# Chief Human Resources Officer: Proxy-Disclosed Pay Practices

RESEARCH REPORT

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**Expert Analysis from Pearl Meyer**
Many firms are placing increasing importance on certain functions within their organization, elevating many to the "chief" role, for example Chief Technology Officer or Chief Marketing Officer. What can compensation data tell us about the evolution of the Chief Human Resource Officer (CHRO) in today's public company?

Executive compensation consultancy Pearl Meyer, in collaboration with its Main Data Group business unit, examined public company proxy information for those companies that included a CHRO among their named executive officers. Principal Jane Park and Associate Kim Neil provide this analysis.

# Study Background

It is unusual for a Chief Human Resource Officer (CHRO) position to be in the rarefied world of proxy-disclosed executives. The named executive officers (NEOs) whose pay is disclosed in the Summary Compensation Table (SCT) of the proxy are almost always the CEO, the CFO, and a collection of others that typically include mission-critical operations and business unit heads. However, CHRO reporting does happen. We wanted to understand the broad trends around the emergence of the human resource function as one of the top roles in public companies.

# Methodology

Pearl Meyer conducted a study of 256 public companies that disclosed a human resource executive as an NEO during fiscal year 2016. Based on all-inclusive proxy information from Main Data Group, we examined the prevalence of these positions based on company revenue and industry. We also looked at the experience of these professionals, how their total pay compares to non-reported HR executives, and whether we could spot any differences in their pay mix.

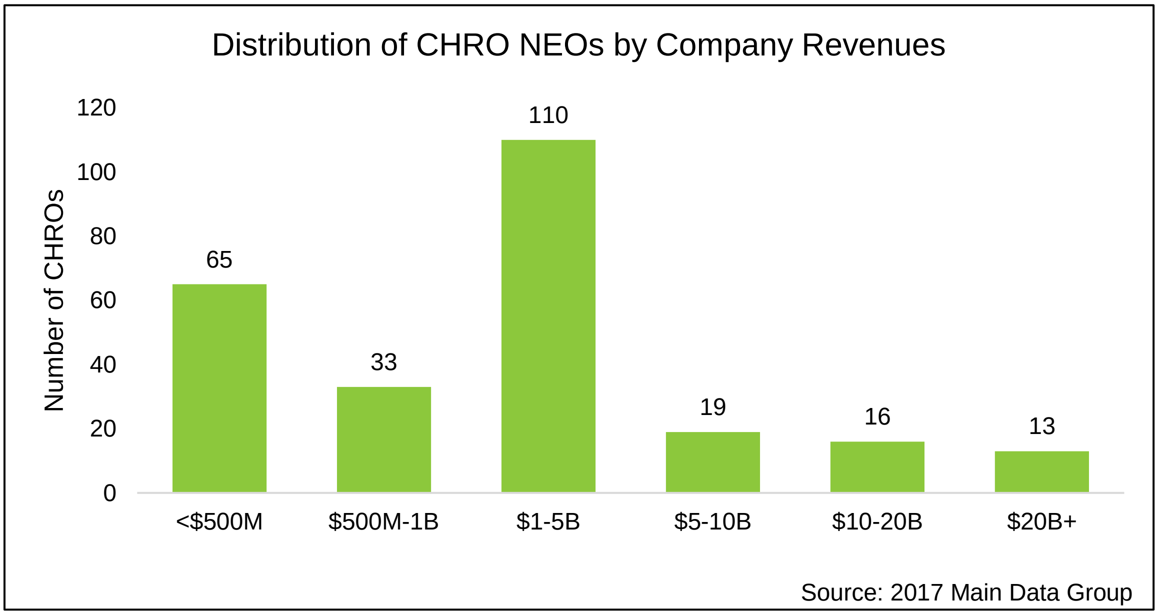
It is important to note that we excluded a meaningful number of proxy-disclosed Chief Administrative Officer (CAO) positions. Our experience shows it is not unusual for a proxy-disclosed CAO to have responsibility for managing the human resources function, but by excluding the CAO title, we believe the data gives us a clearer picture of CHRO practices.

