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Impact of COVID-19 and HR Action Survey

Report on Key Findings

May 2020

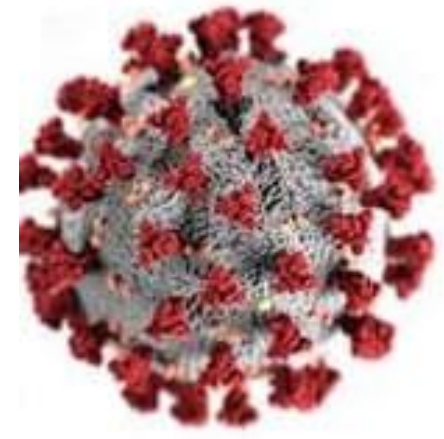


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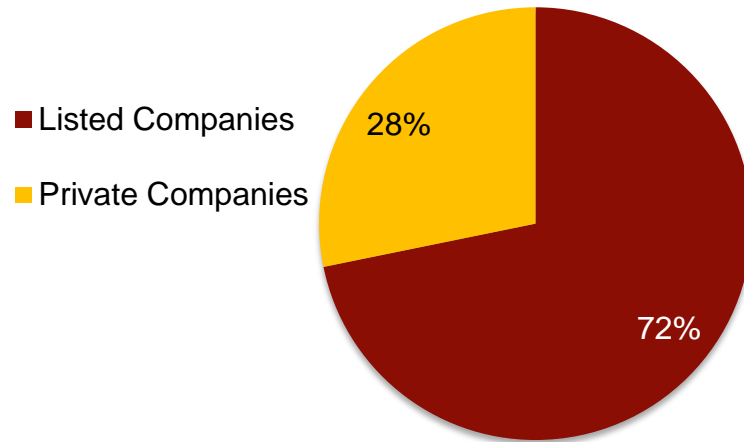
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Introduction

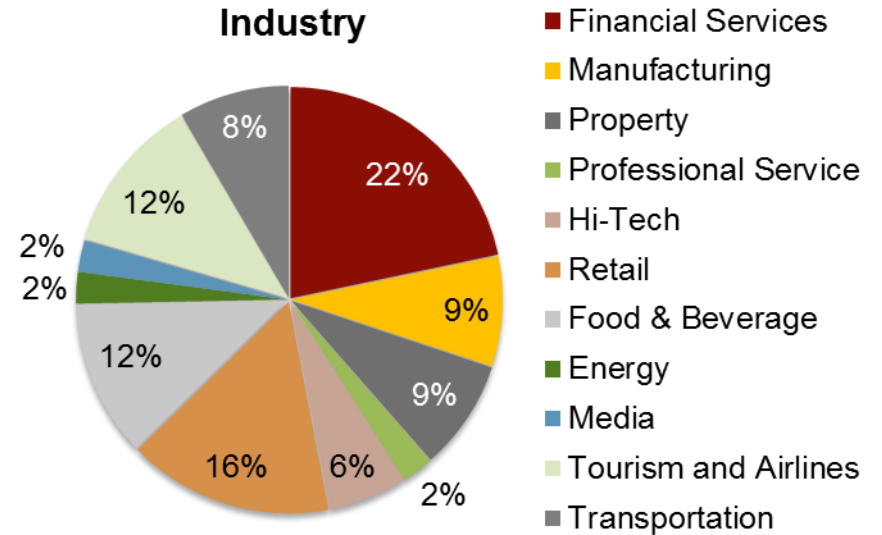
- In the light of COVID-19, many companies have taken measures in response to the impact of the outbreak. The Impact of COVID-19 and HR Action Survey examined how companies tackle the situation and formulate strategies to fight against the pandemic.
- The survey, conducted between March 31 to April 17, 2020, covers 170 companies across different industries in Hong Kong, China and Singapore. The key focuses of the survey include:
 - Base Salary Adjustment
 - Short-term & Long-term Incentives
 - Staffing
 - Flexi-Work Arrangement
 - Precautionary Measures and Allowance
- Our heartfelt gratitude to all the companies that have participated in the survey and shared insights on how they steer human resources strategies to combat the pandemic.

