

Breakout 1:  
**Bank Director 101:  
Compensation Primer**

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#BBTF24

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# Compensation Committee Primer

Bank Director Board Training Forum

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# Who is Here Today?

- + Private
- + Public
- + Asset size
- + Previous board service?



# Compensation Committee Purview

There is a lot in the bucket

- + Compensation Committee Charter and Calendar
- + Executive Compensation Programs
- + Proxy Advisory Firm Policies and Shareholder Perspectives
- + CEO Evaluations
- + Incentive Plans
- + Employment Contracts
- + Director Compensation
- + Health and Welfare, Retirement, and Non-Qualified Plans
- + Human Capital Management (e.g., Succession Planning, Leadership Development, DE&I, and Culture)



# Key Focus Areas for the Compensation Committee

Four topics for today's discussion

#1

## Administering Executive Pay Plans

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What are the most effective processes for monitoring pay plans?

How should we be evaluating these programs?

#2

## Incentive Plan Design and Goals

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How should we look at our incentive plans?

Goal-setting: what do we need to know?

How to best to ensure pay-performance alignment?

#3

## Risk Management Oversight

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How do we examine risk in our plans?

What is low risk and what is high risk?

#4

## CEO Evaluation

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What are the best practices?

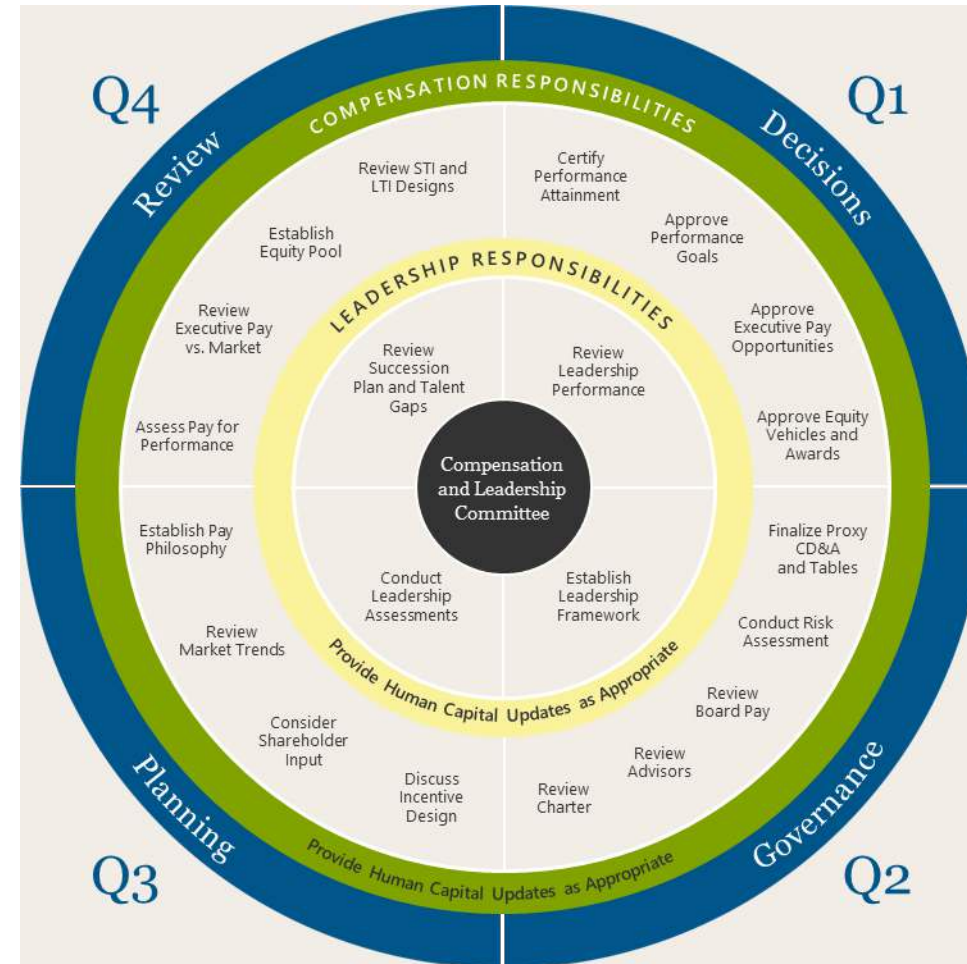
How do we connect CEO evaluation to compensation?

