C-SUITE

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The View From the Top

Mark Cuban talks adapting to a COVID-19 world, diversity and inclusion, and more

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Critical governance issues post-pandemic

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Lessons Learned

What will be the most critical governance issues companies must address post-pandemic?

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ROBERT BARBETTI
Global Head of Executive Compensation and Benefits
J.P. MORGAN PRIVATE BANK

Robert Barbetti, Managing Director, is the Global Head of Executive Compensation and Benefits at J.P. Morgan Private Bank. As a senior member of the Private Bank's Advice Lab, Mr. Barbetti focuses on maximizing and optimizing executive compensation for insiders.

His expertise includes managing single stock concentrations, employment and severance packages, pre-IPO planning, M&A transactions and capital market solutions for executive compensation. In particular, Mr. Barbetti focuses on issues related to Sarbanes-Oxley and good corporate governance, especially those challenges faced by boards of directors.

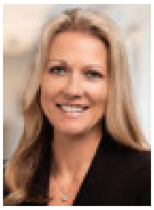
J.P.Morgan
Private Bank

Navigating the COVID-19 pandemic has created profound and unique challenges for public and private companies. But it's also an opportunity to solidify current corporate governance and create important new policies. Boards and senior management should consider the following as part of good corporate governance, not only in the context of an unprecedented global pandemic, but in any business environment.

Ensure communication systems are solid. Understanding the impact COVID-19 has on business operations and suppliers is critical, but communicating that understanding to teams is just as important. There are now many new federal and state regulations in place that must be considered as companies create their policies to mitigate risk and stay compliant. Management should stay abreast of updated crisis policies, disaster recovery, international relations, cybersecurity and more so that they can communicate properly to employees as well as clients and suppliers. Having these communication policies in place will help organizations develop well-defined expectations.

Review succession plans for board members, senior management and key officers. Regardless of size, all companies should have an emergency succession plan and transition team in place for immediate action; there should also be a longer-term plan in place. These plans should not only look at staffing but other functions as well, such as real estate, financials, supplier relations and stakeholder communications. In this time of COVID-19, many companies not only need to look at top executives but all levels of management. They also should consider short-term or leave of absence plans, as needs have changed.

Executive compensation is more complex than ever. Since the start of the pandemic, short-term and long-term awards based on performance metrics may have become meaningless. PSUs with three-year horizons, equity award grants and annual bonuses were all impacted, and given today's market volatility, these incentives need reviewing. Additionally, in the last year some companies changed from absolute metrics to relative metrics to being purely subjective. As such, and especially ahead of end-of-year reviews, performance goals for payouts and/or vesting may have been altered. Even the impact of salary reductions that occurred for many companies altered the benefits tied to those salaries, such as life and disability insurances along with 401(k) plans. Benefit plans should contemplate the impact of reduced or no salary if the necessity arises in future situations. Flexibility should be built in performance and benefit plans to address the impact of COVID-19 today and future catastrophic situations.



APRIL ARNZEN

Senior Vice President of Human Resources

MICRON TECHNOLOGY

April Arnzen is Senior Vice President of Human Resources at Micron Technology. She is responsible for aligning people to Micron's business strategy. She was appointed to her current position in 2015.

Since joining Micron in 1996, Ms. Arnzen has held various positions of increased responsibility and worked across many functions within the Human Resources department. She helped shape many of Micron's team member programs, including performance management, human resources business partners, total rewards, leadership development, and succession and integration.

The COVID-19 pandemic was an eye opener. Overnight, the workplace radically transformed, and so did the needs of our customers, employees and communities.

The most critical governance issue companies must address post-pandemic will be managing change.

You have to imagine that as a technology company providing essential infrastructure, we still need people to come to work. As employees returned to work, we knew that we also had to consider them as parents and caregivers. That became a huge hiring and retention challenge for us in an incredibly competitive talent market.

As the wildfires and social injustice raged in the U.S., we found ourselves playing the role of

MARC ULLMAN

Partner

MERIDIAN COMPENSATION PARTNERS

Marc Ullman is a Partner and leader of the firm's New York office. With over 20 years of executive compensation consulting experience, Mr. Ullman has established many long-standing client relationships as a trusted advisor to both boards and management teams.

Mr. Ullman consults with large and small, publicly held and privately owned organizations, and has experience in various industries, including consumer products, financial services, insurance, manufacturing, media, professional services, REITs, retail, technology software and hardware, and telecommunications.

Mr. Ullman consults in the areas of executive new hires and terminations, shareholder engagement, share reserve requests, transaction-related compensation programs, such as in initial public offerings, M&A and spin-offs. He also consults in all phases of the ongoing annual executive compensation cycle, including: competitive pay analyses, annual and long-term incentive plan review, design and implementation, incentive plan metrics selection and performance target and range setting, pay-and-performance alignment analysis, compensation risk assessments, board of directors' compensation, and assistance with proxy disclosure drafting and shareholder communication.

