

Challenging Executive Compensation Environment

- Questions about metric (re)setting are now on agendas, challenging compensation committees
- Think about next year's disclosure when making these decisions; optics matter
- One major governance leader privately tells us "Expect Armageddon over pay in 2021"

The COVID-19 pandemic and related economic disruption had a wide range of effects on public companies and their pay programs. Although there are no easy "one size fits all" solutions for executive pay, this year has scrambled virtually every pay strategy and rulebook, leaving compensation committees and their advisors in uncharted waters.

Many companies reduced pay for senior executives and board members as the pandemic took hold, in part to make clear that the pain would be felt across the full breadth of organizations that had in many cases been decimated by workforce reductions.

Discussions about effects on the annual and long-term incentive plans have been more complicated. The most common approach has been to delay making decisions about changing plan targets, perhaps layering in new metrics and goals that are less susceptible to major macroeconomic forces. But a few months from the onset of this crisis, with the market recovering, compensation committees are beginning to deal with the questions they had deferred.

Grappling with executive compensation at this moment in history cannot be done in a vacuum. Boards should be especially careful not to appear to favor one stakeholder group at the expense of another. While attracting, retaining, and motivating senior executives is clearly important, there is an unusual level of sustained interest in workforce issues. Decisions benefitting the few at a time when the many are hurting will be viewed skeptically.



"As managers and boards navigate unprecedented strategic and operational challenges related to the COVID-19 pandemic, compensation committees are tasked with a daunting dilemma of their own: keeping talented managers on board while avoiding actions perceived as shielding them from the same fallout endured by shareholders and workers. Salary cuts for executives make headlines but mean little if the more opaque aspects of their compensation plans still result in excessive take-home pay. That is why in the coming months, institutional investors, proxy advisors and workers will be closely scrutinizing the changes compensation committees make to executive compensation plans..."

Those compensation committees that make COVID-19-associated adjustments to executive compensation to sustain historical quantum should prepare for blowback."



KEY QUESTIONS FOR BOARDS

- What do we need to do to attract, retain, and motivate truly key employees?
- Acknowledging those needs, what is the worst story our stakeholders could tell about our approach to executive compensation next year?