

## Conference Board Task Force on Executive Compensation

■ By **Margaret Engel**

In September, the Conference Board Task Force on Executive Compensation issued a report that sets forth guiding principles for executive compensation. The Conference Board's Task Force convened in March, 2009, during the worst days of the economic crisis. Members were responding to the erosion of public confidence in the business community, sparked by economic crisis and the uproar over excessive and inappropriate incentives. The Conference Board Task Force's work is an example of how the crisis in financial services has spilled over into other sectors and now impacts the entire business community.

We view the report as required reading for outside directors, senior management and HR professionals. The report amounts to a call for action for boards of directors and compensation Committees to re-examine their compensation programs to ensure that the link between pay and performance is strong and the programs reflect best practices and high governance standards.

The report recommends that executive compensation programs reflect the five guiding principles:

### **Principle One – *Paying for the right things and paying for performance***

“Compensation programs should be designed to drive a company's business strategy and objectives and create shareholder value, consistent with an acceptable risk profile and through legal and ethical means. To that end, a significant portion of pay should be incentive compensation, with payouts demonstrably tied to performance and paid only when performance can be reasonably assessed.”

### **Principle Two – *The “right” total compensation***

“Total compensation should be attractive to executives, affordable for the company, proportional to the executive's contribution, and fair to shareholders and employees, while providing payouts that are clearly aligned with actual performance.”

### **Principle Three – *Avoid controversial pay practices***

“Companies should avoid controversial pay practices, unless special justification is present.”

### **Principle Four – *Credible board oversight of executive compensation***

“Compensation committees have a critical role in restoring trust in the executive compensation setting process and should demonstrate credible oversight of executive compensation. To effectively fulfill this role, compensation committees should be independent, experienced, and knowledgeable about the company's business.”

### **Principle Five – *Transparent communications and increased dialogue with shareholders***

“Compensation programs should be transparent, understandable and effectively communicated to shareholders. When questions arise, boards and shareholders should have meaningful dialogue about executive compensation.”

In addition to the guiding principles, the report contains concrete recommendations on how to implement effective executive compensation programs. Click on the link [http://www.conference-board.org/pdf\\_free/ExecCompensation2009.pdf](http://www.conference-board.org/pdf_free/ExecCompensation2009.pdf) to access the full report of Conference Board's Task Force on Executive Compensation.

***Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at [www.capartners.com](http://www.capartners.com) for more information on executive compensation.***