

# Top Concerns for Compensation Committees Facing Another Uncertain Year

---

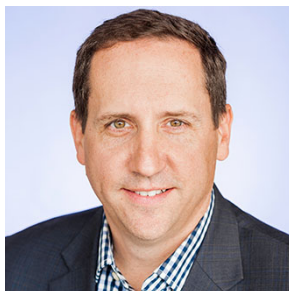
*A Compensation Committee Series Webinar*  
Presented by NACD and Pearl Meyer

January 28, 2021

# Meet the Presenters



**Mary Beth Vitale** is a director of GEHA Inc., Luna Innovations Inc., and Pareteum Corp., where she is independent chair. She chairs GEHA's risk and technology committee and serves on the executive committee. She serves on the audit and nominating and governance committees for Luna Innovations, and on the audit and compensation committees for Pareteum. Vitale is a founding commissioner of the Colorado Governor's Commission on Science and Technology, a past chair and founding member of NACD's Colorado Chapter, and a founding co-chair of the Greater Colorado Chapter of Women Corporate Directors. She is an NACD Board Leadership Fellow and a faculty member for NACD's Board Advisory Services.



**Greg Stoeckel** is a managing director in Pearl Meyer's Atlanta office. He has more than 20 years' experience as a senior advisor to compensation committees and executives on all aspects of executive and outside director compensation, focusing on business strategy, performance metrics, corporate governance (including institutional shareholder perspectives), accounting, tax, and SEC disclosure. He works with companies in various industries, of various sizes, and at virtually all life-cycle stages ranging from venture-backed, pre-IPO start-ups to established industry leaders.



**David Wrangham** is a consultant in Pearl Meyer's Boston office. His executive compensation background includes both corporate and consulting experience, and he is a frequent NACD webinar speaker. He received a BA from Middlebury College.

- Submit a question and receive your answer directly from Pearl Meyer, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.
- Tweet live during the event today with **@NACD** and **@PearlMeyer**.
- Presentation slides are available today at [www.pearlmeyer.com/top-five-2021](http://www.pearlmeyer.com/top-five-2021) and within the webinar console.
- The replay will be available early next week at [www.nacdonline.org/webinars](http://www.nacdonline.org/webinars) and [www.pearlmeyer.com/top-five-2021](http://www.pearlmeyer.com/top-five-2021).

Your participation in today's webinar earns you credit toward maintaining your NACD credentials.

## NACD Board Leadership *Fellowship*

If you're working toward maintaining your NACD *Fellowship*® credential, you will receive **1 skill credit**.



## NACD Directorship Certification™

If you're working toward maintaining your NACD Directorship Certification credential, you will receive **1 recertification credit**.

