

SVNACD Executive Compensation Event — April 17, 2008

More than one-third of executives (34%) expressed at least some concern regarding their CEO's compensation in the latest survey by Korn/Ferry International, up from 21% in 2007. Four out of five (80%) indicated that shareholders should have at least some "say on pay" for their company's executives. When asked if they felt their CEO's compensation directly reflects company performance, 55% said it does not or it is only "somewhat" reflective. Only 42% judged compensation to be in line with company performance. ([press release](#), 4/15/08)

According to the AFL-CIO, the subprime mortgage crisis can be blamed in part on how CEO pay is structured. "Large stock option grants encouraged excessive risk-taking by CEOs to maximize their potential gains through short-term stock price increases... Return on equity, another popular performance measure for CEO pay, encouraged executives to use increased leverage. The pay packages of CEOs at mortgage lenders and investment banks also were sheltered from the inevitable decline in the real estate market because many of them were not required to hold their equity awards for the long term. This allowed CEOs to cash out before the bubble collapsed. Large golden parachutes further insulated CEOs from the financial risk of catastrophic results." ([Why the Mortgage Credit Crisis Matters](#), 4/14/08) Hear AFL-CIO Secretary-Treasurer Richard Trumka discuss how unchecked CEO pay contributed to the subprime mortgage crisis and the nation's economic crisis. ([iTunes](#))

With this kind of negative news in the background, the April 17, 2008 meeting of the [Silicon Valley Chapter, NACD](#), involved a distinguished panel discussion, "Executive Compensation: Where Is It Today (Really) and What's Next?" Panelists included:

- [Ronald \(Ron\) Matricaria](#), former Chairman and Chief Executive Officer of St. Jude Medical
- [Scott Spector](#), Partner in the Corporate Group and Chair of the Executive Compensation and Employee Benefits Group at Fenwick & West
- [Jack Dolmat-Connell](#) is President and CEO of DolmatConnell & Partners, one



of the leading executive compensation consulting firms, with offices in Boston and Palo Alto.

Spector began with an interesting observation, something like, "Never counter bad with good when bad looks so bad." Panelists all acknowledged, negative news sells. CEO pay doesn't look so bad next to celebrity pay or against several firm performance measures, market capitalization or compounded total shareholder return. Yet, there is no denying that many believe CEO pay increases are coming at the expense of the rest of the workforce. For many companies, their executive compensation strategy is "fluffy philosophy" at best, according to Dolmat-Connell.

Panelists soon delved into the issues of finding good CEOs and the importance of negotiating contracts more thought out with regard to exit (e.g., change of control agreements should expire over time, not be doubled or redoubled), finding good board members (don't go after those motivated mostly by the pay), defining pay for performance and long-term incentives, and the performance review process. Shareholders push pay for performance. The Bear Sterns contract may have incentivized too much risk. Key, is finding the "sweet spot."

Panelists reviewed both the good and bad of new proxy disclosure rules and advised some improvements. They focused on the compensation committee, its relationship with independent outside consultants and the need for better relations, and the importance of choosing the peer group. With regard to that crucial decision, the SEC wants disclosure not just of who you chose or what was decided but why. Companies typically want to compare themselves with larger companies in the industry because that's who they compete with for talent. The [CD&A](#) is a compensation committee document. Committees should take ownership and ensure it is understandable. The days are over when committee members could get by with four one hour meetings a year.

With so many directors of fast growing Silicon Valley companies in the audience, discussion was lively concerning issues like "say on pay," the "red face test," the demand for better board members with specific skill sets, passion and more time for the task, as well how pre-IPO companies should get their storey ready for the CD&A process. Those companies also need to consider the perspective of employees concerned with equity issues, as well as those of the media and prospective shareowners.

In short, it was another informative event at what is undoubtedly one of the NACD's most innovative chapters. Register now for the May 15th event on Business Ethics or review podcasts discussing past events on the [SVNACD](#)

[website.](#)

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