# After the AGM: a compensation committee reset?

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**The annual general meeting** represents a time of change for boards, as long-serving directors step down and new individuals join on. This time of renewal may also suggest a need for boards and committees to reflect on their mandates.

For compensation committees, the timing is especially apt. The dust has just settled on proxy season, while the year-end decision-making process doesn't get rolling until fall. Ideally, this review would be led by the compensation committee chair with input from all board members, covering topics such as the committee's scope of responsibility to the roles of the chair and its members. The review may also consider educational activities for committee and board members, particularly new arrivals.

Once the mandate is confirmed, the annual work plan can be developed to set out or confirm:

• Expectations for approaching normal course items (e.g., annual/biennial executive pay review, setting and measuring performance under incentive plans, etc.);

• One-time projects to accommodate changes in the business and/or the company's talent pool;

• Educational activities for members and/or the entire committee.

To effectively execute the work plan, a review of meeting norms and standards may be needed to establish:

• Interactions before each meeting between management, management's adviser, the committee and the committee's adviser;

• A process for preparation/sharing of upcoming meeting material;

• A protocol for in-camera sessions, typically at the beginning and end of every meeting.

Concurrently, the compensation committee chair and members can reaffirm constructive, open relationships with the CEO and the head of human resources. This may include determining how to strengthen lines of communication while possibly expanding the committee's internal contacts to supporting functions like legal and finance. The committee chair may also consider confirming its working relationship with its compensation adviser and discuss priorities for the upcoming year. The chair, with input from their compensation adviser, should assess the need to engage with shareholders following the company's AGM.

Compensation committees may also reopen longer-term succession plans, ideally within the context of the board's overall succession plan while considering individual tenure of committee members. Recognizing that a compensation committee's need to take a firm position on pay-for-performance can create tension with the CEO and management, it's important for the committee chair to candidly assess the ongoing effectiveness of their relationship with the CEO. Ultimately, this assessment may suggest a need to replace the chair to keep the relationship fresh and constructive. While there is no hard and fast rule on what constitutes an appropriate tenure, the number has anecdotally trended downwards in recent years. One experienced board chair suggests that three years is now the desirable maximum.

Compensation committees can also use this quieter time to assess the company's exposure to broader governance and talent management risks. For example, they may consider assessing company culture and the role of incentives for employees below the executive level. While the purview of the board and its committees is typically limited to the C-suite, recent headlines reportedly linking sales incentives and "sales at any cost" corporate cultures has led some directors to question the effectiveness of their oversight on such matters. Regardless of how strong the relationship is between the committee/ board chair and the executive team, directors and top management may have difficulty discerning to what extent internally generated information on these issues has been sanitized before reaching their desks.

Ultimately, all of these exercises should help to enhance the effectiveness of the compensation committee while mitigating any surprises relating to compensation and a company's public image. In planning ahead, committees can stay focused on the most critical matters to minimize corporate risk while improving motivation and retention.

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