On Nov. 16, 2016 at the Princeton Club in New York City, DHR International's Managing Partner, Global head of Human Resources, Jerry McGrath and, John Trentacoste, Head of New York Office, for Farient Advisors, an executive compensation and corporate governance firm talked about global trends in executive compensation and corporate governance. For the Tristate Chief Human Resources Officers, Compensation and Total Rewards executives in attendance, the session provided some terrific insights regarding the role of Human Resources in compensation and governance beyond borders.

The session was based on a recently released research initiative from Farient Advisors and their Partners in the Global Governance and Executive Compensation Network (GECN Team). Covering 17 countries across six continents, the research provides insights into what Human Resources, Boards of Directors, and management need to know to address emerging global trends in executive compensation, board compensation and structure, and shareholder rights.

Please click here to view the entire Global Trends in Corporate Governance Research and see below for excerpts from the Nov. 16 program.

Jerry McGrath (Jerry) in conversation with John Trentacoste (John)

Jerry: *On the heels of our recent election, Brexit, and pending elections in France and Germany, I think everyone would agree that the research that you are sharing with us today is super relevant. In fact, I am sure we can anticipate some modifications to our current regulatory structures in the United States (U.S.). However, it is clear that countries around the world, From Switzerland to Australia, are laser focused on executive compensation and corporate governance. I think there are two ways to look at the research: (1) What the survey reveals and (2) What the future holds. Would you please share with us what triggered the research?*

John: We thought this would be an easy discussion and then November 8th happened. What triggered this report? One of our Fortune 50 clients asked us, "What's going on in global pay strategy and global governance? How can we be the best corporate citizens? What are the most stringent corporate governance standards and should we adhere to them?" Since we completed this research, it has become even more timely and topical. Topical in the sense that over the past 6-12 months several more compensation committees of the boards of directors with whom we work have asked us, what is happening on a global basis in corporate governance? How can we look at U.S. practices versus global practices and then understand the implications for us as a global firm and what do you see "coming down the pike"? It's timely because of everything that has happened over the past several months where we see the reverberations at home from major global events. When we look at shareholder engagement this cycle, for example, we are looking at international shareholder engagement. We are not just looking at investors in the U.S., we are including investors in the United Kingdom and throughout Europe who also want to have the same dialogue as the U.S. based institutional investors.

Jerry: *As the research came together, what areas of corporate governance emerged as most critical across borders?*

John: As mentioned in the introduction, the research includes both developed and developing countries and highlights three key areas that are gaining importance across geographies.

- The first is *executive compensation*— the trends, the practices, and how say on pay has evolved.
- The second is *shareholder rights*— which explores how shareholders are exercising their influence globally.
- The third is the *board of directors*— how is the board structure evolving across the world in terms of independence, the separation of Chairman/CEO roles, hot topics of board tenure, age limits, and gender diversity and how is the world looking at these areas.

Jerry: *To What degree do you think economic hardships like the dot.com crash, Enron, Worldcom and the banking crisis bring about new regulations? Do you see the changes in corporate governance coming more from broad-based institutional shareholders or more from the general public, congress, and other political implications?*

John: In the U.S. we adhere to the laissez-fare free market economy, until we have a Worldcom, Enron, dot.com, mortgage banking crisis, etc. When something goes wrong, there seems to be a consistent "knee jerk" reaction that brings about new legislation. For example, The Enron crisis brought about Sarbanes Oxley in 2002, and the mortgage banking crisis resulted in the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010. Other than that, practices have emerged organically at the behest of investors. When you look internationally, generally it's the social and cultural pressures and how they shape the way in which regulations are formed, which can often be influenced by economic events. In Switzerland, for example, which is an immensely direct democracy, a certain number of signatures can get something included on the ballot. Several years ago, concurrent with the Minder Initiative, Switzerland was very close to having a mandatory 12:1 CEO pay cap, meaning the CEO could not make more than 12X the lowest paid employees' salary. That spooked companies, many of which had domiciled to this European "tax haven". At Farient, we work with several U.S. traded Swiss- based companies that are now looking at or have already relocated to Ireland or returning to Bermuda to maintain that level of tax efficiency. You also have to consider where these companies are in their evolution. From a global perspective, even countries weaker on governance, are increasing their focus. Countries like South Africa, China and Mexico, countries where the ownership structure has been very concentrated; mostly wealthy families that control conglomerates are now saying they want to participate in capital markets and have piece of this global investment money. Before the market will greet these new players with open arms, however, there will be rules or a "blueprint" for participation. Investors must have assurances that their investment is going to be protected through transparency and disclosures. There must be an apparatus in place that creates oversight on executive pay, board independence, and assurances that boards are diverse enough to provide the best thinking. And, of critical importance, assurances that shareholders have rights. Once those boxes are checked, companies will be encouraged to participate in a robust capital market. The connective tissue of open capital markets are robust assurances and deep shareholder rights—those countries that want to play in the same sandbox have taken notice.

