Course Title: Compensation Committee Best Practices: Aligning Pay with Performance & Ethics

- **Duration:** 5 Days (approximately 35-40 instructional hours)
- **Course Goal:** To provide current and aspiring Compensation Committee members, senior HR executives, and board directors with the comprehensive knowledge, governance frameworks, and strategic insights required to design, oversee, and communicate executive compensation programs that are rigorously aligned with long-term company performance, shareholder interests, and the highest standards of ethics and integrity.
- **Core Focus:** Mastering the art and science of executive compensation governance, from designing performance metrics and incentive plans to managing shareholder engagement and mitigating reputational risk.

Learning Objectives:

Upon successful completion of this workshop, participants will be able to:

- **Understand** the fundamental roles, responsibilities, and fiduciary duties of the Compensation Committee.
- **Develop** and maintain a robust Compensation Committee charter and annual work plan.
- **Craft** a clear and defensible Compensation Philosophy that aligns with the company's strategy and culture.
- **Select** and effectively manage an independent compensation consultant.
- **Analyze** and select an appropriate peer group for compensation benchmarking.
- **Design** a balanced executive compensation program with the right mix of base salary, short-term incentives, and long-term incentives.
- **Develop** rigorous and meaningful performance metrics (financial, operational, strategic, ESG) for incentive plans.
- **Evaluate** and structure various types of long-term incentive plans (e.g., stock options, RSUs, performance shares).
- **Understand** the key principles of shareholder outreach, say-on-pay proposals, and the role of proxy advisory firms.
- **Integrate** ESG (Environmental, Social, Governance) and ethical considerations into compensation design to drive sustainable performance.
- **Oversee** related areas such as executive employment agreements, severance arrangements, and succession planning.
- **Prepare** a clear and persuasive Compensation Discussion and Analysis (CD&A) section for the company's proxy statement.

Target Audience:

- Current and prospective members of a Board of Directors, especially those serving on or chairing a Compensation Committee.
- Chief Human Resources Officers (CHROs), VPs of HR, and Heads of Total Rewards.
- Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs).
- Corporate Secretaries and General Counsels who support the board.
- Institutional investors and shareholder engagement professionals.

Prerequisites:

- Significant experience in a senior leadership, executive, or board-level role.

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- A strong understanding of business strategy and financial statements.

Teaching Methodology:

This is an interactive, "boardroom-style" workshop. The methodology includes:

- **Expert-Led Lectures & Frameworks:** Presented by seasoned compensation consultants, former committee chairs, or corporate governance experts.
- **Case Study Deep Dives:** Analyzing the proxy statements and compensation plans of real-world companies to deconstruct their strategies and outcomes.
- **Intensive Simulations:** The core of the course. Participants will act as a mock Compensation Committee, making decisions on CEO pay, incentive design, and shareholder engagement based on a detailed case study.
- **Group Discussions & Debates:** Exploring the complex trade-offs and "gray areas" of executive compensation.
- **Guest Speakers (if feasible):** An experienced compensation consultant, an institutional investor, or a proxy advisor.
- **Practical Workshops:** Drafting elements of a committee charter, a compensation philosophy, and a CD&A.

*(For **Online Delivery**, this is highly effective using secure document sharing for confidential case materials, breakout rooms for committee deliberations, polls for voting on decisions, and a "board portal" simulation.)*

Materials Provided:

- A comprehensive digital or printed **"Compensation Committee Handbook"** with frameworks, checklists, and regulatory summaries.
- Templates for a Committee Charter, a Consultant RFP, a Peer Group Selection Matrix, and a CD&A outline.
- A detailed, multi-year case study of a fictional public company with financial data, strategic goals, and shareholder feedback.
- Excerpts from real-world proxy statements and CD&As.
- Certificate of Completion.

Detailed Day-by-Day Curriculum

Day 1: The Foundation – Governance, Philosophy & The Committee's Role

- **Module 1: The Role & Responsibility of the Compensation Committee (Approx. 2.5 hours)**
  - Welcome, introductions, and course objectives.
  - The legal and fiduciary duties of the committee: Duty of Care and Duty of Loyalty.
  - Key responsibilities: Setting executive pay, overseeing incentive plans, succession planning, and reporting.
  - The Committee Charter: Your governing document.
  - Structuring the committee: Independence, expertise, and the role of the Chair.
  - Developing an effective annual committee work plan and calendar.
  - **Workshop:** Participants review a sample Committee Charter and suggest improvements.
- **Module 2: Developing a Defensible Compensation Philosophy (Approx. 2.5 hours)**
  - The foundation of all pay decisions.
  - Key questions to answer:
    - Who do we compete with for talent?
    - Where do we want to position ourselves against the market (e.g., 50th, 75th percentile)?