## Key Findings

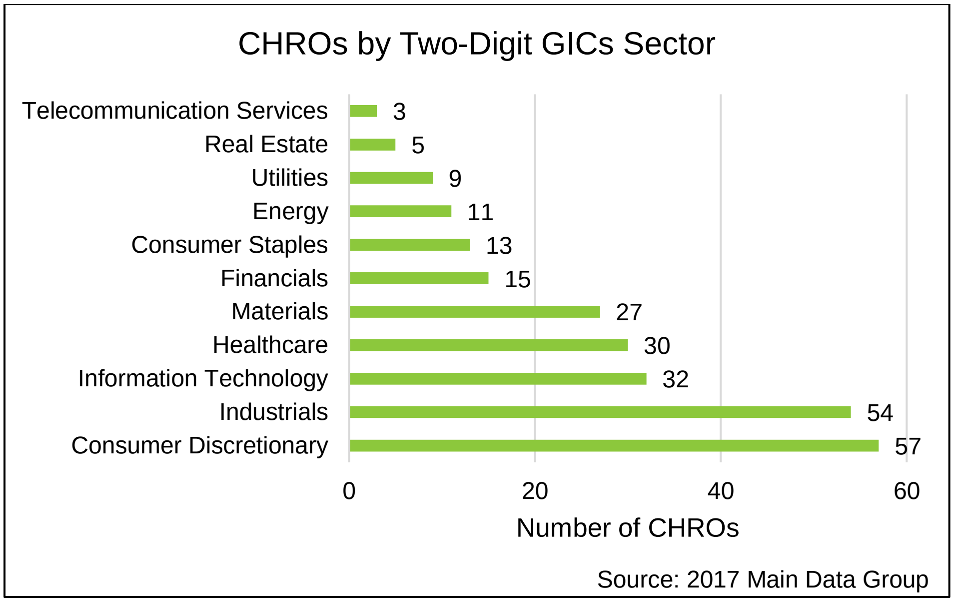
- The prevalence of a CHRO as an NEO is concentrated among firms with less than $5 billion in annual revenues and varies widely by industry.
- Among those human resource executives that reach NEO status, there is remarkable consistency in age and tenure, and for roughly one-third, their scope of responsibilities reaches significantly beyond HR.
- Their median total direct compensation (TDC) is higher than non-disclosed counterparts and that TDC level rises as company revenue rises, with increasing weight on performance-based and long-term incentives.

## CHRO Position Prevalence

Proxy-disclosed CHRO positions are most prevalent among small to medium-sized companies. More than 80 percent of the firms we identified have annual revenues of less than $5 billion, and of those, almost half are below the $1 billion mark. This result is not surprising, especially for smaller companies where a proxy-disclosed executive may wear more than one functional hat.



Our analysis also indicates industry practices vary significantly. Disclosed CHROs are most prevalent in the industrials and consumer discretionary sectors by a fairly wide margin, together accounting for more than 40 percent of the companies in the study. Although the data do not provide any additional insight, perhaps companies with “people-intensive” businesses put a greater value on the human resources role, especially if the role has responsibility for union negotiations. This people-intensive theory could be further supported by the next two industries in line—IT and healthcare—which tend to have on-going demands for quality talent.




## Tenure and Age

Regardless of company revenue size or industry, named CHROs are experienced in their field and share common average tenure and age characteristics. Our analysis shows the typical average tenure runs about 10 years with an average age of around 55. It would appear that across all companies studied, long-term employment with the organization is valued in this senior role.

