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FINANCIAL SERVICES

SEC compensation rule change sets Hewitt spinoff into motion

BY CASEY WOOTEN
HOUSTON BUSINESS JOURNAL

On the heels of a recent change in regulatory chief executive pay reporting rules, a new executive compensation consulting firm is planning to open a Houston-area office to capture some related business.

Meridian Compensation Partners LLC — made up entirely of former associates and partners of human resources giant Hewitt Associates LLC — will set up an office in The Woodlands in October, says Jim Wolf, North American practice leader for executive compensation at Hewitt and co-managing partner at Meridian.



Wolf, who will remain at Hewitt's office in The Woodlands until he makes the move, says Meridian will use Hewitt for some services, but the firm will be an independent entity.

"There will be zero ownership interest, although Hewitt will remain one of the resources we can tap into in terms of bringing knowledge," says Wolf.

The move comes after a Feb. 28 change in consulting fee disclosure requirements by the U.S. Securities and Exchange Commission that left some clients scrambling

to find executive pay consultants who were independent from their other professional services firms.

In response, Chicago-based Hewitt, which has 23,000 associates worldwide and 1,000 in Houston, divested a large portion of its North American compensation consulting business. Wolf and a Chicago-based Hewitt partner, Michael Powers, formed Meridian, taking on 40 consultants and 17 partners.

Most Meridian employees will be located at the firm's Lake Forest, Ill., headquarters near Chicago, but the firm will have other U.S. offices in New York City, Atlanta, Boston, Houston and Dallas and one in Toronto.

Wolf and three consultants will move into The Woodlands-area office during the fourth quarter of this year. Two more consultants will be located in Dallas.

Wolf says Meridian will bring about 40 clients — mostly in the oil and gas sector — to the Houston-area office. Nationally, he expects Meridian to have about 300 clients, making it one of the largest compensation consulting firms in the country.

DIVESTING BUSINESS

Establishing Meridian is an attempt to resolve a growing problem facing the corporate consulting industry, says Jim Macdonald, managing director of the outsourced services group at Chicago-based investment research firm First Analysis Securities Corp.

Macdonald says the new SEC requirements mandating the disclosure of executive compensation consulting fees have raised concerns by publicly traded companies about perception of a conflict of interest with consulting firms hired by a company's board to assist in evaluating executive pay — especially if the same firm being hired performs other tasks for the company.

Wolf says Hewitt divested a large portion of its compensation consulting business to keep clients worried about the SEC ruling from taking their consulting business elsewhere.

"We began looking for a different solution, one that didn't involve our individual practitioners leaving or having our clients looking elsewhere," he says. "We needed to establish a clear independence and not have our practitioners run out on their own."

In a statement issued by Hewitt, Russ Fradin, the company's chairman and CEO, says the spinoff would let his clients continue to work with Hewitt without "compromising the appearance" of independence.

"The recent SEC fee disclosure rules and political environment are pressuring some clients to avoid the issue entirely by moving to completely independent advisers," he says.

The SEC has been moving toward more transparency for a long time, says Steve Werner, professor of management at the C.T. Bauer College of Business at the University of Houston.

Werner says the compensation consulting industry has been going through a rough patch and that may have also played a role in Hewitt's spinoff.

"Unless companies are desperate, they are not farming (consulting services) out," Werner says.

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