

# AGENDA

## Best Buy's Comp Chair: Why We Adopted Comp Principles

Article published on June 21, 2010

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**Best Buy's** executive compensation program has long emphasized sound governance concepts. To help the company's Compensation and Human Resources Committee evaluate proposed pay-plan changes against this longstanding philosophy, the company recently adopted a set of principles to serve as a foundation for compensation governance.

Best Buy modeled its principles after those developed by the **Independent Directors Executive Compensation** project (IDEC, [www.IDECproject.org](http://www.IDECproject.org)). We did this to send an affirmative governance message not only to shareholders, but also to employees. IDEC hopes its principles can make the rationale underlying pay decisions more accessible to the public at a time when corporate America's compensation optics have suffered from widely publicized abuses. I believe the need for formal compensation principles has become evident in recent years as excesses have become an all-too-frequent flashpoint in the mass media.

By adhering to compensation principles, companies can guard against such abuses. Moreover, they can elevate the conversation above such narrow concerns as peer-group percentiles to a more meaningful dialogue about the effectiveness of pay programs in achieving business strategies in shareholders' interests.

Compensation principles serve as guidelines that boards can use to keep their bearings amid the rigors of corporate oversight. By adopting their own sets of principles, boards in different industries can distinguish themselves as favoring sound compensation governance. This will allow them to achieve well-deserved beneficial optics; it looks positive because it inherently is positive.

The principles that Best Buy adopted are:

*Alignment.* Structuring incentive plans so that executives' financial interests are consistent with those of shareholders and consistent across business units and global regions, and provide a balance between short- and long-term objectives.

*Accountability.* Making sure that pay is clearly tied to the right measures and levels of performance that are focused primarily on delivery of business outcomes in a consistently linked manner.

*Engagement.* Designing and communicating about pay programs in ways that attract, motivate and retain executives, and encourage teamwork, innovation and a sense of urgency.

*Purpose.* Assuring that the compensation programs support and reflect the company's mission, vision, strategy, objectives, culture and values.

*Optimization.* Maintaining programs that result in exceptionally high or low relative pay for exceptionally high or low performance.

Codifying and adopting the principles in concise form brings them to the forefront of deliberations as an overarching ethical framework.

I believe that other companies will follow Best Buy's example. Those that adhere steadfastly to well-chosen principles will significantly improve their capacity to enhance shareholder value.