Pearl Meyer

ADVISOR BLOG

Real-Time Oil & Gas Industry Executive Pay Actions At-A-Glance

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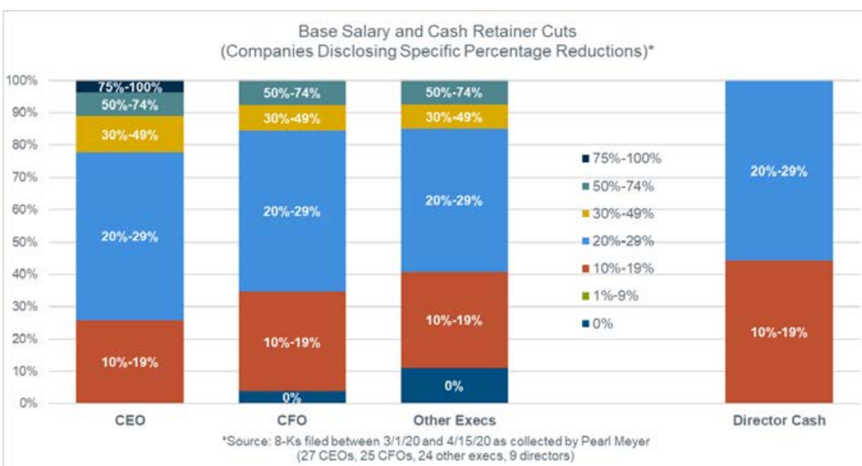
The oil and gas industry is operating under very unique circumstances: a toxic combination of the COVID-19 pandemic and a severe commodity price collapse. Given this, we've seen heightened interest in the real-time pay actions being taken by O&G companies. In addition to collecting information from various survey results and anecdotal trends, Pearl Meyer has been tracking publicly disclosed, material actions taken by companies. This helps shed light on what has been implemented versus what companies are considering. Our O&G database includes exploration and production, drilling, oil services, midstream, and refining companies.

The following summarizes data collected from 8-Ks or proxy statements from 43 companies filed between March 1, 2020 and April 15, 2020. These organizations range in revenue from $13M to $33B.



Senior Management Salary Reductions Are the Most Common

Executive salary reductions are the most prevalent action taken in reaction to the current market conditions. Twenty-seven companies have implemented salary cuts and most reductions are between 10% and 30% of base salary. In all cases, CEO reductions are aligned with, or higher than, other executive salary and director cash reductions.

Annual Incentive Adjustments Are Still a Wait and See

Most organizations seem to be holding off on annual incentive goal or plan payout adjustments. Only three organizations have filed 8-Ks addressing changes to the bonus plan (one is capping payouts at target level, one is paying 2019 levels at 75% of earned amount, and one is suspending their bonus plan for all employees).

ISS and Glass Lewis recently announced that they are encouraging companies to make contemporaneous disclosure to shareholders as annual incentive adjustments occur, rather than waiting for the 2021 proxy season. However, neither ISS nor Glass Lewis has been clear with respect to what adjustments they find reasonable. Given the economic uncertainty, most companies will probably wait until year-end to exercise discretion. We will be interested to see if disclosures around these types of actions increase in the coming weeks and months.

Long-Term Incentives Have Been Relatively Untouched

Similar to actions relative to annual incentives, equity and long-term incentives for executives have generally not been adjusted. We have seen only three companies with recent proxy filings disclose 10% to 50% reductions in targeted level of equity grants from the prior year. As more proxy statements are filed in the coming weeks, we may see an uptick in lower target equity award levels and possibly some structural plan design changes.

Many annual equity grants were made before the equity market decline. For those that had not made grants, burn rate implications weigh heavily on the decision of how many shares to grant.

Director Pay Reductions Will Be Forthcoming

Through last week, only a handful of organizations had already reduced director cash compensation by 10% to 30% (eight companies). Equity levels generally remain unchanged. Three companies reduced both director cash and equity levels by 15% to 25% for 2020, but no others have disclosed changes to director equity grant levels yet. Based on our most recent quick poll, we expect to see more companies addressing director pay in the next few weeks, as boards continue to make 2020 decisions.

Broad-Based Workforce Reductions More Prevalent than Employee Pay Reductions

Generally, these companies are not disclosing pay reductions to the broader employee population. Only a few companies disclosed reductions in broad-based pay (in addition to their CEO and other executive salary cuts), and in no case was the reduction more than 30%.

The more prevalent actions at the broad-based level is the reduction of the workforce through layoffs and furloughs. Seven companies in our database have filed 8-Ks disclosing layoffs of up to about 30% of staff. And while we know that many companies may be implementing or considering furloughs, these actions may not be captured in 8-Ks (only one company has disclosed a furlough).

Of course, the statistics on compensation and other workforce actions are changing daily. While we have seen limited filings on actions like director pay and annual incentive adjustments, we know they are being contemplated in the boardroom and shared in the media. As the volume of filings grow, we expect to see these trends evolve—not just in the O&G sector, but across the numerous industries being impacted by the current market conditions.

About the Author

Sharon Podstupka is a principal in the New York office of Pearl Meyer. She is a key member of the firm's Thought Leadership team and is focused on executive and broad-based employee pay communication consulting. She works closely with her clients in a wide range of industries to develop internal communications that educate and engage people in their pay programs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.

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