



## HUMAN RESOURCES COMMITTEE EFFECTIVENESS

November 2021

As we reflected upon our twenty years of experience working with boards and senior management teams on executive compensation, we observed a shift in the role of the traditional Compensation Committee. We also witnessed many great examples of committees that were more relatively effective than others. Leveraging this experience, we wanted to learn more about this shift and spent the past few months speaking with many Human Resources (HR) Committee Chairs to gather their feedback on creating an effective HR Committee (HRC). These discussions were wide-ranging and covered several related topics, including:

- |   |   |   |
|---|---|---|
| <b>1. Unique characteristics of the HRC</b> | <b>2. Evolving responsibilities for the HRC</b> | <b>3. Tips to get the most from the HRC</b> |
|---|---|---|

### UNIQUE CHARACTERISTICS OF THE HRC

We heard that the HRC is one of the most challenging board committees and that it has been increasingly challenging as plans have become more complex, responsibilities are broadening, and a larger group of stakeholders are increasingly having louder voices. There are some unique aspects to the HRC given that the main areas of oversight do not have the same standardized rules and process that would be found in the Audit Committee. In addition, we are dealing with emotional and personal topics that can have a fundamental impact on the business and its performance.

Many of the respondents indicated that it can be easy to get caught up in market trends and to feel pressured to conform to the likes of proxy advisors. However, we also heard that, while you need to understand the trends, the most effective HRCs customize plans and programs to the company's unique circumstances to ensure alignment to their own business and talent strategies. In addition, while there are some topics where greater variability can be expected (e.g., incentive design), there might be the need for greater conformity in terms of how salaries are set.

Ultimately, the HRC needs to be comfortable with a greater degree of subjectivity. They need to be agile and flexible to adjust to changing circumstances, requiring good judgement in making effective decisions.

### EVOLVING RESPONSIBILITIES FOR THE HRC

The evolving names of the traditional Compensation Committee serves as a visible indicator of the changes that we have been witnessing. We have observed many large Canadian companies adopt broader titles that address the broader mandate, including people, talent, and culture.

Succession planning and overall talent management is becoming a key priority for the HRC. We heard that it is important to build a deeper understanding of the talent pool (even below the CEO and direct reports) to surface potential risks or future challenges in building a strong executive team over the right period. Specifically, it is important to understand the broader diversity profile of the organization and its supporting programs as these are leading indicators of how quickly the diversity profile of the executive team can shift. In another example, one respondent cited the need to understand the turnover of their younger employee base to determine how the employer's value proposition might need to shift to reduce excessive turnover and its related costs. This has been compounded by the pandemic and the "great resignation" challenges many organizations are feeling.

As new board members that are increasingly diverse join the HRC, with different backgrounds and experiences, they are also asking questions on various people-related topics, such as diversity, succession planning and culture. While these broader issues have been part of the HRC's mandate for a number of years, it's a slow evolution and uncharted territory that will take some time to get it integrated and balanced right, between noses in and fingers out. The HRC needs to be comfortable with asking different talent-related questions, monitoring progress via different kinds of board reporting, and encouraging and recognizing management for evolving towards best-in-class.

While these broader responsibilities may attract more time and attention, respondents reminded us that the HRC also needs to remain focused on its core responsibilities, albeit with less time. They noted that executive compensation is becoming more complex in an increasingly global market for talent that truly has no borders. This is making market benchmarking a more complex process with compensation across industries and countries, introducing different pay mixes and currency issues. There is also increased discussion on the relevance of an executive team being physically together and how to best support that when executives can be from anywhere. In addition, some items that seem simple on the surface—for example, the use of relative total shareholder return as a performance metric—may be quite complex, requiring the HRC dig deep to understand the specific nuances of their peers' economic differences and the calculation approach. Finally, more work needs to be done on the CEO performance evaluation process to normalize and formalize both the what (performance execution) and the how (exhibiting leadership qualities, behaviors, and values) the CEO has demonstrated based on feedback from the entire board and senior executive team. More organizations are focused on the continuous feedback loop for employees and executives are employees too.

### TIPS TO GET THE MOST FROM THE HRC

The combination of increasing scrutiny and broadening responsibilities is putting increased pressures on the HRC Chair to navigate effectively. Respondents cited several practices to improve the effectiveness of the HRC. It starts with effective engagement between the HRC Chair and the CEO, and increasingly, also directly with the Chief Human Resources Officer (CHRO). There are several preparatory discussions that need to occur leading up to each HRC meeting with the CEO, the CHRO and each of the individual HRC members. These discussions are useful to surface any potential issues and to ensure that the necessary information is brought forward in a succinct manner at the meeting so that the HRC is prepared to make decisions. This process helps to ensure that surprises are minimized and designing the various programs is not done in the room.

The HRC materials also need to be simplified so that the HRC members are clear on the purpose of each item and the specific request of the HRC (e.g., information, feedback/review, approval), and that a summary of necessary information is provided. An overall summary of the meeting materials from the CHRO can also be a useful practice to guide the discussion and highlight the areas of focus. The individual reports need to synthesize the overall analysis to bring forward key highlights that are relevant to the decision-making process in a concise executive summary. The underlying details can be kept in an appendix for reference as needed if questions are raised during the meeting. Finally, the use of a dashboard or visual summary of the existing programs can provide a useful tool for the HRC members to refresh their knowledge of the organization's specific compensation programs, incentive history and key priorities.

The HRC advisor also plays a critical role that can help provide a broader market perspective, create a connection between management and the board, and surface key issues and considerations. They can help coach the HRC Chair and management through contentious issues and provide independent guidance and objective advice directly to the HRC to support confident decision-making.

## Southlea Group

Human Resources Committee Effectiveness

November 2021

---

For additional perspectives on governance more broadly including talent oversight, we suggest reference to:

Tony Gaffney, High Performance in the Boardroom: an exclusive report on contemporary best practices of high-performing boards in a time of accelerating change. <https://lambaygroup.com/high-performance-in-the-boardroom-full-report/>

## ABOUT US

As a trusted independent advisor to boards and management teams, Southlea offers fresh insights and perspectives on people and pay programs to enhance business results. This means working collaboratively with boards and management teams using a proven approach to align pay outcomes with the achievement of an organization's strategy and performance objectives.

## CONTACT US

**Amanda Voegeli**  
416-901-4858  
amanda@southlea.com

**Ryan Resch**  
416-456-0179  
ryan@southlea.com

**Alex Pattillo**  
647-278-2948  
alex@southlea.com

**Tara Armstrong**  
416-575-3261  
tara@southlea.com