WORKING, THE PROBLEM

In a desperate struggle to stem turnover and lure talent, companies are rethinking everything from where their people work to how they should be paid. Here's how boards can help them navigate fierce competition for talent and shifting employee priorities.

BY JENNIFER PELLET

"Human capital, which has been an important strategic issue over the past decade, is becoming a more prominent governance issue."
—John Borneman, Semler Brossy

The past year has marked an extraordinary period in the perennial quest to attract and retain the best talent. For the vast majority of companies, what the mainstream media billed as a Great Resignation ignited by the global pandemic was more of a Great Reshuffling, as myriad forces contributed to a spike in employee turnover.

Some found themselves fighting to retain employees lured away by the prospect of a better work-life balance, remote work opportunities or a bump in compensation, even as others were forced by supply-chain issues, soaring inflation and market volatility to implement hiring freezes and layoffs. This year's market downturn also factored into the upheaval, with companies that use stock option grants to keep key players on board thwarted when their share values plunged.

"All of these factors are contributing to a ton of uncertainty going into 2023 around what the future holds and what that means from a recruiting and retention standpoint," said John Borneman, a managing director at Semler Brossy. "And as a result, human capital, which has been an important strategic issue over the past decade, is becoming a more prominent governance issue."

PAY PROBLEMS

Compensation committees, particularly, are under pressure, agreed directors gathered for a *CBM* roundtable on the board's role in human capital management. Fierce competition for qualified candidates led many companies to sweeten offers for new hires, which then created internal inequities.

Frank Sims, a board member at the energy services holding company South Jersey Industries, reported that rethinking salary ranges to lure new recruits threatened to disrupt the company's entire compensation program. "As we bring in talent, we're finding the compensation levels we thought were fair and competitive are no longer fair and competitive, especially in technical areas. When we find a good candidate, we have to pay the market for that candidate, but then we create an imbalance with the rest of the team we have in place. So you're stuck having to manage the expectation of the employee coming in as well as those who are already part of the family. It's a real struggle."

"Internal equity has always been important to us, but it's been easy for that to get out of whack because of all these factors," agreed Edna Morris, a board member at Tractor Supply Co., who explained that the company increased compensation and benefits for its hourly and part-time workforce in 2021 to be more competitive. "We've been much more willing to do more aggressive increases for our internal people than we were in the past. And we've been hiring so much from the outside that we now look at it quarterly rather than annually."

At a time of greater visibility into salary data, the issue is cropping up more often. Six states already have laws in place that require salary ranges to be made available to applicants, and both companies and employees are taking it upon themselves to make salary information public.

"People are wanting their compensation to be published, which is quite a weird situation," said Archana Singh, a board member at Primo Water. "So, pay parity is another dimension that's popping up. How do we ensure internal equity, external competitiveness, pay parity? All of that has to go into our compensation programs."

Offering one-time equity grants may be a way to navigate the salary range-related challenge plaguing companies competing for talent in hot markets like digital marketing, cyber, finance and IT. "Because the stock prices for our company and our peer group have retreated, stock-based compensation has a lot of growth potential," said Jim Gentilcore, a board member at Entegris. "So, people who are wise enough to see that cycle understand that they'll get in at a good base."

However, it isn't always enough, noted Linda Segre, board member at Calloway Golf. "At every meeting, I'm asking that question, whether we can solve the whole salary-bonus issue with special one-time equity grants," she said. "But we can't always do it."

BEYOND COMP

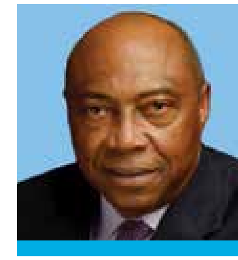
While compensation continues to be a focus for boards, several directors participating in the discussion noted that the board's involvement in human capital has broadened and deepened in recent years. Directors reported devoting more time to probing management teams to identify potential talent gaps or concerns and plans to address them.

"At a lot of companies, we're not actually even called compensation committees anymore," noted Nancy Reardon, board member at Signet. "Many of us now sit on human capital committees. We're not just focused on compensation, we're focused on succession at the top and also the functional pipeline coming up, and on diversity and the overall culture and environment of the company. The purview is much broader than it was even five years ago."

At Entegris, the compensation committee became the "management development and compensation committee" more than a decade ago, reported Gentilcore. "Back then it was very hard to prove that there was enough diverse talent to move in the direction that we wanted to go, so we challenged the management team to show us the details behind this," he said, noting that the committee took care not to overstep. "It was not 'fingers in'; it was 'over the shoulder.' We wanted to see some details that showed that we were, in fact, improving in our diversity and inclusion and the talent development we had in place up and down the organization would, in fact, continue to attract good people, and was transparent to every level of the company. And we also tie that very closely to the culture of the company."

Some directors see the shift as acknowledgement that companies competing in tight talent markets will need to deliver on multiple fronts. Covid, they say, accelerated a prioritization of work-life balance that was already in motion—one that raises new concerns regarding culture.

"Intangibles are what's really important to candidates and to retaining the employees we already have," said Reardon. "And as we think forward, I'm wondering how conversations about personal values



"The compensation levels we thought were fair and competitive are no longer fair and competitive."

—Frank Sims, South Jersey Industries

We weren't looking for a CEO who would come and put his or her imprint in terms of culture, but rather one who fit."

—Edna Morris, Tractor Supply Co.

will also start coming out in our corporate settings—which could be controversial and difficult to navigate."

