



EXECUTIVE COMPENSATION

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CORPORATE GOVERNANCE IN FINNISH PLCS



DESIGNING A LONG TERM INCENTIVE

PERFORMANCE METRICS?



What should be the main objective of the management and key employees in a 3 to 5-year perspective?

- Strategic targets, financial targets, targets related to shareholder value development?
- Growth, profitability, new products?
- Which targets should be tied to annual bonus? Which targets are better to be measured in the long term?
- Setting the values i.e. range: Reaching the minimum level should be very likely and maximum almost impossible.

TARGET GROUP?



Which employees have to keep in mind the strategy? Which employees need to be retained?

- Who can contribute to the implementation of strategy?
- Who should focus on the long-term success and interest of the company?

TIME SPAN / VESTING?



In what time span do we want to measure performance?

- Cliff or gradual vesting?
- Annually commencing measurement periods add flexibility, one-off plan strongly emphasizes current strategic period
- Is owner looking for an exit?

EARNING OPPORTUNITIES?



How large portion of the participant's total compensation should the LTI-plan constitute?

- What is the desired total compensation structure now and in the future? Need to benchmark Total Compensation levels and structures, as well as total plan cost?
- How much may the plan cost for the company at various performance levels (pay for performance)?

SHARE OWNERSHIP?



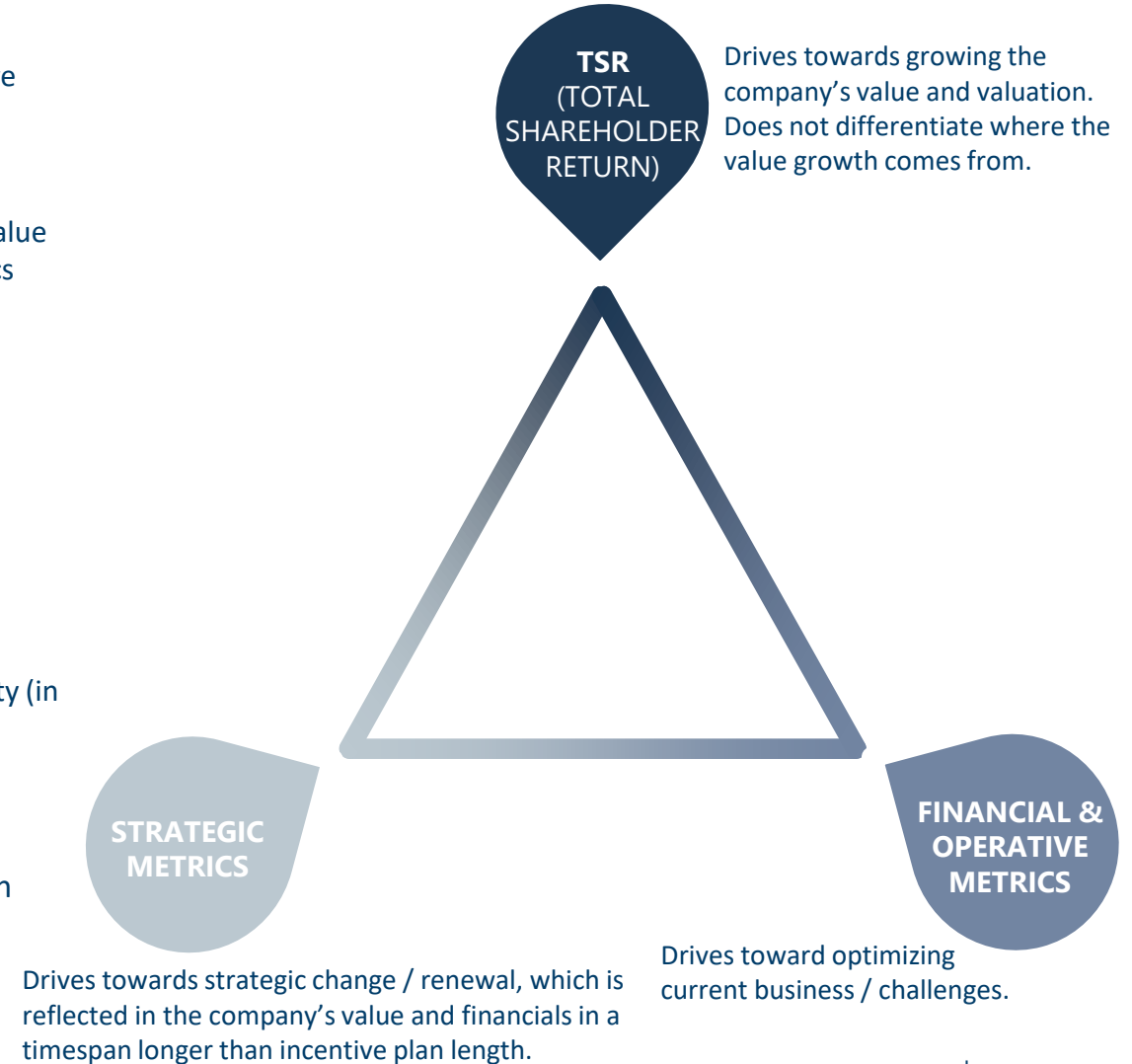
Ownership is the most effective incentive, with both fiscal and mental benefits: Can company shares be used in the plan?

