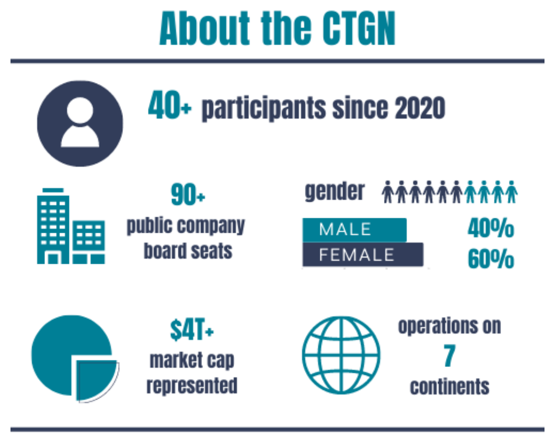
COMPENSATION + TALENT

GOVERNANCE NETWORK

The work of compensation committees has never been more critical or more difficult. The Compensation and Talent Governance Network (CTGN) is a select, invitation-only group of committee chairs from leading companies in North America. Members meet for private discussions about compensation, human capital oversight, management succession planning, and other relevant matters. Tapestry Networks orchestrates the CTGN, building on nearly two decades of experience convening board leaders for meaningful conversations designed to yield practical insights. Meridian Compensation Partners' leaders participate as members to provide technical expertise and industry knowledge.

2022 Reflections



CTGN members met virtually in 2022 to glean insights from subject matter experts and peers. The dynamic combination of a volatile economy, fluctuating job market, and shifting stakeholder expectations generated a range of challenges.

Compensation committees have taken a more detailed and holistic approach to their company's workforce, from frontline workers all the way to the CEO. Members anticipate doubling down on their efforts to oversee their company's talent strategy, spending more time on their companies' approaches to recruiting and retaining top talent, especially those who add diversity or bring digital capabilities. Economic uncertainty, with market volatility, growing inflation, and potential recession, only add to the complexity that CTGN members' boards and committees face.

Key Themes

The pressure to source and enhance talent is not abating. As companies reassess their strategic objectives, many have concluded that they need to enhance the digital skills of their workforce. Many of the capabilities that they covet are in short supply. Members have in some cases needed to increase compensation to attract high-level tech talent, and some committee chairs are struggling with how to compete for new talent without creating discontent among critical legacy employees who may not have the same market value. Members also acknowledge that traditional approaches to recruiting and compensation are no longer enough to attract and retain in-demand employees. One participant said, *"What kept people at a company five years ago doesn't necessarily work now, so we're getting as creative as possible."* Securing diverse talent remains an acute challenge, not just in recruiting, but in retention: *"We've all seen organizations where you bring in all this diverse talent, but the culture is not receptive, so they leave as quick as they come."*

Successful leadership development and succession require sustained attention. CTGN members said that even as boards focus on the broader talent picture, CEO succession remains one of their most important tasks. A successful succession process requires constant attention from the board. Several CTGN members said that enlisting third parties to assist with these plans early in the process can give compensation committees more confidence in the ultimate outcome. One member discussed the need to plan for both the long term and the short term: *"It's so important to make sure you are never unprepared for the unpredictable. We had an unexpected CEO change, and we were ready with two internal candidates to step in immediately. The process ran seamlessly despite the circumstances."* Members' companies are increasingly reaching deeper into the organization to identify and develop potential CEO and C-suite candidates, particularly those from underrepresented communities, earlier in their careers. While compensation committees focus most of their attention on the executive ranks, many members are asking for more transparency on hiring, retention, and leadership development in the middle ranks of the organization.

Diversity and workplace equity are receiving increased attention. Workforce equity has become a critical focus area for members' companies and committees, while diversity, equity, and inclusion programs are increasingly striving to address root causes of inequity. One participant described the goal of such initiatives as *"making intentional, conscious, and deliberate decisions every day that promote equity at all costs."* Pay equity analysis can feed into a broader conversation about workplace equity. As one director said, *"Does this analysis lead companies to look more closely at the culture of upward mobility in the organization?"* Pay equity data is one of a number of data sources boards are demanding assess progress more rigorously. One director said, "*We look at a ton of data to identify where we may have missed groups, or where we may think we've made progress, but our numbers are the same as four years ago, where there was a lot of talk and a lot of initiatives, but it didn't move the needle. I think you have to be very honest about that.*"

Guest Spotlight

Chris Brunson, General Mills
AJ Tufte, General Mills
Maria Colacurcio, Syndio
Rob Porcarelli, Syndio
Lybra Clemons, Twilio
Debra Hunter Johnson, Reciprocity Consulting Group

Economic volatility and inflation make long-term planning more difficult. In response to ongoing volatility and uncertainty, committees are taking a longer-term and more holistic approach. Rather than making one-time adjustments, one member said, *"You want to look back and say, 'Over five years, have I paid out in a range where I think it was fair and appropriate?'"* CTGN members shared that their committees are also exploring other ways to reduce pay fluctuations, especially in long-term incentive plans. One said, *"Setting three-year goals for the LTIP just isn't possible right now. We shifted to single-year targets over a three-year period."* Members agreed that economic uncertainty is likely to continue, requiring compensation committees to continue to adapt.

Recent meeting topics

- Board responsibility for talent, workforce, and inclusive culture
- Responding to economic uncertainty and new pay-versus-performance disclosure rules
- Pay Equity Strategy
- Compensation Chairs Discuss Accomplishments and Goals

The SEC's pay-versus-performance rules are demanding attention. The SEC's final pay-versus-performance rules, announced in August 2022, are forcing management teams and committees to scramble to comply, since most issuers will have to include disclosures in their 2023 proxy filings. Achieving the commission's goal of disclosing compensation actually paid will be quite complicated, particularly determining the valuations of equity compensation. One member said, "*it is going to be difficult to provide the narrative that the commission is asking for and to really send the message that you want to your investors.*" Despite heightened scrutiny, members agreed that the new rules would not significantly affect the way they design compensation plans.

Tapestry Networks brings world-class leaders together to tackle complex challenges and promote positive change. We call this the power of connected thinking.

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Meridian Compensation Partners works with compensation committees to ensure the most effective processes are in place to go beyond mere compliance with governance requirements.