

Compensation Committee Leadership Network

July 2020

CCLN

SUMMARY of THEMES

Investor perspectives and racial justice

The ongoing COVID-19 pandemic and the rapid rise of a movement in support of racial justice combine to make the work of boards and their compensation committees as important and challenging as ever. During a June 26, 2020 virtual meeting, CCLN members were joined by Tanya Levy-Odom from BlackRock's Investment Stewardship team for a discussion about the implications of the pandemic on a range of compensation and governance issues. Separately, members shared perspectives on the board's role in combatting systemic racism.

This *Summary of Themes* provides a brief overview of the meeting.¹ *For a full list of meeting participants, please see the list on page 4.*

A dialogue with BlackRock on COVID-19 era governance

Recent events have amplified the importance of boards' people and pay choices. CCLN members and Ms. Levy-Odom discussed the best ways for boards to approach key decisions as uncertainty persists.

- **Unconventional pay decisions will need to be supported by robust disclosure.** One consequence of the pandemic is that many managers are focused on different tasks today than what anyone could have expected. Ms. Levy-Odom applauded companies that took steps to align executive compensation with the outcomes experienced by their stakeholders: *"Boards and management teams have been proactive with salary reductions and other efforts to take care of the people and communities they serve during the crisis."* Members asked how investors will evaluate the link between pay and performance, since companies are unlikely to meet the goals they set early in the year. One compensation chair said, *"We made a shift in what we do and want to reward the folks who orchestrated that shift. How will you know all this was considered when compensation decisions are made?"* Another noted, *"Management teams are working much harder than before, even if the financial performance doesn't show it. How does the board continue to incentivize management in this environment?"* Ms. Levy-Odom acknowledged these challenges and encouraged compensation chairs to focus on telling their story: *"We expect more disclosure in proxies next year about the rationale for determining pay. What was the calculation? How does it compare to the peer group? How did the committee come to the decision? Explain what the landscape looks like going forward, especially if you are incentivizing a team because you believe it is important for retention."*
- **Long term success requires a mix of financial and non-financial achievements.** Members and Ms. Levy-Odom discussed BlackRock's stewardship priorities, including those related

to environmental risk and other non-financial factors. Ms. Levy-Odom said, *“Our priorities all tie back to long-term financial performance. There should not be a negative tradeoff for investing in sustainability. We understand that there may be a short-term impact if you invest heavily in efforts to attain these long-term goals. But ultimately there must be a link.”* Members were curious about whether and how committees are considering these factors in pay decisions. One said, *“We already have a rigorous sustainability plan. We are now working on incorporating it into our long-term incentive plan. We don’t want to do it until we are sure that there are clear metrics we can use.”* Others noted that their committees are also assessing which non-financial metrics to include in compensation plans and how much weight to give them. Ms. Levy-Odom stressed the value of metrics that are within a management team’s control: *“We appreciate a more comprehensive approach. It is better to use metrics that management teams can control versus some externality that they couldn’t have anticipated.”*

- **Investors seek signals that companies are effectively nurturing employees.** Throughout the pandemic, CCLN members have emphasized the importance of putting employee health and safety first. This aligns with the broader value that companies place on their workforces. In recent years, BlackRock and other investors have sought more information about companies’ approaches to human capital management. Ms. Levy-Odom said, *“Investments in people are critical to the sustainability of a business over time. We want to see that companies are investing in their employee base, providing training opportunities, and evidence of internal mobility.”* She explained that a combination of qualitative and quantitative disclosures can help BlackRock assess companies’ progress and pointed to the Sustainability Accounting Standards Board framework as one way to enhance disclosure in this area. A member added that *“it’s easy for us to be lulled into thinking we do human capital management well. What are the red flags?”* Ms. Levy-Odom suggested boards look for inconsistencies between policies and practices: *“We see problems when a company is unable or unwilling to elaborate on the reasons for things like an increase in lawsuits for ethics violations. You might have a great policy, but how is it being implemented? How is the board overseeing it?”*

The board’s role in combatting racism and injustice

In the wake of global antiracism protests and initiatives, compensation committee chairs contemplated how boards and senior managers are responding. They shared some of the practices that have resonated at their companies, as well as the longer-term initiatives that they plan to undertake.

- **CEOs and boards must demonstrate leadership from the top.** Company responses to the current movement have quickly made their way onto boards’ agendas. A member noted that a key aspect of leadership is listening to the collective voice of company employees on these issues: *“Employees are very vocal and passionate about this cause now. We are*

seeing employees coming to management and saying this is important, and then management coming to us as a board saying this is really important and we have to act and get it right.” Members raised questions about what role the board should play in the company’s response. One said, *“There is still a lack of clarity on what boards can do to truly be part of the solution. Right now, we have to hold management accountable by asking the right questions.”* Another noted that conversations about diversity provide a new way to assess management: *“First with COVID, and now with the racial justice issue, we are getting to know the CEOs at our companies in a different light. It is so important to show empathy and balance the human trauma with the needs of the business in a way that makes employees feel safe and prioritized. It has become a core competency of leadership to take on these human issues.”*

- **Diversity efforts are more likely to succeed when they are linked to tangible goals.**

Companies currently face pressure to provide concrete plans for addressing systemic inequality. A director summed up the approach at one company: *“We didn’t just want to write a check. We wanted to be more forward leading. The first step was improving the dialogue to show leadership is willing to engage, even if it is uncomfortable. Then, we are developing a plan that shows how we can make advancing the careers of woman and people of color part of our culture.”* Another said that it was important to develop metrics that the board can use to track progress: *“It can’t just be the traditional ways we measure diversity and inclusion. There needs to be more integration with the business. We need to find and fix the broken rungs.”*

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Meeting participants

- Tony Earley, Ford Motor Company
- Helene Gayle, The Coca-Cola Company
- Lisa Gersh, Hasbro
- Mirian Graddick-Weir, Booking Holdings
- Marianne Harris, Sun Life Financial
- Kathy Hill, Moody's
- Jay Jacobs, Citigroup
- Annette Leckie, Meridian Compensation Partners
- Karen Maidment, TD Bank Group
- Denise Morrison, Visa
- Meg Porfido, Kaiser Permanente
- Virginia Ruesterholz, The Hartford
- Laurie Siegel, CenturyLink
- Amanda Sourry, PVH
- Carol Stephenson, General Motors
- Marc Ullman, Meridian Compensation Partners

Endnote

¹ *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.