It's that need to be proactive in adapting to the shifting priorities of talent that's driving the focus on talent in boardrooms, said Terry Gallagher, board member at Provident Financial Services. "The reason it appears that we're more granular on human capital is that somebody moved the cheese," he said, noting that the race to remote work models during Covid "completely shifted the paradigm. The saying was always, 'The company's top asset goes up and down the elevator every day'—well, now they don't even come in anymore. So the world has really changed, and you have to change with it, get back down there and survey your people for top priorities. Update your nine-box grid, make sure you know who your top high-performers are and their career goals, and make sure you have robust mentoring and shepherding going on."

Efforts to move the needle on culture paid off for South Jersey Industries, which embarked on that long before the pandemic. The company has made steady progress on culture since beginning regular surveys of employees six years ago. The first survey, which asked employees to share what they liked and didn't like about working at SJI and areas where they'd like to see change, established a baseline that the company then worked to improve.

"We formed a committee made up of employees to work with management and implement programs that would promote more collective thinking about what we wanted to be," Sims explained, cautioning that companies that undertake such an effort should be prepared for an ongoing commitment. "Once you begin to interact with your employees about these matters, you have to make sure there's continuous followup, continuous input from the employees to monitor how you're doing so you don't begin to regress."

THE CULTURE COMPONENT

And when it comes to finding the culture's pain points, there's no substitute for engaging—often—with senior management, noted Tom Hutchison, board member at Marriott Vacations Worldwide, who says his board rotates through dinner meetings with the company's top eight executives for that purpose. "We take one out this quarter and another one the next quarter and so on. It's an opportunity to find out how they're feeling—are they happy? Frustrated? Do they see problems that need to be addressed?"

At the same time, he cautioned, it falls to CEOs rather than boards to set the tone for their companies culturally. "I've seen too many boards step in way too far, trying to run the company through the CEO. And that's just wrong. If you're in that kind of position, you'd better stop messing with it and get rid of the CEO."

Conversely, a company with a strong, successful culture should take steps to preserve it when undergoing a leadership transition, said Morris of Tractor Supply. When Tractor Supply was looking for a new CEO, the company prioritized finding someone who would be a good fit with the company's existing culture, which the board saw as a competitive advantage. "We weren't looking for a CEO who would come and put his or her imprint on terms of culture, but rather one who fit," she said, noting that interviewing intensively on cultural fit paid off with a smooth succession. "Our new CEO is knocking it out of the park."

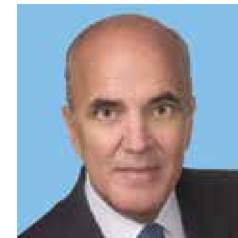
Tractor Supply also took steps to help its management team and workforce transition from a largely all-remote model during Covid to a hybrid model. "Our HR team brought in about 10 different professionals to help people understand how to navigate the environment we're in now," said Morris. "They talked about things like how to stay connected and how to stay visible for promotional opportunities. The feedback on that was phenomenal."

And while challenging, building and nurturing a positive culture in a remote or hybrid environment is possible. In fact, companies in industries like consulting have been doing it for years. "I spent my first 13 years in business at Bain and we were never in the office, hardly ever with anyone else except the client," said Neil Novich, board member at Beacon Roofing Supply. "The way we compensated for that was by talking about the culture constantly, how we presented ourselves, the values of the company. And we had significant training programs where people would spend part of their time for months getting trained on our way of approaching the business."

Companies new to the remote or hybrid model, however, may justifiably fear that embracing the remote work situation today's employees are demanding will have an unwelcome side effect: the erosion of hard-earned progress on company culture. "We're working with senior management to find ways to look more holistically at how to make work-life balance more appropriate for our people in order to improve retention," said Carlos Palomares, board member at Regional Management. "How do we sustain the culture of the company over the long term when people don't come into the office? Because when people who were working together now work apart, that's not so bad. But when we're hiring new people who have never had the opportunity to work together at all and will be working remotely—I find that very harsh on the culture."

For companies that put in the effort to get it right, successfully building and nurturing a strong culture can become a key recruitment and retention tool at a critical time. "The market shift that's happened creates an opportunity to actually access talent," said Semler Brossy's Borneman. "The reality is that a lot of companies were priced out of some of the best talent out there. But now it's possible to compete by bringing your culture forward—people are realizing the downsides of high-flying, high-growth companies and the opportunities with more stable companies."

Ultimately, it's in helping companies recognize and effectively adapt to all of these evolving talent considerations that boards can play a pivotal role, he added. "Pay matters, but it's not sufficient. Pay without culture, pay without performance, pay without the nonfinancial components of an employment opportunity isn't sufficient to attract and retain people. There are more factors that matter, and that's a strategic matter. That's why boards are getting engaged in these broader conversations." **CBM**



"When we're hiring new people who have never had the opportunity to work together at all and will be working remotely, I find that very harsh on the culture."

—Carlos Palomares, Regional Management

ROUNDTABLE PARTICIPANTS

Matt Bob,
Board Member, Callon Petroleum Company

Terry Gallagher,
Board Member, Provident Financial Services

Jim Gentilcore,
Board Member, Entegris

Theresa Hennesy,
Board Member, Somos

Thomas Hutchison,
Board Member, Marriott Vacations Worldwide Corporation

Steve Kaplan,
Board Member, Morningstar

Edna Morris,
Board Member, Tractor Supply Co.

George Mrkonic,
Board Member, AutoZone

Neil Novich,
Board Member, Beacon Roofing Supply

Carlos Palomares,
Board Member, Regional Management

Nancy Reardon,
Board Member, Signet

Linda Segre,
Board Member, Callaway Golf Company

Frank Sims,
Board Member, South Jersey Industries

Archana Singh,
Board Member, Primo Water