Getting Back on the Horse – Part 1

An Update on Industry Executive Pay

(Part 2 can be found here and covers Board compensation)

We have been encouraging our clients in the mining industry for the last few years not to undertake comparisons of pay with their peers in the industry. What would be the point? To discover what you already knew; that your competitors were paying their executives less. Up until fairly recently most of the industry if they were doing anything at all related to pay were catching up on governance requirements and trying to secure enough cash to meet payroll.

But nothing lasts and the traditional industry optimism is returning caused by an uptick in prices and a general sense that we had been in the malaise for far too long. Beginning at the end of 2016 we began to observe compensation for the top of the house in the companies that were working with started to move again.

There were a number of reasons for this. Before the downturn many Canadian companies had included US companies in their peer groups and deterioration of the Canadian dollar when comparing to US counterparts meant a comparative reduction coupled with the demand for skills increasing as investors began to dust off mothballed projects and respond to pent up needs contributed to a stoking of the fire and employers were responding.

But these aren't the heady days of 2009 and cash continues to remain scarce. Competition for talent is not uniform across all segments as it was and compensation consultants (other than us!) are expensive. Consequently board compensation committees are proceeding cautiously and refreshing their knowledge before determining what steps they should be taking on board and executive pay.

Some have concluded that they need to be more selective in determining who to compare their company with and others that to motivate during the recovery compensation should be structured differently.

Anecdotal evidence might suggest little pay movement in the sector but that maybe old news in your market place and now would be a good time to take a look at competitors even if cash resources remain scarce. An employer may not be inclined to adjust pay but good governance suggests that that decision be made from an informed position rather than based on hearsay. Besides the whole picture needs to be understood; total compensation may not have moved but the amount of pay at risk may have and more likely, the types of performance goals attaching to those incentives certainly have.

As companies are starting to reorient compensation for recovery they are examining their comparator group. That's the list you find in public disclosure documents and has probably remained unchanged for a number of years. The list likely no longer reflects competitors for talent or even financial resources. Before the downturn the group reflected a broader competitive threat, predators were everywhere, and that may not be the case today.

Market capitalization is important in determining comparators but a narrower definition of comparators may be appropriate as competition for talent is not as broad based. Shareholder advisory groups have suggested limits on the size of comparators that companies should consider. At this stage in recovery the type of mineral, the location, complexity of the deposit, the stage of development and number of projects under management are as important when choosing who to compare pay with. Employers are being challenged to reconsider who is likely to try to poach their executive team; companies with the same complexity or those offering a bigger challenge?

When considering competitors for talent it is critical to understand the skills and type of expertise that the company wants to retain and motivate. For example a team that is unlikely because of age or ownership, to be attracted away by a larger competitor may suggest comparison with a group of companies of similar size positioning pay at the median. Alternatively, an organization whose team has “in demand” skills or mineral experience where retention is going to be the main objective may select a group of larger organizations that may be attractive executives should they come a calling. The philosophical consensus of the compensation committee is as important as factual comparison. Taking the time to update and refresh pay policy to ensure consistent application going forward a worthy endeavor.

Pay policy should indicate where target pay should be positioned against the comparator group. Setting target pay above the median is another way that may achieve the same outcome as positioning against the median of a comparator group of larger companies. However, there are tradeoffs as smaller companies tend to be less sophisticated with say incentives and leading indicators may not be as forthcoming from such a group. These considerations represent important debating points for those responsible for setting pay.

How an organization determines pay policy must be informed by its talent plan. Compensation at the top of an organization has a tendency to be developed in a vacuum because of the weight of perceived governance obligations, with often only competitor comparisons taken into account. We encourage clients to make more informed compensation decisions relevant to the employer’s challenges that reflect broader human resource considerations. Too much focus is often given to governance protocols rather than adopting a pay policy that matches the employer’s strategy.

