally, when you get on the board, find a mentor. Find someone you can talk to offline. You are all coming from different places potentially, and you have to build those relationships.

Melissa Arnoldi, President, Technology & Operations, AT&T Communications, a wholly owned subsidiary of AT&T Inc., is responsible for technology development, network deployment and operations, and AT&T’s transition to a software-defined and future 5G network. Arnoldi currently serves as a board member of Nasdaq and Girl Scouts of Northeast Texas.
Be Prepared to Step out of the Operator Role

How did you come across the opportunity to serve on the United Rentals board, and what led you to decide it was the right fit?

Shiv Singh: It started quite simply with me getting an email from a recruiter. I’ve advised private companies in the past, but never a public board, so I said yes, I’d love to learn more.

The story of my interview is funny. I had to be in Singapore the day before. I flew home to San Francisco for three hours, went to the airport and then straight to New York. When I met with the chairman, she asked whether I had any questions. Perhaps it was because I was horribly jet-lagged and completely exhausted, but to my surprise, I asked why they were interested in me. I was at least 10 years younger than the youngest board member, I didn’t have experience in construction or rentals, and my career is in tech and marketing on a global scale, not as much in domestic markets where they operate.

She said those are the exact reasons why they wanted to talk to me. And I was really impressed with the way they thought, the culture and the values. They wanted me because I can connect with an employee workforce in a way that’s different, considering my perspective on youth, marketing and innovation. The other thing that stood out is that I wasn’t a “diversity candidate.” The board was already very diverse in terms of women and minorities. They saw my contribution as more of diversity of opinion than anything else.

Have there been any surprises in terms of what you expected from the responsibilities of a public company director?

Singh: Understanding the relationship and dynamics between management and the board has a lot more nuance than on private boards. Also, in my day job I’m an operator, and you have to step out of that—there is the shareholder responsibility from end to end that we have to the United Rentals investors. For a new board member, there’s very little that prepares you enough for it.

Also, I don’t have a deep finance or legal background, so that’s an ongoing education and journey. Finally, it’s been important for me to wrap my head quickly around the history of the company and decisions made by the board over the previous three- or four-year period at least. You don’t want to be going over old subjects, as you’re expected to add value from day one.

What advice would you impart to other executives seeking their first board seats?

Singh: I would say the most important thing is to have a high degree of self-awareness on what you know and what you don’t know. Always consciously think about how you can be adding value to the shareholders in your service to the board and the company with a long view. It might seem obvious, but it really all comes down to that.

Mr. Singh is a senior vice president in the innovation and strategic partnerships group at Visa. In this role, he is also focused on guiding major Visa clients around the future of payments and their own go-to-market strategies. Prior to this, Mr. Singh served in various senior brand and marketing roles at Visa. Prior to joining Visa, Mr. Singh was the Global Head of Digital at PepsiCo Beverages, responsible for all digital engagement in paid, owned and social media across consumer marketing, shopper marketing and food service marketing. (Source: United Rentals, Inc. DEF 14A on Mar 26, 2018)

Equilar is pleased to congratulate Katherine August-deWilde as the recipient of the 2018 Excellence in Leadership Award, presented by the Stanford Graduate School of Business Alumni Association.

Read more about the award at tiny.cc/congrats-katherine
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An interview with Anne Sheehan, former Director of Corporate Governance, CalSTRS

Ms. Sheehan recently retired from her role as the Director of Corporate Governance for the California State Teachers’ Retirement System (CalSTRS), the largest teacher’s pension fund in the USA, where she was responsible for overseeing all corporate governance activities for the fund including company engagements, $4 billion in active management, and proxy voting. Ms. Sheehan has extensive senior leadership and strategic experience in complex organizations and has served on numerous boards. Her diverse career includes experience in human resource management, healthcare, pension and investment management, energy and resource management, and environmental conservation.

