The Path to Innovation

Boards face the future by thinking outside the box

Aligning director pay with shareholder value
The top 20 topics for boards to address in 2017
Navigating the equity pay landscape
Hot-button issues for the 2017 proxy season

Interviews with Ira M. Millstein, Author of The Activist Director, and Jeff Sonnenfeld, Professor, Yale School of Management
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**Board Leadership Forum**  

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

**In Search of Value: Shareholders, Activists and the Board**  
**March 16, 2017, Palo Alto, CA**

This collaborative workshop for public company board members and general counsel will explore how activists identify their targets, the role and influence of activist-appointed directors, and how to develop a strong shareholder engagement plan to create allies in an activist situation.

**Compensation Committee Forum**  
**April 19, 2017, New York, NY  |  November 9, 2017, San Francisco, CA**

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

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

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

**Fundamentals for New Public Companies**  
**December 2017, Palo Alto, CA**

Co-hosted by Equilar and Nasdaq, this one-day program is for executives and board members of companies that have gone public in the last 4 years or plan to go public in the next 12 months. Participants will obtain valuable advice to address critical executive compensation, board structure, liability and shareholder engagement issues in the post-IPO world.

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Board Innovation in Uncertain Times

This issue of C-Suite focuses on how boards can innovate by stepping out of their comfort zones to take on the new corporate environment full speed ahead. Our feature story includes data from the annual Equilar report, Executive Compensation and Governance Outlook, which features commentary from Hogan Lovells and Labrador. The article examines how boards are using the proxy statement for voluntary disclosures that communicate sound corporate governance practices and shareholder value creation.

Our featured interviews include Jeff Sonnenfeld, Yale professor and founder and president of The Yale Chief Executive Leadership Institute, who discussed what a Trump presidency will (and won’t) mean for corporate leaders. We also spoke with Ira Millstein, renowned corporate lawyer and founding chair of his namesake Center for Global Markets and Corporate Ownership at Columbia Law School. Millstein authored a new book on the imperative for directors not only to think like activists, but also to recruit directors who are willing to take a more strategic role in the company. The pace of change in Corporate America is faster than it’s ever been, he said, and boards must adapt.

Our regular features and columnists focus on the theme of innovation as well. Our newest feature, “The Changing Face of America’s Boardrooms,” highlights the contributions of new directors serving boards for the first time, and “Ask the Experts” includes commentary on the 2017 hot-button proxy issues from Argyle Communications, Fredrikson & Byron, Innisfree, PwC and former SEC Commissioner Troy Paredes. Meanwhile, TK Kersetter of Boardroom Resources outlines the 20 things boards should know going into 2017, and Ron Schneider of Donnelley Financial Solutions analyzes board disclosure practices.

2017 is already off and running, and we wish you the best of success throughout the rest of the year. 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.
Spotlight on Innovation

Boards face the future by thinking outside the box

By Dan Marcec
Innovation comes in many forms, whether that means transformative technologies, groundbreaking discoveries or new ways of approaching business challenges. In the boardroom, driving innovation may not be the first thing on the agenda considering the board’s key role in risk oversight and mitigation. In order to fulfill fiduciary duties to shareholders, directors are required to consult management and ensure that business objectives are in line with short- and long-term growth—not just chasing the next big thing. This may even mean they have to rein in their executives at times.

Yet, the board’s role as shareholder fiduciary does not preclude their motivation to innovate, and, in fact, it pushes them not only to consider all possible outcomes from management proposals, but also to pivot in order to suggest alternatives. In an age of activism and shareholder engagement, the investor’s voice has grown stronger, and as a result boards are looking for new and better ways to communicate company value creation to these stakeholders. That’s where boards have the opportunity to be creative and innovate.

“The primary challenge boards face is to demonstrate measurable progress in addressing issues that have become increasingly important in recent years, particularly the composition, competence and responsiveness of the board,” said Alan Dye, Partner at law firm Hogan Lovells, who, along with several partners, contributed commentary to the recent Equilar report, Executive Compensation and Governance Outlook 2017.

“The company’s progress on these issues, particularly the board’s ability to oversee corporate strategy in an increasingly global and competitive environment, has a direct bearing on the risk that a company will have to face an activist investor.”

Boards are looking for new and better ways to communicate company value creation to investors.

Shareholder Engagement

The power and influence of shareholders on compensation practices and corporate governance has risen over the years, partially in connection with the Dodd-Frank reforms. Consequently, companies are doing more to understand demands of their shareholders. Active shareholder engagement, whether through soliciting feedback or outreach programs, has become an effective method for conveying information and creating dialogue between parties. Even more frequent over the last few years is the disclosure of engagement programs, providing the company a chance to listen to their shareholders’ main concerns, and an opportunity to show how the company reacted and adapted to these vocalizations.

In 2012, 95 companies disclosed some form of engagement with shareholders or investors, whether through outreach programs or feedback solicitation. By 2016, that number more than tripled, with 324 companies disclosing some form of shareholder engagement. These figures translate to a dramatic increase in the prevalence of shareholder engagement disclosures, from 20.1% of S&P 500 filings in 2012 to 66.1% in 2016—a 228.9% increase (Graph 1).

“Any company can say they ‘engage’ with their shareholders, but providing proof is what ultimately makes a difference,” said Molly Doran, Director of Advisory Services for Labrador, who also contributed to the Equilar report. “This information should outline the topics discussed with shareholders and the outcomes of such discussions—some companies have even included a graphic to illustrate year-round engagement.”

Anticipating Activism

Variable trends in shareholder proposals shed more light on the progress that boards have made. Over the past five years, there has been a steady increase in the number of social and environmental proposals—for which there are few mandatory disclosure regulations—while compensation and board management proposals have decreased, Equilar found. In 2016, there were nearly 200 shareholder proposals around
social and environmental topics, vs. just 49 on compensation, with those categories trending in opposite directions (Graph 2).

“The trend in shareholder proposals over the past five years has demonstrated the increased interest in, and presence of groups focused on, social topics including political contributions and lobbying, the environment, and other social policy matters such as human rights and diversity,” said Alex Bahn, Partner at Hogan Lovells. “This trend may be attributable, in part, to the as-yet-unsuccesful efforts of certain stakeholders to convince the SEC to adopt new disclosure requirements concerning social topics.”

Bahn noted that many proponents for social policy issues from year to year will continue to enter proposals, even where broad stockholder support is unlikely. As a result, the number of increasing proposals is not a reflection of company adoption.

The proposal categories on the downslope may be partially attributed to clearer and more meaningful disclosure. Following the mandates from Dodd-Frank and Say on Pay, companies have become to be more transparent around executive compensation in response to enhanced scrutiny from shareholders and proxy advisors.

The question is whether this will extend to the other categories.

Dodd-Frank is expected to be under heavy scrutiny from the Trump administration, and with that, there is uncertainty in the future of executive compensation disclosures—particularly the CEO pay ratio. Though a ruling was passed in 2015 that would require all public companies to report the ratio of their CEO pay to that of a median employee, which will be mandatory in proxy statements filed for fiscal years beginning after January 1, 2017, just one S&P 500 company has disclosed this information thus far, Equilar found.

Hard and fast SEC disclosure rules that have been proposed on pay for performance, clawbacks and hedging restrictions still hang in the balance, but already, more than 90% of companies include some kind of information on these topics, according to the Equilar report. In addition, don’t expect Say on Pay to go anywhere any time soon.

“Say on Pay revolutionized the way companies engage with their shareholders on executive compensation matters and became a referendum for shareholders to express their views on how executives’ pay relates to the company’s performance,” said John Beckman, Partner at Hogan Lovells.

**Building Innovative Boardrooms**

While these compensation-related disclosures seem to be entrenched, the question will be what happens to governance-related proposals and topics championed by outgoing SEC Chair Mary Jo White. Already put through in Fall 2016, a proposal for a universal proxy ballot is on the books, with the comment period ending as this issue goes to print. The universal proxy would allow investors to vote on board of directors elections from one ballot inclusive of both shareholder- and management-proposed candidates.

While the prospects for that proposal passing are in flux, the shareholder right to nominate directors, otherwise known as proxy access, has become significantly more prominent in recent years.

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**Over the past five years, there has been a steady increase in the number of social and environmental proposals while compensation and board management proposals have decreased.**
Equilar found that there were 116 proxy access proposals in 2015 and 2016, after a total of 25 in the previous three years. Furthermore, there were a total of 62 approvals in two years vs. 10 the previous three (Graph 3). Meanwhile, the number of management proposals for proxy access jumped from 6 to 16 from 2015 to 2016. As a percentage of total proposals, management accounted for 31.4% in 2016 vs. 9.1% in 2015.

Graph 3
Proxy Access Proposals at S&P 500 Companies

“By now, most public companies either have had interactions with shareholder activists or are preparing to have them, and may be able to work constructively with activists on board composition including specific potential independent director candidates,” said Hogan Lovells’ Beckman. “With proxy access, activists have a new tool to nominate their own candidates and we are just beginning to see this used. Companies would be well-served to objectively evaluate board composition in advance of outside pressure to do so.”

The other big question up in the air is what happens with board diversity, as Chair White had begun to advocate for more clear disclosure on this. Calls from shareholders have reached a fever pitch in terms of adding diversity and increasing transparency in board recruitment processes as well.

The change in administration does leave one to wonder whether these initiatives for formal disclosure will fall by the wayside under whomever takes the reigns at the SEC under President Trump. And at this point, meaningful disclosure in these areas is still scant. In 2016 proxy statements, while about three in five companies said they considered racial and ethnic diversity when assessing board candidates, just 13% actually disclosed the composition of their boards in these terms.