As the COVID-19 pandemic continues to cause business and economic uncertainty into the foreseeable future, corporate boards and senior management teams face unprecedented challenges. Through that lens, board compensation committees need to make prudent executive pay decisions regarding annual and long-term incentive (LTI) plan payouts and design changes. Committee decisions on incentive programs must reflect company and industry-specific issues arising from the pandemic. As such, it is important to consider a company's specific facts and circumstances before landing on any one solution.

Most companies have adopted a "wait and see" approach on their 2020 annual incentive program and have not revised goals for the second half of the year. We expect that committees will evaluate discretionary adjustments to formula-based annual incentive payouts as a year-end decision. That will require the committee to exercise judgment that may take many forms. Some companies may find it challenging to neutralize the COVID-19 impacts due to second-order effects. Instead, a committee may approve annual incentive payout levels that reward for efforts against new/revised business priorities. Other companies may consider a *total* bonus pool that is affordable given the need to manage liquidity and the desire to emphasize an "all in it together" message.

Many committees are in discussions about potential modifications of outstanding educators, cultural interpreters and activists. During the pandemic, buildings were outfitted to become hospitals, during the fires, offices became safe havens.

The pandemic confirmed that we have to plan ahead for disasters. It also confirmed how critical it is to be agile and resilient. Above all, we must sustain connections to the communities where we live and work, the customers we serve, and employees and families that depend on us.

Managing workforce expectations has reached a new level. To be successful, we must continue listening to our people's needs and challenges. We must embrace change as the next normal.

performance-based equity awards tied to multi-year goals, with specific attention given to the accounting and disclosure implications of any such adjustments. We expect that many companies may ultimately decide to leave existing equity award cycles in place. Looking forward, committees are beginning to think in earnest about how their LTI program design may need to change for 2021 and beyond. Structuring LTI programs to focus on shareholder alignment will continue to be paramount. With that said, some 2021 LTI awards will be designed to address executive retention concerns, especially when executives have outstanding equity awards that are unlikely to pay out and therefore pose a low "buyout price" by a competitor. In those situations, the need to address practical issues may outweigh the external optics.

Each company and industry faces different pressures and recovery scenarios. A compensation committee will have to make executive pay decisions in the context of other business decisions, such as capital expenditures, workforce disruptions and employee welfare, and post-COVID business strategy implementation. Ultimately, a committee may balance competing interests in making pay decisions that incentivize and retain critical executive talent during the remainder of the pandemic.

BRAD EASTMAN
Senior Vice President and General Counsel
RIGNET

Brad Eastman is the Senior Vice President and General Counsel of RigNet, Inc., the leading provider of ultra-secure satellite communications and intelligent networking solutions. Mr. Eastman also serves as a director of a private company in Wisconsin, a trustee of the Houston Grand Opera and on the advisory board of Holocaust Museum Houston. Prior to RigNet, Mr. Eastman held various positions in the legal department of Cameron International Corporation and then Schlumberger Limited, after Schlumberger acquired Cameron. Mr. Eastman has a law degree from Harvard University and a Bachelor of Arts from the University of Texas.

Post-pandemic companies will have to learn how to operate efficiently in a far more decentralized environment without affecting internal control. Most companies are realizing that many functions can be performed remotely, reducing occupancy costs and providing alternative career paths to many people who do not prefer a traditional office environment. Do all functions need to be performed in an office? Accounts receivable and payable?

However, each company still needs to maintain internal control over its decentralized workforce and must find ways to attract, motivate, supervise and retain scattered workers. Boards of directors need to oversee management in developing policies and the proper control environment for the decentralized future. Boards of directors must be comfortable that company culture can be properly instilled in parts of the workforce who work individually. Boards should be asking management about how compliance will be monitored and ensured in the new work-from-home world. Beyond compliance, boards need to know how management will evaluate and mentor employees who they may only sporadically meet in person. Further, boards need to understand management's cybersecurity arrangements in the new world.

Because parts of the workforce will continue to work from home, the board needs to understand how management will meet its diversity and inclusion objectives. A hybrid work-from-home environment creates opportunities to more individually tailor work environment to each employee's individual circumstances, but it also creates the opportunity to have a caste of in-office workers and a separate caste of work-from-home support workers. Boards need to ensure that opportunities are not distributed because of gender, race, nationality or any other irrelevant category and that all employees have an opportunity to develop their own career goals.