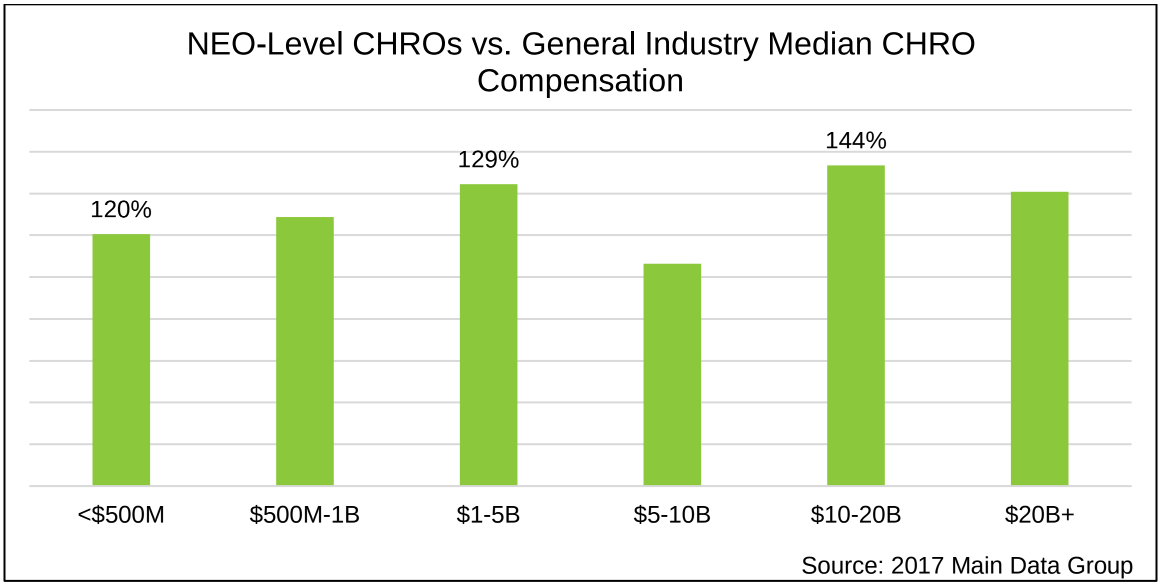
| Revenue Grouping | Number of CHROs | Average Tenure | Average Age |
|---|---|---|---|
| <$500M | 65 | 9 | 54 |
| $500M-1B | 33 | 10 | 55 |
| $1-5B | 110 | 8 | 53 |
| $5-10B | 19 | 10 | 51 |
| $10-20B | 16 | 11 | 57 |
| $20B+ | 13 | 11 | 54 |

Source: 2017 Main Data Group

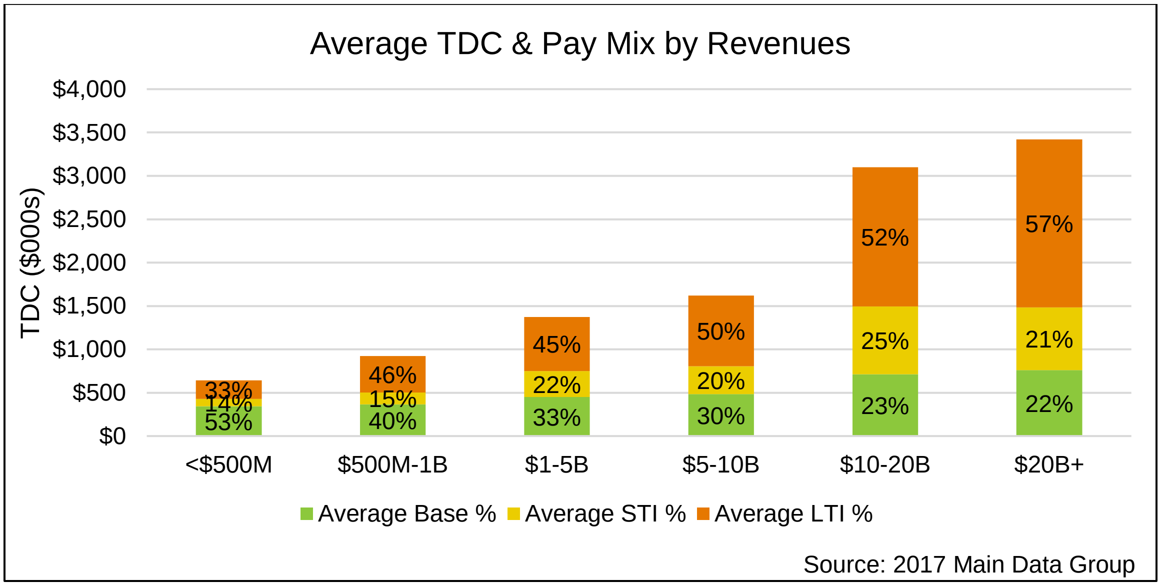
# Pay and Pay Ratios

CHROs that are reported in the proxy statement can earn substantially more than their counterparts whose positions are not disclosed. Our analysis of the disclosed titles (see titling section on page 7) and our general experience indicates that disclosed roles in HR likely have a broader scope of responsibilities than a non-NEO role.