Demographics of Benchmark Firms

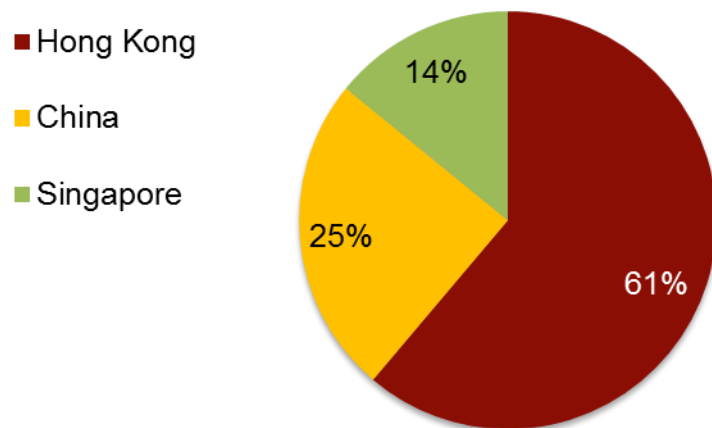
Organization Type



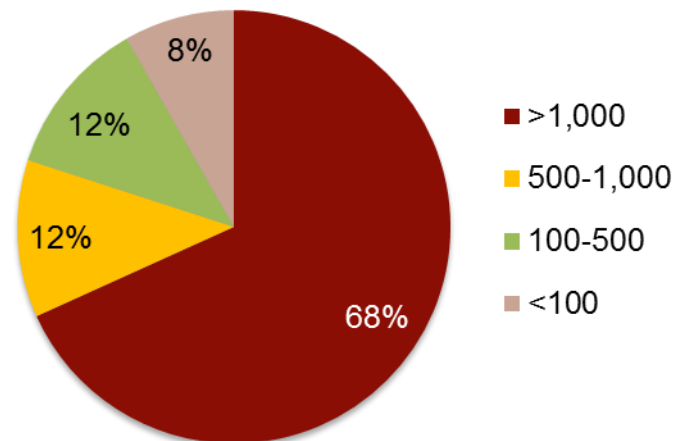
Industry



Location



Headcount

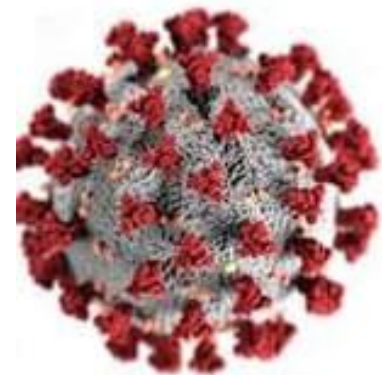


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Basic Salary Adjustment

Key Findings from the Survey

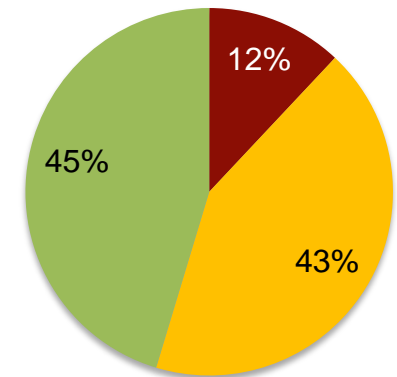


Basic Salary Adjustment

- 45% of the benchmark companies have basic salaries remained unchanged in 2020 whereas 43% of the companies have actually decreased pay levels. Only 12% of the companies have actually increased salaries.
- The looming economic downturn has direct consequences on salary adjustment. The lucky ones are those companies that have already locked in their new salaries before the outbreak of the pandemic in January.
- For those benchmark companies that are still going through the pay review process:
 - 59% of them will have their salary review budget remained unchanged.
 - 18% of them have reduced the budget by 10% to 20%; 14% of them adjust the budget using a single digit. 9% of them has revised the budget by more than 20%

