



INTEGRATED HEALTHCARE STRATEGIES™

www.IHStrategies.com

Exclusive to Healthcare. Dedicated to People.™

Conducting Effective Compensation Committee Meetings Part 2 of 3: Diagnosing and Solving Committee Inability to Complete its Agenda

Presented by Integrated Healthcare Strategies
as Authored by Dan Schleeter

The Executive Total Compensation practice of Integrated Healthcare Strategies often hears its clients express the following concerns and frustrations about their executive compensation committee.

- Postponed pay decisions because the committee can't seem to get its work done in its meetings
- Repeated raising of issues that seem to question the foundation of pay policy
- Discussions of executive pay that have little or nothing to do with health care, or your organization
- Generation of solutions by committee members, rather than them asking management or the consultant for recommendations and then accepting or rejecting those solutions
- Worry that the executive compensation committee may not be taking the fundamental actions they should be taking to protect the executives and board members from intermediate sanctions

If you have been concerned with any of the above situations, then a number of questions have likely surfaced:

What strategies can make the executive compensation committee meetings more effective?

Are there any strategies or techniques that could be implemented to help the executive compensation committee complete its agenda within the time allotted?

Are there any simple steps the committee could take to better protect executives and themselves?

How can the committee chair handle disruptive members?

What is the CEO or board chair to do when the committee starts coming up with its own pay programs, rather than working through management or consultants?

In an effort to address these important questions, we are presenting a three-part series on the topic of conducting effective compensation committee meetings.

In part one, titled *Protection from Intermediate Sanctions*, we explored the fundamentals of protection from intermediate sanctions, and two simple actions to take in executive compensation committee meetings to promote protection from intermediate sanctions. This article appeared in our July 2009 newsletter and can be viewed by [clicking here](#).

The remaining two parts are titled as listed below. Continue reading to view Part II in its entirety.

Part II: Diagnosing and Solving Committee Inability to Complete its Agenda – begins below

Part III: Reining in the Committee That Want to Do It Their Way – September newsletter

Part II: Diagnosing and Solving Committee Inability to Complete its Agenda

Synopsis:

- Diagnosing why the committee can't get its agenda completed
- Broad strategies for improving the likelihood of achieving meeting agendas
- Techniques to use in the meeting to address legitimate concerns without compromising the regular meeting agenda
- Ways to manage disruptions, including disruptive members, and still get things done

Diagnosing The Problem

The symptoms are committee meetings that run well past their planned end time, meeting agendas that are unmet or only partially met, and postponed pay decisions.

The problem is sometimes chronic. There are many matters that can disrupt executive compensation committee meetings, from the latest article on executive pay in the local paper to unforeseen internal issues like the replacement of a key executive. What can be done to return member focus to the agenda?

It is not the purpose here to propose diagnostic protocols, only to suggest that a thoughtful approach is needed to determining why the committee can't meet its agenda. The purpose here is to provide insights from Integrated Healthcare Strategies' experience working with and observing many health care organization compensation committee meetings that will narrow the possible reasons for the problem, and then to propose solutions for the most common reasons that committees don't get their work done.

There can of course be any number of reasons this happens, but only very rarely is it due to committee members who are unqualified or unwilling to undertake the governance role they have been asked to do. The reasons committees can't get their agendas completed usually fall into two general categories: 1) basic structural flaws that complicate decision making in meetings; or 2) off-agenda discussions during meeting deliberation.

The adjoining box shows the two categories and the most common reasons the committee can't get its agenda completed.