“As companies began voluntarily disclosing information on board diversity, an interest in further disclosure was sparked,” said Doran of Labrador. “As shareholders demand clearer explanations of how the board is aligned with business needs, companies will focus on communicating this link by highlighting board diversity and risk oversight. It is important to remember that credit can’t be given if the information isn’t there.”

With proxy access, activists have a new tool to nominate their own candidates.
Bigger Shoes to Fill

Boards walk a fine line to align director pay with shareholder value

By Ryan Villard

Boards of directors bridge the gap between investors and their executive teams, providing guidance and holding management accountable for both successes and failures while working closely together to maximize company growth and shareholder value. In the wake of Dodd-Frank and increasing shareholder and proxy advisor scrutiny, this role has evolved, and risk management has taken a front seat. However, directors and their growing role continue to face the problematic task of setting not only management’s compensation, but also their own.

For these reasons, information and transparency have become paramount to best practices in director compensation. These practices enable boards to best situate their companies among their peers when making pay decisions, and then communicate those decisions to stakeholders. The Equilar report, Director Pay Trends 2016, featuring commentary from Meridian Compensation Partners, examined compensation trends for boards of directors at S&P 500 companies and found that the median director retainer including cash and equity increased 17.1% from $205,000 in 2011 to $240,000 in 2015 (Graph 1).

Graph 1
S&P 500 Median Annual Board Member Retainer and S&P 500 Index Performance
Boards both improved upon actively engaging shareholders and began facing new challenges such as managing cybersecurity risks and adapting to new regulations.

Pay and Progress
At first glance, this steady growth seems characteristic of annual pay raises matching market growth—however, while director pay grew steadily, markets performed exceptionally and expanded during this period. The S&P 500 index grew 62.5% from 2011 to 2015, shadowing director pay growth (Graph 1).

Not only did company performance exceed expectations, perspectives toward directors and their responsibilities expanded during this time. Boards both improved upon actively engaging shareholders and began facing new challenges such as managing cybersecurity risks and adapting to new regulations. While these new influential factors affected their workload, it didn’t necessarily affect their compensation.

“Compensation plans for corporate executives are specifically designed so that a significant portion of compensation actually earned is based on the financial and stock price performance of the company. Conversely, outside director pay plans are intentionally designed to be focused on annual periods and to not be performance-based,” explained Tom Ramagnano, partner with Meridian Compensation Partners. “Directors are often required to make important decisions related to the strategic direction of the company, decisions that could be viewed as ‘self-dealing’ if they result in an enhanced amount of compensation.”

Similarly, attitudes around the director role shifted too, and their pay structures reflect this change. Payment of individual meeting fees declined significantly in the last five years—over one-third of S&P 500 boards paid meeting fees in 2011, vs. only 18.2% of companies in 2015. Part of their disappearance responds to directors’ growing responsibilities as they more frequently communicate through impromptu and brief meetings throughout the year, as opposed to once each quarter (Graph 2).

“The decreased prevalence of board and committee meeting fees is generally a reflection of how boards are now operating as a governing corporate body,” said Ramagnano. “In the past, decisions made by the board or committees tended to be ‘rubber stamped’ without much discussion or analysis. However, in the governance climate today, shareholders expect board members to be consistently engaged and focused on the company’s issues and to be well prepared and active participants at the meetings.”

While directors’ expanding role demonstrates their commitment to shareholders, these growing responsibilities affect their abilities to be on too many boards at once. While being on more than one board can be valuable in bringing unique experiences and perspectives, growing responsibilities increase the pressures of multi-boarding because directors may be stretching themselves too thinly by representing a handful of companies. As a result, this trend declined in 2016, as 51.0% of S&P 500 board seats were occupied by directors who served on more than one board, compared to 53.2% in 2015, according to Equilar data.

Board Structure and Pay Vehicles
Director pay typically takes the form of cash, stock, options or restricted stock units (RSUs). Historically, cash has been a nearly universal pay vehicle, appearing in 98.2% of director pay packages in 2015 and remaining largely present across the entire study. Since 2011, the number of companies offering restricted stock or options as compensation fell. The former

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Source: Equilar
The decreased prevalence of board and committee meeting fees is generally a reflection of how boards are now operating as a governing corporate body.

decreased minimally, dipping from 39.5% in 2011 to 36.1% in 2015, and the latter—mirroring its decline in executive compensation—nearly halved, tumbling from 23.6% in 2011 to 12.6% in 2015. On the other hand, prevalence of restricted stock units grew nine percentage points from 51.9% in 2011 to 60.9% in 2015 (Graph 3).

Graph 3
S&P 500 Annual Retainer Pay Components

RSUs are simpler full-value stock vehicles that allow for more flexibility and tax deferral possibilities compared to options, while also better aligning directors with shareholders because they are plainly shares, rather than the opportunity to purchase shares.

The recent shift toward RSUs reflects board restructuring since the financial crisis as a majority of boards began shifting from classified to declassified. Equilar found that the prevalence of classified boards in the S&P 500 decreased from 27.9% in 2012 to 10.4% in 2016. Declassified boards require directors to be reelected annually whereas classified boards have varying term lengths—consequently, these positions are becoming single-year commitments, and their pay structures are changing to reflect this shift by relying less on option awards.

“The shift that we’re seeing away from options can be connected to board governance shifting away from classified boards,” said Ramagnano during Equilar’s Director Pay: Boardroom Changes Shift Compensation Philosophy webinar. “[Director] pay is taking on a one-year perspective and, since options are appreciation-only vehicles, they are a much longer-term vehicle. They fit well when we had classified boards and directors were elected with three-year terms, and there was time for those options to vest based on a long-term focus.”

Litigation on Director Pay
In the last few years, shareholders have filed lawsuits against boards, citing that excessive pay contributes to general corporate waste and breaches their fiduciary duties to shareholders. Often these stakeholders are successful, and boards are looking to protect themselves from this litigation by introducing meaningful director pay caps that limit cash and equity compensation.

“The limit should be some multiple of director compensation at the company, with boards looking at what they are paying now, and what their peers are paying to determine if their pay is reasonable,” said Megan Arthur Schilling, an associate at Cooley, during the Equilar webinar. “We typically see in our analysis a limit of two to five times, but I expect that will come down to around two to three as these lawsuits make clear that limits beyond three times might not be considered reasonable.”

According to an Equilar study, 28 S&P 100 companies have disclosed a director pay cap, and about half of these fell within a multiple of two to three times their median compensation. These caps spanned from $400,000 to $2.0 million.

Boards have responded to growing scrutiny around director pay by increasing transparency and shareholder engagement, and this will continue to be a hot-button issue in 2017. Changes to director compensation plans are a priority among governance practitioners looking toward the creation of appropriate director pay caps. If the heat continues to rise on this topic, it could perhaps catalyze new regulations such as say on director pay.

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There Are No Small Roles...

Top HR and legal executives earn more as they bring value to the boardroom

By Colin Briskman

CEO pay is a hot-button issue that gets a lot of attention, and it’s easy to compare since every company is required to report what its top executive earns each year in public filings. For other roles in the C-suite, however, it’s inconsistent as to whether an executive will be included among the top five highest-paid employees listed in the proxy statement, and as a result comparison and benchmarking is murkier.

The top legal and HR roles—usually the general counsel (GC) and chief human resources officer (CHRO)—have seen expanded responsibilities in recent years as they bring more value to the executive team and the boardroom. Equilar delved into pay trends for these two roles, enlisting commentary from executive search firms Allegis Partners and BarkerGilmore that specialize in placing HR and legal/compliance executives, respectively. The results show two executive roles expanding in terms of visibility, especially at larger companies, which have led to notable changes to their pay structures tilting toward more long-term incentives.

**Long-Term Incentives Hike GC Pay**

General Counsels are expected to handle a wide variety of legal, compliance, risk and strategic issues, and the complexity of these responsibilities has grown with an increasingly complicated business landscape. More than ever before, GCs are part of the executive management team, and their compensation is reflective of influence on operations, especially at high-revenue companies. According to the Equilar report, *General Counsel Pay Trends 2016*, featuring commentary from BarkerGilmore, median pay for GCs was about $2.5 million for companies above $15 billion in revenue, vs. approximately $725,000 for companies below $1 billion (Graph 1).

“Both the influence and status of GCs continue to rise as their roles and responsibilities expand, reflected by a median pay increase of 6.9% overall inclusive of all GCs in the Equilar study,” said Bob Barker, managing partner at BarkerGilmore. “Additionally, more companies are elevating the title from General Counsel to Chief Legal Officer to reflect their stature on the executive team.”

Part of the reason higher-revenue companies grant more in pay is due to the fact that they offer more value in long-term incentive plan (LTIP) awards to GCs. The relationship between various long-term incentive grant prevalence and company revenue is consistent with the expectation that larger companies
are more likely to utilize equity awards, and performance-based awards in particular, than their smaller company counterparts (Graph 1).

The awards received by GCs are reflective of increased shareholder and proxy advisor scrutiny of companies’ pay practices not only in regards to guaranteed vs. at-risk compensation, but also cash vs. equity compensation. A greater number of GCs at companies with higher revenue received more equity and long-term incentive awards as a percentage of their total compensation on average. However, this trend only appeared in the form of long-term performance incentives. Time-vested equity awards remained a fairly steady component across each revenue range (Graph 2).

The most significant difference in pay mix across revenue ranges was for long-term performance incentive awards and base salary. Higher-revenue companies relied much more heavily on long-term performance awards when compensating their GCs. As GCs become more involved in company-wide governance issues, their compensation is more likely to be tied to company performance results.

With recent SEC regulations stipulating that companies include a pay ratio calculation comparing CEO compensation to that of the median employee in their proxy filings, internal pay equity is a hot-button topic in the corporate governance space. However, shareholders are interested in comparing CEO compensation not only to the median employee compensation, but also to the pay levels of other executives.

