The Nightly Business Report

Compensation Committees – Under the Spotlight

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Investors are looking more critically at CEO compensation and at what compensation committees are doing.

I serve on compensation committees and am co-chairing a Blue Ribbon Commission on this subject for the National Association of Corporate Directors. Our report is not finished, but here are some personal ideas about what compensation committees should be doing.

First, be independent. Financial independence will be required but I'm talking about a state of mind. That means being objective and being willing to "just say no" if necessary.

Second, wrestle with the fairness question. What is fair compensation for this CEO job in this company at this time? How much higher should CEO pay be than that of senior officers and the rest of the organization? What is the best way to benchmark what's happening in a peer group of companies?

Third, hire a compensation consultant to advise the committee – a consultant who does not also work for management.

Fourth, insist that pay be linked to performance. Ensure that there are objectives for the CEO, which flow from corporate strategy, and measures of performance – both financial and non-financial. Understand each element of the pay plan – cash, stock, perks, and other benefits – and know what the whole thing costs.

Finally, be transparent. The entire board should know what's in the package – and so should investors.

It's time for compensation committees to take charge.

I'm Barbara Hackman Franklin