

# Managing Reward through challenging times

## Practical actions companies can take now – checklist tool

The checklist below may be a helpful tool to guide a program of work for reward leaders, in conjunction with Remuneration Committee chairs, as companies seek to stabilise at this point of the pandemic.

There will obviously be a different set of reward and performance tasks to undertake when companies, the sharemarket, and the broader economy starts to recover.

### Salary adjustments and reviews

- Consider if adjustment is required to fixed annual remuneration (FAR) to ensure affordability and alignment to current circumstances and/or expectations including:
  - temporary or longer term FAR adjustments
  - whether FAR increase will occur in the following year.
- Consider whether approach will be segmented for employees with different demands (e.g. critical roles where there is a significant increase to hours).
- Model the financial impact of potential changes to FAR and incentives.
- Determine approach/response to any hardship issues.

### Adjustment of targets for FY20

- Review performance to date/forecast performance against key STI and LTI metrics.
- Attempt to explain the degree of variance attributable to COVID-19 business impacts vs. BAU performance.
- Determine the degree to which current performance metrics and associated targets remain relevant and appropriate.
- If adjustments are deemed appropriate, develop a clear decision making process and rationale for any changes.

### Optimising total reward offering

- Review existing benefit arrangements.
- Remove/suspend benefits that no longer have value e.g. airline clubs.

### Payment of bonuses – including executive bonuses

- Analyse current incentive schemes to determine likely payments/vesting based on year-to-date performance.
- Consider the broader implication of reduced or no STI payment and vesting of LTI on foot of executive bonuses, and consider FY20 bonuses in context of FY21 – including any need to 'smooth' outcomes.
- Identify roles or employee segments where differential treatment may be warranted either decreased, or increased bonuses (e.g. frontline staff facing additional pressures and risks).
- Determine whether reductions in bonuses are warranted given business performance; industry; community and employee impacts; and/or stakeholder expectations.
- Consider if the basis on which bonuses will be paid should be reviewed, e.g. remove the focus on individual performance to a team/collective bonus.
- Revisit governance and risk management (e.g., deferral, gateways/modifiers, holding locks) and determine any necessary changes.
- Consider reviewing STI minimum and maximum payout ranges.

### Setting of targets for FY21

- Consider the appropriateness of setting targets in the current environment, explore other options.

### Award of LTIPs

- Analyse upcoming LTI grants based on projected share price to determine the magnitude of difference in number of instruments granted compared to historical grants.
- If share price has moved significantly (e.g. more than 25%) on prior grant:
  - consider reducing value of grant
  - consider delaying LTI grant
  - determine appropriateness of targets and metrics.
- Review executive minimum shareholding requirements (if in place) to determine impact of recent share price movement on executive holdings.
- Reduce/review eligibility or adjust performance periods.
- Determine whether it is beneficial to suspend longer-term awards and replace them with new grants with targets more relevant to the new operating context.

### Stakeholder engagement

- Determine critical stakeholders: employees, regulators, investors and proxies, external market, NZX.
- Develop consistent messages given decisions made on prior listed topics.
- Agree engagement strategy and timing, including compliance with legal obligations.
- Where required, engage with relevant parties to discuss any variation on contracts and enterprise agreements, and understand external stakeholder perspectives on pay.

### Governance

- Review existing framework and guidelines around the application of discretion (including malus and clawback) and target setting to ensure they are robust. If such a framework does not currently exist, consider developing one to support the Board/remuneration committee's decision-making.

### How can PwC assist?

To have a deeper discussion about these issues, please contact:



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