Internal pay equity within the executive team is considered a good governance practice for multiple reasons. If the CEO receives substantially more compensation than other executives, it is possible that each executive’s pay level is not commensurate with their contributions to the company, suggesting compensation programs should be adjusted accordingly. Alternatively, if a CEO’s comparatively large compensation level accurately reflects his or her relative influence on the company, there may be concerns that the company is not sufficiently prepared for potential CEO succession.

Though unsurprising that median GC pay increases with revenue, examining the median ratio of CEO to GC total compensation is indicative of which position’s compensation varies more by revenue. The CEO-to-GC pay ratio increased over each revenue range, suggesting CEO pay increased with revenue at a higher rate than GC pay. At companies with revenues below $1 billion, the median CEO to GC pay ratio was 2.7-to-1, compared to 4.3-to-1 at companies above $15 billion in revenue.

This is not to suggest that GCs are not instrumental in the success of a company, and according to a report from BarkerGilmore and NYSE Governance Services, the top counsel role has increased in prominence over the years.

“Over the past 15 years, the number of companies that considered their GCs members of the executive management team has grown from 55% to 93% today,” said John Gilmore, managing partner at BarkerGilmore. “GCs are increasingly viewed as having similar clout as the CFO, with their role requiring them to navigate complex and ever-changing laws, regulations and public policies.”

**How HR Pay Reflects an Evolving Role**

The role of Chief Human Resource Officers (CHROs) has become further intertwined with overall company strategy at public companies in recent years. Many CHROs are expected to manage their human resource responsibilities while maintaining a “big-picture” focus on the long-term outlook of the company.

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Colin Briskman is a research analyst with Equilar. For more information on the research cited in this article, please visit [www.equilar.com/reports.html](http://www.equilar.com/reports.html).

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**Graph 1**

General Counsel Total Comp vs. Long-Term Incentives

**Graph 2**

General Counsel Pay Mix by Revenue Range
This expanded responsibility affects how companies seek to compensate their top HR executives. Companies with higher revenues, which are often larger companies with more complex operations, award substantially more long-term performance compensation to their top HR executives than lower-revenue companies. As the role of CHROs has grown, a higher proportion of a company’s performance falls within their control. It has, therefore, become more attractive for shareholders to tie pay outcomes to overall company performance that CHROs are increasingly able to influence directly.

According to the Equilar report, HR Executive Pay Trends 2016, featuring commentary from Allegis Partners, in 2015, the highest-paid HR executives at companies over $15 billion in revenue received nearly twice as much in performance incentives at the median than those at companies with revenues between $5 billion and $15 billion. The majority of companies with revenues below $1 billion did not grant long-term performance awards to their top HR executive.

Similarly, long-term incentive compensation was not only higher in an absolute sense at higher-revenue companies, it also represented a bigger piece of the compensation pie on average. While companies with lower revenues relied heavily on base salary as a pay vehicle, the relative value of performance incentive compensation supplanted base salary as revenue increased.

On average, HR executives at companies below $1 billion in revenue received 42.6% of their total compensation in the form of base salary, versus 33.5% at companies over $15 billion in revenue. This was a direct contrast to the allocation of long-term incentive compensation, which made up only 12.8% of CHRO pay at companies with revenues below $1 billion and 29.9% at companies with revenues above $15 billion.

“Today’s HR leaders possess a broader and deeper skill set than was expected or seen 10 years ago,” said Mike Bergen, managing partner, Allegis Partners U.S. and global practice leader, Human Resources. “The most effective CHROs have a strong general management orientation and approach their roles and responsibilities from a more strategic bottom-line oriented framework.”

By tying compensation levels to company performance outcomes, boards are acknowledging the contributions of top HR executives to a company’s broad business goals. It is worth noting that these goals seem to place overall company performance at the forefront, as reflected by the prevalence of performance metrics included in long-term incentive plans. Relative total shareholder return (TSR) was the most commonly featured metric, used by 29.8% of companies, consistent with an industry-wide governance focus of aligning executive interests with those of shareholders. And beyond relative TSR, all of the most common metrics were notably based on company financial results, and not HR-specific, non-financial achievements. Following relative TSR, the most commonly utilized LTIP performance metrics were EPS (15.4%), ROC/ROIC (13.7%) and revenue (11.4%) (Graph 3).

“CHROs should no longer be compensated by traditional measures—the number of employees, composition of the workforce, size of the company—but rather by the complexity of the organization and the challenges it is facing,” said Bergen. “This shift has resulted in a need for a CHRO that has the agility to execute in this type of environment—a CHRO who can look at both the competitive and global landscape and understand how these changes will affect human capital requirements and adjust accordingly, rapidly.”

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**Graph 3**

HR Executive Long-Term Incentive Performance Metrics

Source: Equilar

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Compensating employees with equity—particularly the C-suite—addresses several objectives for companies aiming to manage talent effectively and create shareholder value. A public company’s ability to recruit, promote, incentivize and retain the right people to formulate and execute strategic initiatives aimed at growing returns for shareholders is paramount, and therefore the invitation to share in the spoils of company success is a powerful tool. Consistent with these trends, the median salary of an S&P 500 CEO has climbed 10% since 2011, and while annual cash bonuses have been relatively flat, median stock-based pay increased 57%.

The nuances lie in creating a single compensation program that works for the key stakeholders—both employees and investors alike. “Investors, proxy advisors, employees and companies have competing needs to satisfy,” said Carrie Kovac, senior vice president, relationship management at E*TRADE Financial Corporate Services Inc. “Tailoring the equity mix for the participants accordingly helps companies balance internal objectives to attract and retain talent with external factors.”

According to Equilar data, large-cap companies are adapting to the growing complexity in the compensation landscape. The combination of options, stock and performance awards continued to be the most popular equity grant portfolio for S&P 500 CEOs, while the combination of stock and performance awards overtook the grant portfolio of options and stock between 2011 and 2015 (Graph 1).

“Probably the biggest factor driving trends has been Say on Pay,” said Russ Miller, CEO of ClearBridge Compensation Group LLC. “Options and stock are used for different purposes—stock is very attractive because of the value, though options provide a lot of upside, while blended programs are able to accomplish multiple objectives.”

While the use of stock options wanes, the structure of performance awards grows more complex and stakeholders voice their preferences, companies will continue to search for ways to use equity-based pay and address competing interests. A creative and effective equity plan offers opportunities to find competitive advantages.
in the market for talent and optimize the ways companies incentivize employees as well as drive long-term value creation to satisfy the desires of shareholders.

Paying for Performance
In executive compensation—specifically to the top-paid “named executive officers” reported in proxy statements, but also sometimes deeper in the organization—equity pay contingent on hitting performance goals is a primary measuring stick for alignment with shareholders. The concept of “pay for performance” gained even more traction after the financial crisis and the implementation of Say on Pay. According to the recent Equilar report, Equity Compensation Trends 2016, which featured commentary from E*TRADE Corporate Services, 80% of S&P 500 companies tied their executives’ equity pay to company performance in 2015, up from just 65% in 2011.

The popularization of performance-based equity as a means to compensate management teams has accompanied the growing influence of proxy advisors and investors over executive pay decisions. Not only do a strong majority of large-cap firms link executive pay to performance, typically over a period of three years for equity grants, but also more than 60% of the average pay mix of an S&P 500 CEO was awarded in the form of equity in 2015.

Companies are setting performance goals in several key areas that ultimately determine the amounts doled out to executives. By far, the most popular performance metric employed in S&P 500 incentive structures is relative total shareholder return (TSR), a measure of stock price appreciation and dividends paid to shareholders relative to a group of peer companies or market index. Nearly half the S&P 500 tied performance awards to relative TSR in 2015. Other common areas include profitability metrics, such as earnings per share (24% of S&P 500) and operating income or margin (14%), growth metrics (18% of companies utilized revenue as a metric), and other return metrics (16% tied performance awards to return on capital or invested capital) (Graph 2).

Because TSR measures an outcome that is the product of multiple inputs—many of which are outside management’s control—recipients of performance-based equity may lack the ability to pull the levers necessary to drive TSR upwards. Balancing performance awards linked to TSR performance with other metrics helps executives drive the financial, operational and strategic results needed to execute the business plan.

“Creating a culture of accountability is crucial,” Kovac said. “Executives need some line of sight on performance metrics and the ability to influence them to feel motivated by their grants.” “The biggest challenge is performance awards inherently require some level of performance goal to be set,” Miller added. “Relative TSR avoids the need to set specific goals other than outperforming comparators.”

While the use of stock options wanes, the structure of performance awards grows more complex and stakeholders voice their preferences, companies will continue to search for ways to use equity-based pay and address competing interests.
Dilution of Shareholder Value by Equity Compensation

Of the S&P 500 companies that granted stock-based compensation in fiscal 2015, the average granted 3.2 million shares of company stock, according to Equilar. Among those granting stock options, the average was 2.7 million. Given the value of these large-cap firms, it’s easy to imagine the cash savings represented by compensation paid in company stock and options. Nevertheless, these figures are down since 2011, when average stock and options granted were 4.1 and 3.7 million shares, respectively.

It is important to consider, however, what occurred between 2011 and 2015, namely the recovery of the stock market. Companies in today’s marketplace can grant fewer shares to deliver equal value. Shareholders encourage companies to keep equity granting practices in check to avoid dilution, which occurs when shares granted to company employees increase the total pool of common shares of the company’s stock, independent from any increase in the overall value of the company.

“Performance cures ills, especially as related to dilution, since a higher stock price requires fewer shares to achieve the same grant value,” said Miller.

