AUTHORIZED REPRINT

THE NORTHERN MINER

GLOBAL MINING NEWS · SINCE 1915

MARCH 5-18, 2018 / VOL. 104 ISSUE 5 / WWW.NORTHERNMINER.COM

A review of executive pay in the mining sector

COMMENTARY | Recalibrating expectations after the 2012–2016 downturn

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Special to The Northern Miner

We provide compensation advice to the mining industry and during the recent downturn we had been encouraging our clients not to undertake comparisons of pay with their peers in the industry. What would be the point? You were likely to discover that compensation paid by your competitors had gone down. During this period most of the industry if they were doing anything were catching up on governance requirements and trying to secure enough cash to meet payroll.

But nothing lasts and the optimism that miners are well known for has returned by an uptick in prices and a sense that we had been in a malaise far too long. In late 2016 we began to find that compensation for the top of the house in at least the companies that we were working for had started to move again.

There were a number of reasons behind this. Before the downturn many Canadian companies had included U.S. companies in their peer groups, and the deterioration of the Canadian dollar when comparing to U.S. counterparts meant that they were falling behind. Investors were becoming more plentiful and mothballed projects were looking for talent. The demand for skills was increasing. Lastly, a pent-up need for recognition of key skills stoked the fire.

Suffice to say that pressure on pay was increasing and employers were responding.

But these aren't the heady days of 2009 and

TOP PAID POSITIONS AT CANADIAN MINES

There are 10 occupations that make six-figures or more at Canadian mines, according to a survey by Mining Intelligence in late 2017.

The top paid position is general manager that averages $212,790. The least paid on average is administrative assistant at $59,263.

Note that the range of pay broadly widens as the salary level increases.

Compared to survey results for 2016, Canadian geologists and mining engineers received a 1% to 4% salary increase in 2017, while similar positions in the U.S. reported an average increase of 3.3%.

When comparing the salaries at U.S. and Canadian mines, it appeared that Canadian metal mines were paying their employees as much as 13% more. However, with the current exchange rate factored in, the tables turn and the impact is with U.S. employees earning 16% more than their Canadian counterparts.

For more information, visit *miningintelligence.com*.

OCCUPATION	AVG SALARY
General Manager	$212,790
Mine Manager	$181,653
Mine Superintendent	$151,373
Mill Superintendent	$141,696
Mech/El Superintendent	$139,524
Chief Engineer	$131,885
Senior Geologist	$118,879
Personnel Manager	$115,676
Miner Foreman	$112,976
Mill Foreman	$110,252
Mine Engineer	$93,985
Metallurgist	$90,695
Mine Geologist	$88,289
Safety/Health	$87,472
Purchasing Agent	$85,809
Accountant	$85,002
Environmental Coordinator	$87,970
Chemist	$83,406
Surveyor	$80,579
Buyer	$78,394
Engineering Technician	$77,177
Environmental Technician	$72,661
Warehouse Clerk	$68,728
Secretary	$67,987
Expeditor	$65,599
Accounting Clerk	$63,005
Administrative Assistant	$59,263

SOURCE: MININGINTELLIGENCE.COM

cash remains 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 on executive and board compensation before determining what steps they should take.

Some conclude that they need to be more selective about what to compare their company with. To be effective and motivational during the recovery, compensation should probably be structured differently.

There continues to be anecdotal evidence suggesting little movement in the sector, but that's old news — and now would be a good time to take a look at the market, even if cash resources suggest that little can be done. An employer may not be inclined to adjust pay but good governance suggests that decision comes from an informed, fact-based position rather than upon hearsay.

Besides, the whole picture needs to be understood: total compensation may not have moved but the amount of pay at risk could have, and more likely the performance goals attaching to those incentives have also changed.

As companies reorient compensation for recovery they are examining their competitors — a.k.a., their comparator group. That's the list you find in public disclosure documents and it has probably stayed unchanged for years. The list likely no longer reflects competitors for talent and financial resources. Before the downturn the group reflected a more active market and a broader competitive threat, predators were everywhere, and that is not the case today.