These are only some of the responsibilities...

# #1 Administering Executive Pay Plans

A few of the most effective practices for monitoring compensation programs

- + Process discipline
- + Clearly defined roles and responsibilities
- + A consistent annual calendar of meeting dates and agenda items
- + Pre-calls with the committee chair, independent consultant, and select management (e.g., CEO, CHRO)
- + Executive sessions available at every committee meeting and debrief calls following each meeting to ensure alignment on decisions and action items



# #1 Administering Executive Pay Plans

A few of the most effective practices for monitoring compensation programs

## Compensation Dashboards

- + Limited number of meetings = difficult to keep up with everything
  - Fundamental pay philosophy
  - Recent compensation adjustments
  - Current incentive plan designs
  - Current policies and practices
- + One-page summary of everything compensation committee members need to know "at a glance"
- + This can be a highly effective tool to ensure everyone is up to speed with the current program and to have ready access in the event there are any questions about the current program, practices, or policies



# #1 Administering Executive Pay Plans

A few of the most effective practices for monitoring compensation programs

## Executive Summaries

- + Committees should require that all reports being presented to them include an “Executive Summary”
  - Boils everything down to the key points and action being requested
  - Allows committee members to quickly assess “the ask”
  - Continues to provide all of the detailed rationale and support, as needed
  - Some companies even include an “Executive Summary Agenda” which includes one statement and one “ask” under each agenda item so that committee members have the context of the entire meeting before delving into each section of the agenda
- + Reduces meeting time without stifling discussion

# #1 Administering Executive Pay Plans

How should we look at our compensation programs?

- + Evaluate compensation programs in the context of the business strategy and executives
  - What are the key business and organizational strategies?
  - How are those strategies embedded in compensation philosophy and design?
  - What programs are working? Not working?
- + Overlay market and other factors to inform and understand competitiveness and differences
  - What differences exist?
  - Do those differences support the strategy?
  - Will those differences create a competitive advantage? Or a disadvantage?
  - Will those differences cause issues with investors or proxy advisors?

**Compensation strategy should entail understanding what your bank can do differently (internally & externally) to create competitive advantage**

## #2 Incentive Plan Design and Goals

Performance measures are a critical link between stated business strategy and management execution

- + Maximize shareholder value
- + Bank-specific path to value creation, taking into account:
  - Market economic/competitive position
  - Bank strengths, weaknesses, opportunities, and risks
- + Specific/relevant financial measures, balancing growth and returns
- + Operational measures tied to business strategy



## #2 Incentive Plan Design and Goals

Performance measures are a critical link between stated business strategy and management execution

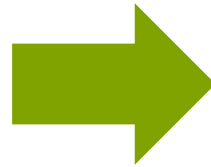
- + In general, for the average management team, a good rule of thumb is that:
  - Superior performance is achieved 10% - 20% of the time
  - Target performance or better is achieved 50% - 60% of the time
  - Threshold performance is achieved 80% - 90% of the time
- + Certainly, a superior management team may achieve high performance levels more often, but...
  - Does the company's stock price performance support such a belief?
  - Are you confident that the measures of performance really matter to shareholder value?

