

Guiding Principles for Evaluating Compensation in a Crisis

– JOHN D. ENGLAND AND JON WEINSTEIN

The impact of COVID-19 on company prospects and performance — as well as life in general — cannot be overstated. While some organizations may be affected temporarily, other businesses may experience more permanent changes to their operating models. Regardless of the long-term effect of the crisis on companies, almost every business is facing a dramatically changing operating environment in 2020. As such, many companies are finding that the compensation and incentive programs implemented for 2020, along with the methods used for evaluating performance, may no longer be relevant in the current environment.

At this point, most companies, apart from those that have been impacted most severely by the crisis, are just beginning to consider how they might approach the assessment of compensation programs and pay outcomes for 2020. While it is too soon for many organizations to make decisions about tactical approaches to compensation, we believe that companies would be well-advised to consider the development of a set of guiding principles for the evaluation of compensation programs prior to taking any actions.

Each company’s guiding principles should necessarily be different. This being said, below is a sample list of principles that Pay Governance believes are worthy of consideration:

1. Keep employees, shareholders and key company stakeholders top of mind — empathy for affected communities and an awareness of the broader environment is essential.
2. Make the right decisions for the long-term strength of the company, understanding that proxy advisory firms and institutional investors may be especially critical of any actions deemed to be misaligned with shareholder interests.
3. Wait for some level of stability/greater visibility to the future before taking any action.
4. The exercise of discretion and judgment may be reasonable and necessary but must be supported by a compelling rationale and a sense of fairness given the experience of shareholders, employees, and other key stakeholders.
5. Potential actions should be assessed in light of any affordability, liquidity, and dilution constraints, and should consider any unintended consequences.
6. For most companies, a target incentive payout for 2020 performance would likely be considered an excellent outcome.

PARTNERS

Aubrey Bout	Donald S. Kokoskie	Matt Quarles
John R. Ellerman	Brian Lane	Lane T. Ringlee
John D. England	Joe Mallin	Brian Scheiring
R. David Fitt	Jack Marsteller	John R. Sinkular
Patrick Haggerty	Richard Meischeid	Christine O. Skizas
Jeffrey W. Joyce	Sandra Pace	Bentham W. Stradley
Ira T. Kay	Steve Pakela	Jon Weinstein
	Jaime Pludo	

Guiding Principles for Evaluating Compensation in a Crisis

– JOHN D. ENGLAND AND JON WEINSTEIN

7. Increasing morale and motivating employees are objectives that do not necessarily imply the need for special/retention awards (i.e., the message may be more important than the action).
8. It may be appropriate to separate executive and non-executive director compensation decisions from broader employee compensation decisions.
9. We are in an election year and a time of intense media scrutiny, and must therefore be aware of the public and political perceptions of our actions (i.e., no one wants to be a “poster child”).
10. Patience is important. It is critical to balance the current situation with a longer-term view, including any potential windfalls due to a sharp recovery, if and when it occurs.

These are fast moving and trying times, and Pay Governance will continue to provide its wisdom during this crisis and beyond. For additional information on other COVID-19 related compensation actions, please visit our “Compensation in Volatile Times” blog available on our website:

<https://www.paygovernance.com/compensation-in-volatile-times>.

General questions about this Viewpoint can be directed to John England at john.england@paygovernance.com or Jon Weinstein at jon.weinstein@paygovernance.com.

This Viewpoint is one in a series of ongoing articles Pay Governance will be publishing regarding the impact of COVID-19 on compensation programs. All of our Viewpoints can be found on our website at www.paygovernance.com.