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# The Pressured Mandate of the Comp Committee/RemCo

BY FRED WHITTLESEY, DAVID CREELMAN AND ANDREW LAMBERT (2011)

The Creelman Lambert report *Boards and HR: how board oversight of human capital works* spotlights good boards taking a broad view of human capital. However, the reality is that many boards struggle with people management issues and the oversight of human capital, and in some cases things are getting worse. Pay is just one area of 'struggle'.

In the UK the heat on boards is rising fast. The recent 'High Pay Commission' proposals have triggered position statements from rather more influential bodies such as the ABI and CBI favoring more RemCo pro-activity. More ominously the Liberal wing of the UK government is actively developing ideas for regulatory action.

However in the US Comp committees are becoming more risk averse, with a tendency towards just 'ticking the boxes'. Concern about being sued over executive pay has narrowed their focus just at the time when they should be taking on a broader mandate.

One example of this is the 'say-on-pay' movement. If a company gets any significant opposition to their pay policies, they come under scrutiny and are expected to do better. Under pressure the comp committee turns to figuring out how to convince proxy advisors like ISS to endorse their pay practices. But while they worry about the ISS checklist, a strategic view of compensation – let alone a strategic view of HR – falls off the agenda.

This is not to pour blame on say-on-pay – it's just an example of how multiple stakeholders are making board work more difficult. The boardroom is no longer an easy place to sit. Boards are under scrutiny from the media, regulators, movements such as ESG (environmental, social, and governance) and proxy advisors. While these groups push for better governance, they also create work that can reduce boards' focus on the business.

If the comp committee is pre-occupied with avoiding trouble, it can leave the topic of human capital an orphan. The best boards integrate human capital considerations into all of their discussions, but not everyone is blessed with such a truly "HR-capable" board.

What's the solution? There are three things we need: a committee with a mandate to take a broad look at human capital; members who have time to fulfill this mandate; and executive teams that can communicate human capital issues in succinct dollar-denominated metrics. The obvious place for the mandate has been the comp committee. Yet we know many are struggling to handle their current workload. It may be necessary to create an HR committee with a broader role, freed from the minutiae of the exec pay wars.

Yet adding a committee doesn't magically create more hours in the day for boards. The reality is that board work is more demanding than ever – either board members invest more time in board work or else we need to expand the board. Note that 'bigger boards' was one of the conclusions in Lawler and Worley's recent book *Management Reset.* While resolving this tension is not easy, nonetheless it is imperative that your board can handle its governance duties. The best time to fix this is before trouble hits, not afterwards.

**To get a grip on these issues, contact Creelman Lambert at** david@creelmanlambert.com **or** andrew@creelmanlambert.com **or compensation expert Fred Whittlesey at** fred@compensationventuregroup.com

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