## #2 Incentive Plan Design and Goals

Goal-setting is commanding greater time and attention from compensation committees

### Traditional Approach

- Budget-driven
- Target-focused
- Compensation committee involved at the end of the process

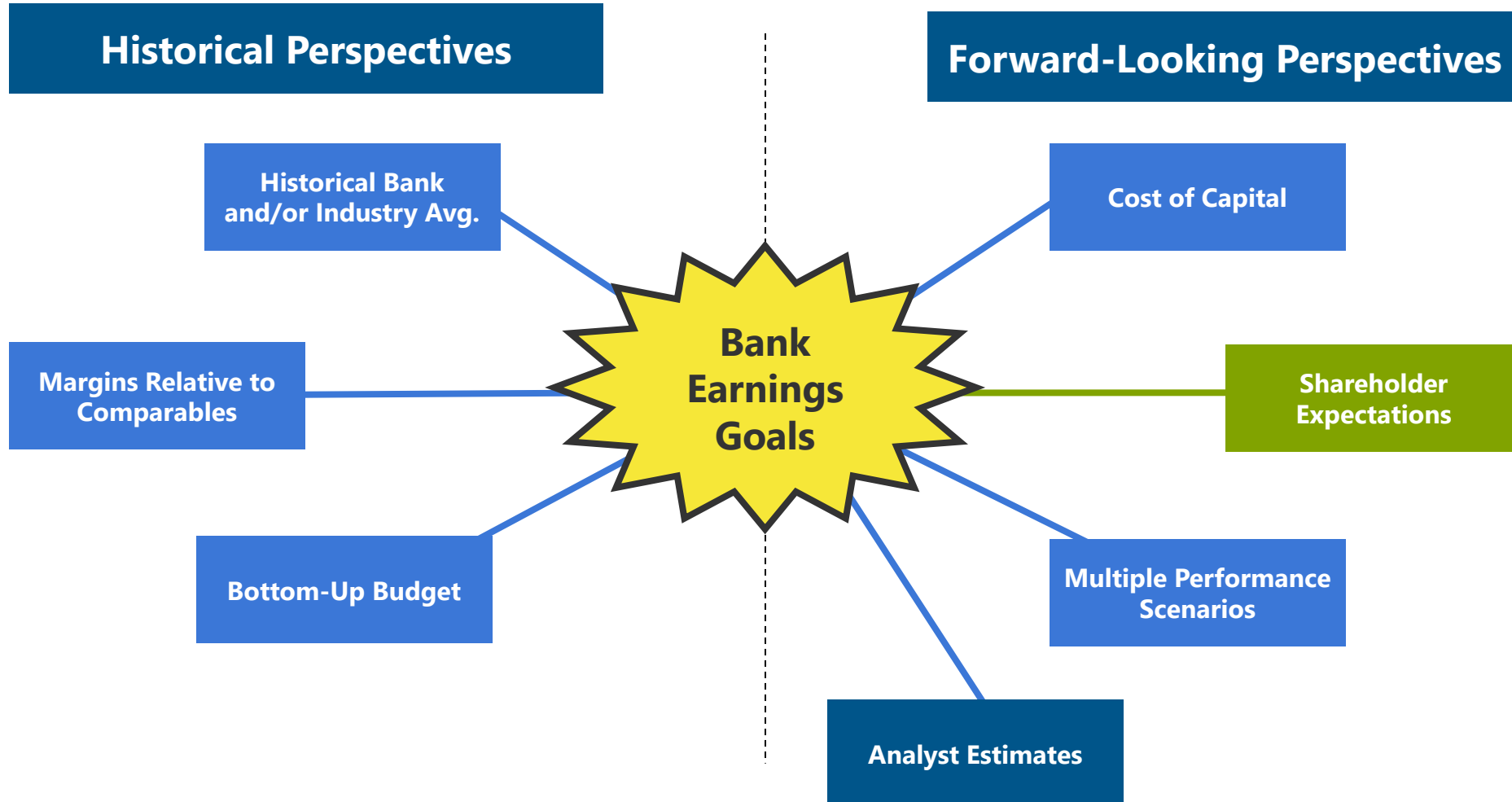


### Today's Required Approach

- Multiple performance perspectives
- Multiple pay/performance scenarios considered
- Early, active involvement of the compensation committee