Market capitalization is important in determining comparators but a narrower band may now be more appropriate, as competition for talent has become narrower. Shareholder advisory groups have suggested limits on the size of comparators that companies should consider. At this stage in recovery the type of mineral and the geography, access to and complexity of the deposit, the stage of development and number of projects under management are all important considerations when companies chose 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 degree of complexity, at the same stage or bigger?

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 and be positioned 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 the individuals may be attracted to should they come calling.

The philosophical consensus of the compensation committee is as important as factual comparison, and taking the time to update pay policy for future reference and to ensure consistent application year-over-year is a worthy endeavour.

Pay policy should indicate where target pay should be positioned against the comparator group. Setting target pay above or below the median pay is another way to achieve the same numerical outcome as positioning the size of the comparator group. However, there will be tradeoffs as smaller companies tend to be less sophisticated with incentives and insight into these trends may not be as forthcoming. These considerations represent important debating points for those responsible for setting pay.

How an organization determines pay policy

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THE WORKPLACE HAS UNDERGONE FUNDAMENTAL CHANGE AND THE MINING INDUSTRY IS ONLY NOW CATCHING UP TO THE REST OF THE ECONOMY.

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 the pay policy that best suits the employer.

The mining industry has historically depended upon retired or semi-retired professionals to fill vacant senior roles when the business cycle demanded. A good Rolodex was considered a requisite for any CEO. This group has now been out of the milieu for five or more years, and is older and likely out of touch with the latest industry and leadership trends.

They are also going to have pre-downturn compensation expectations. Part of the reason for compensation in the industry declining during the downturn was that companies took the opportunity to re-price roles whenever they needed to rehire and sacrificed experienced for lower pay to survive. While pay has in the main stayed at lower levels, the experience of incumbents has increased.

The workplace has consequently undergone fundamental change and the mining industry is only now catching 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 being demanded and the "baby boomer" command and control style manager will not achieve the same productivity with a younger one using new technology.

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 most in tune with your needs is key.

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

An expert adviser should collect comparator data and present it in the form and style preferred by the company. 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 led 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 competitors. Many executive teams, however, often include positions that are unique or not included amongst the top five, and alternative sources of data will need to be accessed.

The downturn in mining was a difficult time for those who kept compensation surveys, and consolidation occurred with resultant monopolistic pricing. An independent adviser will help identify and select a data provider that both meets the needs and budget of an employer. Big consulting for the most part has consolidated surveys, buying up smaller competitions, and as well, would like to provide the associated implementation work. Some employers regard the collection of survey data to be in conflict with its application and use an independent adviser to analyze and implement competitive findings.

As the industry recovers incentive plans are going to play a bigger role and employers are eager to ensure that these reflect the times and contribute to performance. Most companies believe the philosophy behind their incentive plans already drive performance. On examination, however, many will be revealed as subjective and not focused on specific goals cascading from the company strategic plan. An incentive pool that is retrospectively allocated based upon perceptions of behavior during the year is not performance driven.

Not wanting to have difficult discussions, awards are distributed homogeneously without reference to quantitative criteria or differentiation. In survival mode such methods for allocating incentive pay to the extent that there was any, were not unreasonable or uncommon.

As shareholder expectations change, however, from survival to performance, expect to see more quantitative targets established at the start of the year, with a payout range reflecting above or below target performance. Long-term incentive awards will also be subject to achievement of specific goals at specific times.

The growing influx of younger employees is bringing new values in the pursuit of engagement and higher productivity. Collaborative goals (within incentive plans) is one example and greater transparency around performance expectation another. Collaboration rather than individual performance will encourage 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 are no exception. Employers are advised to have written policies and plans available for distribution to employees that demonstrate fairness and equity. These traits are no longer the domain of younger people — older workers observing these emerging values are embracing them as well.

The upturn in the industry has created an opportunity to kick-start incentive pay and shake off the laissez-faire that characterized the downturn. 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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