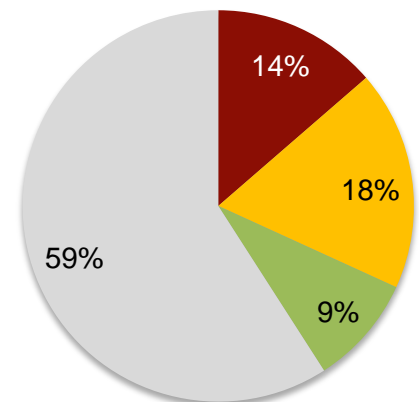
Overall Basic Salary Adjustment

■ Increase ■ Decrease ■ Unchanged



Extent of Change Compared to Original Salary Review Budget

■ Down <10% ■ Down 10%-20%
■ Down >20% ■ Unchanged

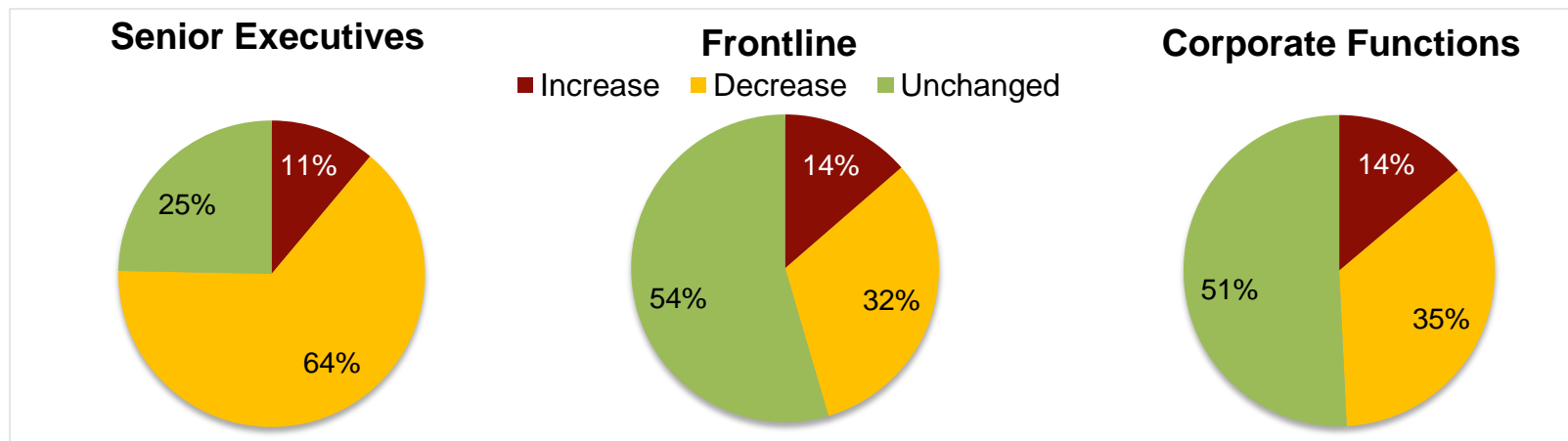


Basic Salary Adjustment (Cont'd)

- The salary levels can stay put or plunge this year as Asia reels from the Covid-19 pandemic.