Management faces the challenge of designing controls and policies for the new hybrid office/work-from-home environment. Additionally, management must learn to create teams of widely dispersed individuals without many of the ways of traditional team building. Camaraderie could be built over an office birthday cake or team lunch. Management needs to learn how to get the most out of each employee when these informal interactions are limited.

SHELLY CARLIN
Executive Vice President
CENTER ON EXECUTIVE COMPENSATION

Michele Aguilar "Shelly" Carlin is Executive Vice President of HR Policy Association and its Center On Executive Compensation and CEO of the American Health Policy Institute. Ms. Carlin joined the Association in August 2014 from Motorola Solutions, where she was Senior Vice President, Human Resources and Communications.

During her tenure at Motorola, Ms. Carlin led the HR function through a period of substantial change, from the spin-off of its consumer cell phone business to a major transformation of how HR services are delivered. She also implemented the CEO Leadership Forum, a business-driven learning program for the company's top 20 high-potential executives.

Prior to serving as the head of HR, Ms. Carlin was Corporate Vice President, Global Rewards. Before joining Motorola in 2008, she was VP of Compensation, Benefits and HR Technology for the Campbell Soup Company. Ms. Carlin's earlier positions included VP, HR Rewards and Operations for TIAA-CREF; VP of Compensation and Benefits for Sears, Roebuck and Co.; and SVP of executive compensation and corporate unit reporting for Bcom3 Group, Inc.

Ms. Carlin earned a BA and MBA from the University of California, Los Angeles, and was an Academic All-American in softball and a member of UCLA's 1982 National Championship team.

Center On Executive Compensation

As companies plan to return to a more "normal" post-COVID world, they're recognizing that what started as a public health emergency has become multiple concurrent crises that have threatened lives, devastated economies and exposed deep divisions in American society. As COVID-19 plunged the economy into recession, its disproportionate impact on Black and Hispanic Americans reflected persistent income inequality and racial disparities in our health care system. And while the pandemic raged, America's long, tragic history of racial inequity boiled over into the most widespread civil unrest in a generation.

In the midst of these crises, some of the fundamental structures, assumptions and beliefs underlying our economy are being challenged. One example: the acceleration of pre-pandemic calls for reimagining the purpose of the corporation. Challenging shareholder primacy has taken on a new meaning in the midst of our current crisis. How much responsibility should a company bear for the health, safety and well-being of its workers? Should companies—and their CEOs—take public positions on social issues? Should they be expected to go beyond equal opportunity to ensure equality of outcomes in their organizations?

These questions are already driving the new corporate governance agenda, and pressure will increase as investors focus on the importance of a company's performance on environmental, social and governance (ESG) issues. Companies are increasing attention on the social aspects of ESG, such as workforce diversity, pay equity and pay parity. Under pressure by stakeholders skilled at harnessing the power of social media, companies may be expected to take a stand on social issues and play a proactive role in social change. Diverse stakeholders will demand they go beyond public statements of support and create mechanisms to measure and reward actual results. This will have implications for executive compensation programs, as interest groups and even investors push for inclusion of these social goals in incentive pay designs.

Companies will be pressured to establish meaningful goals to measure progress, such as increased representation of minorities in senior management or the elimination of pay differentials by race and gender. Boards will be expected to consider performance against those goals in determining rewards and assessing individual executive performance. A company's ESG performance will be assessed by multiple stakeholders, and leaders will need to prepare for and manage potential employee dissent among those who may not agree with the company's positions on social issues. The strategic contribution of the company's chief HR officer will be critical to navigating heightened expectations of corporate social responsibility in the new governance environment.

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PAUL J. FERDENZI
Vice President, General Counsel and Corporate Secretary
CURTISS-WRIGHT

Paul J. Ferdenzi joined Curtiss-Wright Corporation in June 1999 as an Associate General Counsel responsible for the corporation's legal needs in the areas of employment, securities and real estate law. In May 2001, the Board of Directors appointed Mr. Ferdenzi to the office of Assistant Secretary of Curtiss-Wright Corporation and in November 2011, the Board of Directors appointed him to Vice President of the corporation. Mr. Ferdenzi was promoted to the Vice President, General Counsel, and Corporate Secretary in March of 2014.

Prior to joining Curtiss-Wright Corporation, Mr. Ferdenzi served four years (1993–1997) with the United States Navy in the Judge Advocate General's Corps ("JAGC"). Mr. Ferdenzi served in various capacities as a trial and appellate defense counsel and legal assistance attorney to the United States Naval Academy and the Naval Medical Center in Bethesda, Maryland. After completing his tour of duty with the Navy, Mr. Ferdenzi joined the law firm of Gallagher, Briody & Butler in Princeton, New Jersey, where he practiced law in the areas of securities, banking and finance, corporate governance, employment and real estate.