Ms. Sheehan served as the Chair of the Council of Institutional Investors for 2012 and 2013 as well as having served two terms on the NASDAQ Listing Council. Ms. Sheehan is currently Chair of the SEC’s Investor Advisory Committee, is a Member of the Advisory Board of the Weinberg Center for Corporate Governance at the University of Delaware, and is a Member of the Board of Directors of the 30% Coalition. Ms. Sheehan was named one of the 100 most influential people on corporate governance by Directorship magazine for the past eight years.

C-Suite had the opportunity to speak with Anne Sheehan, the now-former Director of Corporate Governance for the California State Teachers Retirement System (CalSTRS), about the changes she observed (and led) during her tenure. In addition, Sheehan shared her thoughts on what we can expect to see as the relationships between boards of directors and their shareholders continue to evolve.

C-Suite: How long have you been in corporate governance and, specifically, in your position at CalSTRS? In that time, what were the biggest changes you saw to the relationships between shareholders and their portfolio companies?

Anne Sheehan: I was at CalSTRS for nearly 10 years, and I was the first person to have the official role as Director of Corporate Governance. CalSTRS had engaged on governance issues in the past, but the board wanted to elevate the position to make a statement that corporate governance was and is a high priority for the fund.

In that time, the whole landscape changed tremendously. Initially, pension funds and socially responsible investing (SRI) funds were much more focused on environmental, social and governance (ESG) issues, but traditional asset managers have come to appreciate the importance of corporate governance in recent years. As an example, look at what State Street and BlackRock have done with guidelines on diversity. The entire governance movement has shifted dramatically to the mainstream.

Ultimately, the reason we care about corporate governance is risk management. CalSTRS has $220 billion in assets, over half of which is in public equities and two-thirds of which is indexed. So we own a wide swath of the market. And as long as there are teachers in California, we are going to be invested in the market. We can’t sell those companies if we are displeased, so we need to be invested in how they govern.

What challenges do pension funds like CalSTRS face in the current market?

Sheehan: The most important thing we can do is get a good return on investment to pay pensions for teachers in California. We are long-term investors, which works to our advantage because this is a marathon, not a sprint. Yes, we pay attention to the day-to-day vagaries of the market, but it’s a point in time. When you have a portfolio as large as ours and liabilities going out 30 to 40 years, you think about it for the long term.

Engagement and active ownership are in our DNA. The phrase “passive investors, active owners” has permeated our philosophy here going back to the 1970s.

The board composition, refreshment and diversity conversation has become more prevalent in the past few years. What was the catalyst for this issue to come so strongly to the forefront recently?
Sheehan: Director elections are some of the most important votes we make every year for thousands of companies. I depend on those people to make good, wise decisions for shareholders, and not just for shareholders inside the boardroom but outside as well. We began looking at this issue about 10 years ago as we realized, frankly, that a lot of the folks inside the boardroom were long-tenured white guys. Women represent half the population, they lead in post-graduate degrees, they’re judges and in Congress, so why are we not tapping into that expertise?

The state treasurer challenged us to engage on the issue of diversity in trying to expand skill sets, background and experience of board members. We’re not doing this for political reasons, but because studies show financial performance is better when you have diversity. It’s not just about having one woman or adding one person from a particular racial or ethnic background. It’s about trying to reach parity and break up the group-think approach. We were an early mover—writing letters, voting against certain directors and providing candidates through the Diverse Directors Datasource (3D). (Disclosure: 3D is a part of the Equilar Diversity Network, a “registry of registries” highlighting board candidates from participating organizations.)

This is another issue that has become mainstream. State Street voted against 400 or 500 directors, and BlackRock and Vanguard have increased their influence here. It’s all about getting the best, most qualified individuals in the boardroom to make decisions on our behalf. California is a very diverse state, and two-thirds of our beneficiaries are women, so this resonates with them and with our asset managers. CalSTRS will continue to push that issue as part of its portfolio.

Related, what has propelled environmental and social issues to become a critical discussion topic among investors of all kinds with respect to the broader public company universe—i.e.,

not just shareholders with special interests and not only for companies in specialized industries? What are the most urgent topics that are not being addressed quickly enough?

