

Governance Book of the Year

The Compensation Handbook

It has been a number of years since executive compensation has been such a scorching topic in the boardroom and the media. Just take a gander at a few press headlines from earlier this year:

- “Goldman Shareholders Revolt Against Top Executive Pay”
- “Google CEO Gets \$199 Million Equity Award”
- “Ex-Valeant Chief Pearson Walks Away with \$10 Million Despite Shares Falling 90%”
- “Investors Want Mutual Funds to Get Tougher on CEO Pay”
- “Why It Is Time to Curb the Madness of CEO Pay”
- “Boards Are Responsible for Limiting Pay Excess”

With media focus like this — a time when executive pay is described as “galactic,” as the *Financial Times* did so recently — attention must be paid. *Directors & Boards* has selected *The Compensation Handbook [Sixth Edition]* as the 2015 Governance Book of the Year. Subtitled *A State of the Art Guide to Compensation Strategy and Design*, the book was published in July 2015, well timed to ride a mounting wave of concern about the level of executive pay and the board’s role in crafting and approving executive compensation. The 600-page book includes 51 chapters, each written by experts in the tools and tactics of compensation design and strategy. (*Directors & Boards* Publisher Robert Rock, drawing on his extensive board service, contributes a chapter on the workings of the compensation committee of the board.) The author/editors are Lance A. Berger, managing partner of Lance A. Berger & Associates Ltd. and a longtime specialist in compensation and talent management, and Dorothy R. Berger, a partner in the firm. The Bergers collaborated on earlier editions of *The Compensation Handbook*. According to the book’s publisher, McGraw-Hill (www.mhprofessional.com), this latest

edition “continues the value-creating heritage established by its predecessors.” A passage from Lance Berger’s introductory chapter follows.

— James Kristie

The first edition of *The Compensation Handbook* was a snapshot of the compensation practice as it had evolved prior to 1972. Each subsequent edition was a time capsule containing a rich trove of information representing the cumulative successes of its predecessors as well as the best new practices, issues, procedures, and processes that would be useful in the future. This sixth edition extends this evolution of knowledge to the current time.

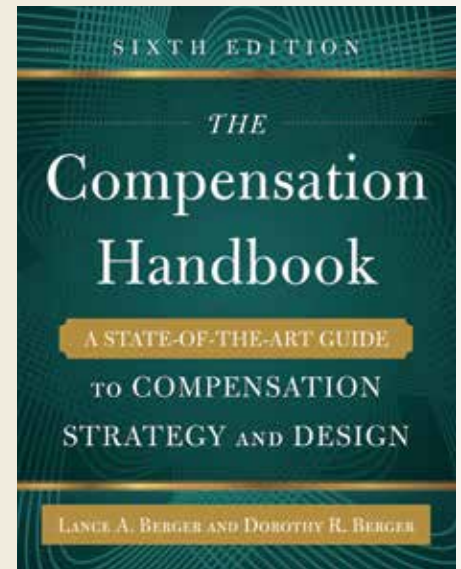
Every organization needs a designated group of people with a sufficient level of expertise in compensation practice to develop and implement or outsource effectively their pay programs. This group could include any combination of compensation professionals, human resource generalists, and line managers.

Level of expertise can be classified in many ways, including basic, operational, tactical, and strategic.

1. *Basic*. Knows the fundamental principles, terminology, concepts, issues, applications, and vendors associated with the compensation discipline. This is the minimal level of expertise expected for a line manager.

2. *Operational*. Able to implement compensation programs provided by, and with guidance from, others with higher levels of expertise. This is a realistic level of expertise for most managers, entry-level compensation professionals, and human resources generalists.

3. *Tactical*. Develops and implements compensation programs with minimal assistance from outsiders. Can coach others in implementing a compensation program.



Every organization needs a designated group of people with a sufficient level of expertise in compensation practice to develop and implement their pay programs.

This is the expected level of an experienced compensation professional.

4. *Strategic*. Creates, implements, provides guidance, troubleshoots, and answers questions related to the compensation discipline. This is a recognized expert in the compensation discipline.

Over the course of time, the various editions of *The Compensation Handbook* have shown that readers have been seeking guidance in moving toward the strategic level of expertise. The chapters in this book seek to provide a context relevant to all four levels of expertise.

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