- Up-front investment?
- Reward payment in shares?
- Tying the reward to company value development?

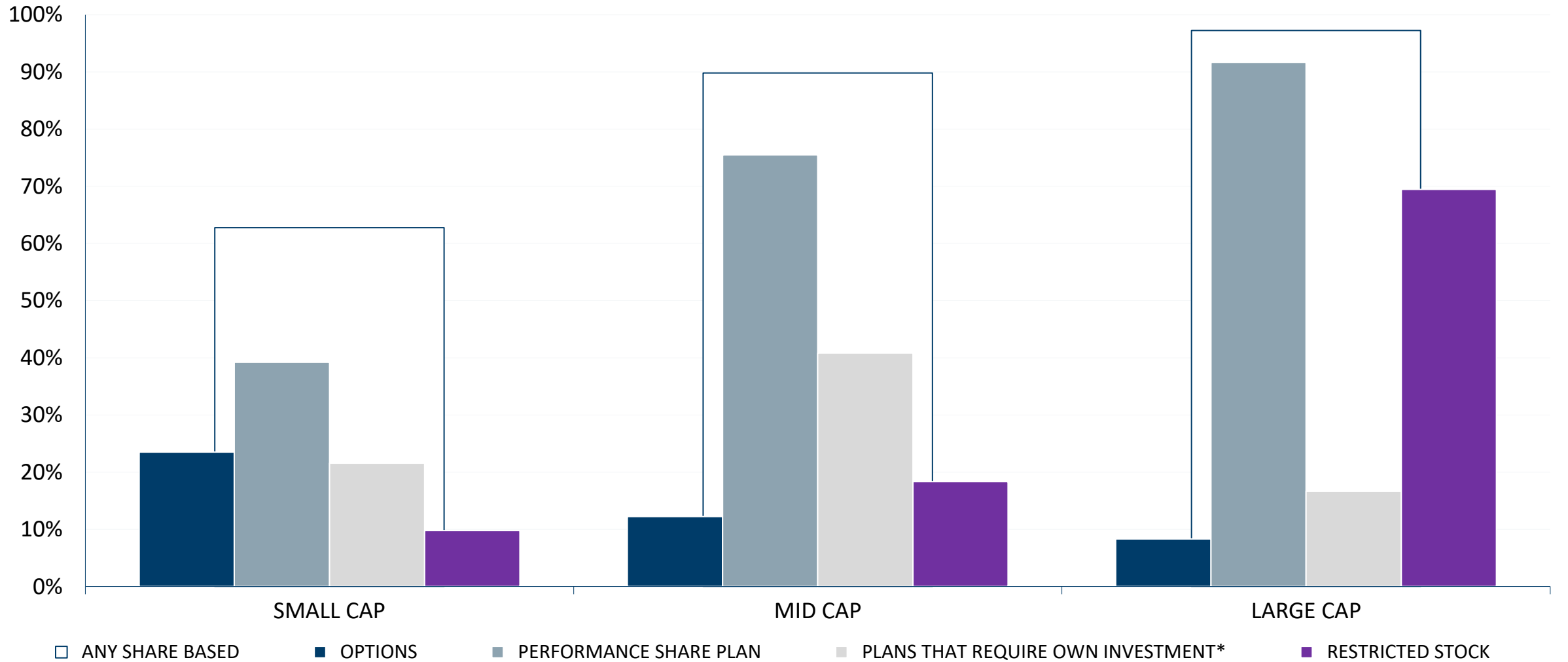
PERFORMANCE METRIC SELECTION

- What do we want to reward for?
 - » Total Shareholder Return is the ultimate goal, but do we reward directly for that, or do we reward for targets that the Board expects to drive towards TSR?
 - » TSR / Financial & Operative Metrics / Strategic Metrics
 - » When applying a Performance Share Plan, share price development affects the reward value as a secondary factor even if the amount of reward shares is determined by other metrics
- Division between goals of STI and LTI
 - » STI: own unit / own role, targets that drive value creation in short-term
 - » LTI: emphasis on group level targets and shareholder value creation in long-term
- Balancing between individual vs. Group-level performance is achieved through weightings of STI and LTI on Total Compensation
 - » Those with higher impact on group level performance have higher LTI earning opportunity (in euros and as % of total compensation)
 - » Those who are able to contribute less on group level, but still need to be included in the LTI, are granted lower LTI earning opportunities
 - » LTI's intention is also retain the key individuals, even if their actual contribution on group level is limited

CRITERIA SELECTION FRAMEWORK



PREVALENCE OF PLANS BY MARKET CAPITALIZATION LISTING (2022)





“THE PURPOSE OF A COMPANY IS TO GENERATE PROFITS FOR THE SHAREHOLDERS

... unless otherwise provided in the Articles of Association.” (Limited Liability Companies Act)