While shareholders value alignment of employee interests with their own, too large a sacrifice in proportion of company ownership can result in discontent, and possibly worse, a shareholder vote against a company equity plan and its failed adoption. There are two key metrics that shareholders weigh in consideration of a new equity plan’s dilutive effects: Dilution overhang, which is a measure of unvested shares granted to employees as a percentage of the total common share pool, and run rate—the percentage of available shares in an equity plan actually granted to employees throughout the year.

Concerns over dilution are one reason why stock options have fallen out of favor with shareholders. According to Equity Compensation Trends 2016, dilution overhang in the S&P 500 has been falling over the last five years from a median 5% in 2011 to 3% in 2015, driven by dilution overhang from options dipping two percentage points, while overhang from stock options remained steady at about 1%. More stock options are required to deliver the same value as fewer shares of stock, since options require recipients to purchase shares at a pre-determined exercise price. Meanwhile, run rates have remained steady at a median around 1.5%, as fewer shares are needed to deliver value in a recovering stock market.

“Dilution is about participation—how deep in the organization is a company making grants—and the target values a company is trying to deliver,” Miller added. “Cash may be more effective [depending on the] values required to achieve company objectives of attraction and retention.”

Ultimately, equity plan designers now operate in an increasingly complex landscape framed by the interests of competing constituents. “Equity awards for senior management are reaching an all-time high, and Say on Pay is driving more accountability in the C-suite,” added Kovac. “As long as companies are striving for balance in their plans, a culture of accountability and transparency lets employees and shareholders know exactly what needs to be achieved. The best thing a company can do is design an equity program that’s clear, accomplishes short- and long-term objectives, and still meets the expectations of shareholders.”

Equity awards for senior management are reaching an all-time high.

---

**CONTRIBUTORS**

CARRIE KOVAC  
Senior Vice President, Relationship Management  
E*TRADE

RUSS MILLER  
CEO  
CLEARBRIDGE COMPENSATION GROUP LLC
Would you spend 12 minutes a week to be a more effective board member?

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

Bill Chandler
Former Chancellor, Delaware Court of Chancery

Darrell Freeman
Lead Director, AAC Holdings, Inc.

Dan Gallagher
Former Commissioner, Securities and Exchange Commission

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www.BoardroomResources.com
Investors elect the board as their representatives to guide and oversee management, its strategic plan and related performance. For many years, other than in the occasional contested election, investors had little say over director nominations, and typically the election of management’s slate was a mere formality.

Much has changed, with a more complex, global and interconnected business environment, known and emerging risks seemingly lurking at every corner, heightened scrutiny of executive and board compensation and corporate governance practices, and record levels of activism. The latter includes hedge fund and other contested elections, pressure to adopt proxy access, and regulatory approval of universal ballots.

At many companies, the proxy statement is an investor’s primary window into the boardroom. Increasingly, we are seeing companies—having for several years focused primarily on the CD&A and telling their pay-for-performance story—now re-focusing on their board disclosures. They are highlighting relevant aspects of diversity (including gender, ethnicity/geographic background, age and tenure), and perhaps most important, diversity of relevant skills and qualifications.

**Types of Disclosure**

We typically see board qualifications and diversity presented in three ways:

1. General, or even boilerplate, narrative discussion
2. Thoughtful, company-specific narrative discussion, often highlighting individual director nominee skills and qualifications and overall board diversity
3. The above, but supplemented with visual imagery that draws the reader’s eye and conveys key messages with greater impact

To better appreciate the visual ways in which companies are increasingly highlighting board skills and diversity, please consider the following disclosure innovations, which recently have been growing in their adoption and utilization.

In our view, these types of visual disclosures help to highlight and draw attention to key aspects of a company’s board skills and diversity story. As the board evolves, this story can change significantly. We have seen many cases where one or two long-tenured directors are replaced by new directors with unique skill sets. This can have a dramatic impact on average tenure, gender, age, skills and other measures of diversity.
Ron Schneider is the Director of Corporate Governance Services for Donnelley Financial Solutions. He can be reached at ronald.m.schneider@dfsco.com.

These and many additional innovations in board and company proxy disclosure can be found in the fourth edition of the Donnelley Financial Guide to Effective Proxies, which can be accessed at this link: info.dfsco.com/proxy_guide

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**Better View**

Ron Schneider is the Director of Corporate Governance Services for Donnelley Financial Solutions. He can be reached at ronald.m.schneider@dfsco.com.

These and many additional innovations in board and company proxy disclosure can be found in the fourth edition of the Donnelley Financial Guide to Effective Proxies, which can be accessed at this link: info.dfsco.com/proxy_guide

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**Board Diversity**

At Verizon, we believe that diversity is an important attribute of a well-functioning Board. Collectively, the members of our Board embody a range of viewpoints, backgrounds and expertise.

- 100% Global experience
- 5 Hispanic/African-American
- 9 Current or former CEOs
- 2 Service in government
- 4 Females
- 9 Continents
- 9 States
- 1 United States Protectorate

**Tenure**

- 0 – 3 years: 4
- 3 – 6 years: 4
- 6 – 10 years: 2
- > 10 years: 3

Median: 4 years, 3 months
Average: 5 years, 7 months

---

**Our Director Nominees are Diverse**

3 of our 12 Director Nominees are women

25% women

Our Director Nominees have lived and worked around the world

---

**Our Director Nominees Reflect Our Corporate Values**

(Trust) (Agility) (Initiative) (Partnership)
Babcock & Wilcox Enterprises, Inc.

Board skills matrix

<table>
<thead>
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<th>Thomas A. Carstens</th>
<th>Cynthia S. Dubins</th>
<th>E. James Fertado</th>
<th>Brian K. Ferraioli</th>
<th>Stephen G. Hanks</th>
<th>Anne R. Pramaggiore</th>
<th>Larry L. Weyers</th>
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Summary of Director Core Competencies and Attributes

Our Board of Directors provides effective and strategic oversight to support the best interests of our Company and its shareholders. The following chart summarizes the core competencies and attributes represented on our Board. More details on each director’s competencies are included in the director profiles on the previous pages.

Age:
- 46-55: 3
- 56-65: 2
- 66-75: 1

Gender:
- Women: 29%
- Men: 71%

Current Public Company Boards (other than B&W):
- # of Directors: 4
- # of Boards: 2
- 1
Expectations for directors have never been higher. Boards need education processes in place to keep directors on top of current and emerging issues and to provide resources for their continuous improvement.

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There isn’t much question that the spotlight will shine brighter on boards in 2017, even if we see some rollback in regulations associated with the new administration. Investors will command greater transparency as boards are encouraged to address governance issues quickly so that more boardroom time can be spent on strategy and growing shareholder value.

This top 20 list serves as a refresher on what boards should be talking about and, in some cases, acting on in 2017. (Editor’s note: Find numbers 11-20 in the digital version of C-Suite.) The list is not in order of importance, but up-to-date corporate secretaries and board members should have no problem prioritizing the issues. I want to give a special shout-out to the corporate attorneys at Wilson Sonsini Goodrich & Rosati and Wachtell Lipton Rosen & Katz, who annually supplement my governance knowledge base by sharing and publishing trends they see in their corporate boardroom dealings.

1. **Director Succession.** This is an excellent issue to start with, since investors have told us all year that board composition is among their greatest concerns. Expect a heightened focus on recruiting board members who understand and can contribute to the business. Boards that don’t think ahead on recruiting future board committee chairs or turn a blind eye to seeking qualified diverse board members could be setting themselves up for challenges both internally and externally down the road.

2. **Cyber Risk.** We don’t know exactly how big of an issue this could become in 2017. What we do know is how much boards don’t know about this topic. Spend time to determine a structure and a process for protecting your most valuable assets. Determine what committee will own cyber security, and don’t be afraid to consider a risk committee if the audit committee agenda is already overloaded.

3. **CEO Evaluation and Succession.** The board has no bigger responsibility than attracting, motivating, and evaluating the CEO and preparing for his or her successor (planned or unplanned). A sharp CEO can really help the board on its succession plan, which research shows has always been one of the board’s biggest challenges. Boards that are prepared for an emergency successor often have the opportunity to impress investors and bolster the board’s reputation.

4. **Strategy.** Every company and management team is unique in how it engages its board with respect to strategy and the strategic planning process. One of the first questions a board is asked when defending itself in corporate lawsuits is, “Was the board involved in setting the direction of the company and approving its long term strategy?” In 2017, boards not only need to be involved in...
The top 20 issues you should have in your sights for 2017

By TK Kerstetter

BOARDROOM RESOURCES LLC

strategy, but also directors must be prepared to answer investor questions about how they participate and where the company is going.

5. Monitoring Risk. Part of strategy is determining one’s risk appetite. The board should be playing a major role in approving and regularly monitoring the risk processes put in place. Appropriate risk taking with the potential to result in favorable rewards should be encouraged. This task could be the biggest challenge facing boards today as variable factors like technology, domestic and global political issues, and unexpected black-swan events make the future close to impossible to prepare for.

6. Proxy Access. If you are a large or mid-cap company and have not instituted proxy access within your governance structure, 2017 could be your year for the hot seat. Investors have lined up behind this shareholder proposal, particularly with the boost of the New York City Pension Funds, and they are successfully launching campaigns to “encourage” companies to institute proxy access or have an investor-backed proposal put to your shareholders. It’s worth a serious board discussion on how you want this to play out. Also, prepare for an interesting battle on universal ballots, which SEC Chair White put on the agenda as a parting gift to investors committed to shaking up corporate boards.

7. Executive Compensation. Successful pay packages tie pay for performance with total shareholder return. If you plan on deviating from standard practice, be sure you can communicate your reasoning and your story to investors. Sadly, some executive pay packages work exactly as they should, yet investors who are upset about bottom line performance and/or stock price may use Say on Pay votes to express their displeasure. Compensation committees must have the courage to do what’s right—most institutional investors will support them if they can articulate their strategy.