# #2 Incentive Plan Design and Goals

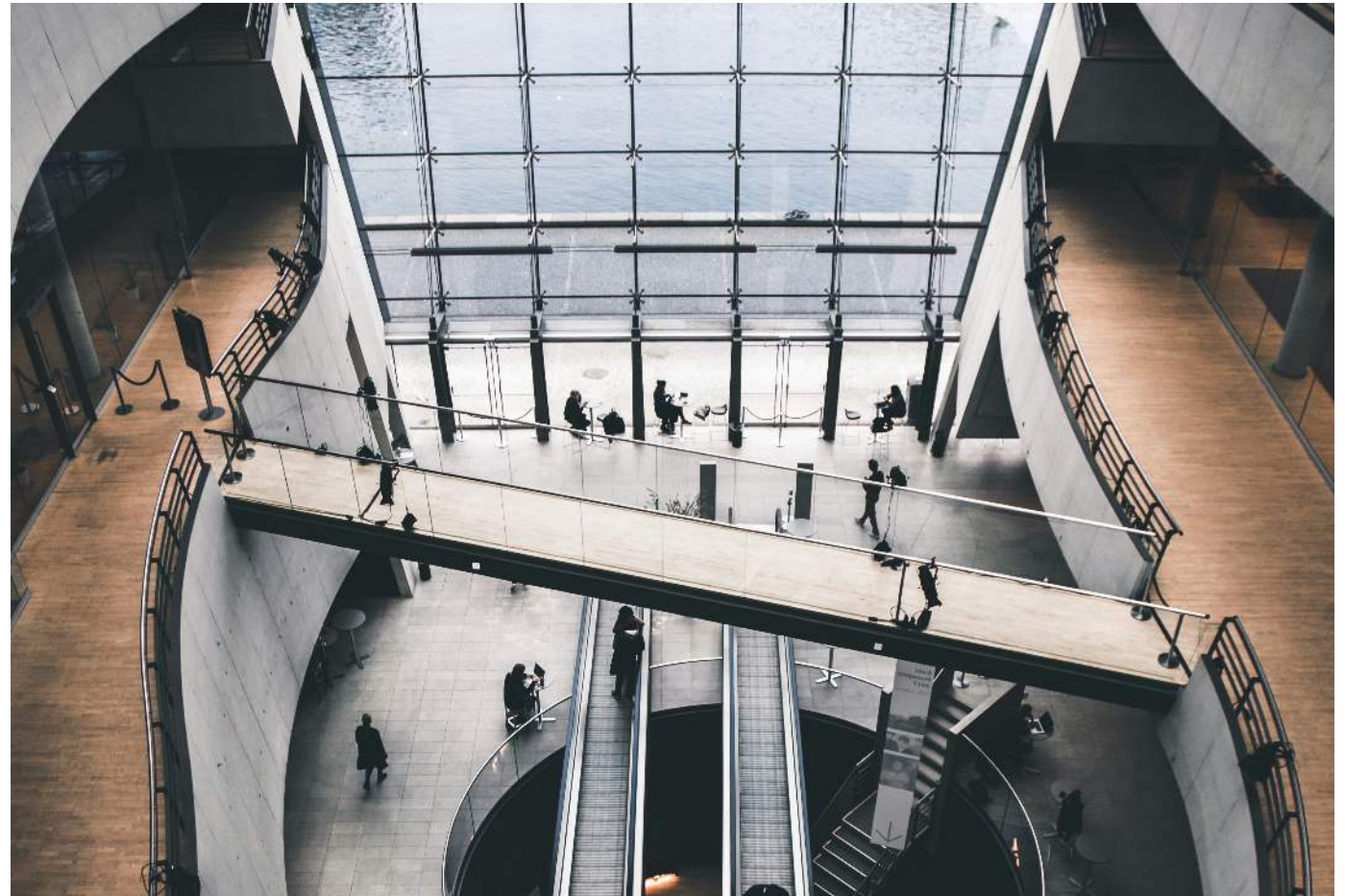
Goal-setting should incorporate multiple perspectives on performance expectations



## #2 Incentive Plan Design and Goals

### Pursuing pay-performance alignment

- + The pursuit of alignment between executive pay and company performance is an ongoing endeavor.
- + Compensation committees can—and should—learn from the past and make appropriate adjustments.
- + Calibrating payout opportunities is the easier part of the equation.
- + Calibrating the rigor of performance goals is more complex and challenging.