Top Reasons Compensation Committees Can't Complete their Agendas

Structural	Meeting Deliberation
<ul style="list-style-type: none"> • Committee charter and compensation philosophy (statement of policy) nonexistent, or those documents leave: <ul style="list-style-type: none"> ○ Purpose and authority unclear ○ Process not well enough defined • Annual committee agenda does not prescribe enough meetings to get the work done • Committee charter and compensation philosophy are not definitive as to whether, or how often, committee will conduct a formal review of compensation philosophy 	<ul style="list-style-type: none"> • Questions, comments, or discussion by members as to the appropriateness of high pay in general, or the appropriateness of pay increases given local economic conditions • Members who regularly raise issues of their own that question the foundation for decisions that have to be made • Members who generate their own solutions rather than accepting or rejecting what management or their consultant recommend

Structural Reasons

Although sometimes overlooked, the following fundamental questions should first be considered:

- *Is the purpose and authority of the committee clear enough?*
- *Is the committee's process for completing their responsibilities throughout the year well enough defined?*
- *Are enough meetings scheduled on the committee calendar to complete the responsibilities of the committee?*
- *Are regular reviews of compensation philosophy (statement of policy) scheduled?*

To get answers, start with the founding documents; the committee bylaws and charter; the executive compensation philosophy or policy statement; and the annual committee agenda (calendar).

The charter should not only define responsibilities, but also the process that will be used to complete those responsibilities and what authority has been delegated to the committee by the full board to make specific decisions. Clearly, the compensation philosophy needs to define the peer group and the competitive position desired, but it is equally important that it clearly define the roles and responsibilities of the CEO, the committee, and the board as a whole for administering executive pay. If committee purpose, authority and process are not clear, the committee will struggle with these matters at every meeting.

Sometimes, the simple solution to the problem of a committee that can't get all its work done on time is that insufficient time has been allotted for them to complete the work. The adjoining table shows the number of compensation committee meetings needed for getting regular business done.

Standard for Number of Compensation Committee Meetings

Number of Meetings Per Year	Situation
2 to 3	Committee has a narrow focus on executive compensation and the executive compensation program has no incentive plan
3 to 4	Committee has a narrow focus on executive compensation and an incentive plan to administer
4 or More	Committee has responsibilities beyond executive pay

The days when a compensation committee could meet once a year to make all its decisions are gone. The standards shown in the table allow for completing only regular business involved in administering executive compensation. At a minimum, regular business should also include at least part of one meeting dedicated to considering trends, issues and changes to the program; the review of the executive compensation portion of 990; and a report to the full board on executive compensation.

What the standards do not allow for are business that does not re-occur annually, such as the need to negotiate the CEO's contract or an emergency situation like responding to local media stories negative about the CEO's pay as reported in the 990. There should always be an allowance for additional ad-hoc meetings to address these special situations.

If a committee has responsibilities for any of the following, the number of meetings should increase to realistically reflect the scope of its responsibilities:

- Role in CEO performance appraisal
- Review or approve pay of non-executives, such as employed physicians
- Creation or maintenance of succession plan
- Performance management responsibilities beyond the incentive plan

Finally, the single most important structural flaw to correct is that if the review of the compensation philosophy is not a regularly scheduled part of committee business, it should be. Some organizations review the philosophy every year. Most do so only every two to four years. Ensure that the committee charter defines the years between the executive compensation philosophy reviews, the calendar states the meeting at which it will be addressed, and the agenda allows sufficient time for a full and comprehensive treatment of compensation philosophy at that meeting.

A regularly scheduled formal review, with recommended changes or re-affirmation by the full board, can relieve much of the pressure to raise issues in meetings that question basic pay policy.

Reasons Related to Meeting Deliberations

Probably the most common reason that meeting deliberations cause committee agendas to go unmet is that members want to take time to express their concern about high levels of executive pay generally, or they want to question the appropriateness of taking some action in light of economic conditions in the local economy that have nothing to do with pay levels in health care organizations. Both of these examples, and others that could be named, amount to questioning the foundation of the organization's pay policy. Discussion of compensation philosophy is a key responsibility of the executive compensation committee, but in the context of a re-consideration of executive compensation policy, not a decision about paying earned incentive awards or determining salary increases.

