

# Compensation Committee Leadership Network

November 2020

CCLN

SUMMARY of THEMES

## Pay decisions are framed by a unique crisis

The coronavirus-induced economic crisis reshaped the financial performance of companies across all industries, albeit in different ways. Some companies suffered sustained shutdowns or slowdowns that led to severe underperformance; in other cases, business stabilized or even exceeded goals or expectations. These unusual conditions create challenges for boards and their compensation committees as they evaluate and reward company leaders who, in many cases, took extraordinary steps to steady their companies during this period.

On November 23, 2020, CCLN members discussed the crisis and its impact on 2020 compensation plans and 2021 goals. Separately, members were joined by Matt Miller, vice president of government relations for Business Roundtable, for an off-the-record session on post-election implications for corporations. This *Summary of Themes* provides a brief overview of the discussion.<sup>1</sup> *For a full list of meeting participants, please see the appendix on page 3.*

Discussions focused on the following themes:

- **Year-end pay considerations require even more judgment than usual.** The financial roller-coaster ride of 2020 is testing the pay-for-performance approach at many companies. Compensation chairs discussed the merits of making discretionary adjustments to short-term incentive plans, specifically at companies where performance was heavily affected by the pandemic. One said, *“I think it comes down to the industry you are in and judgement from the committee; there is no right or wrong answer. On one board, the company was not terribly affected, so we are making no adjustments. On another, we were highly impacted and are using positive discretion.”* Another explained, *“We thought very carefully about the year and areas we thought discretion was necessary to reward employees for helping us through difficult situations. We are not picking a number out of thin air—it’s very specific.”* Meridian Compensation Partners’ Annette Leckie cautioned members to be aware of the reputational risk associated with large payouts given the lingering economic uncertainty. She also reminded members that the use of discretion should be paired with *“very detailed disclosures that show investors the decision-making process you used and how the ultimate numbers were calculated.”* A compensation chair added, *“We took a step back and made sure our plans are aligned with shareholders but also motivate and retain key talent. Our committee talked about what decisions we need to make, how we will make them, and how we will disclose them. I like where we came out and would feel comfortable explaining our decision to someone if asked.”*

- **Committees should be cautious about course corrections to long-term incentive plans (LTIPs).** Some members said that the unpredictable nature of 2020 performance is creating especially challenging questions about their three-year LTIPs. One compensation chair, who likened LTIPs to a *“layer cake,”* discussed a situation where underperformance in 2020 will likely lead to no payout at all over an entire three-year period. Ms. Leckie explained that investors and proxy advisory firms have been clear that they do not want committees to change their long-term plans midstream. Most members had come to the same conclusion. One said, *“Our idea with the LTIP is it is a three-year plan with ups and downs. We aren’t making adjustments because last year was great and we hope next year will be good; there is still time to make it up.”* Meridian’s Marc Ullman added, *“LTIPs are meant to be forward looking. The 2021 LTIP should be considered a bridge—disclosure should not be about fixing past issues but about fixing problematic plan design features and keeping management engaged and motivated going-forward.”* A member shared how one company is handling this: *“Nothing is changed on our existing LTIP, but we are thinking of changes in 2021. They will be less about COVID and more about making sure the LTIP is well linked to our strategy.”*
- **Uncertainty about the prolonged impact of the pandemic tests the goal-setting process.** Setting goals for 2021 may be an even bigger challenge for compensation committees than determining pay for 2020. Many questions remain about when the pandemic will subside and how quickly the economy will revert to something resembling normal. Ms. Leckie shared her thoughts: *“Compensation committees need to consider their tools for dealing with this environment. Some may flatten out the pay curve by lowering the threshold, but it is important to watch out for windfalls. In 2010, following the financial crisis, we saw soft goals set in 2009 that led to very high bonuses. Don’t wipe people out on the downside, but watch out for potential windfalls on the upside as well.”* Mr. Ullman also discussed trends he is seeing with his clients: *“Some companies are considering setting three one-year goals within the LTIP as a solution to the uncertainty, but that kind of plan can come with significant complexities down the road. Watch out for solutions today that could cause problems for the future.”*

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## Appendix: Meeting participants

- Homaira Akbari, Temenos
- Bill DeLaney, Union Pacific
- Tony Earley, Ford
- Stephen Fisher, Vonage
- Helene Gayle, The Coca-Cola Company
- Lisa Gersh, Hasbro
- Mirian Graddick-Weir, Booking Holdings
- Marianne Harris, Sun Life Financial
- Kathy Hill, Moody's, NetApp, and Celanese
- Worthing Jackman, Quanta Services
- Annette Leckie, Meridian Compensation Partners
- Denise Morrison, Visa
- Lisa Payne, Rockwell Automation
- Meg Porfido, Kaiser Permanente
- Virginia Ruesterholz, The Hartford
- Carol Stephenson, General Motors
- Marc Ullman, Meridian Compensation Partners

## Endnote

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<sup>1</sup> *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments made before and during meetings are not attributed to individuals or corporations. Guests, however, have given permission for their remarks to be attributed. Comments by guests and network members are shown in italics.