If we’re truly all in this together, executives need to feel the pinch on pay

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As if companies and investors don’t have enough to be concerned with right now, the AGM season is upon us. While this is usually taken up with detail and negotiation between companies and investors, particularly on the perennial governance problem child that is executive pay, the present market environment calls for pragmatic, long-term thinking on governance.

Clearly, nobody has a crystal ball, so we must all play our part in navigating these uncertain times and help, as best we can, to keep the economy moving. As long-term investors, we are focused on being stewards of our clients’ savings, protecting their wealth and supporting investee companies in taking a long-term view through this volatile period. Yet, perhaps driven by the AGM season, we are already hearing stories of concerns about the impact that Covid-19 might have on executive compensation.

It is too early to know what the full impact on companies is going to be, so trying to second-guess the consequences for executive pay is not a game we want, or have the time, to play. We are, however, clear on two things: first, we hope that boards are focusing all their attention on their companies’ responses to today’s trading and market conditions; and second, we are wary that the impacts of coronavirus on business might be treated as an “exceptional” issue for executive pay and that remuneration committees will be encouraged to use their discretion to adjust it away when determining outcomes.

This would be a very poor conclusion. It is essential that we are all in this together, which involves executives feeling the pinch as much as the general population. We will give short shrift to pleas that managements’ experiences should be any different from those of their workforces and from those of our clients, whose savings have come under significant pressure. How boards act in relation to executive pay will offer broader cultural insights for employees, investors and wider society, which could have a meaningful impact on their future social licence to operate.

We have long advocated reforms to executive pay and the present environment highlights why this is so necessary. Management teams and boards should lift their horizons to the long term and focus on making decisions that will create enduring value at companies. If the best, albeit imperfect, measure of this value creation is the long-term value of the company, then the best way of aligning incentives is for executives to be granted shares that vest over a prolonged period. If this period is properly aligned, it should reflect through-the-cycle value and remove the need annually to debate the outcomes of schemes that are never going to be able to capture every aspect of a company’s performance. Some have introduced such restricted share schemes, others have put forward what appear to us more like de-risked long-term incentive plans, which we have voted against.

How boards react today will have a meaningful effect on how their companies will recover. A focus on near-term company survival is imperative, but tactics such as price-gouging, aggressive treatment of the workforce and cutting health and safety budgets to improve cost management and short-term cashflow will likely damage a company's relationship with its customers, ability to recruit talent and to maintain regulatory support.

Section 172 of the Companies Act is clear on directors' duties to a range of key stakeholders; in the longer term, companies and their boards will be judged on their ability to navigate between stakeholders' interests in a way that secures their survival to the benefit of investors and society. This won't be easy, but we are ready to support boards in these deliberations. And these conversations are likely to be significantly more impactful than the usual AGM remuneration dance.

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•*Graham Ruddick is away*