8. Board Compensation. Expect much more attention on what and how directors are being paid in 2017. After several Delaware court cases focusing on boards being over-compensated, compensation committees will now need to make sure director pay is fair and standard within their peer group. Investors are pushing for a cap on how high any board incentive or stock-related board pay can go.

9. Board Evaluation. The consensus is that if board evaluations were more successful, we wouldn’t have to worry about age, tenure limits or pressures to refresh the board. I’m not sure we’ll ever get there, but be prepared for investors and proxy advisors to push for more information on how effective one’s evaluations are, particularly on refreshing and replacing ineffective directors. If you truly want to change a board member’s behavior, you must institute a peer-to-peer evaluation exercise.

10. Shareholder Engagement. Investors were clear this year that not all companies need to engage if there are no concerning issues. Props go to companies that recognize a concern and reach out proactively. All investors (particularly activists) expect a prudent response if they have identified obvious concerns and have requested time with a board representative. Large investors and asset managers are publicly supporting long-term planning and investment in an attempt to alter short-termism. Act accordingly.

To read the rest of the top 20, please visit the digital version of C-Suite magazine. You can find the latest issues at equilar.com/c-suite/downloads.html.
Dany St-Pierre is a member of the Board of Directors of Boralex, Inc. She is also President of Cleantech Expansion LLC., advising CEOs, investors, and entrepreneurs considering an increased presence in the renewable energy sector. Dany has years of successful Strategic Marketing, International Sales, Business Development, and Mergers & Acquisitions experience with global publicly traded transportation and energy manufacturing corporations including Bombardier Inc., Siemens AG, Alstom, and Nordex. Dany also volunteers for not-for profit organizations as a member of the Board of Directors of Women of Wind Energy and acts as a business mentor with the Clean Energy Trust and Matter/Chicago Innovation Mentors. She is a member of the National Association of Corporate Directors (USA) and the Women Corporate Directors Foundation. She received her MBA from Laval University.

Be Prepared to Educate Yourself Quickly
I’ve presented to the board, but never had been on a board of a publicly traded company, so I didn’t know exactly what to expect. Even though the company is only about 25 years old, there were some board members who have done more than 15 years of work for the company, so this is a board who has a lot of experience together. I was under the impression, maybe falsely, that the board would function in more of a hierarchy—but it’s much more peer discussion.

What surprised me the most was a lot more reading at first than I expected. I was a little shocked to see how much information I had to absorb. I really did not know how deep I needed to go, and whether I should really read everything. What I realized by the next two meetings is that it becomes more like learning the alphabet. For the first meeting, you have to learn 26 letters, but then at the next meeting it’s just one—the 27th letter. That helps to put things into perspective.

Overall, my advice is to keep learning and be productive. I would say to the people who are invited to be on the board but do not have industry knowledge, try to gain that as early as possible. Go to conferences, get subscriptions to magazines and join associations. The meetings go fast, and you don’t linger on topics, so if you get stalled because you don’t understand an acronym everyone is used to, you’re missing the conversation. And don’t be afraid to ask the executives for help.

“What lessons would you impart for directors in advance of their first board meeting?”
Understanding the Company’s Industry Is Critical
As a financial services executive leading a business that includes more than 5,000 clients across every industry, I have an obligation to stay abreast of current events affecting them so that our company is prepared with comprehensive and innovative solutions. When I was appointed as an independent director to the board of an export financing organization, I felt a similar obligation. I believe that sitting on a board requires a time commitment, a desire to help the CEO and a willingness to offer advice on strategy and other critical issues. And so I now spend time ahead of board meetings staying up to speed on the specific industry issues that concern export financing.

A board appointment is a terrific way to learn more and improve your personal skills at the same time that you contribute your own experience, and offer strategic and meaningful advice that benefits the CEO and your board colleagues. During my first meeting, I was impressed and refreshed by the fact that every board member had unique and interesting perspectives and each brought these to the forefront without hesitation. A board is a wonderful forum to see the value of diverse experiences in action—working together across our respective points of view to advance the growth and influence the strategy of the company. I encourage first-time directors to not only invest in getting to know the industry and company of their new appointment, but also who your colleagues are and what expertise they bring to the conversation. Share your advice with confidence but also be open to learn from those with whom you sit at the board table. Your value as a board is only as good as your collective voice.

Samir Pandiri was recently elected to the board of Private Export Funding Corporation (PEFCO) where he sits on the Audit and Management Compensation Committees. He is also Chairman of the Board of CIBC Mellon, a joint venture between CIBC and BNY Mellon. Samir is an Executive Vice President at BNY Mellon and serves as CEO of Global Asset Servicing with responsibility for the servicing of more than $30 trillion in assets under custody and administration. He is a member of the company’s Operating Committee and Global Diversity & Inclusion Council, as well as Global Chair of IMPACT, BNY Mellon’s multicultural business resource group.

Spend Time with Fellow Directors Outside the Boardroom
It was serendipitous but not deliberate that I had already met everyone on the board before my first board meeting. I wanted to meet each director individually because I was excited to work with such an accomplished group. What surprised me was how much my having developed personal relationships with the other board members bolstered my interactions during those early board meetings.

Rather than spending the first one or two quarterly meetings getting a feel for the room, I walked into my first board meeting with a keen sense of the issues and concerns the company was facing. What’s more, I had the context necessary to comprehend where each person was coming from, so I wasn’t taken by surprise during more controversial discussions. Most importantly, that familiarity afforded me a unique perspective when raising potentially polarizing ideas myself.

My advice to first-time directors would be to make time to see the other directors outside of your commitments in the boardroom. Aside from enabling you to contribute to the company much more effectively from the beginning, if you build those relationships early and maintain them, you’ll have them for life.

Amy Chang serves on the boards of Cisco and Splunk, served on Informatica’s board from 2012-2015, when it was taken private for $5.1 billion, and sat on Target’s Digital Advisory Council from 2013-2016. She is the founder and CEO of Accompany, prior to which she spent seven years leading Google Analytics. She is an advisor to Hubspot, Optimizely, ClearSlide, BloomReach, Skyhigh Networks, Origami Logic, Kanjoya and Datorama, and holds a BSEE and MSEE in hardware and network systems from Stanford University.
On the Horizon

What will be the hot-button issue in the 2017 proxy season?
TROY A. PAREDES
Founder
PAREDES STRATEGIES LLC
PAREDES STRATEGIES LLC
FORMER SEC COMMISSIONER (2008-2013)

Troy A. Paredes is the founder of Paredes Strategies LLC. From 2008-2013, Paredes was a Commissioner of the U.S. Securities and Exchange Commission, having been appointed by President George W. Bush. At the SEC, Paredes was a strong advocate for small business and the JOBS Act, for solving the information overload problem of securities law disclosure, and for rigorous cost-benefit analysis. He also consistently expressed concerns about the overregulation and overreach of the Dodd-Frank Act. Since leaving government, Paredes has had an active consulting practice, advising on financial regulation, corporate governance, compliance, and governmental and regulatory affairs. He also serves as an expert and adviser in regulatory enforcement investigations and actions and in private litigation involving securities law and corporate law, and he has been an independent compliance consultant/monitor.

Engaging Regulatory Change

People matter. Or as it is put in Washington circles, “personnel is policy.” With the transition of the White House from President Obama to President Trump, there will be new people throughout the federal government. This includes a Republican majority at the Securities and Exchange Commission (SEC)—a new chairman along with two Republican commissioners. (The SEC is bipartisan with no more than three of the five commissioners allowed to be from the same political party.)

Although it is too early to say for sure how this will change securities regulation, consider the many rules that were adopted 3-2 recently with the SEC Republican commissioners, including myself, dissenting. When it comes to proxy season, two rules that Republicans objected to stand out: proxy access and CEO pay ratio disclosures.

Equally important is what Republican SEC commissioners have been “for” lately, such as:
• Making it easier for companies to go public;
• Reconsidering the SEC’s regulation and oversight of proxy advisory firms;
• Enhancing the effectiveness of the SEC’s disclosure regime by remedying the information overload problem; and
• Reforming the shareholder proposal process under Rule 14a-8.

While the past positions of Republican commissioners don’t necessarily predict the future of securities regulation, we nonetheless can expect new leadership at the SEC to usher in new policies and priorities. Since regulatory change—whatever its exact details—will soon be front-and-center, companies have a choice to make: whether and how to engage. To help with this, I’ll offer two thoughts.

First, as the SEC’s agenda takes shape, companies should ask themselves, “How will our shareholders view this?” Even if companies welcome the shifts in securities regulation, some shareholders may not. Accordingly, it may prove to be more useful than ever to discuss regulatory developments—including those impacting corporate governance and executive compensation—with shareholders. Indeed, effective shareholder engagement may require anticipating SEC rule changes that may unsettle shareholders and engaging sooner rather than later.

Second, companies should consider engaging the SEC. I benefitted immensely as a commissioner from the input public companies provided us. Through comment letters and in-person meetings, companies can share a unique take on the potential real-world impacts—both for better and for worse—of a rule change the SEC is considering. I recognize that a lot goes into deciding whether or not to participate in a rulemaking or otherwise weigh in with a regulator. But I also know that without the right input, the SEC might miss something when evaluating costs and benefits, possibly setting the stage for an ill-advised decision that does more harm and good.
Shareholders Want to Be in the (Board) Room Where It Happens

While the real Aaron Burr may not have actually sung “The Room Where It Happens,” the disappointment at being left out of the room where “the game is played... [and] the sausage gets made” so cogently expressed in the musical Hamilton may inspire certain investors concerned about corporate board processes to burst into song.

Several investors have increasingly registered their discontent with settlement agreements made between issuers and activists without consulting the rest of the shareholder base. If recent commentary is any indication, there could be an increased focus on such concerns leading into, and after, the 2017 proxy season.

