

Best Practices in Governing Executive Compensation

- Establish a compensation committee, give it an explicit charge, define the process to be followed, and expect it to meet at least three times a year. Do not let any insider sit on this committee.
- Establish a clear and explicit compensation philosophy and a set of policies to guide decisions, and provide an internal standard for evaluating practices.
- Follow established compensation philosophy and policies in making decisions. When making exceptions, document the rationale for the decisions clearly.
- Evaluate every enhancement to executive compensation in terms of the impact on total compensation. Document the deliberation and articulate the rationale for the change in minutes.
- Require a thorough review of the executive compensation program in full every two or three years. Document the review carefully, demonstrating diligence in evaluating all details of the program with reference to competitive practices.
- Require full disclosure of all elements of compensation, including severance and retirement obligations.
- Charge the committee with reviewing compensation for all senior executives periodically. Do not limit its purview to CEO compensation.
- Use a consultant to gather data on competitive practices. Do not rely solely on corporate staff; have the board or compensation committee engage the consultant directly. Have the consultant report directly to the board or committee – not through the CEO.
- Establish clear policies on reimbursement of executives' business expenses and enforce them. Ask the auditor to report directly to the board on this.
- Charge the compensation committee with reviewing the nonmonetary rewards and perquisites for executives and board members. Consider the likelihood of public criticism for using corporate resources for these purposes.
- Have the board and committees meet regularly in executive session.
- Strengthen the board by recruiting members who have the capability of leading the compensation committee, and assign members who understand performance metrics well enough to guide goal setting and oversee incentive compensation.
- Educate board or committee members on the legal requirements for governance of executive compensation, and make sure they have access to all the information they need to do a good job.
- Be proactive in communicating executive compensation in a positive way to the board, employees, and the community.

Source: *Governance for Health Care Providers*, ed. Nash, Oetgen, and Pracilio, Productivity Press, 2009