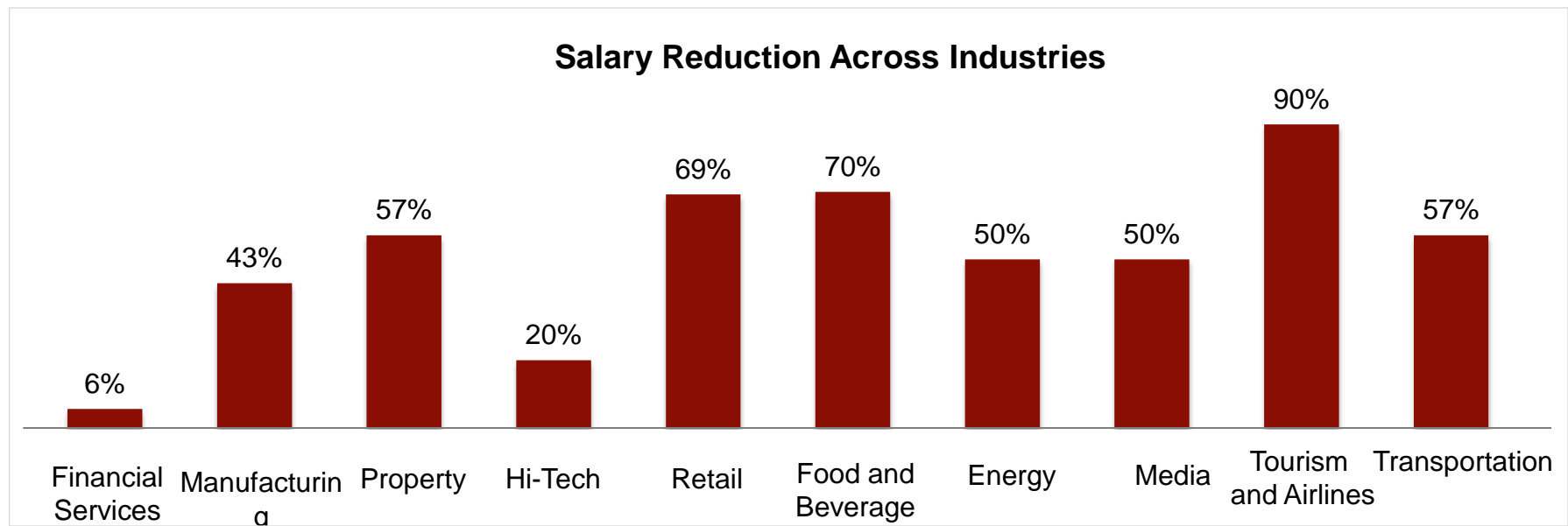
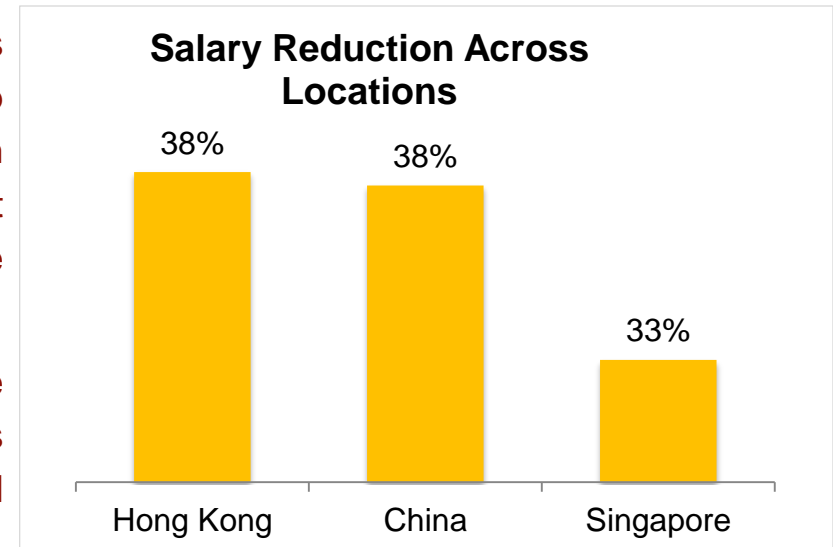
Level	P25	Median	P75
Hong Kong	-6.5%	0%	2.3%
China	-7.2%	0%	1.4%
Singapore	-3.2%	0%	2.6%

- Within a company, senior executives are at the forefront in taking pay cut with 64% of them taking a fraction of their pay. Close to one-third of the frontline departments and corporate functions also have their pay levels reduced.
- About half of the companies impose pay freeze for frontline departments and corporate functions.
- Pay increase usually happens among those companies that have already finished the pay review cycle; otherwise salary increase has become an exception rather than the norm.