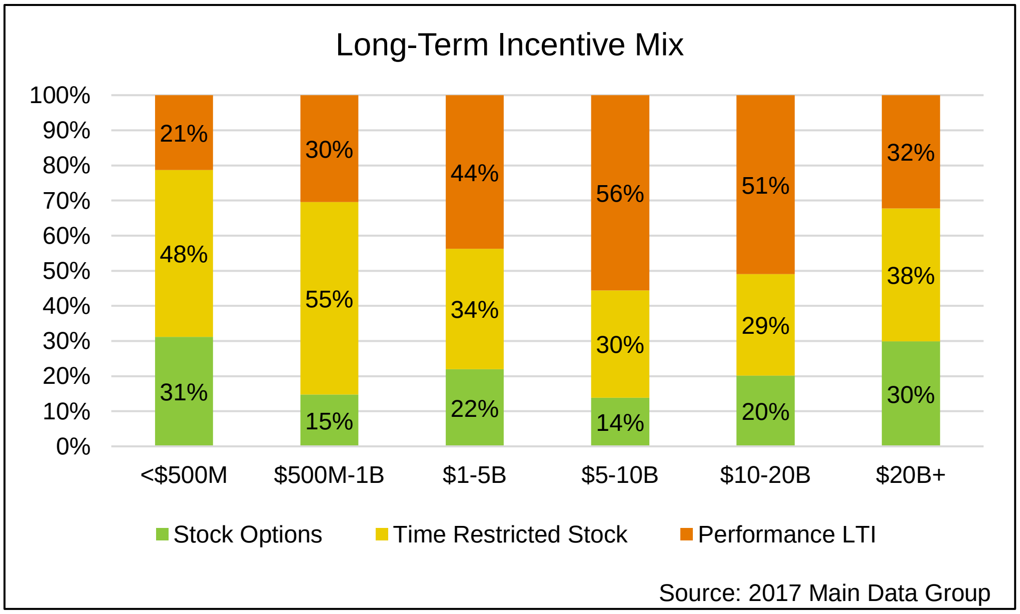
To better understand the differences in pay, we developed total direct compensation (TDC) levels for CHROs for each revenue bracket using regressed compensation survey data. The majority of these data points reflect non-NEO CHRO pay levels. When analyzing the TDC pay ratio of NEO CHROs to a non-disclosed CHRO role, we found these ratios generally run between 120 percent to 150 percent.



As expected, average TDC steadily increases as company revenues increase—no surprises here! And as you might further expect, the pay mix shifts heavily toward long-term incentives as revenues grow.