State Street Global Advisors (SSGA) alerted corporate boards in October 2016 to its concerns around rapid settlements with, and board representation provided to, activists. SSGA argues that this process often occurs without the input of other shareholders around the company’s strategic direction and results in agreements it believes fail adequately to protect long-term shareholder interests. Although SSGA acknowledges that proxy contests are costly, it asserts that contests at least offer all investors the opportunity to provide their views on capital allocation, strategy and board composition. SSGA further states that boards should focus on obtaining agreements that include longer standstills, minimum holding.

Performance in the Context of Say on Pay

For years, reasonable minds have disagreed—and continue to disagree—over the appropriate definition and calculation of “pay” in the context of Say on Pay and the evaluation of pay for performance alignment. In addition, there has been growing dissatisfaction among both the corporate and investor communities with the use of TSR (total shareholder return) as the sole metric for evaluating performance, which adopts a one-size-fits-all definition of “performance.”

As part its 2017 updates to its pay for performance methodology, ISS indicated that 79% of investor respondents to its global benchmark policy survey supported using metrics beyond TSR. For 2017, ISS will include, as part of its report, CEO pay and financial performance rankings relative to peers using a weighted average of six additional financial metrics. Although these metrics will only supplement the TSR based quantitative screening (the metrics may be referenced as part of ISS’s qualitative analysis), consideration of additional data marks a shift towards a more dynamic approach to evaluating corporate performance.

Over the past six months, my Argyle colleagues and I have conducted investor focus groups and engaged in detailed benchmarking of current disclosure practices. Investors shared with us that they are looking for better disclosure about how companies’ strategies are responsive to market and industry conditions, how strategy is...
periods and ownership thresholds for the activist, and prohibit or mitigate an activist’s pledging of company stock.

Reflecting the broader tension between long- and short-term perspectives raised by investors, BlackRock and Vanguard have likewise sent letters to companies emphasizing the importance of focusing on a sustainable, value-creating strategy and effectively communicating that strategy to long-term institutional holders. More specifically attacking short-termism, SSGA said it will engage with companies that pursue “unplanned financial engineering strategies” within a year of settling with an activist to better understand the strategy’s rationale.

While it may be very difficult for boards, without violating Regulation FD, to obtain meaningful input from their long-term shareholders before settling with activists, 2017 could be the year when institutional investors push back against specific issuers and their directors who have tried to avoid protracted proxy contests. At the very least, they will continue trying to get in “the room where it happens.”

designed to create long-term value, and how performance against such strategies are reflected in executive rewards.

Our benchmarking revealed that 78% of the S&P 500, 53% of S&P 400 mid-cap and 53% of S&P 600 small-cap companies included in our study provide disclosure that effectively and explicitly links executive compensation to corporate strategy. The best examples (in our humble opinion) presented strategy in a manner that is consistent with other disclosures, and then clearly linked elements of compensation and outcomes to performance against that strategy. Moreover, we think these “best in class” disclosures are responsive to what our focus groups suggest that investors want to see.

Despite the still unresolved TSR-based pay for performance disclosures rules proposed by the SEC in April 2015, there is renewed support to broaden the lens with respect to how performance is viewed. Companies should embrace the opportunity to define performance on their own terms.

Addressing What’s on the Minds of Investors

There are a number of important issues for the 2017 proxy season. If I had to pick one, it would be shareholder engagement. While this is a broad topic and goes beyond the proxy season, it is fundamental to addressing what’s on the minds of investors. Today, the topics getting greater scrutiny by investors are: board composition and diversity, proxy access proposals, and sustainability. Of course, the efficacy of the company’s strategy and its capital allocation plan and how executive compensation is linked to strategy are important topics too.

We have seen an upward trend in the level of direct communications with investors, and I expect this trend will likely continue. But the key is ensuring that engagement efforts are successful. This means that there is interaction—a two-way dialogue between the company and its investors—to ask questions, address concerns, and even debate topics. Ultimately, both parties should leave with a better understanding of each other’s perspectives about the company.

Forward-looking companies are looking to build important relationships before crises hit. This is particularly important considering the increased level of hedge fund activism that we are witnessing in the market. Companies are also enhancing their proxy disclosures to include more detail and be more meaningful for investors.
The Board’s Responsibility for Corporate Integrity

From Enron to Volkswagen, and recently Wells Fargo, corporate shareholders and other stakeholders have too often faced severe financial and nonfinancial consequences resulting from corporate integrity failures. A critical challenge for boards in 2017, as the body ultimately responsible for a company’s integrity, is to accept assurance of their companies’ integrity as Job No. 1. Specifically, that means assuring that:

- The company’s values and culture emphasize the critical importance of integrity, ethical conduct and compliance with laws, regulations and company conduct policies;
- Directors and CEOs, in addition to other needed skills and qualities, are chosen and evaluated for their integrity and ethical conduct, and assuring that CEOs apply similar standards in selecting, evaluating, promoting and compensating their management teams;
- The company’s financial statements and other disclosures to regulators, shareholders, and all others who rely on the company’s business and financial information are truthful and accurate, and that those within the company who speak for or about the company do so truthfully and accurately;
- Management is held accountable for conducting the business of the company, including the establishment of compensation and incentive programs, in a manner that serves rather than detracts from the company’s integrity;
- Directors and management avoid actual or perceived conflicts of interest that would detract from the integrity of the company and its governance;
- Management has in place compliance systems and processes that will provide early warnings of activities which threaten the integrity of the organization, and when warnings come, that they will be investigated independently and without restrictions that might adversely impact the company’s integrity; and
- The board periodically assesses the integrity of the organization, using the various tools at its disposal to assess the company’s compliance with its values, and confirm that management is conducting the company’s business with integrity in all respects.

The bottom line of governance is that the board is responsible for the company’s integrity. In many of the failures that have occurred, the board ultimately failed because it did not take responsibility to see the company’s integrity as intertwined with their own, and ultimately that is the critical point.
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An increasingly common mantra in corporate governance implores directors to “think like an activist.” While the message is clear, the steps to take action are less obvious, and they vary from company to company. While it’s no secret that the corporate landscape is undergoing a sharp change at an unprecedented pace, how boards choose to deal with these market challenges and react to and interact with their investors will determine the future success of their companies decades down the road.

C-Suite had the opportunity to speak with Ira Millstein, a renowned corporate lawyer and founding chair of his namesake Center for Global Markets and Corporate Ownership at Columbia Law School. His new book, The Activist Director, provides pragmatic suggestions for directors on building boards that can, and will, put the welfare of the corporation first. The edited conversation below pinpoints key highlights from the text to provide historical perspective on corporate governance as well as strategies on how to take a proactive approach to working with management, shareholder engagement, and board recruiting and succession.

C-Suite: What was the impetus to write The Activist Director, and more specifically, the impetus to do so now?
Ira Millstein: The impetus started with my desire to tell the story of how corporate governance originated. I think some people are under the impression it was invented one day and came from a single mind that said “ah, we need to have corporate governance and here it is.” Of course, no such thing happened, and it took 30 or 40 years to gestate. I thought telling the story of how it evolved would contribute to the understanding that corporate governance is dynamic and will continue to change when circumstances change.

In addition, we are at a point where a short-term mentality has permeated our whole system, and corporations and boards are more responsive to outside pressures than they have ever been before. The pressures of capital markets on boards have often impeded the board’s efforts to act on behalf of the whole corporation, with far too many boards and management increasingly focused on meeting short-term projections to not disappoint the market. My concern is that the C-suite is being impeded from doing what they want to do—namely grow and innovate—in order to produce short-term gains.
Though the book was published just a couple of months ago, a lot has already changed since then—sort of proving your thesis about the constantly evolving market.

Millstein: Exactly right. During the presidential election, it occurred to me that life was changing all around us, and not just inside the corporation. The election made clear that there is a wave of populism in the U.S., in particular marked by a sweeping discontent among those who have been displaced or dispossessed through no fault of their own by things like global competition, the need to become more efficient and outsourcing. Mr. Trump seemed to sense that and saw something that the so-called elite—namely bankers and lawyers and others involved with corporations and boards—did not see. Very few people in Corporate America saw this happening when it was happening, or if they did see it happening they weren’t recognizing its significance. Now boards have to pay attention to it and ask what the private sector can do to meet this growing discontent—because it’s in our best interest to do that.

What are some of the things that influence the shift away from the “board-centric model” you outline in the book? What are some simple ways that boards can keep this model as their core strategy?

Millstein: The board-centric model is the recognition that the board has the last and most important word in overseeing the affairs of the corporation, and in particular strategy. Fiduciary duties mean that you have the welfare of the corporation on your shoulders. It’s important to know, and give thoughtful consideration to, what investors and the corporation’s community think, but you have to realize that you’re it.

The primary thing that gets in the way is capital markets. When you’re in the boardroom, you may be looking out at a big variety of shareholders and you can’t conceivably please them all. It’s not possible because they all have different agendas, with different interests, some directly and some indirectly, and some may not care about the long-term future of the corporation at all. So if you’re sitting in the boardroom, and you see this going on, what do you have to do? Balance it. No matter what is happening, no matter what people are doing with their shares, the responsibility is to select the course that is in the best interests of the corporation and hopefully most of its shareholders.

Do you think directors will be uncomfortable with this notion of becoming an activist director?

Millstein: Some. There will be some directors that feel this new role is not for them, and would rather just go along with the proxy advisors and stay out of trouble, rather than do the hard work. That’s one of the things I attack. Boards today need someone who is not a traditional director bound by “nose in, fingers out,” but who is going to take an active role and partner with management to devise a strategy for the corporation.

To that point, there has been a lot of focus on board composition, evaluation and refreshment, which is a key theme in your book. How do you, as a board, choose the right people that will push the envelope?

