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Outside Compensation Experts and HR: What's *Your* Role?

As part of the Human Resources team who has significant compensation expertise, you may be feeling a little, well, left out. The climate around executive compensation is complicated right now, including both increased regulation and increased outrage (not coincidental, by the way). It may have your compensation committee bringing in the big guns—external resources called in to help them make pay decisions.

Jack Dolmat-Connell, president and CEO of DolmatConnell & Partners, Inc., sees it all the time. Of course, the companies calling upon his expertise want help deciding how much to pay executives. But there is one request in particular that his company and others like it are fielding more and more often these days, he says; “Make sure you keep us out of the news negatively; we don’t want to become the next poster child for bad corporate governance.”

In order to make sure that doesn’t happen, DolmatConnell (www.dolmatconnell.com) works with its clients to ensure that executive compensation, especially CEO pay, is justifiable. So if the compensation committee is hiring an outside resource for these services, where does that leave you?

Even as the committee protects itself and the company by bringing in outside expertise, Dolmat-Connell says that HR and compensation professionals within their organizations still have a valuable role to play, especially by making sure they have a thorough understanding of their overall business.

“They really need to understand the business, its drivers, and its financials, so they can guide the consulting firm in their efforts to push toward the kind of performance the organization needs,” he says.

Educate Yourself on Business, Comp Issues

“One of the problems I’ve seen in HR is an innate lack of overall business knowledge by a lot of HR professionals,” Dolmat-Connell says. “They tend to be very, very good at the people side of the equation, but understanding of the business and what drives it is lacking.”

We hear you out there, bristling. But before you get defensive about this comment, remember that there has been an increasing chorus of HR voices asking to be included as an equal partner in corporate decisions.

Without overall business understanding, you’ll never get that “seat at the table” we often hear about. If your knowledge about the business in general, and your company in

particular, is missing, Dolmat-Connell says, that seat will likely be filled by someone from Finance or Marketing, rather than HR.

“The biggest thing you need to understand is how the business makes money,” he says. “Obviously, it’s by selling. But you need to really get behind those numbers and understand *how*. Is it capturing market share? Is it through price competition? What are the real key drivers for how and why the business is successful? Understanding the financials and the strategy of the organization is key.”

“Compensation dwarfs benefits in terms of overall expense impact on the company,” Dolmat-Connell continues. “What I see in executive compensation is that a lot of HR folks don’t really understand the accounting and tax implications of the plans that are being put in, and those are the things that really hit the firm’s bottom line. So understanding the financial implications of compensation and its impact on the company’s balance sheet and income statement is critical.”

Increase Your Value, Visibility

Another area where you can make a difference is by providing some needed training to members of the committee. In order to do that, of course, you need to have an understanding of the compensation programs yourself—and the aforementioned business acumen wouldn’t hurt.

“Much of what we [provide] as consultants, both for internal folks and to the Board, is education. For example, we are often called in to do new director orientations. Those could very easily be done internally if staff had enough understanding of how the programs work.” By educating yourself, you can perform a valuable role and even save your company some money.

Increasing your value to the company can help drive you toward an office in the executive suite, if that is your goal. “Executive compensation is probably the most highly visible function within HR,” he says. “You get Board visibility, you get to go to the Board meetings, and the Compensation Committee meetings; it is very high-level. But unfortunately, a lot of HR people really aren’t up to speed on the business issues. So guess who gets invited instead? Finance folks.” So if you’re bold enough, and if you have that desire to see and be seen within the organization, educate yourself.

Determine What Exec Team Wants, Needs

Dolmat-Connell points out a third area where HR and compensation professionals within an organization can contribute, even while the company engages outside help. “HR can really contribute to the understanding of what executives need and want,” he says. “That would be amazingly helpful. Everyone needs to remember that no part of executive compensation is sacred anymore; everything needs to be reexamined.

“There is a balancing act between the company’s investors and the executives. You can absolutely tip things in either direction very easily. On the one hand, you can pay your executives boatloads of money, put in all kinds of protections, and have them very satisfied. But if you do, you’re going to have very upset investors.

“Or, you can proceed completely from the investor’s standpoint and be unable to attract and retain the kind of executives you really need. So the more understanding we have of what the company’s executives really want, the better.”

Those wants and needs vary tremendously from company to company, says Dolmat-Connell. “Executives in a technology firm are probably going to be a different age (and thus orientation) than somebody in an automobile company,” he says. “Their financial profiles are going to be different; their positions in their lifecycles are going to be different, and so on.

“Those differences will lead them to think differently about pay. For example, if you’re younger, you’re generally going to be able to—and want to—assume more risk, because you’ve got a lot more time until retirement. So understanding how your executives think is important.”

How can you find out? Dolmat-Connell says the best way is to ask them, something you’re in a position to do. “Sit down with them, one-on-one. When we do it, we generally go through a structured questionnaire asking what they like and what they don’t like about the package they currently have. Is it motivating? Do they feel it is enough? Getting their thoughts is tremendously helpful in designing the new package.”

As executive compensation continues to endure the public’s microscope, you may find your company looking outside the organization for help in designing their pay packages. But don’t assume that you can’t play a valuable role. Educate yourself, and not only can you contribute to your firm’s efforts in a difficult time, you may one day find yourself occupying that corner office.