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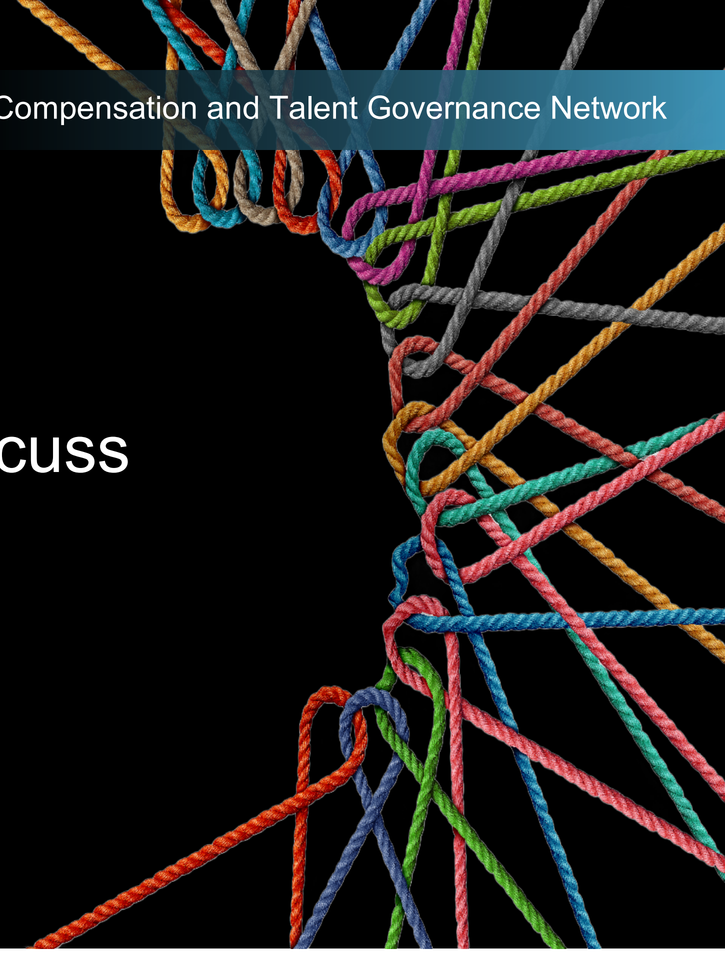


SUMMARY OF THEMES

Compensation chairs discuss challenges and goals

March 2024

Compensation committees continue to adapt to a rapidly changing business environment characterized by economic volatility, investor and public scrutiny of executive pay, and a challenging talent landscape. In 2024, committees are focused on aligning compensation with broader corporate strategy and executive performance while incorporating oversight of talent strategy, culture, and leadership development into their agendas.

On March 4, 2024, members of the Compensation and Talent Governance Network (CTGN) reflected on their experiences in the past year and shared their priorities and goals for 2024.

For a list of meeting participants, see appendix (page 5).

This *Summary of Themes*[1] highlights compensation committees' focus on aligning compensation with corporate strategy and incorporation of human capital management into their agendas:

Aligning compensation with corporate strategy and specific business challenges

Building stakeholder support for compensation plans

Meeting the challenge of talent oversight and succession planning

Aligning compensation with corporate strategy and specific business challenges

As compensation committees seek to align pay with performance, they also endeavor to ensure that compensation plans support overall business strategy. One member said, *"We had to step back and ask if we have a plan that's serving us best for the future and our new strategic plan. Is the way we incentivize the top management team the right way to do it to support that plan?"* Another member noted the challenge of linking compensation to the business's current goals: *"Growth is the number-one factor driving our agenda. We're thinking about how to align compensation to enable growth and how to develop our succession plan and our talent in a way that will position us to grow."*

Effective compensation also requires adjusting compensation to fit the specific circumstances and challenges facing businesses:

- **Rapid growth.** Early-stage or fast-growing companies face challenges in developing more mature and sophisticated compensation policies that stand up to investors' scrutiny and ensure that executive pay is not out of line with peers, while effectively managing executives' sometimes outsized expectations for pay. This can include the need to adjust peer groups over time. One director said, *"We're growing out of our peer group every year based on growth and trying to stay aligned with compensation of our CEO."* One member shared insights into establishing a peer group: *"The peer group we use for compensation purposes is not necessarily the same peer group we should be using to evaluate our overall financial performance."*

- **Challenging industry and market conditions.** Slow growth or falling profits raise challenging questions, particularly when adverse financial results arise from industry or market conditions beyond executives' control. *"How do we pay in a way that management will feel rewarded for their hard work and not leave? And how will we have a pay package that attracts new talent when we have a track record of only paying out half bonuses and not issuing performance shares?"* one director asked. *"That's very hard in a shrinking company, especially if your direct competitors are shrinking too."* Another member faced similar dynamics: *"We struggled with how to balance doing the right thing for executives while making sure there wasn't a massive pay-for-performance black mark from investors. We had to find creative options to incentivize the CEO and reward him while acknowledging the difficult industry environment that's beyond his control."*

  Meridian Compensation Partners' Darren Moskovitz recommended that members consider strategic outcomes in designing compensation in those circumstances. *"The biggest challenge for the committees I serve this year is the balance between how to reward for strategic accomplishments versus financial results,"* he said. While last year's financial performance may have been disappointing, *"there has been a lot of repositioning of organizations to prepare for 2024 and beyond."* For example, he added, many financial services companies *"are not talking about financial performance"* in their disclosures on executive compensation. *"They're talking about the strategic changes that were made at those organizations and how they want to reward their executives through that lens. I think we're going to see more of that."*