Millstein: The most important thing, first of all, is that this is a job for the nominating and corporate governance committee of each corporation. The committee members have to sit down and recognize this isn’t going to happen marvelously. You’re not going to say we have four people on the board and no one pays attention so let’s fire them all and make this happen. You have to have a governance committee and hopefully a separate chair or at least a lead director who is going to look at the situation and decide to change the board’s attitude about how to search for directors.

From there, the committee has to say “what do we need on the board?” And instead of exclusively looking at people they know, they should think of it in terms of how they would vet the next CEO. When a new CEO is interviewed it’s a very laborious process—they don’t just pick someone without conducting intensive diligence. The same effort ought to be involved in selecting a new director. Asking “who do we know who would fill this job?” and then maybe going to the country club or the church or to friends who all get along with the rest of the board is not the answer. Sure, boards should get along, but that’s not the imperative need.

If boards would only think about vetting a new director as they do a CEO, we would make a big step forward.”
What are the steps boards should take to get started in this search and recruiting process?

Millstein: As a model, and as an idea, I turn to private equity. They, for the most part, put on the board of companies they’re investing in people who know what that company’s mission is, and who can work effectively with management. If it’s a financial company, if it’s an engineering company, they get experts in those fields. That board should know enough about the company to make a contribution and partner with the CEO to devise a successful strategy.

I use private equity as a model not to say every board should be like PE firms, but to illustrate an effective way to vet. Know what you want substantively, be clear on what you want, and then go look for what you want. I’d start with the following questions:

1. Are these director candidates really interested in the company, or do they just want a feather in their caps because it’s nice to say they’re on the board of a big company?

2. Are they willing and able to spend time on committees and work on matters of the board that may require a lot more than 5, 6, 7 meetings a year? Are they willing and able to dive in and get their hands dirty and spend the time doing it?

3. What are their views on exec comp—is this someone who knowledgeably thinks about equality and excesses?

4. What about compensating themselves? If they’re going to spend more time, should they be getting paid for that? Do they think it is a full-time job? And if it is, is their current compensation enough to incentivize them to put their backs into it?

Of course there are plenty of other issues like that, but I would want to be sure the director is someone who wants to effect change, understands he or she is not the CEO, and will work with the CEO as a partner to develop the strategy necessary to meet these very different times.

The most important thing I would like to emphasize and reiterate is the vetting process—if boards would only think about vetting a new director as they do a CEO, we would make a big step forward. I don’t want that to get lost.

As we are talking about changes in the landscape, what lessons can we take away from the last few decades?

Millstein: The lesson we learned, and it’s in every one of the stories I tell from GM to Drexel to Con Ed and on, is that part of oversight is knowing what’s going on around you. The necessity is for directors to have a broad horizon of the corporation—what’s it trying to accomplish, who are the shareholders, what’s the public and the media going to say. It’s a big job—it’s very different than when I started, it’s very different than it was 10 years ago, and it keeps getting more complicated. Directors have to be renaissance people in addition to knowing the company. We’re in an unprecedented era because of the pace at which change is occurring.

To that point, do you think there is a more rapid rate of change in corporate governance now, or do you think because we’re living through it, it feels more intense and our perspective is clouded as we’re caught up in the whirlwind?

Millstein: These past few years have seen so much change and growth in the investor base—pension funds became only one and maybe not even the majority of the institutional investors, mutual funds, hedge funds, program traders and the traditional mom and pop retail investors are all part of the mix. Everything grew, and boards had to change to meet that. Those changes brought about the need to modernize, and a new crop of intermediaries also popped up with new pressures on boards to act in a different way. These intermediaries are advising boards on how they should act and what they should do in terms of meeting changing circumstances at the time, all with the effect of micromanaging the boards. There were all sorts of rules and best practices set up to the point where today boards have not much to do but comply with everything that’s going on and these recommendations.

So I thought—we ought not to be micromanaging boards, boards should be managing themselves. They are responsible for directing the affairs of the corporation and seem to forget that at times. Even with the ever-growing list of rules, regulations and best practices, directors don’t have to spend their entire time checking the boxes. The ultimate goal of this book is for every corporate director to read it and see if there is anything in there that tells him or her to activate. Yes, I’d like the public to read the book, and I think it’s useful for them, but I hope to move the needle in terms of getting boards to think about the real implications of their job as a director.

IRA M. MILLSTEIN
Author, The Activist Director

Asking, “who do we know who would fill this job?” and then maybe going to the country club or the church or to friends who all get along with the rest of the board is not the answer.
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Measuring Good Governance in the New Normal

An interview with Jeffrey Sonnenfeld, Professor, Yale School of Management

Jeffrey Sonnenfeld is Senior Associate Dean for Leadership Studies and Lester Crown Professor of Management Practice at the Yale School of Management, and is Founder and President of The Yale Chief Executive Leadership Institute—the world’s first “CEO College.” Sonnenfeld has been named one of the “ten most influential business school professors” by Businessweek and one of the “100 most influential figures in governance” by Directorship. Sonnenfeld has published 200 scholarly articles and seven books, including best sellers The Hero’s Farewell and Firing Back.

As 2017 begins and the United States enters its next phase under President Donald Trump, uncertainty around the future of corporate governance is palpable. Between promises to “dismantle” Dodd-Frank and actions to negotiate keeping jobs in the U.S. even before he took office, early indications suggest that the business environment may change dramatically under Trump. But to what degree is still unclear. To gain more perspective on what this might mean for corporate leaders in the immediate future, C-Suite spoke with Jeff Sonnenfeld, Yale professor and founder of the Yale Chief Executive Leadership Institute. Beyond offering his thoughts on implications under the new administration, Sonnenfeld also shared observations on CEO and board leadership in the changing business landscape.

The prevailing narrative is that we’re living with a high level of uncertainty with President Trump coming into office. Having known him personally for some time now, do you expect that his presidency will be different than the way he conducted his campaign? Are things as uncertain as it seems, or is there some predictability here?

Jeff Sonnenfeld: I think in some ways there is more uncertainty than business leaders realize. President Trump defies ideological boxes, and while he is sensitive to criticism, he doesn’t hold grudges long and is quick to forge new alliances. That means it’s hard to draw battle lines. He is very good about bringing issues directly to the people if he doesn’t get his way. He demystifies language with such a plain-spoken, direct style.

Thinking about this in terms of the governance world, we’ve seen more disclosure and transparency in light of increased shareholder activism and engagement in recent years. Reading between the lines, could a Trump presidency accelerate those kinds of trends because he is likely to bring things out in the open?

Sonnenfeld: There is always the disinfectant quality of daylight. However, if the business environment becomes all ad hoc deal-making rather than predictable principles, that’s when it gets to be uncertain if not volatile.

Do you think this kind of uncertainty may create more opportunity for activists?

Sonnenfeld: Well, the activist question creates an interesting paradox. For example, Trump is close to Carl Icahn, but I would say that Icahn represents something very different than the deal struck with Carrier. Icahn would take the jobs overseas or break them up into pieces, selling them off at fire sale prices as he tried to do with Dell. Many activists are not trying to fortify great American enterprises but trying to extract the greatest value of the moment as opposed to making that long-term investment. Of course, Icahn would be quick to say he’s held some businesses for decades, and that’s true. But most activist enterprises have had a very short-term view to squeeze the most out of a company.
That’s not to say great activists haven’t performed really well and in some cases produced profound change. There are companies like Chesapeake Energy where there was rampant inside dealing that needed the accountability, integrity and discipline that Carl Icahn brought. But when do we need them and how much? When you have 6,000 funds and 6,000 public companies, you start running out of opportunities, and then you see them chasing down really healthy public companies like PepsiCo and Apple and Dupont. It’s a shame to see that happen.

On that note, how has the relationship between the board and management and all shareholders changed in context with activism?

Sonenfeld: There’s a nascent movement talking about tenured voting. We’ve had classification of stock issues of course, having to do with ownership, and there is a variation of that where you would have more influence if you’re a longer-term holder of the stock. It’s a way of perhaps putting some controls in.

Another area that’s new that’s being discussed right now is to create different categories of institutional investors. You have some who will put investments into sectoral indices and are managing it pretty passively, and are often criticized by governance voices and advocates for not doing the homework themselves and delegating to conflicted or confused proxy advisory firms.

But the other side is that some of these institutional investors are really active to the point where they are raising anti-trust issues as they are taking large stakes in competitor firms. For example, you have some places like the airline industry where large owners are telling management don’t worry, just keep raising prices, and giving the same message to the competitors in which they have parallel ownership interests. It’s basically what amounts to collusion taking place through the owners—it’s a new area management has to watch out for.

With the market at an all-time high, what do shareholders have to complain about? Do you think they are going to be arguing that much about pay?

Sonenfeld: Say on Pay has been exaggerated. Although there are many good qualities of Dodd-Frank, some need review, and some provisions didn’t get to the worst of the abuse. The worst pay decisions were the ones happening upon hiring where executives were striking ridiculous deals, often being compensated for pay they wouldn’t haven’t gotten if they’d stayed on where they were. If they were a rival candidate for a job they didn’t get, they went to the market and wanted to be made good for retention options if they stayed at the firm. Why should the new firm pay for loyalty to the last firm? These types of compensation problems come from misadvised boards upon hiring, and that would never be up for public review by shareholders.

There’s also still not a lot of correspondence between compensation and performance. You have some companies where they tower over peers but are among the most modestly compensated, and they don’t push for it, while performance is off the charts.

You’ve been outspoken about some recent CEO scandals—for example, Wells Fargo. What are the boards’ role in these scenarios, and what could they have done differently?