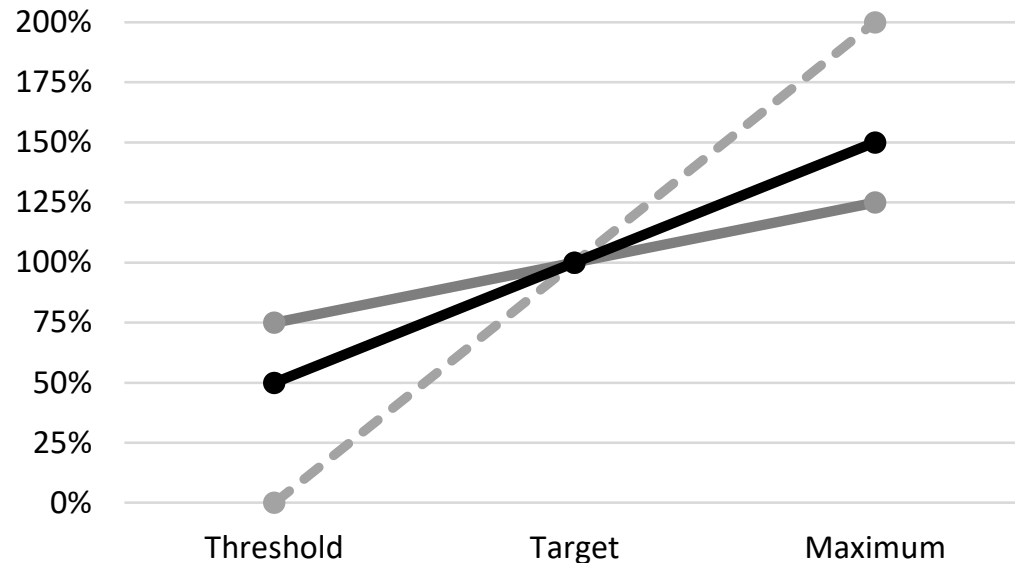


# #2 Incentive Plan Design and Goals

## Calibrating incentive payout opportunity

- + The “leverage” of an incentive plan is a key design element => What happens to payout opportunities when performance is above or below target?
- + The range of payout opportunities should reflect the philosophy and business model of the company (e.g., growth orientation, risk profile, leadership strategy).
- + The competitiveness of your incentive opportunity structure can be informed by mapping it against the disclosed structures of peers.

STI Opportunity  
(% of Target)