The first and most important governance issue to address is employee safety. Organizational leaders must make sure all proper procedures and processes are implemented to ensure the current and future safety of our employees, whether for this pandemic or the next. Organizational leadership must decide on whether the traditional office environment is still the best environment to ensure an efficient and effective workforce. We must decide for those who cannot work from home whether staggered shifts are the new norm or if we can go back to a standard shift and still protect our workers. Employees need to know that organizational leaders care about their wellbeing and that they want to provide a safe and secure work environment. This is the most important issue that organizational leaders must address because, without a devoted workforce, an organization cannot succeed.

Secondly, we need to be aware of our enhanced cybersecurity risk. With more people working from home, it becomes increasingly difficult to ensure confidential and proprietary information is secure and protected from all threats, inside and out. Companies will need to devote additional resources to secure their networks by securing network access from thousands of entry points outside the design of the original infrastructure. Senior leaders will need to implement new programs and policies that: detect and quarantine non-authorized machines on internal networks; monitor and control data storage on external devices; monitor network activity to identify anomalies and threats early; and deploy next-generation web security solutions with advanced threat protection and content filtering. All of these approaches will help secure an expansive network of home workers that access company resources.

Lastly, organizational leaders need to assess, monitor and possibly enhance their supply chain management and re-evaluate off-shore operations to low-cost countries. Organizational leaders will need to assess the weaknesses in their company's supply chain in order to avoid future disruption caused by geopolitical influences or future pandemics, and decide if such weaknesses can be further strengthened by moving their supply chain in country or diversifying suppliers throughout the world to ensure a continuous supply of raw materials and product.

These are risks that all companies will need to address in this post-pandemic environment. Without healthy employees, a secured business environment and dependable supply chain, a company cannot continue to operate in an efficient and effective manner.

MIKE RUDE
SVP & Chief Human Resources Officer
OPTION CARE HEALTH

Mike Rude is a strategic Human Resources global executive and business partner with over 30 years of demonstrated results in developing and implementing people and organization strategies to attract, engage and grow top talent, and to foster dynamic cultures that drive outstanding business performance. Mr. Rude is currently the Chief Human Resources Officer for Option Care Health based in Bannockburn, Illinois. In this capacity, he is responsible for all human resources and communications activities for this $3 billion, 5,900-employee home and alternative site infusion services company.

Prior to Option Care Health, Mr. Rude served as CHRO for PBM Catamaran as well as global medical device manufacturer Stryker Corporation. He has also served in HR leadership roles at Boston Scientific, Dun & Bradstreet and Baxter International.

option care health™

Company boards have a lot on their plates as they contemplate how to govern in the "new normal" as a result of the COVID-19 pandemic. Layer into that mix the need to address the growing rise of environmental, social and governance (ESG) demands and the shifting importance these have with key stakeholders, and directors have plenty of topics to consider during their upcoming board meetings. I believe, however, a more critical review, assessment and oversight of a company's culture will be one of the most critical governance issue companies must address post-pandemic.

Boards have always had a responsibility for shaping company culture, but it has often been through the lens of the traditional charters of the compensation committees—managing executive compensation and succession planning. In the "new normal," what a company stands for—beyond profits—will influence where great talent chooses to use their skills and capabilities, as well as spend their precious time. This will directly differentiate those companies that can deliver sustained growth and value for their stakeholders and shareholders. Employees will increasingly want to make sure there is alignment with their personal purpose for work with the company's purpose (if it has articulated one!) and want to know that the values that live out in the organization's day-to-day activities support their own. If not, they will walk! Companies in the "new normal," post-pandemic world must not only address employee safety, mental health concerns, remote work and work/life balance, but also demonstrate where they stand on issues like the #MeToo movement, systemic racism, pay equity and the environment. Within our social media, instant-access world, stumbling on any one of these areas can have significant financial and reputational impact on a company and ultimately its shareholders.

So how can the board provide appropriate governance over culture? The most important responsibility it has is appointing and removing the chief executive officer—often the greatest positive or negative culture influencer. The profile for the successful CEO in the post-pandemic world will clearly be shifting, and the board must ensure the right person sits in that chair. Additionally, the board should ensure that executives have and can articulate a clear understanding of the current and necessary culture to deliver the company strategy. Boards should also press management to develop, track and report on critical organizational metrics with the same rigor as they do financial metrics, and allocate appropriate time during board meetings to discuss them and the strategies management is executing to improve them. Finally, boards need to examine their own culture, practices and behaviors to ensure they are helping to reinforce the desired corporate culture.

The post-pandemic "new normal" will bring great challenges to board governance, but I believe those that focus on company culture will bring the greatest value to the organization.

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