

April 16, 2019

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Program Summary

NACD Carolinas Chapter and Farient Advisors enjoyed an intimate Directors, Dinner and Discussion program. Below is an excerpt from the table discussions that included approximately 20 attendees. The evening's discussion focused on ***Compensation Committees and CHROs: A Powerful Alliance to Build Tomorrow's Company Today.***

From cocktails through dessert, the evening provided a great opportunity to exchange ideas with other directors and chief human resources officers who are working closely with their boards to address the topics we discussed during the evening including:

1. Winning the war for talent
2. Preparing for the organization of the future (recognizing the constraints of today)
3. Daring to be different on incentive plan design

Mary Winston, President of the Chapter welcomed the group followed by Robin Ferracone, CEO of Farient Advisors, and Dayna Harris, Partner, at Farient Advisors set the stage for the evening.

Like a wine pairing, the discussion topics were designed to accompany each course and gain the benefit of our attendee's experiences in addressing areas that are important to the company and have the attention of investors.

The Salad Course: Winning the War for Talent

"Why?" asked one of the attendees, "are we still fighting the war for talent? There isn't a war for talent, perhaps it's semantics." There are the right people for your culture and if you have the right value proposition and connect those people with what they want to do, the organization will attract and retain talent. It's difficult. It's challenging but why are we buying into the idea that there is a "war" for talent? It is the responsibility of the board, management, and especially human resources to create a value proposition and a culture where people want to participate. Leaders make a big difference. People who can simplify strategy and inspire their teams will win hearts and minds. People work for companies with a mission, a purpose and values. They also want to work for bosses who can demonstrate empathy and compassion.

Perhaps we need to change our mindset as directors and executives and be more flexible. We can be more creative with work and, no surprise, millennials are demanding more transparency and learning opportunities. People need to understand how they can move up and they need to know when they are not going to move up. The "gig" economy is here and it is important to keep in mind that it will be hard to sustain the organization of the future over the long-term with just contract workers. Organizations will need a core stable group of people who can be the fabric of the culture. Project based ("gig") hiring is definitely here to stay and companies will need a hybrid talent model comprised of contractors and employees to ensure continuity and the preservation of institutional knowledge.

The discussion continued with other participants weighing in to agree that there really isn't a war for talent, there is a talent ecosystem. In fact, as soon as there is a war for talent that means businesses

are like fortresses. There is competition for talent within your organization and outside. Employers don't own that space anymore. The ecosystem is anyone who is employable. How do you create that value proposition remotely? On average, millennials are changing jobs six times in ten years. From a Board/ CHRO perspective, the paradigm we are operating may be 15 years old and the way organizations are branding that value proposition means you have to compete in the talent ecosystem. Leveraging the talent we have is critical, as is figuring out how to use talent in a way that leverages the capabilities that talent bring. This is the new world of work. Another participant shared with the group that when he reflects on disruptive experiences over the years, it's not because we weren't able to attract good talent, it's because we lost someone we weren't expecting to lose. It is important to keep in mind that people have more opportunities with transportation and technology. In today's global markets people can look for jobs anywhere in the world and have the talent on which to draw. The unexpected departure is one of the most disruptive actions an organization can struggle through. Someone who decides "this" organization is no longer for me rarely leaves because of compensation. Usually it's cultural because the talent doesn't feel that there is a future for them.

Ultimately, it's critical to look at the workforce you have today, recognize that company tenure for the average employee may not exceed five years and at the end of the day, anticipate and prepare for the future talent the organization will need.

The Main Course: Preparing for the Organization of the Future

As the evening progressed, a natural segue from the "War for Talent" topic invited the group to explore the organization of the future. The group focused on five areas that need to be in place today to adapt to the future of work. These include:

- Leadership— the right team in place to anticipate the needs of the organization while attracting and retaining talent that will secure the future
- Adaptability— a responsive and agile organization that can quickly identify and work through disruptive events, trends, and macro-economic implications
- Technological empowerment — expertise across the organization including a cyber-knowledgeable board
- Artificial intelligence—machines will take over many jobs, but there will still be opportunities for people
- Stakeholder issues—future issues may include scarcity of resources, and political and economic divides (haves vs. have nots)

The discussion highlighted the idea that geography, and our current political divide, will require us to think about risk in different ways. The real threat is not being a "learning culture". Looking five years into the future, the culture must evolve and create opportunities for people to learn. That is part of the attraction and retention tool that will need to be part of the human resources package. The big question is how to anticipate artificial intelligence, machine learning, and other aspects of technology that will impact the workplaces. It is simple supply and demand.

Will the world be in the throes of a "free-agent" workforce? The company that figures this out will have first mover advantage. The group agreed that going forward, there will be less work and more automation. Today, several companies are laser focused on automation and big data. Everyone is looking for ways to cut costs and this is putting pressure on fewer workers to deliver additional value.

As jobs become increasingly demanding and complex, the more automated the workforce will become. How can companies attract and retain talent if this is the subliminal message? And why are older workers with great experience and knowledge being discounted? Why does retirement need to be a cliff? The group anticipated that the workforce will be distributed. Headquarters will go by the

wayside. Job sharing will be the norm and people will work from satellite locations near public transportation with indoor/outdoor spaces that will continue to be fully contained with meals, gyms, drycleaners and other creature comforts available to all employees.

Finally, the future will require companies to have extraordinary flexibility. People can work from anywhere and should be enabled to do so. Competitive differentiation will define the workforce of the future. If you think big changes are five to ten years away, plan on meeting them halfway.

The Dessert Course: Dare to be Different with Compensation Design

As the evening wound down, the group approached the final discussion topic on compensation design with thought-provoking questions from Robin Ferracone, Farient Advisors' CEO. "Do any of you feel that your compensation plans are homogenized vs. customized? Do you feel constrained by what you can and can't do with your plans? If you could do things differently, what would you do?" One of the attendees started the discussion and shared, "there is pressure to check a few boxes. There is the Glass Lewis/ ISS box, the shareholder alignment of interest's box, and the generally accepted definition of pay for performance box and the tax code that changed this year. These areas form elements of standards where you don't want to waiver too far from the norm." Several of the participants would love to see more use of options which have fallen out of favor with proxy advisors, but a great way to align with shareholders.

Discretion is always an interesting topic. Historically, investors and proxy advisors really disliked positive discretion. Today, we are using more positive discretion for special circumstances although we have found that negative, downward discretion helps investors feel that their interests are better aligned with management's interests. The reality is that the company's stock price is a big driver of pay. If the stock price is up, everyone is happy, and you can pay people more. If the stock price is down, we are compelled to pay people less. Not surprising, we have more latitude to pay if things are going well. Clearly, companies and investors have evolved since the early days of Dodd Frank. Investors want to see pay plans that are appropriate for the company. They want to know you are using the right performance metrics and engaging with them to explain the "how" and "why" of your pay program.

Our guests thoroughly enjoyed three great topics and a wonderful evening of Directors, Dinner, and Discussion with chief human resources officers from Charlotte area companies as special guests.

Thank you to our sponsor Farient Advisors for the education and for leaving us with thought provoking topics to bring back to our boards.