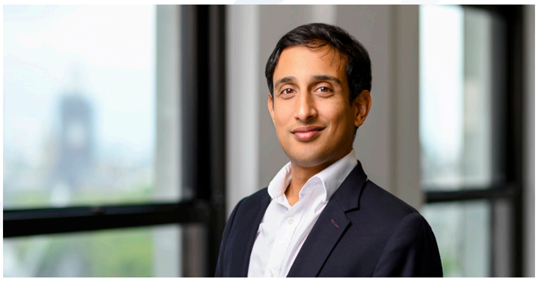
FINSBURY COVID-19 INSIGHTS

CORONAVIRUS AND EXECUTIVE PAY: WHAT BOARDS SHOULD CONSIDER

The coronavirus crisis is fundamentally changing expectations of business. With the taxpayer set to underwrite large sections of the economy, there will be little patience for companies that pay leaders too much or prioritise cash returns to shareholders over financial resilience and meaningful support for customers, employees and suppliers.



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Boards will need to consider both their remuneration and shareholder returns policies against this backdrop. Aviation, travel and retail CEOs have already announced cuts to their pay. Firms like Eni, Ford, M&S and Crest Nicholson have cut dividends and buybacks to preserve their balance sheets and received the support of shareholders. More firms are likely to act.

With two thirds of London listed companies set to put their remuneration policies to a shareholder vote this year, a wide range of companies will face questions about their approach to pay in the coming weeks. Plans that were developed prior to the crisis, and arrangements that could stay in place for three or more years, will face particular scrutiny.

In the current environment, Boards must tread a careful line. Conventional messages about competitiveness or the global competition for talent are unlikely to be effective. We recommend Remuneration Committees make clear they will:

Use Discretion

Even the best designed policy can create poor outcomes in the volatile environment created by coronavirus. At a minimum, Boards should be clear they will prevent windfall payments that arise if options are priced at market lows and shares recover as the public health crisis passes. There is also a case for revisiting leadership KPIs. Maintaining. operational integrity and financial resilience are likely to be higher priorities than growth.

Consider cuts

Behavioural science shows that people judge CEO pay based on their own experience. Companies whose leadership is not seen to have shared the pain of the broader workforce, customers and communities are likely to come under sustained pressure. Where the airlines have led others will need to follow.

Consult widely

We normally recommend companies begin engagement with shareholders around pay long before policies are published. This year, the conversation should continue as firms adapt their strategies in response to quickly changing conditions. An active program of engagement with employees is also vital – particularly if restructuring is being planned

So far companies have reacted to fast moving events by announcing critical initiatives. As the situation stabilises, they will need to present more holistic strategies for managing the impacts of coronavirus across their stakeholders. Pay, shareholder returns and capital allocation policies will be best communicated within that context.

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