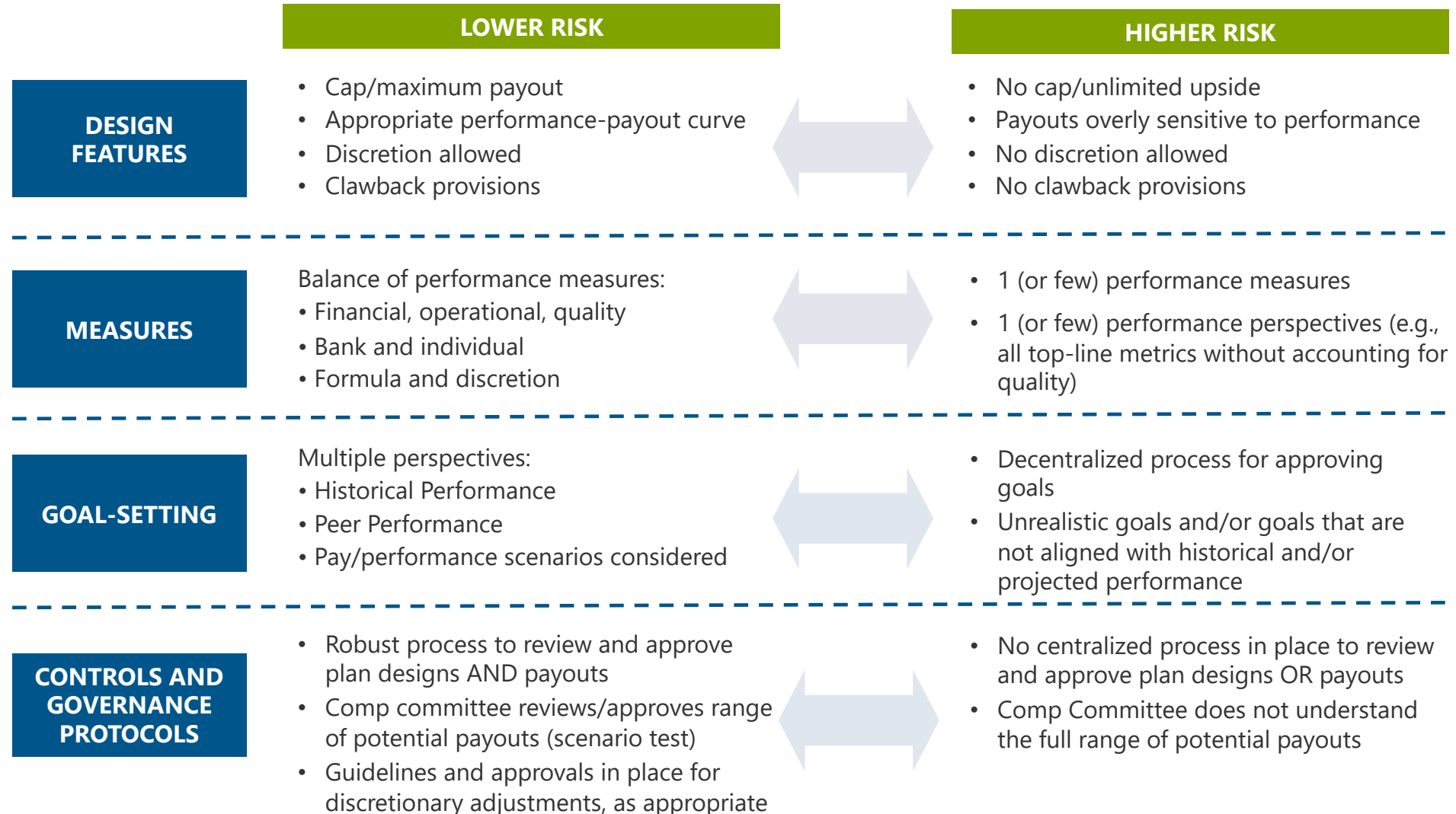
High-leverage arrangements are less common in banking but may be a good fit for growth-oriented companies; often accompanied by wider performance ranges and require more stringent risk-management.

50% of target at threshold performance and 150% at stretch/max is a common leverage structure for banks.

Lower-leverage arrangements may be appropriate for stable, lower risk profile business models; often accompanied by narrower performance ranges.

# #3 Risk Management Oversight for Incentive Plans

## Understanding risk in incentive plans



# #4 CEO Evaluation Process

Cornerstones of effective governance

*"The quality of the CEO evaluation process plays a huge role in determining the value that can be gained from the process."*

## Establishes Alignment on Direction and Results

Drives the board, CEO, and executives to crystallize strategic direction and priorities.

Laser-like focus on a common set of goals drives higher performance and delivery of results, not just for the CEO personally, but for the entire company.

## Promotes Agility

Fosters open dialogue and trust between the board and CEO to raise and efficiently resolve issues.

Agility in framing and making decisions allows companies to seize opportunities that provide a strategic advantage.

## Develops an Even Stronger CEO

Identifies development opportunities that build the CEO's capability to lead the company and influence his/her industry.

Ability to consistently improve CEO effectiveness as a valuable company asset.

