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Managing Executive Pay during Pandemic

Over the past three to four months, the world has witnessed an unprecedented public health and economic crisis. COVID - 19 has adversely impacted societies and businesses globally and continues to change the way we lead our daily lives, defining 'a new normal' which will have lasting consequences.

While countries have responded to COVID - 19 by taking several measures both on the economic and public health infrastructure fronts, the pandemic has also forced organizations to confront questions regarding their operations and employees. As much planning as organizations did, none were prepared for the severe impact of the pandemic coupled with the global oil price crisis, which has adversely affected some GCC organizations and industries more than others due to the sudden strain on business operations and loss of revenue.

To stay afloat and ride through these testing times, globally, organizations have taken several cost containment measures, including but not limited to, temporary salary reductions, furloughs, terminations and salary freezes. Actions taken by the organizations across the GCC countries are very much in line with trends seen globally.

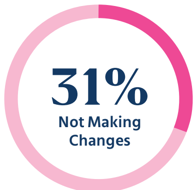
As per Mercer's recently published GCC COVID – 19 Compensation & Benefits survey, 70% of the participating organizations (169 organizations) have taken cost containment actions. Approximately 30% of organizations have made salary reductions ranging between 15% - 25% for the next 3 - 4 months.

Organizations across the GCC are implementing multiple measures to contain costs. ~70% have or are planning to make changes to their compensation and benefits offering

Indications from organizations as to whether they have, are planning to, or are not making any compensation and benefits changes – GCC, All Industry

Of respondents operating in the GCC **have adjusted one or more elements** of their compensation and benefits offering as a direct result of COVID-19

Of respondents operating in the GCC **are planning to adjust** one or more of their compensation and benefits offering as a direct result of COVID-19



Of respondents operating in the GCC **have not and do not plan to adjust** their compensation and benefits offering as a direct result of COVID-19

In addition to the survey participants, we have also seen similar actions being taken by other prominent UAE organizations e.g. Emaar, Emirates, Etihad etc. that have been badly impacted.

In times like these, as economic conditions continue to evolve and employees continue to live with work-related insecurities, CEOs and the senior executives across the GCC have shown strong leadership and thoughtful decision-making by leading the austerity measures, hence, sending an important message to the organization stakeholders (shareholders, employees, suppliers and society). Although these pay-cuts are unlikely to have a significant impact on organisations' bottom lines, they will at least help to ease off the burden on the employees and help organizations to preserve much needed cash-flow.

Half way through the year, with no end in sight of the pandemic and 2020 annual business targets already seeming unrealistic, organizations have started deliberating the treatment of 2020 variable pay plans (Annual Incentive and Executive Long-Term Incentive Plans). With 2020 turning out to be an unprecedented year, boards, remuneration committees and senior leadership teams across organisations can consider the following approaches to adjust their Short-Term Incentive (STI) and Executive Long-term Incentive (LTI) plans.

Considerations for 2020 Annual Incentive (STI) plans:

- Use mid-year performance review conversations to reflect on individual and business performance achievement over the last 6 months and accordingly reset/revise targets for the next 6 months in alignment with the business outlook for the full year.
- Include behavioral and task based performance measures (KPIs) that are less susceptible to the impact of COVID – 19.
- Set wider performance goal ranges, for example plus/minus 10 - 15 per cent of annual target/ budget, to yield incentive payouts. This may help organisations and boards to mitigate the goal-setting challenges in volatile situations when making business forecasts are difficult.
- Lower or eliminate the threshold (minimum performance outcome at which incentive pay out begins) performance levels e.g. reduce threshold from 90% to 80% of 2019 performance achievement to pay minimum level of incentive.
- Model out incentive plans for potential pay outs under various performance scenarios and align them with expectations to be prepared for possible outcomes.

Considerations for Executive Long-Term Incentives (LTI) plans:

- For LTI awards vesting in 2020: Fully defer the payout to 2021 or pay out only a small portion in 2020, paying-out the remaining portion ratably over one or two equal tranches in subsequent years. This will help organisations to manage their cash flows and business operations.
- For ongoing LTI cycles: Depending on which phase the current/ongoing LTI cycle is in whether the ongoing LTI cycle commenced in 2019 or 2020, Remuneration Committees should consider not making any changes to the performance metrics until the economic impact of COVID-19 is better understood.
- Retention versus Performance based LTI awards: With salary cuts ranging between 25 - 50 % for the senior executives across the GCC coupled with potential bonus reductions for 2020, board and remuneration committees can consider partial or full replacement of the upcoming performance-based LTI award cycle with retention-based awards. This could play a big role in engaging and retaining the senior and critical talent as the world gets a grip on the pandemic and regional economies and organisations start to rebound.

As boards, remuneration committees and senior leadership teams across the GCC organisations start considering how they tackle variable pay plans, it is critical for them to be open and transparent regarding the impact of COVID-19 on the business. That way, employees will understand that the changes and related actions are a matter of survival – and not merely profitability related. Without timely and effective communication and action, post-crisis retention may become an issue, particularly for organisations that implement stringent pay reductions.

How Mercer can help?

Mercer has a dedicated team of Executive Remuneration experts who have significant experience in the region and internationally of working with Board and Remuneration Committees on highly sensitive engagements. Our executive remuneration experts have a track record of successfully designing incentive plans (annual incentives & long-term incentives) for clients across the region and can help Boards, Remuneration Committees and Management with following:

- Review and re-design of the short and long-term incentive plans
- Evaluation and recommendation on performance measures (KPIs)
- Goal setting & calibration
- Pay – performance alignment
- Executive and Board remuneration design

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Varun is an experienced people management consultant who leads the Executive Compensation Practice in IMETA. Varun has over 16 years experience in HR consulting focusing primarily on addressing client issues related to Board and senior executive compensation and governance, broad reward and performance management issues.

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