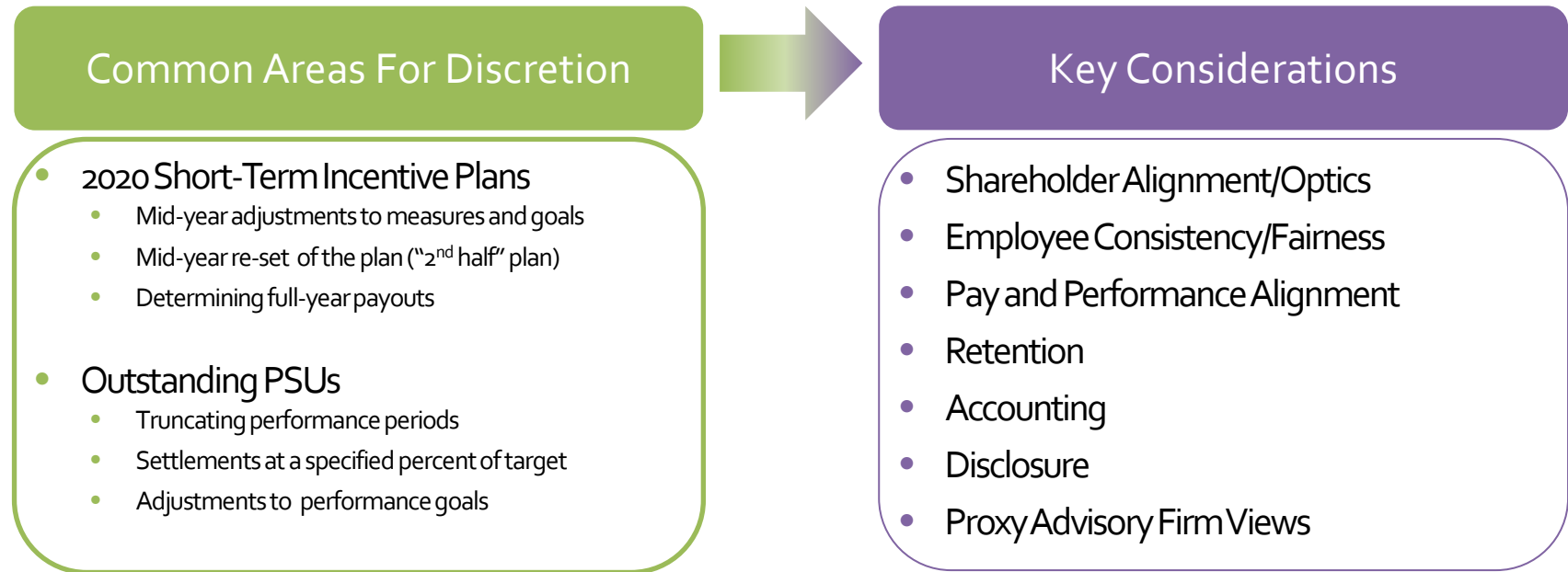


## Top-of-Mind Compensation and Human Capital Management Topics for 2021

- **Discretion**—What lessons were learned from the use of discretion with respect to 2020 compensation arrangements, and is the continued use of discretion necessary and advisable for 2021 and beyond?
- **Disclosure**—How do you accurately and effectively disclose 2020 compensation decisions, as well as changes that are being made for 2021?
- **Strategy Alignment**—As business strategies change in response to the current environment, how do you assess and potentially change your compensation programs to ensure they are driving the desired behaviors, actions, and results?
- **Goal-Setting**—Given the considerable amount of uncertainty still present as we head into 2021, what strategies and approaches to goal-setting should be reviewed and considered in order to achieve the desired linkage between pay and performance?
- **Organization Health**—As companies pivot from survival to prosperity, how do you assess and strengthen your organization's health in terms of culture, leadership, and talent—the core foundational elements for long-term success?

# #1 Discretion – Version 2020

- The swift and severe impact of COVID-19 resulted in many negatively impacted companies exercising discretion within programs that otherwise would have been formulaic



- More than ever, business needs trumped proxy advisory firm views
- Benchmarking was replaced with thoughtful and reasoned judgment
- As we will discuss in a minute, CD&As have never been more important!

# #1 Discretion – Version 2021

- In planning for 2021, considerable uncertainty remains for some companies due to the ongoing impact of COVID and for many companies due to a new administration in the White House

## Short-Term Incentives

- Temporarily increase opportunity levels?
- Include a specific discretionary component?
- Establish the intent to use discretion at the end?

## Long-Term Incentives

- Temporarily increase grant values?
- Temporarily discontinue the use of PSUs?
- Provide supplemental grants to enhance retention?

- Need to establish clear principles to guide the use of discretion
- Need to have a sound business rationale for the ongoing use of discretion
- Should provide current disclosure of decisions in the CD&A (don't wait until 2022!)

# #2 Disclosure and Communication



- Traditional pay disclosure is officially a thing of the past—the SEC, proxy advisory firms, investors, and the workforce expect much more

## SEC

- New Disclosure Rules

Effective for 2021 10-K filings, public companies must describe the *material* human capital measures or objectives on which they focus in managing their business.