Sheehan: Investors want companies to manage potential risks hurting the performance of the company. Our purpose is to pay teachers’ retirement, and we want good, well-managed companies that can address and mitigate risks. For oil and gas companies, for example, we want to know how they are being forward-looking on the impact of climate change and policies changing around use of fossil fuels. If they blow up half the Gulf of Mexico, it’s not good for their returns and it hurts performance.

Even if it’s not material environmental risk, human capital and supply chain logistics can be really damaging to companies. You have an obligation to see where you’re sourcing your product. Especially in the age of social media, reputation can be very harmful to a company. Companies and boards have an obligation to the portfolio to tell shareholders about this.

ESG matters are evolving issues. You may not have an OSHA risk or environmental concern today, but tomorrow it may turn into how you use water. We’ve engaged a number of companies on energy efficiency. These issues are integral to the bottom line of the company.

Much of our engagement has been focused on disclosure and encouraging a move to integrated reporting. These risks can easily turn into financial issues if they are not managed well.

Executive compensation continues to climb, and with the pay ratio disclosure entering the fray this year, the disparity between CEOs and workers will be in the spotlight. What role do investors have in influencing CEO pay levels? Once again, how has that influence changed in recent years, and should investors be satisfied with the voice they have now in the conversation?

Sheehan: Executive compensation is a never-ending discussion shareholders have with boards. We’ve seen progress in ending some of the bad practices, but there is still a long way to go. There’s always the potential for something in a
“If you have a big gap between the CEO and average worker, what kind of message does that send? Frankly, the ratio is more important inside the company than to the shareholders.”

In terms of the number, some point to the historical figure of public companies from the early 2000s. I have to be honest, many of those probably shouldn’t have been public. So when companies go public now, they are much stronger and more sustainable in capital structure and foundation than in the past. It wasn’t good for investors to buy stock in a company and have it crash 12 to 18 months later.

The other thing is that we are in very different financial markets these days. Companies have more access to capital and many more options, many of which mean they don’t have to go to the public markets to raise capital. Plus, we’re seeing many more mergers and acquisitions. Instead of going public, companies are getting bought by one that is public already.

What is one slice of wisdom that you’d leave to other large investors about the state of corporate governance? What about to board members?

Sheehan: For investors, keep doing what you’re doing. It’s important to hold your portfolio companies accountable, because as shareholders we depend on them. Sometimes it can get off track, and we have to remind them of our expectations. As providers of the capital, we need to advise them on issues that matter to us.

For board members, remember that you serve all of the shareholders, those inside and outside the boardroom. You’re not there to serve the CEO or there to serve the other directors. Think about the teacher in south central LA saving for retirement or your grandmother living on her 401(k). Those are the people we represent and who you are ultimately serving.

In terms of the number, some point to the historical figure of public companies from the early 2000s. I have to be honest, many of those probably shouldn’t have been public. So when companies go public now, they are much stronger and more sustainable in capital structure and foundation than in the past. It wasn’t good for investors to buy stock in a company and have it crash 12 to 18 months later.

The other thing is that we are in very different financial markets these days. Companies have more access to capital and many more options, many of which mean they don’t have to go to the public markets to raise capital. Plus, we’re seeing many more mergers and acquisitions. Instead of going public, companies are getting bought by one that is public already.

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If you have a big gap between the CEO and average worker, what kind of message does that send? Frankly, the ratio is more important inside the company than to the shareholders.”

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The following individuals from Equilar, Inc. are connected to Oracle Corporation

Peter Browning
Loud Director, Equilar, Inc.
2013 - 2014

Angela F. Braly
2016 - Present

Dr. Michael J. Boekin
Board Member
Oracle Corporation

Lowe's Companies, Inc.

Exxon Mobil Corporation

Wycheva
2001 - 2008

HP Inc.
2007 - 2010

Peter Browning
Loud Director, Equilar, Inc.

G. Kennedy Thompson
Chief Executive Officer and Director
Oracle Corporation

TriNet Group, Inc.
2013 - Present

Katherine August deWilde
Ray Bingham
Lawrence Joseph Ellison

Oracle Corporation
2002 - 2017

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