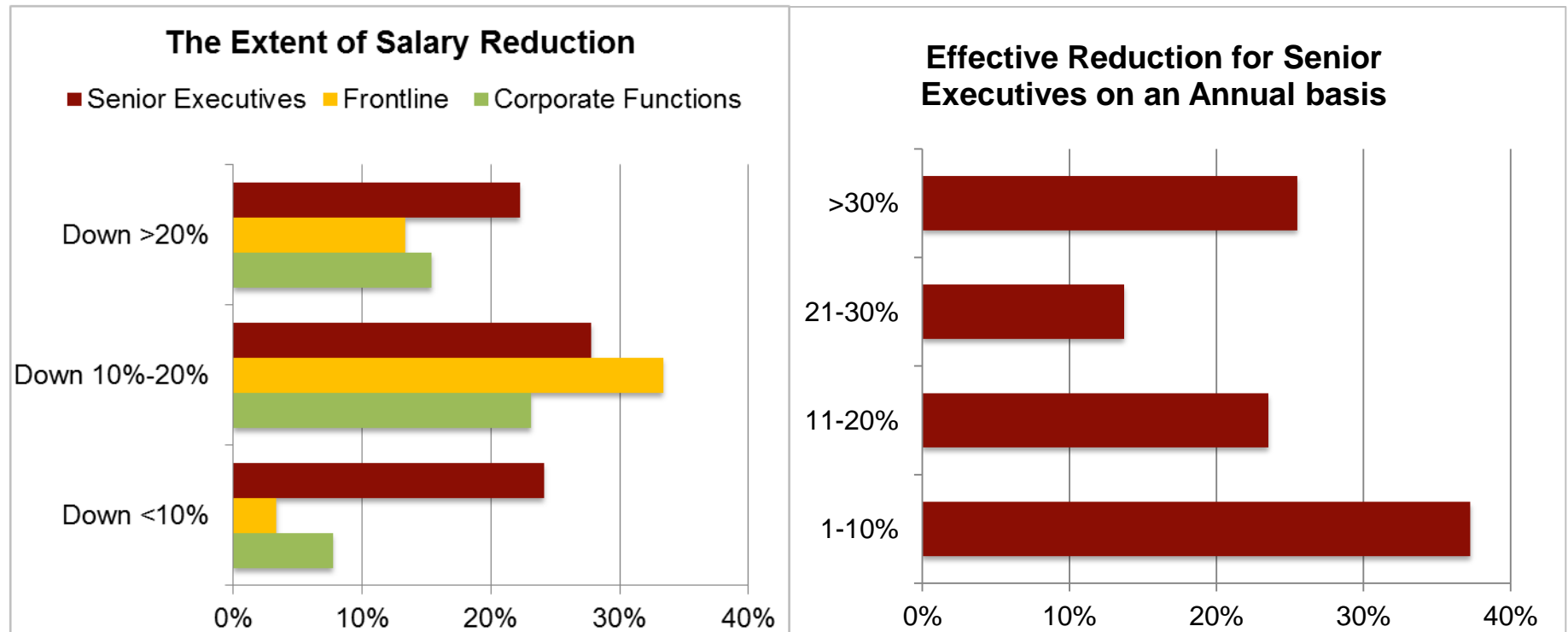
Salary Reduction Across Locations and Industries

- Basic salaries take a bigger hit than jobs as companies try to cut costs in economies bracing for sharp contraction. 38% of the benchmark companies in both China and Hong Kong have decreased basic salaries at least for some their employees while 33% of the companies have reduced pay levels in Singapore.
- Different industries are not born equal, pay cut are more prevalent among the worst affected industries such as Tourism and Airlines, Food & Beverage as well as Retail sectors.



The Extent of Salary Reduction

- For those companies that have gone through pay cut, the levels are generally down by 10% to 20% across all employee categories.
- Pay cut is usually a temporary reduction that lasts from 3 to 6 months, or subject to regular review. A 40% pay cut for 3 months is equivalent to an effective reduction of 15% on an annual basis.
- Among senior executives, the most commonly impacted are the Board and executive committee members. Some of the pay levels are reduced on a voluntary basis or become donations to charity.

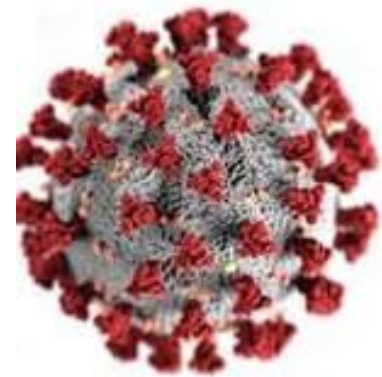


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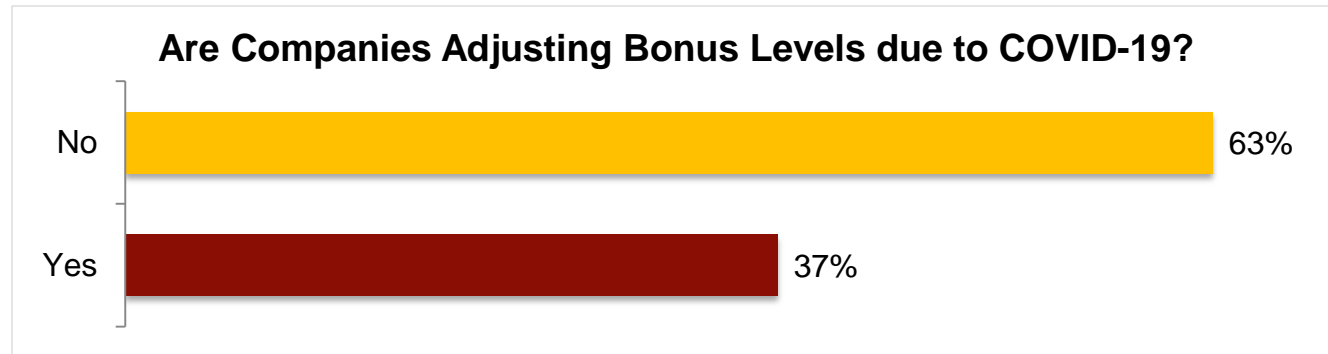
Short-term & Long-term Incentives

