OPINION
Viewpoint on Executive Compensation

Modifying the Individual Performance Factor in Response to the COVID-19 Pandemic

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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.

Companies are facing unprecedented challenges as the spread of COVID-19 has drastically changed the business landscape, as discussed in our March 23rd Viewpoint, "Everything Should Be On The Table." One of the many issues that companies are grappling with is how to ensure that incentive plans reflect business realities. In the absence of clarity on what the remainder of the year could bring, committees and management are beginning to discuss *if* or *how* FY2020 incentive plans should be amended.

While it may be too soon for companies to reset financial goals, companies with an Individual Performance Factor (IPF) in their annual incentive plan should consider how well the predefined objectives align with the redefined priorities of the business. Even if business priorities have not generally changed, effective leadership may mean something different today and need to be viewed through a lens with consideration of this new reality.

While some individual goals — such as employee engagement — are still relevant, others may need to be shelved in favor of more pressing objectives. Goals related to preparedness, crisis management, innovation, and critical execution are likely to be the most common new additions to IPF scorecards. Additionally, new IPF criteria will likely be more subjective in nature than is often preferred, as objective outcomes will likely be impossible to estimate or predict.

In our earlier Viewpoint, "The Role of Non-Financial Metrics in Annual Incentive Programs," we laid out examples of enterprise-wide non-financial objectives that committees may include in their assessment of 2020 performance. For companies with an IPF in their annual incentive plan, examples of potential "new reality" performance criteria may include evaluating the success or effectiveness of:

- Maintaining previously developed business plans in response to a global pandemic
- Executing the continuity of the business plan in response to COVID-19 requirements
- Prioritizing the development and communication of an emergency succession plan
- Setting a "tone at the top" by maintaining a positive and productive work climate in light of current events
- Striking an appropriate balance between the needs of various stakeholders — namely employees, customers, and communities — and business plan objectives

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- Navigating a quickly changing landscape
- Directing creative and innovative solutions where a "playbook" did not previously exist
- Pivoting strategy, where necessary, to reduce risk and/or capitalize on opportunities
- Quickly mobilizing the appropriate resources to execute the change in strategy
- Executing the reopening/back-to-work process
- Directing the capital management plan

Revising the executive team's IPF objectives to reflect the "new realities" of the business is a positive, low-risk opportunity for committees to retool incentive plans, ensuring management is motivated and accountable to these new priorities. Additionally, it will provide management and shareholders with a clear indication of what committees value from their leaders in this "new reality" and will signal their engagement on these important responsibilities to all stakeholders. The CD&A should provide a thorough description of the rationale and process for realigning the IPF criteria and the evaluation approach used to assess this performance.

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