## ISS/GL

- No “Boilerplate”

With COVID-19 as the backdrop, rationale for any adjustments to incentive plan awards must be clear, robust, and explain how actions taken will further investors’ interests.

## Investors

- ESG & Sustainability

Led by Larry Fink’s 2020 letter to CEOs, companies and their boards are being implored to improve their disclosures at the risk of votes against management and/or directors.

## Workforce

- Greater Transparency

People want and need to understand what their companies are doing to keep them safe and ensure fairness. This means talking about wellbeing, flexible work arrangements, and pay.

With higher expectations from various stakeholders, there are immediate actions and longer-term considerations on disclosure and communication to address



# #2 Disclosure and Communication (cont.)



Stakeholder Expectations	Immediate Actions (in the next 30 to 90 days)	Longer-Term Considerations (Ongoing in 2021)
<b>SEC</b> New Disclosure Rules	<ul style="list-style-type: none"> <li>Quickly determine the HCM issues that may have a material impact on company performance <i>and</i> on which a reasonable investor may rely in making investment decisions</li> </ul>	<ul style="list-style-type: none"> <li>Conduct further analysis/inventory to determine what HCM issues should be formally addressed/added</li> <li>Review peers' disclosures to see what they've done/are doing and how and where they've communicated the issues</li> </ul>
<b>ISS/GL</b> No "Boilerplate"	<ul style="list-style-type: none"> <li>Develop CD&amp;A narratives and investor talking points and tell <i>your</i> story; don't rely on examples from early filers or come across as tone deaf</li> </ul>	<ul style="list-style-type: none"> <li>Make executive compensation disclosure development part of the annual planning process</li> <li>Document plan design changes, goal-setting processes, and key considerations as they happen</li> </ul>
<b>Investors</b> ESG & Sustainability	<ul style="list-style-type: none"> <li>Emphasize ESG and sustainability initiatives and achievements, especially important for companies that do not have corporate sustainability reports</li> </ul>	<ul style="list-style-type: none"> <li>Consider how/if ESG metrics may be incorporated into pay programs</li> <li>Create ongoing ESG narrative/disclosure strategy</li> </ul>
<b>Workforce</b> Greater Transparency	<ul style="list-style-type: none"> <li>Make sure year-end messages to employees about business results, the impact of COVID-19, etc. align with external messages</li> </ul>	<ul style="list-style-type: none"> <li>Review and update employee communication strategy to ensure integration of messages</li> </ul>

# #3 Revisiting Business Strategy and Alignment of Compensation

- 2020 caused many companies to re-evaluate their core business model and associated business strategies for vulnerabilities and new opportunities



# #3 Revisiting Business Strategy and Alignment of Compensation (cont.)

- It will be necessary to re-evaluate compensation design in light of changes made to the business model and business strategies

## Sample Key Questions

- Are our current incentive metrics properly aligned with our business drivers and priorities?
- Does our long-term incentive strategy continue to support our goals around attraction, motivation, and retention?
- Do we need to reconsider our approach to compensating employees, or certain employee segments, in light of new business strategies?

## Possible Compensation Changes

- Either new metrics or adjustments to the existing metric weighting to drive employee behaviors
- A change in long-term incentive mix to reflect short- and long-term priorities
- Deeper long-term incentive participation in segments that are experiencing significant hiring and retention needs

# #4 Goal-Setting: 2021 is a Unique Challenge

- Companies may already have a good goal-setting process in place that makes use of all relevant analytics; but those analytics are all less-useful today
- What must we deal with in 2021?
  - Continued uncertainty related to COVID-19 and the economy
  - New presidential administration
  - Increasing importance of non-financial performance dimensions
- What are we trying to accomplish?
  - Continue to provide a *fair* and *competitive* incentive opportunity
  - Keep management focused on value creation and value preservation
  - Continue to hold management accountable for overall firm performance, not narrowly on controllable performance

