

Why the Compensation Committee Needs a Rebrand

By: Alan J Kaplan



Publicly traded businesses have long been mandated to have a compensation committee which reviews and sets the pay and benefits for corporate executives, and most non-public financial institutions have followed suit.

Most “comp committees,” as they are affectionately called, spend the vast majority of their time focused on the institution’s pay practices — including establishing competitive salary levels and crafting appropriate short- and long-term incentives that drive performance. While this core function of the comp committee remains relevant, it is time to change the focus of the committee.

The compensation committee label suggests that the focus of committee and board should be on paying executives properly. However, any good human resources leader would point out that compensation is only one piece of the puzzle when it comes to attracting, developing, motivating and retaining top talent. **In today’s highly competitive banking talent environment, the board and compensation committees should broaden their focus to reflect this dynamic.**

Compensation committees should be the central governance repository for all vital elements of strategic human capital management for an engaged board of directors. This includes obvious topics such as monitoring ongoing CEO succession management, executive succession for other C-Suite roles, diversity and inclusion initiatives and emergency succession plans.

In addition, boards should stay abreast of talent development initiatives targeted a level or two below the C-suite, depending on the institution’s size. And, to add teeth to this enhanced focus on human capital, **the comp committee should include talent development and succession objectives in the incentive compensation calculation for the organization’s leaders.** Executives will pay more attention to the increased accountability of “grooming your successors” when there is money on the line.

A number of institutions have rebranded their compensation committee to emphasize this broader focus. While there is no standard moniker of preference, the message to employees and management about the importance of people becomes clearer with a new committee identity. The subtle shift of “compensation” to further in the committee title can be reinforcing as well.

Some of the many committee name variations we have seen include:

- Human Resources and Compensation Committee
- Human Capital and Compensation Committee
- Management Development and Compensation Committee
- Human Capital Management Committee
- Human Capital, Diversity and Compensation Committee

The naming options for rebranding the comp committee are numerous, and the symbolism of such a name change can be powerful. While many institution's comp committees do focus on the broader human capital agenda, many have yet to rename the committee to exemplify their broader function and intent. Formally altering the committee name and charter in the bylaws is a very powerful reinforcement of this positive expanded committee focus.

CEOs always tell us that "people are our most important asset." Boards support this assertion. Yet the committees' emphasis on compensation comes at the expense of other critical aspects of human capital management required by today's broader charter. Sadly, we still encounter some boards operating with a "Personnel Committee" in both title and mindset. This is so last century. To be sure, structuring the right compensation programs for bank leadership remains critical. But ignoring the equally important strategic aspects of human capital management, which should also appear on the board's agenda, cheapens the commitment to employee development, diversity and inclusion and management succession. It's time for boards to put their money where their mouth is and change the name of their compensation committee to reflect the critical focus on strategic human capital management.

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