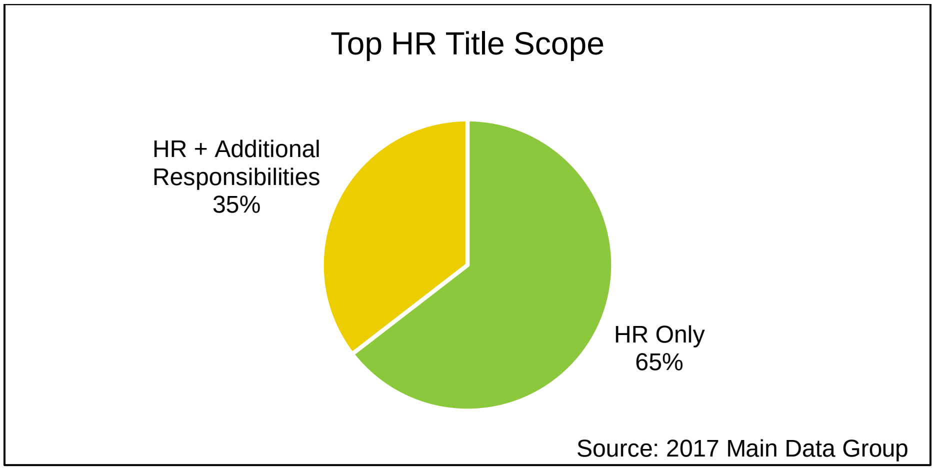


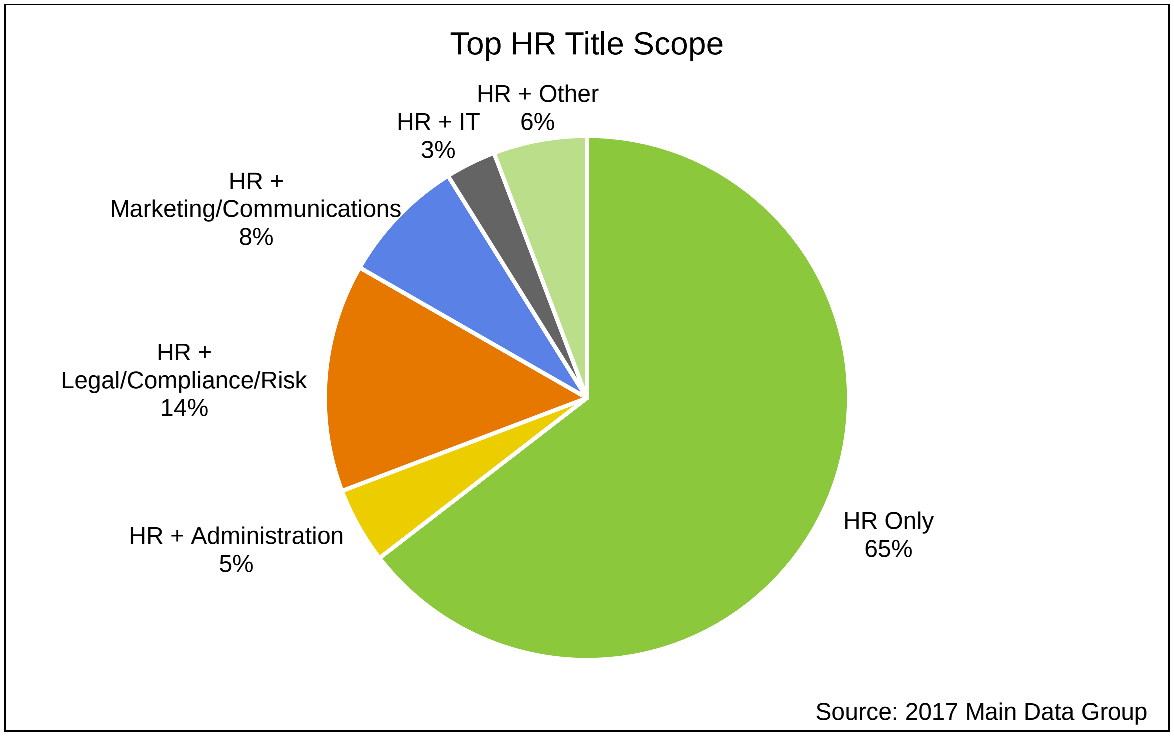

Also expected: smaller companies grant more time-vesting restricted stock and options and fewer performance-contingent equity awards than do the larger companies. Among firms in the $5 - $20B range, more than half of the incentive mix is based on performance criteria.



# Titling

About two-thirds of the positions studied included only human resources in the title, while one-third included other areas of significant responsibility. Titles that include human resources, legal, and compliance/risk were the most common multiple disclosed. Again, this is not a surprising result. Combining the legal function, compliance, and/or risk with human resources in a people-intensive business may best support these types of organizations.



# Final Thoughts

Most of the findings in this study are consistent with the pay practices of an NEO position versus one that is not proxy-disclosed:

- Proxy-disclosed pay is always expected to be greater, with a pay mix that is in line with other NEOs. Regardless of the functional areas of responsibility, a proxy-disclosed position is more important to the organization than others and the total direct compensation reflects this.
- The average age of a disclosed CHRO—in the mid-50s—reflects a professional with significant experience, as would be expected in any NEO position.
- Certain industries may put substantially more importance on the human resources function, resulting in an elevated position that is proxy-disclosed.

# About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Francisco.

# About Main Data Group

Main Data Group is a provider of high-resolution executive compensation benchmarking and corporate governance analytics. Its mission is to empower executive compensation professionals with comprehensive total rewards and corporate governance information in an affordable, easy-to-use online service.