Key Findings from the Survey

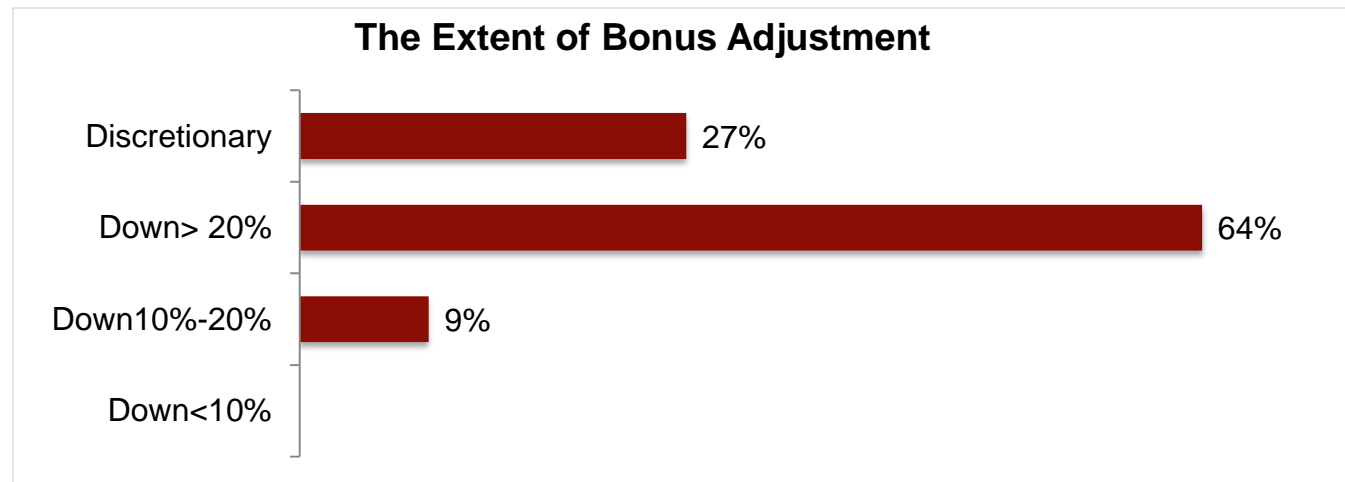


Change to Bonus Levels

- More than 60% of the companies have kept bonus levels remain unchanged as they believe this is related to performance in 2019.