## Builds Leadership and Brand Equity

Demonstrates that the board, CEO, and executives are aligned on a common direction and capable of executing strategy.

Promotes leadership brand equity and contributes to a higher stock price (from The Economist/Mercer report on "The Economic Value of Leadership Brand").

# #4 CEO Evaluation

## Leading Practices



Board and CEO are jointly accountable for the evaluation process



Evaluation criteria assess short- and long-term value creation



Objective data collection and analysis



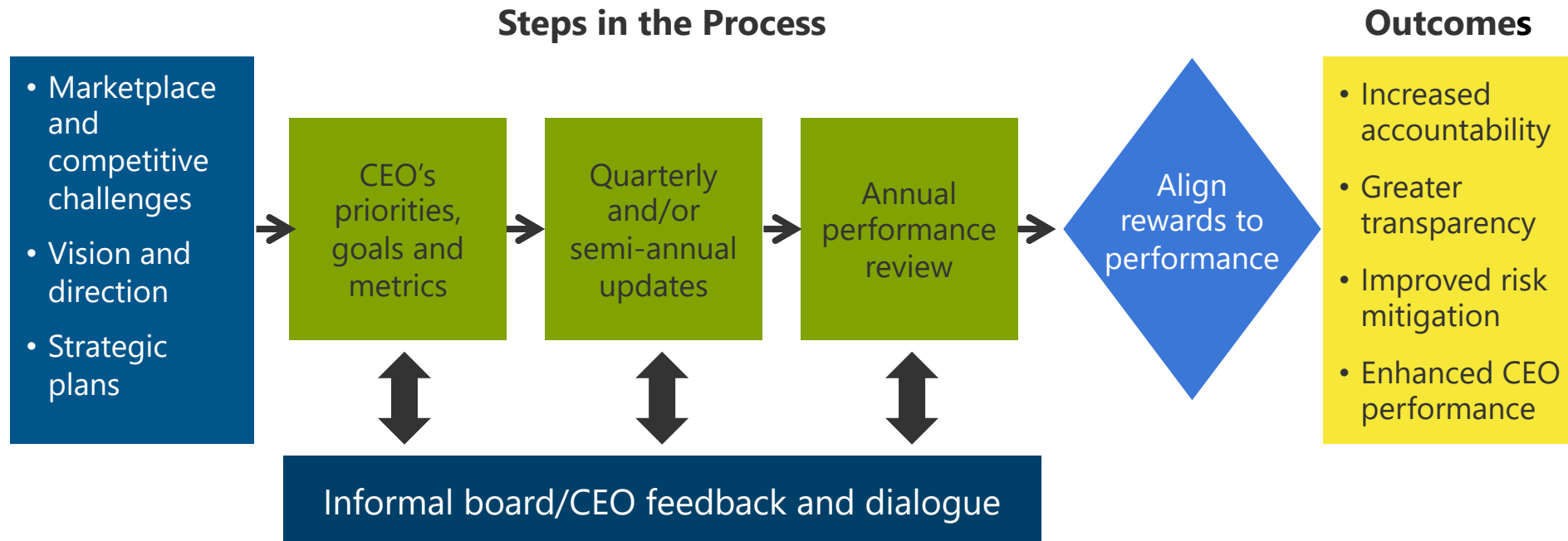
Candid, ongoing dialogue among directors and CEO



Meaningful link between performance and compensation

# #4 CEO Evaluation

Annual process



# In closing

Continue to develop



## Continue Learning

- + Keep informed of industry trends
- + Learn and understand the bank's financials, operating goals, and results
- + Be familiar with the executive talent
- + Keep up-to-date on regulatory and legislative environment



## Build Relationships

- + Set one-on-one meetings with member of the executive team and with other directors
- + Seek exposure to top talent below the C-suite
- + Regularly connect with more seasoned directors



## Seek Educational Opportunities

- + Participate in continuing education through industry events
- + Explore director development opportunities through state banking associations



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