The mining industry has historically depended upon (retired or semi-retired) “baby boomer” professionals to fill vacant senior roles on a temporary basis. A good rolodex was considered an essential requisite for any mining CEO. This group has been out of the milieu for five years or more, is older and likely out of touch with the latest industry and leadership trends.

They may also have pre-downturn compensation expectations. Compensation declined during the downturn because companies took the opportunity to re-price roles when they rehired in order to survive. While pay has in the main stayed at these lower levels the experience levels of incumbents is increasing.

The workplace has undergone fundamental change and the mining industry has to catch up to the rest of the economy. The full effects of the “millennial apocalypse” have yet to be felt by the industry. New workplace values, practices, and approaches to leadership are expected and the “baby boomer” command and control style manager will not achieve the same productivity with a younger cohort.

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As companies set about establishing pay targets they need to be responsive to their human capital needs identified through succession plans, recruitment challenges, and performance expectations. An external facilitator may help with refreshing policy and helping to gain consensus but again selecting an adviser in tune with an employer's needs is key.

The industry had little use for consultants during the difficult years and most consequently, are out of touch with sentiment and the back stories of mining companies. Advisors who know the industry and remained involved during the tough times are sought after with those promoting a "governance" approach and likely to scare clients into doing more work than they need are avoided. As much or as little help (e.g. a telephone conversation) as required should be willingly provided by those who monitor competitive practice.

An expert adviser should be used to collect comparator data and presenting it in the form and style preferred by the employer. Scrubbing and analysis is best performed objectively but with an eye to the story behind comparator pay policy. I cannot recall working with a client that didn't want to know the background to the compensation policies that lead to the numbers collected from their competitors.

The compensation data for the top five positions in an organization is available from publicly disclosed documents and include both numeric and prevalence information useful for a company's deliberation on how to position itself against the market. Many executive teams however often include positions not included amongst the top five and alternative sources of data will need to be accessed.

The down turn in mining was a difficult time for those that maintained compensation surveys and consolidation occurred with the resultant monopolistic pricing that we are witnessing today. An independent adviser will help identify and select a data provider that both meets the needs and budget of an employer. "Big consulting" has consolidated the survey market, buying up smaller providers as a means to provide the implementation advice associated with the data. Many employers regard the collection of data to be in conflict with advice concerning its application and use an independent adviser to analyze and implement competitive findings.

As the industry recovers incentive or at risk pay is going to become more important and employers are eager to ensure that these reflect the times and are of course contributing to performance. Most companies believe the philosophy behind their incentive plans already drives performance. Under third party examination however many discover that they are subjective and not focused on cascading goals from the company's strategic plan. An incentive pool that is retrospectively allocated based upon perceptions of behavior during the year is not a performance driver. Not wanting to have difficult discussions awards are distributed homogeneously without reference to quantitative criteria or differentiation. In survival mode such methods for allocating variable or bonus payments was not unreasonable or uncommon. As shareholder expectations change from survival to performance however expect to see more quantitative targets established at the start of the year with a payout range above and below expected target performance. Long term incentive awards will also be subject to achievement of specific goals by specific times.

The growing influx of younger employees is bringing new values to the workplace and in the pursuit of higher engagement and increased productivity employers are adopting for example collaborative incentive plans and greater transparency around performance expectations. Collaboration encourages teams to figure out solutions themselves and to share in the benefits. New generations entering the workplace have been encouraged to question everything and compensation policy and practice is no exception. Employers are advised to have written policies and plans available for distribution to employees that demonstrate fairness and equity.

These traits do not remain exclusively the characteristics of younger people for very long; older workers observing these values behind the behavior are embracing them as well requiring a new type of leadership.

The upturn in the industry has created an opportunity to kick-start incentive pay and shake off the liaisez fare that characterized the down turn. For many mothballed compensation plans it is time to sharpen their focus, realign with new competitors and objectives, update them for shareholder guidelines, and reflect the expectations of new cohorts in the workforce to improve productivity.

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