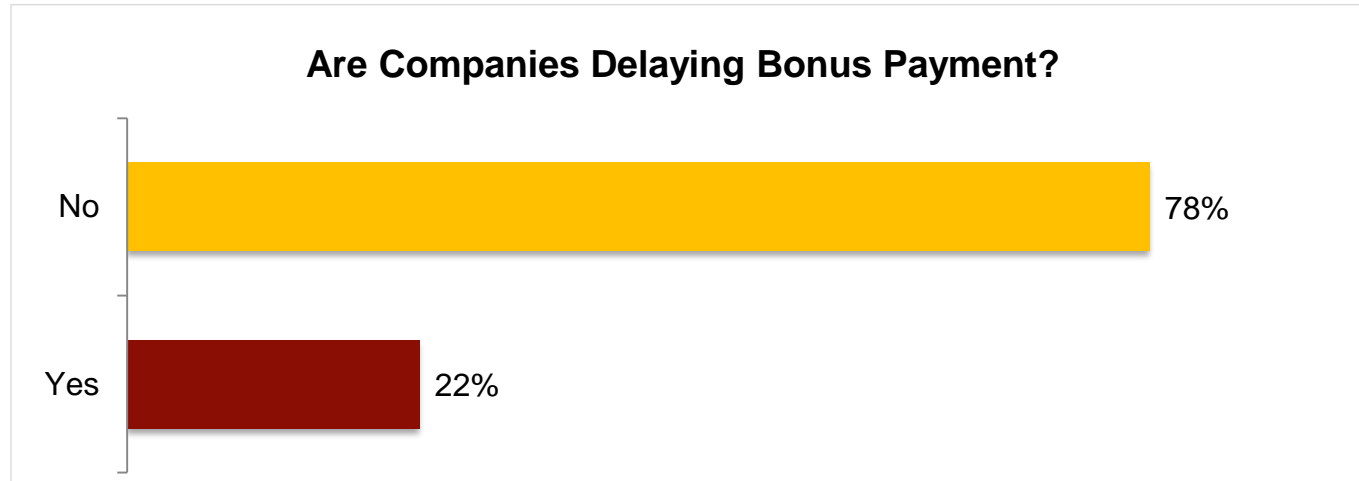


- For those companies that have made adjustment, bonus is usually down by more than 20%. Some senior executives forfeit bonus altogether. The extent of adjustment are largely related to unsatisfactory business performance since the outbreak and cash flow issue.



Delay Bonus Payment

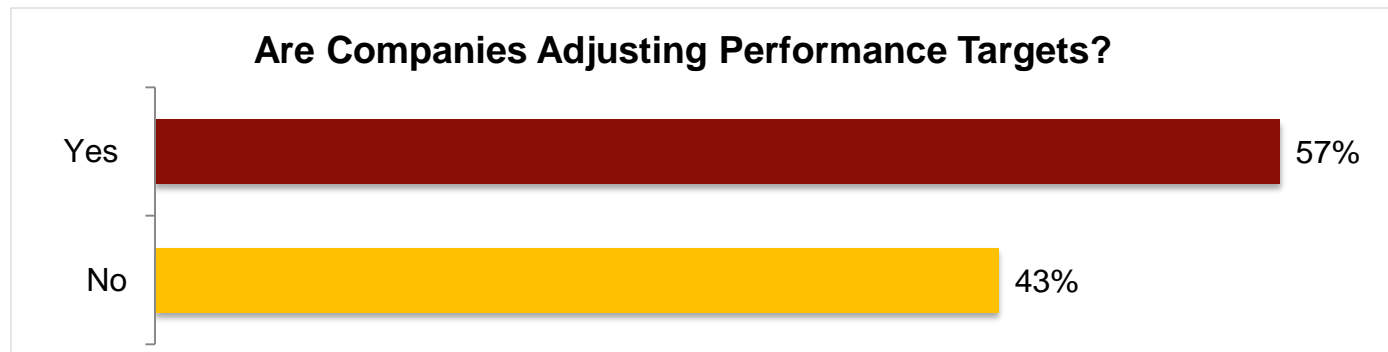
- There will be no delay in bonus payment for most of the companies as some of them have already paid bonus before the Chinese New Year. Around one-fifth of the companies have planned to delay bonus payment due to issue of cash flow and pessimistic business outlook.



- Deferring bonus in part or in whole is a better alternative comparing to zero bonus due to its impact on retention. Deferring bonus in shares has an additional advantage in promoting interest alignment. Some benchmark companies tried to balance cash flow and staff retention by paying bonus in restricted stocks or units.

Performance Targets for Short-term and/or Long-term Incentives

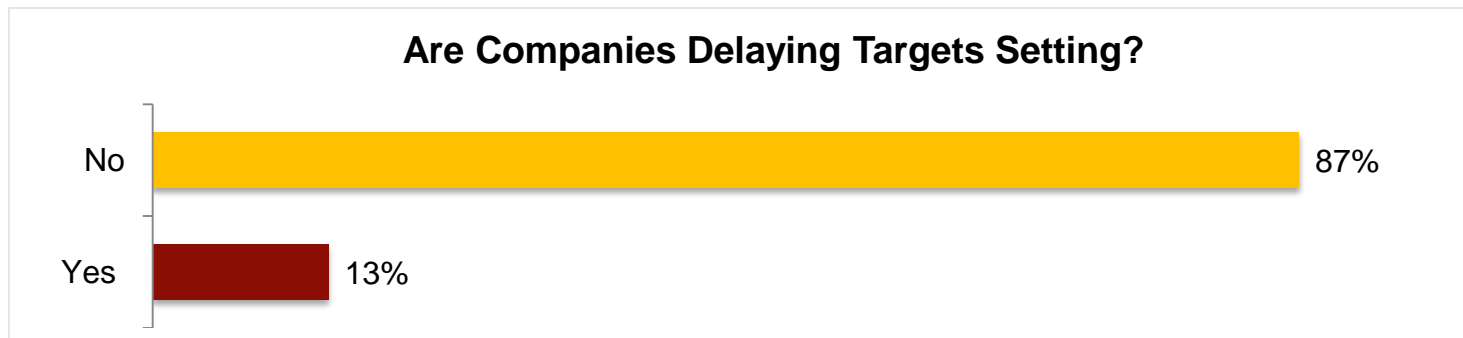
- For benchmark companies that have already set performance targets for their incentive plans, 57% of them have adjusted performance targets. The adjustment approaches include:
 - Widen performance and payout ranges; for example, -15% to +15% business performance will still be defined as “meeting targets”.
 - Set bi-annual targets and split the targets into “first half” to address the unique circumstances during the pandemic; develop another targets for “second half” to give the management team a second chance to catch-up at least part of the annual performance.
 - Adjust or eliminate the threshold altogether. Reduce payout for target performance to save cash.
 - Review KPIs and increase weighting on non-financial but quantifiable KPIs