Certainly, the compensation committee chair should not run the meeting in an authoritative fashion, or do anything that might be considered offensive to committee members. Members are volunteers contributing their valuable time to serve the community. Executive compensation matters, however, need both appropriate and timely action by members. Timely review ensures that what is on executives' minds is effective management of the organization, not their pay. Revisiting philosophy occasionally during regular decision-making on pay is a reasonable part of the decision-making process for many board members. It is excessive, however, when committee business doesn't get done.

A different and even more difficult to resolve problem arises when one or more members bring their own agendas to the meeting, and take up committee time addressing what they think needs addressing. Since the member is passionate about it, this almost always involves some fundamental concern that goes to the heart of executive compensation philosophy. A technique the committee chair can take in response is addressed next.

Techniques to Implement in the Meeting

If disruptions occur during the meeting, the chair can implement a simple three-step process to constructively resolve the disruption and keep the committee on track.

1. If a member brings up a matter that speaks to fundamentally questioning the executive compensation philosophy, the committee chair should look for an opportunity to mention the specifics of the approved philosophy.

2. The chair should keep track of how long the ensuing discussion takes. If discussion lasts for more than five minutes and compromises completing the agenda, the committee chair should remind members that the compensation philosophy was previously set as policy, name the date it was set, and say when it will next be addressed according to the charter and calendar.
3. If the discussions continue to drag on, the chair should state that the discussion indicates this is clearly an issue of importance to members, and ask for a motion that the discussion of compensation philosophy and the decision in question be put aside until the next meeting or until a special meeting to address compensation philosophy in advance of the scheduled time.

If the motion doesn't carry, the matter should be closed, and the completion of the regular agenda can resume. If the motion is carried, the need to address compensation philosophy sooner than scheduled is clearly indicated.

In rare cases, a member is regularly disruptive to the meeting agenda. It is probably not appropriate or advisable for the committee chair to take any action themselves. This is the board chair's responsibility. The board chair should speak individually to the member, reminding them that one of the most important responsibilities of board membership is making decisions based on established policy. Establishing policy is also a board member responsibility, but that activity does not occur concurrently with making pay decisions within existing policy. If the member does not change their behavior, the chair should consider removing them from the board.

Ongoing Strategies

One of the most effective ongoing strategies the chair of the executive compensation committee can take to accomplish the agenda starts with preparing a meeting agenda and providing it to all members in advance of the meeting. Then at the start of the meeting, the executive compensation committee chair should reference the established agenda and ask members if there are any other agenda items the members would like to ensure are addressed at that meeting. This approach gives members an opportunity to raise other questions, and gives the chair the chance to manage the addition of another agenda item to the meeting, if needed.

The practice of routine diligence in conducting meetings will also help in getting the agenda completed. This includes requiring motions and seconds for decisions, and recording minutes that capture the intent of members in deliberation. Diligence like this establishes an orderly atmosphere, communicates that governance has its own rules, and makes decision-making in the context of governance the focus of the meeting. Most board members are prominent managers of organizations in the community. A habit of diligent governance is a reminder that governance is a different activity than managing.

Note that one reason given earlier for not meeting agendas, that of members who generate their own solutions rather than accepting or rejecting what management or their consultant recommend, has not been addressed. That is the topic for the third installment in this series (see synopsis below).

Summary

This article suggested that the reasons compensation committees do not complete their agendas is often attributable to structural flaws in the committee charter, calendar, and the compensation philosophy; and to other reasons attributable to necessary, but untimely discussion of matters that question the fundamentals of compensation philosophy. Techniques and strategies for addressing and resolving these reasons for delay were articulated. Following is a brief synopsis of the final part in this three-part series on Conducting Effective Compensation Committee Meetings that will be featured in the September 2009 newsletter.

Part III: Reining in the Committee That Want to Do it Their Way

Synopsis:

- Typical examples of compensation committees going their own way, and the consequences
- How and why the above situation arises
- Redefining roles: governance, not management
- Redefining expectations: thoughtful advice to refine pay plans, not taking action
- Utilizing member strengths in discerning, questioning, thinking, and addressing constituent interests