# #4 Goal-Setting: What Levers do we Have?



## The Measures

- Midstream versus bottom line
- Margin percentage versus dollars
- Exclusions/adjustments versus “all-in”
- More measures/scorecard

## The Performance Period

- STI: semi-annual or quarterly
- LTI: end-state versus 3-year average; best 2 of 3 years; less than 3 years
- LTI: average score for three annual periods

## The Performance Range/Scale

- Broader ranges
- Target as a range within a range
- Relative performance versus absolute, *beyond rTSR*
- Conditional goals; moving targets

## The Vehicle

- More time-based (RSU, SO)
- More stock options?
- Cash?
- Shares for STI?

# #5 Organizational Health

- Out of the ashes of 2020 we see a new breed of leaders. The kind of authentic leadership that reinvigorates, heals, and provides purpose; the kind that promotes a culture of safety, inclusion and diversity, and engenders a more committed, energized workforce.
- Extraordinary leaders and their teams are changing the face of the workplace and society at large. They are creating sustainable business performance by taking care of people and the planet. For this, they need to be developed, recognized, and rewarded.



- For boards to guide leaders and their teams on the path to transformation and well-being requires selecting leaders who can model the way and investing in existing leadership teams with constructive assessment, development, coaching, mentoring, and rewarding. Simply put, it's an investment in cultivating leadership.

# #5 Organizational Health (cont.)



## Actions Boards Can Drive to Ensure Organizational Health

The Opportunities	The Work Ahead
<ul style="list-style-type: none"><li>• Develop Transformational and Humanistic Leadership</li></ul>	<ul style="list-style-type: none"><li>• Help leaders take a broader view, taking into consideration all stakeholders</li><li>• Have organization clarify the leadership competencies required for long-term success – including vision, character, empathy, humility, social responsibility, innovation, listening</li><li>• Support CEOs and their teams as they navigate how best lead their organizations through this challenging time</li></ul>
<ul style="list-style-type: none"><li>• Encourage and Reward a Diverse, Equitable, and Inclusive Culture</li></ul>	<ul style="list-style-type: none"><li>• Insist on clear company values – what the organization stands for</li><li>• Encourage assessment of organization’s culture and core values annually</li><li>• Discuss culture and engagement as a board, advising the CEO and executive team</li><li>• Recognize and reward leaders for instilling a progressive culture of diversity and inclusion, teamwork, flexibility, innovation, caring, and accountability</li></ul>
<ul style="list-style-type: none"><li>• Focus on Talent Development</li></ul>	<ul style="list-style-type: none"><li>• Reward leaders for building leadership bench and development of talent</li><li>• Ensure leadership succession planning is ongoing, objective, and fair</li><li>• Ensure board has visibility to the management team and understands their strengths and areas for development</li><li>• Coach and mentor leaders to grow in their roles</li></ul>

- Discretion is necessary and appropriate for many companies
- Disclosure is the key to having a favorable outcome
- If your business strategy is changing, so too should your pay program
- Goal-setting has never been more challenging
- Organizational health is a critical, long-term value driver



# Questions

# Don't Miss Our Next Webinar



Join NACD and Pearl Meyer for our next Compensation Series webinar on April 1, 2021 at 2:00 PM (ET)

[Register Today](#)

Archives of earlier webinars in this series are available at  
[www.nacdonline.org/webinars](http://www.nacdonline.org/webinars) or  
[www.pearlmeyer.com/knowledge-share](http://www.pearlmeyer.com/knowledge-share)

## Interested in NACD director credentials?



[Certification.NACDonline.org](https://Certification.NACDonline.org)  
[Certification@NACDonline.org](mailto:Certification@NACDonline.org)



[NACDonline.org/Fellowship](https://NACDonline.org/Fellowship)  
[NACDFellowship@NACDonline.org](mailto:NACDFellowship@NACDonline.org)

**Thank You**