Sonenfeld: Wells Fargo is more representative of lingering problem – as is Theranos, even though Theranos was not a public company. In these scenarios, it’s possible the firms couldn’t have performed worse if there were no board of directors at all. I think it’s a situation where the board delegated due diligence to the great reputations of highly accomplished, noble professionals that were genuinely not corrupt, basically saying if this person thinks it’s ok, then it’s alright. And because of this, they were finding things out after the general public.

If you take Wells Fargo directors at their word, they were among the last to find about the problems. Following Los Angeles Times reports, the Los Angeles district attorney alerted management know what the problems were yet years past with the misconduct of the cover cross-selling continued. And even the regulators were not immediately on top of it. They believed the assurances that
Wells Fargo had taken steps to fix the issue, and there’s basically six years of information the board should have had and they didn’t get. And it isn’t until they are watching the Senate testimony of their CEO when they decide to investigate.

The troubling part is that many such boards are filled with sophisticated honest directors yet they had a flawed group process on the board. They have everything you want in terms of the conventional wisdom regarding good governance structural criteria. Furthermore, in terms of independence from management, all the structural precursors that ISS or Glass Lewis would measure them against, and they just didn’t do the right thing.

That is a very relevant point, as we continually hear about building better boards through more transparent evaluations and refreshing themselves in order to meet best governance practices. What is your analysis of how that’s working?

Sonnenfeld: Measuring good governance and what good governance is has no correspondence. We have structural predictors that really aren’t preventative or predictive. We use them because they’re easy to measure.

You have to look at the process and the flow of information if they’re only meeting quarterly—and it’s hard to measure boards this way. There’s a big loss of memory in between meetings, and they see graphs in front of them every three months, and it’s always the same upward sweeping function regardless of the information shown. There’s time lost in between. Is the board in contact with itself on a much more frequent basis, even though there were no minutes shared, for continuity of knowledge? And secondly, does the board do their homework, and is there accountability to do their homework?

There’s a rush for all boards now to be under pressure from good governance advocates to remove every inside director from the board, except for the CEO. However, there is no listing requirement, no Sarbanes-Oxley requirement, no Dodd-Frank ruling, no legal or regulatory pressures to do so. But as a mythology developed around it and presumed values of independence, this was taken to an extreme, suffering the law of unintended consequences. Now you are completely relying on the voice of only one member of management, the CEO. And through the inelegance, ineloquence or integrity of someone, the board might miss something.

Advocates will respond to this and say, ‘Jeff you don’t understand, the management are still attending and sitting there.’ It’s not the same when other members of management parachute in and out for presentations in a blur of PowerPoint slides. They generally don’t have the allowed voice or the legitimate vote, they are there for dog and pony show presentation, and it seems impolite or impertinent to speak out. They’re certainly not going to grandstand at the expense of another colleague who is about to present. Some need to have an authentic board membership to have that value as an influence. Some advocates will tell us the CEO will have a dampening effect because that’s their boss even if they are on the board. If they are so intimidated about speaking truth to power with the CEO present, the company has a much bigger problem.

We often see turnover of CEOs at the end of the year, but 2016 seems like there have been more CEO transitions than usual, and the data proves it. Why do you think this is the case?

Sonnenfeld: Companies are getting out of the globalization thing now while the getting is good. There are a lot of free market economies that are getting infused by strong nationalist tendencies, which has created some confusion in the sort of globalist Davos-man mindset. And maybe they’re thinking they’re not quite sure in this post-Brexit world. Even before we started in the recent round of elections this last year around the world, we’re already about five years past the peak of globalization as far as direct investment, capital flows, trade of goods and services and immigrations flows. Things are becoming much more country-by-country specific, and it’s a different model. Many may be thinking they are not sure if they want to roll up the sleeves and figure out what is this new model is going to be.

Some of the recent CEO retirees are reasonably young as well. You also have the baby boomers who may be saying ‘I don’t want to go off to the senior circuit golfing just yet,’ but perhaps may try something other than a public company CEO and be really happy living that life. It’s maybe less remunerative but certainly less stressful than the constant scrutiny and critique. There is something very draining about being a public company CEO today—and sure, some of them are very well compensated, but many of them come to the conclusion it’s not worth it after a while.

It does seem like it’d be awfully tiring to keep up with everything a public CEO is supposed to know and do nowadays, which I think brings us back nicely full-circle to the changing environment. How does the uncertainty coupled with a short-term view coming from many shareholders influence the markets?

Sonnenfeld: I often speak before audiences related to short and long-termism for private equity funds that host the CEOs of their portfolio companies. In the past, these CEOs were champing at the bit to be unleashed and unchained to go public. I really don’t hear a lot of eagerness like that anymore. A lot of it is due to the regulatory changes and the short termism. CEOs feel like it’s nice and warm as well as protected when they remain private, where they can talk candidly sharing problems and not feel like they’re making themselves vulnerable in dangerous ways. They can bounce ideas off of colleagues and other CEOs in these portfolio companies, and obtain good advice. The private equity fund was often anxious to liberate these assets and the CEO couldn’t wait to get released, but that’s not the feeling now, and we’re finding the opposite tension.
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The Future of Executive Pay Regulations

By Dan Marcec

Highlights from the Equilar and Nasdaq Compensation Committee Forum

Professionals in executive compensation have long been prepared for the prospect of change following the inevitable shift in political control following November’s elections. At the time of this writing, the SEC was down to just two commissioners, and observers were keenly aware that the new president would have a significant influence on the future of their field, particularly if the scales tipped toward the Republican majority in all branches of government as they now have.

One thing that is certain not to change, however, is uncertainty with what will happen with proposed regulations around executive pay in the near term. Say even the most extreme proposition comes to fruition—the complete “dismantling” of Dodd-Frank hinted at by President Trump—such radical change will not happen overnight. Consider how long the initial rules took to be put in place despite widespread support from the Democratic majority—it’s been more than six years since Dodd-Frank was passed, and at this point, some of these proposals may never find their way to rulemaking.

Panelists at the Compensation Committee Forum, co-hosted by Equilar and Nasdaq in San Francisco on November 10, shared their mixed projections about the future of Dodd-Frank and other compensation-related regulations. Ultimately, nothing about the political environment changes public companies’ and their boards’ responsibilities to their stakeholders. Regardless of what is required by the SEC to be included in annual proxy statements, shareholder engagement and transparency will remain critical for decades to come. While compensation professionals should be prepared for all possible regulatory outcomes, they also should expect to see more of the same—a demand for best governance practices and open disclosure from their investors, employees and other constituents.

Visit equilar.com/equilar-events to view highlights of recent Equilar events and to learn more about the next Compensation Committee Forum in New York City on April 19.
## Featured Speakers

| Keynote: | TROY PAREDES  
Former Commissioner  
U.S. Securities and Exchange Commission |
|---|---|
| AEISHA MASTAGNI  
Portfolio Manager, Corporate Governance  
CalSTRS |
| EILEEN SCHLOSS  
EVP, Human Resources  
Medidata |
| SHELLEY CARLIN  
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Center On Executive Compensation |
| BOB MCCORMICK  
Chief Policy Officer  
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| BRIT WITTMAN  
Director, Executive Compensation  
Intel Corp. |
| KIRSTEN MARRINER  
SVP & Chief People Officer  
Clorox |
| CHAD PERRY  
General Counsel  
Tanger Outlet Centers |
| CHARLES YAMARONE  
Board Member  
El Paso Electric and United Continental Holdings |

## Additional Speakers

| JOHN BORNEMAN  
Managing Director  
Semler Brossy Consulting Group |
|---|
| ANNE CHAPMAN  
VP & Senior Manager, Governance & Proxy Capital Group |
| ERIC HOSKEN  
Partner  
Compensation Advisory Partners |
| JEFF JOYCE  
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| DOREEN LILIENFELD  
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| DAVID SWINFORD  
President & CEO  
Pearl Meyer |
| JEFF THOMAS  
Vice President  
Nasdaq |
| JAMES VAUGHAN  
Principal  
Mercer |
Within the span of a few days last October, high-profile CEOs at Wells Fargo, Caterpillar and Visa all announced they would be stepping down from their posts. Each did so for different reasons, whether it was a high-profile scandal, declining performance over an extended period or a surprising announcement that caught observers off-guard.

Over the past five years, the number of S&P 500 chief executives who have left their positions has increased steadily, according to an Equilar study. As of October 31, 59 CEOs either resigned, retired or were terminated with effective end dates in 2016, more than all of 2015.

There is more than meets the eye when it comes to the increase. In 2016, 22 of the 59 CEOs that had either left their position or announced plans to do so before the end of the calendar year transitioned to the executive chairman of the board role. This represented an increase from just 12 in 2015, which already was a four-year high. In other words, though many of these high-profile CEOs left, they are neither gone nor forgotten, and still have their finger on the pulse.

Turnover is natural, even at the top position, but these recent changes have brought to light changes in corporate governance practices and the fact that succession planning for executives is of paramount importance for boards. Even though a vast majority of these transitions are voluntary, boards must be prepared to have the next generation of executives in line for the corner office.
How can you best prepare?

Starting in 2018, companies must provide investors with a ratio showing how the median pay of their workforce compares with their CEO’s compensation. With this requirement looming, there is tremendous discussion around how to best prepare.

In this on-demand webinar, panelists from WorldatWork’s Pay Ratio Workgroup share their thoughts on the considerations and obstacles they faced when they began the process and provide ideas, strategies and specific examples.

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- Impact variances to explore when selecting the effective date
- Potential considerations for disclosure flexibility
- What to consider when developing employee communications.

Presenters:

- Karen Macke, Senior Vice President, Compensation, Benefits & HR Operations, Nationwide Insurance
- Allison Salkeld, General Manager, Executive Compensation, Delta Air Lines
- Chris Guzman, Director, Executive Compensation, Darden Restaurants
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