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        - What is our desired pay mix (e.g., base vs. incentive, short-term vs. long-term)?
        - What performance do we want to reward?
    - The link between compensation philosophy, business strategy, and corporate culture.
- **Module 3: Working with Compensation Consultants & Other Advisors (Approx. 2.5 hours)**
    - The role of the independent compensation consultant.
    - Selecting, engaging, and managing the consultant effectively.
    - Ensuring consultant independence.
    - The role of legal counsel and other advisors.
    - **Activity:** Developing an RFP outline for a compensation consultant.
    - **End of Day 1 Recap & Q&A.**

Day 2: Benchmarking & Structuring the Pay Package

- **Module 4: The Art & Science of Peer Group Selection (Approx. 2.5 hours)**
    - Why peer group benchmarking is a cornerstone of executive pay setting.
    - Criteria for selecting a relevant peer group (industry, revenue, market cap, complexity).
    - The role of the consultant vs. the committee in developing the peer group.
    - Common pitfalls and controversies in peer group selection.
    - **Workshop:** Given a list of potential peers for the case study company, participants work in groups to select the most appropriate peer group and justify their choices.
- **Module 5: Analyzing Compensation Data & Benchmarking (Approx. 2 hours)**
    - Reading and interpreting compensation survey and proxy statement data.
    - Understanding different data points (base, target bonus, actual bonus, long-term incentive value).
    - Benchmarking executive positions against the approved peer group data.
- **Module 6: Designing the Executive Pay Mix (Approx. 3 hours)**
    - The three core components:
        1. **Base Salary:** The foundation.
        2. **Short-Term Incentives (STI):** The annual bonus.
        3. **Long-Term Incentives (LTI):** Driving long-term value creation.
    - Determining the appropriate mix for your company's strategy and industry.
    - The trend towards performance-based compensation.
    - **Simulation (Part 1):** The "mock" committee for the case study begins its annual process by reviewing the compensation philosophy and peer group data.
    - **End of Day 2 Recap & Q&A.**

Day 3: Designing Effective Incentive Plans

- **Module 7: Short-Term Incentive (STI) Plan Design (Approx. 3.5 hours)**
    - Setting the right performance metrics for the annual bonus plan.
    - Financial metrics (e.g., Revenue, Operating Income, EPS, Cash Flow).
    - Strategic and operational metrics.
    - Individual performance modifiers.
    - The mechanics of setting thresholds, targets, and maximums.

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    - The role of committee discretion.
    - **Workshop:** The mock committee designs an STI plan for the case study's CEO, selecting metrics and setting performance goals.
- **Module 8: Long-Term Incentive (LTI) Plan Design (Approx. 3.5 hours)**
    - The purpose of LTIs: Aligning executives with long-term shareholder interests.
    - Deep dive into common LTI vehicles:
        - **Stock Options:** Pros and cons.
        - **Restricted Stock Units (RSUs):** Time-based vs. performance-based.
        - **Performance Share Units (PSUs):** The most direct link to performance.
    - Choosing the right vehicle for your company.
    - Selecting multi-year performance metrics (e.g., Total Shareholder Return (TSR), ROIC).
    - **Workshop:** The mock committee debates and selects an LTI vehicle and performance metrics for the case study.
    - **End of Day 3 Recap & Q&A.**

Day 4: Shareholder Engagement & The CD&A

- **Module 9: The Rise of Shareholder Activism & "Say-on-Pay" (Approx. 2.5 hours)**
    - Understanding the "Say-on-Pay" advisory vote.
    - The role and influence of **Proxy Advisory Firms** (ISS and Glass Lewis).
    - Common reasons for a negative "Say-on-Pay" recommendation.
    - The importance of proactive shareholder engagement and outreach.
- **Module 10: The Compensation Discussion & Analysis (CD&A) (Approx. 3.5 hours)**
    - The CD&A as the primary communication tool to shareholders.
    - The goal: To tell a clear and persuasive story of "Pay for Performance."
    - Key sections of a best-practice CD&A.
    - Writing with clarity and transparency, avoiding jargon.
    - Using graphics and tables to simplify complex information.
    - **Writing Clinic:** Participants review a "bad" CD&A excerpt and rewrite it for clarity and impact. They then begin outlining the CD&A for the case study based on their decisions.
- **Module 11: Related Governance Topics (Approx. 1.5 hours)**
    - Executive stock ownership guidelines.
    - Clawback policies.
    - Hedging and pledging policies.
    - Executive severance and change-in-control arrangements.
    - **End of Day 4 Recap & Q&A.**

Day 5: ESG, Ethics & The Future of Compensation

- **Module 12: Integrating ESG Metrics into Compensation (Approx. 3 hours)**
    - The growing demand for linking executive pay to Environmental, Social, and Governance (ESG) performance.
    - Choosing meaningful and measurable ESG metrics (e.g., carbon reduction, DEI goals, safety performance).

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- Common challenges in designing ESG-linked incentives.
- Best practices and market trends.
- **Debate:** "Should ESG metrics be a formal part of the bonus plan?"

- **Module 13: The Ethical Dimension of Executive Pay (Approx. 2 hours)**
  - The committee's role in ensuring fairness and managing reputational risk.
  - Considering internal pay equity and the CEO pay ratio.
  - The ethics of discretionary bonuses and "retention" awards.
  - Managing the optics of executive pay during difficult business cycles.
- **Module 14: Capstone Simulation: The Year-End Committee Meeting (Approx. 2 hours)**
  - **Final Simulation:** The mock committee holds its final meeting for the case study.
  - They are presented with the year-end results and must:
    1. Determine the final STI payout for the CEO.
    2. Approve the LTI grant for the upcoming year.
    3. Review and approve the key themes of the CD&A.
  - The facilitator challenges their decisions from a shareholder perspective.
- **Module 15: Your Compensation Committee Action Plan (Approx. 1 hour)**
  - **Action Planning:** Participants identify 2-3 key practices from the course to bring back to their own boards or leadership teams.
  - Course Review, Final Q&A, and closing.
  - Course evaluation.

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