Compensation Committee Leadership Network

March 2021

CCLN

SUMMARY of THEMES

Compensation chairs discuss 2020 accomplishments and 2021 goals

The past year has been a remarkable one for nearly every company. The COVID-19 pandemic and associated disruptions resulted in unforeseeable performance outcomes for many companies. Senior executives spent large portions of their time addressing challenges that would have seemed unimaginable at the outset of the year. In some unique cases, compensation committees responded by making adjustments to pay plans; most, however, stuck to their original plans. As the fallout from the pandemic and recession plays out, boards are keeping a close eye on how they incentivize management.

Boards and management teams are also facing a growing demand for environmental, social, and governance (ESG) information from a range of stakeholders. Some compensation committees have already begun tying executive compensation to ESG metrics or plan to do so in 2021.

On March 4, 2021, CCLN members reflected on the opportunities and challenges of the past year and shared their ambitions for 2021.[1] *For a full list of meeting participants, please see the appendix on page 4.*

The discussion focused on the following themes:

- **The volatility of 2020 creates challenges for setting 2021 goals.** CCLN members discussed their efforts to apply the lessons of 2020 to their 2021 goal-setting process. For many companies, that means looking at ways to minimize dramatic swings in compensation. One member said, *"We looked at the curve and felt there was too much volatility on the upside and the downside. For 2021, we will have a flattening in the middle so there aren't as many opportunities for big fluctuations above or below target."* Compensation committees are doing their best to adjust 2021 plans to better reflect current conditions. Ultimately, members stressed the importance of maintaining discretion because so many variables remain outside of management's control. One member said, *"We looked at budgets and risks and widened the band to cover them. But we don't want unintended windfalls, so we committed to negative discretion if necessary."*
- **Boards are exploring whether and how to pay for ESG performance.** The current wave of interest in nonfinancial performance on the part of investors, employees, and customers is raising questions about the link between ESG and executive compensation. Given the sweeping set of issues that fall under the ESG umbrella, CCLN members expressed the

challenge of identifying the subset of factors that are most important to the long-term success of the company. Meridian Compensation Partners' Annette Leckie said that while investors have stepped up their focus on ESG disclosures, most are not yet clamoring for committees to radically revamp pay practices: *"Linking compensation to ESG is a good move for some companies, but you don't have to put everything you ask executives to accomplish into incentives plans. Be sure to kick the tires on ESG metrics as you would for financial metrics. You need to be able to measure performance and set appropriate goals."* Some members shared their recent experiences linking pay to important nonfinancial factors. One described using a balanced-scorecard approach in which 20% of executive compensation is tied to a suite of metrics linked to climate change, customer satisfaction, and human capital issues. Another noted a recent decision to allocate a portion of senior management's long-term incentive plan to diversity goals, with the caveat that *"the curve to achieving our goals won't be smooth, so we felt that this should not be an annual measurement affecting compensation."*

- **Competition for digital talent may require revamped pay plans.** The pandemic has reinforced the importance—regardless of industry—of a comprehensive digital strategy. That requires hiring a group of employees with very particular skill sets. Members observed the challenge of creating competitive pay packages to lure executives away from the technology sector. One said, *"Our traditional compensation structure isn't going to cut it in hiring the talent we need."* Another added, *"Often, these professionals want to be paid with equity rather than cash, which is a good trade-off."* However, these professionals may not be enticed by equity in a slower-growing industrial company; some members suggested the option of separating the digital business and paying with equity in that new entity. While digital talent is essential, members cautioned against putting too many employees into special compensation plans. One said, *"Think hundreds rather than thousands. This effort should be focused on creating the new crown jewels."*
- **As businesses evolve, compensation peer groups are likely to change.** Recent events have accelerated many companies' transformations, and as a consequence many are finding that their compensation peer groups are no longer fit for purpose. One member talked about replacing nearly half of the company's peer group to reflect the markets that are now core to the company's strategy: *"We realized that the executives we recently hired are not from the old peer group. We made changes to align with the competition."* Another member said that major shifts are causing the board to rethink which sectors are most relevant for inclusion in the company's peer group: *"We're coming out of the pandemic feeling stronger than ever. We've had to consider the new technologies that apply to our new strategy. We want a peer group that reflects what we're doing now, not what we've done before."*
- **Communication and mentorship are critical as boards emerge from remote governance.** Physical separation and the limitations of virtual communication are prompting some

boards to think creatively about how to maintain continuity. *"Once every director is vaccinated, we'll probably do an old-style, in-person board retreat. Pulling people together will make up for missing time. I'm pretty excited about that,"* a member said. A director who joined a board during the pandemic said that virtual onboarding benefitted from an *"informal, casual, and fun"* session with fellow board members before the slate of formal onboarding meetings with members of management and the board. *"We've all been impressed with the process,"* the member said. A member whose board recently onboarded a director was able to meet with and mentor that person face-to-face because they live nearby: *"Fielding informal questions on materials in person has been really helpful."*

- **Some companies are issuing bonuses to employees for exemplary effort.** While financial results were more volatile than in a normal year, several CCLN members noted the extraordinary work that employees did in the face of unexpected challenges. In some cases, boards created special bonus pools to recognize those achievements. Eligibility for such payments varied widely. One member said, *"Senior management got paid for results. Further down in the company, people got paid for results and effort. We created a bonus pool for tens of thousands of employees."* Another compensation chair said, *"We spoke as a committee about positive discretion and a special bonus because our people worked hard. Leadership and the committee both felt good about it."*
- **Employee wellness is a top concern.** As the pandemic drags on, some members said that their committees and boards are focusing on knock-on effects associated with over a year of remote work. *"We need to consider remote work from a human wellness and home caregiver's perspective. Things are better now than they initially were, but employee mental health has to come to the forefront in 2021,"* a member said. Another agreed: *"We've been saying, 'People are living at work.' We're working on ensuring that people have the proper environments for work and for life."*

Appendix: Meeting participants

- Homaira Akbari, Temenos
- Gaurdie Banister, Tyson Foods
- Tony Earley, Ford
- Stephen Fisher, Vonage
- Lisa Gersh, Hasbro
- Marianne Harris, Sun Life Financial
- Kathy Hill, Moody's, NetApp, and Celanese
- Worthing Jackman, Quanta Services
- Annette Leckie, Meridian Compensation Partners
- Karen Maidment, TD Bank
- Meg Porfido, Kaiser Permanente
- Virginia Ruesterholz, The Hartford
- Amanda Sourry, PVH

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.