Building stakeholder support for compensation plans

Members emphasized the importance of communicating the rationale behind compensation programs to a range of external and internal stakeholders:

- **Engaging with shareholders.** Communicating effectively with shareholders is critical, especially in response to adverse say-on-pay outcomes. *"We did a lot of calls with the investors and found that most of the concerns were disclosure related. We didn't explain pay well enough before and had to talk about the details of the metrics that were implemented,"* one member said. And engagement with shareholders should be a routine matter, Mr. Moskovitz said: *"Shareholders want to be heard."* A director described one board's approach: *"We have a practice where the chair of the board and the chair of the HR committee meet with our top 25 to 30 investors every year after the proxy and before the annual meeting. We try to get feedback for shareholder proposals in particular, but generally we get a lot of interesting insights."*
- **Communicating with the executive team.** As committees reconfigure executive compensation to meet their companies' needs, gaining understanding and acceptance from executive teams presents a major challenge that demands significant time from the committee chair. One member said, *"I think we can underestimate what it takes to get leadership buy-in with these plans and how much hand-holding there needs to be to help people understand the benefits of a new program."* They also noted that it's critical to spend a lot of time with the CEO *"to ensure that the CEO buys into ownership of the plan."* Another member noted that it can be difficult for executives to fully understand their compensation: *"We assume that people understand their plans, but even if they intellectually understand, when the number comes out, they're often surprised."*
- **Reframing the discussion of environmental, social, and governance (ESG) issues.** In the face of a shifting shareholder and political landscape, some member committees have repositioned ESG performance metrics to emphasize what generates value for the business. One member said, *"We aren't using the language of ESG or corporate social responsibility but the language of what's important to us and what's important to our customers, stakeholders, and employees, intentionally staying away from language that might be loaded."* Another member emphasized the importance of continuing to do the things they believe in while adjusting to the current climate. *"Partly it's language, but also there may be modifications that need to be made so things don't come across in ways that can be interpreted as targets."*

Meeting the challenge of talent oversight and succession planning

Most compensation committees have expanded their charter to include human-capital oversight, and members identified several aspects of talent management they are prioritizing:

- **Developing a robust people strategy.** A key human-capital issue for member committees is the direct integration of talent strategy into the company's overall strategic and operational planning. Members agreed that there is significant work to be done in this area. *"We always see the financial plan that supports the operating plan, but we never see a people plan actually tied directly into the* *plan. And I have yet to hear of an organization that really does that well,"* a director said. Securing data that would better inform talent strategy and people risk is a particular challenge. One member said, *"Turnover and employee satisfaction are common metrics, but we're pushing very hard on going beyond this. This year, we hope to get metrics that would be leading indicators of where the organization may have talent shortfalls."*

- **Finding the right approach to hybrid and remote work.** A member said, *"We still haven't found the equilibrium on hybrid culture, and this is something that will keep evolving."* Most companies are facing employee resistance to returning to the office, but this is not universally true. One member reported, *"I'm surprised by how excited people are to be onsite at headquarters."* Members agreed on the need for decisions on hybrid and return-to-work policies to be driven by data. One highlighted that *"as we consider hybrid work in the future, we need to make sure that our metrics and measurements are right. Often, this whole debate of in office or not in office is founded without data, so we need to really focus on how to collect the data."*
- **Developing robust CEO succession planning and evaluations.** Members recognize CEO succession planning as an ongoing process. Some struggle to convince their current CEO to make it a priority while others have robust processes that look ahead to multiple CEO transitions, mindful of the reality that 39% of S&P 500 CEOs have tenures ranging from one to five years.[ii] One member said, *"We just had a new CEO and are far away from the next succession but are very busy on this topic. We find ourselves debating not only for the next, but rapidly planning for the one after that and ensuring that we've got the talent plans for the folks that are 35 and 40 years old."* Other members are focused on formalizing the CEO performance review process. One said, *"We mapped out a CEO performance review process that starts with goal setting, goes to quarterly check-ins with the talent management and compensation committee, and then ends the year with a much more robust, full-board review of the CEO."*

Appendix 1: Participants

The following members participated in all or part of the meeting:

Noni Abdur-Razzaq
Associate
Tapestry Networks

Eric Baldwin
Executive Director
Tapestry Networks

Marjorie Rodgers Cheshire
Compensation Chair
Exelon

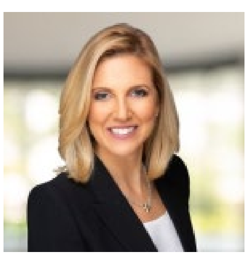
Stephanie Coyles
Management Resources Chair
Sun Life Financial

Jevin Eagle
Compensation and Human Capital Chair
Carter's

Marsha Ershaghi
Managing Director
Tapestry Networks

Lisa Gersh
Compensation Chair
Hasbro

Karen E. Maidment
Human Resources Chair
TD Bank Group



Cheryl Miller
Leadership and Development Compensation Chair
Tyson Foods

Darren Moskovitz
Partner
Meridian Compensation Partners

Joyce Russell
Human Resources and Compensation Chair
Celsius Holdings

Amy Sourry
Compensation Chair
PVH

Endnotes

[1] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with participants in connection with the meeting.

[ii] Joyce Chen, "CEO Tenure Rates," Equilar, July 21, 2023.