- HE 2005 ”Voiton tuottaminen pitkällä tähtäyksellä ja osakkeen arvon kasvattaminen edellyttävät usein yhteiskunnallisesti hyväksyttävien menettelytapojen noudattamista sellaisissakin tilanteissa, joissa lainsäädäntö ei siihen pakota.”
- “Maximizing profits in the long run requires generally accepted procedures even beyond legal requirements”



- Fortum Plc: Minimizing usage of coal
- Neste Plc:
 - 10’s: Selling volume of renewable fuels in metric tons
 - 20’s: Total Greenhousegas footprint and handprint

CLIMATE METRICS IN US AND EUROPEAN PLCS (2021)

Environment

1. CO₂ and carbon topics
2. Sustainability
3. Waste management

Social

1. Inclusion and diversity
2. Health and safety
3. Working conditions

Governance

1. Women in leadership
2. Compliance topics
3. Corporate governance



n = 177



n = 317

	STI	LTI
European Union (n = 177)	23 %	13 %
United States (n = 317)	12 %	2 %

Extremely relevant in some industries (Eur + USA, STI and/or LTI):

- Oil & Gas (n = 23) 92 %
- Utilities (n = 51) 65 %
- Other industries 5 – 15 %

Source: Willis Towers Watson

TSR: IRRESPONSABILITY - CRITERION

- TSR is the most popular criterion in LTIs
 - In Performance share plans (PSP) share is a currency unit and means of payment
 - Optionplans are linked only to share price
- TSR may not encourage managers to act properly, but
TSR penalizes the owners fast, fiercely and finally
 - Volkswagen 2015 - 35 % = EUR 30 mrd
 - Boeing 2019 - 23 % = USD 50 mrd
 - Attendo 2019 - 40 % = EUR 500 milj.



Volkswagen
testing emissions



Boeing 737 MAX
minimizing kerosene consumption



Diaper
effective eldercare