Jerry: *As a follow on to the last question, what's your view on forces to roll back Dodd Frank, the Fiduciary Rule, and Volker Rule? Do you think some countries follow the U.S. when/if we roll back regulations, or do they remain the same? If we roll back regulations too far, will there be a dislocation between the US and other countries?*

John: There is a bit of discordance regarding the future of Dodd-Frank. On the one hand, Trump called it "a disaster and no good" and said "I want to roll it back." On the other hand he said that CEO pay is egregious as well. When we heard the election results our knee-jerk reaction was, wow—all of the Dodd Frank rules will be repealed. As executive compensation professionals, we often forget that *our* portion of Dodd Frank begins at Provision 952 and ends with Provision 958 (those rules associated with compensation, say on pay, and disclosure). We forget that there are 900+ other Provisions that are likely to take precedence. When we look at all of the pay requirements, there were very split opinions on CEO/Median Pay Ratio. During the comment period with the SEC, there was significant discussion around the CEO/Median Pay Ratio. Perhaps rolling back certain provisions of Dodd Frank would not be the end of the world. Following the mortgage crisis, in the rush to do something, there were unreasonable provisions put on small banks that made it impossible for them to compete. In terms of Europe and the UK, they went extremely far in tamping down pay. Can they remain competitive from a talent perspective? Can the U.S. be so open it becomes uncompetitive because there are no regulatory assurances? We have yet to see a codified economic policy from the Trump administration, but we can certainly take cues from the appointments of the "Holy Trinity" of economic policy—the Treasury Secretary, Federal Reserve Chair, and SEC Chair. If all three of these positions are given to folks who are the "very-free-market-anti-regulation" type, it will be very telling on the posture of the U.S. to the rest of the world.

Jerry: *How should a company develop its approach to global compensation and articulate strategy? Does this vary country by country based on the research?*

John: We think of global pay philosophies on a continuum. On one side, there is "global"—which is a singular pay strategy applied globally. On the other hand there is local, which adjusts pay based on each geographic norm. We often advocate something in the middle for our global clients—call it "glocal". For executives, we often try to adhere to a global standard of pay positioning, but allow for localized pay delivery. A "glocal" approach enables each company to have a baseline of compensation and then conform to each region while still maintaining competitive compensation; keeping in mind that pay design is different depending upon where you are in the world. For example, Europe is heavier on cash. Asia is light on equity, typically. As an example, one of our Fortune 50 client's Head of Europe is domiciled in Germany. The company used its U.S. pay structure to determine the competitive quantum, but, in keeping with European norms, his pay mix was adjusted based on local market dictates. This approach enables our client to articulate its pay strategy to a global audience.
Jerry: *What are the implications for Human Resources professionals with regard to global pay strategy and corporate governance?*
John: Make no mistake, For HR professionals, corporate governance is here to stay. We continue to talk about how the election results may change things, but the current governance norms have evolved organically, are, for the most part, not statutory, and have tremendous momentum behind them. In fact, they have emerged from best practices and many are shareholder driven.
For HR there is an opportunity to evaluate global pay strategy to see if it is really working to deliver the desired outcomes such as a globally engaged workforce. I think it's important to tie pay to the success of the overall organization. All regions have idiosyncrasies and specific cultures which makes getting to one single organization with the same vision, focused on the same things, a big job for HR in general and the total rewards people specifically.

Jerry: *Final question: What's next in corporate governance? If we had a crystal ball, what would we see? Would your answer before November 8th be different than today?*

John: My answer before the Presidential election would definitely be different. Something to keep in mind over the next several months as campaign promises play out, most of the executive compensation and corporate governance regulations will probably remain the same. Many of the "best practices" have been spurred on by investor capital and what they are requiring which I think we can all agree is a hugely powerful influence. The big takeaway of the report is that as capital becomes more fungible and borders become more figurative than literal, the demands of investor capital are going to dictate how corporate governance emerges. Governance trends are converging and increasing focus on good governance globally. Most jurisdictions have determined that more governance is better. Even in emerging markets where governance is typically weaker, shareholders are demanding it.

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For more than 25 years DHR International has been a leading, privately held provider of executive search solutions with more than 50 wholly-owned offices spanning the globe. DHR's renowned consultants specialize in all industries and functions in order to provide unparalleled senior-level executive search, management assessment and succession planning services tailored to the unique qualities and specifications of our select client base. For more information on DHR International, visit **dhrinternational.com**

About Farient Advisors

Farient Advisors LLC is an independent executive compensation and corporate governance consultancy. Farient provides a comprehensive array of executive compensation and performance advisory services, including compensation program design, board of director compensation, and investor communications. Farient has offices in Los Angeles and New York and covers clients in more than 30 countries through our partnership in the Global Governance Executive Compensation Network (GECN Team). For more information on Farient Advisors, visit **http://farient.com/**

About The Global Governance and Executive Compensation Network

The Global Governance and Executive Compensation Network (GECN Team), is a collection of six independent boutique executive compensation firms located in ten strategic markets covering clients in more than 30 countries. The GECN partnership provides clients with seamless coverage—"boots on the ground"— perspective to not only get the data, but have it flavored with an international perspective. visit http://gecn.com/