- There should be extensive use of discretionary judgement rather than formulas in adjusting incentives. The idea is not intended to protect incentives, but to focus on areas that employees can actually make an impact to improve company performance during the crisis.

Performance Targets for Short-term and/or Long-term Incentives (Cont'd)

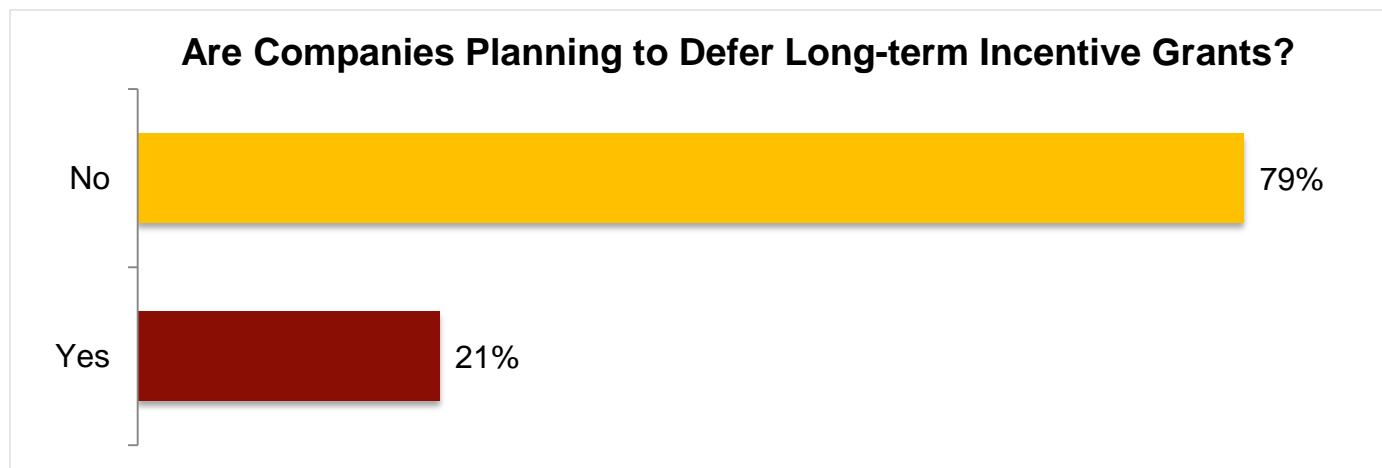
- For those companies with target setting in progress, 87% of them will not delay the process. Some possible approaches are to:
 - Adjust the typical performance and payout curve to consider the difficulty in the macro environment.
 - Use relative KPIs such as Total Shareholder Return (“TSR”) , Return on Equity (“RoE”) or performance ranking which do not require prior goal setting.
 - Simplify the Long-term Incentive (“LTI”) target setting process by adjusting the LTI mix. The proportion of time vested portion increases while performance vested portion decreases.
- 13% of the companies believe delaying the target setting process is a good idea, until a reasonable forecast can be developed.



- The immediate action plan is to conduct financial modelling to analyse the potential windfall or shortfall in STI and LTI payout under different performance and/or share price scenarios. This can provide a clearer picture to enable more vigorous target setting.

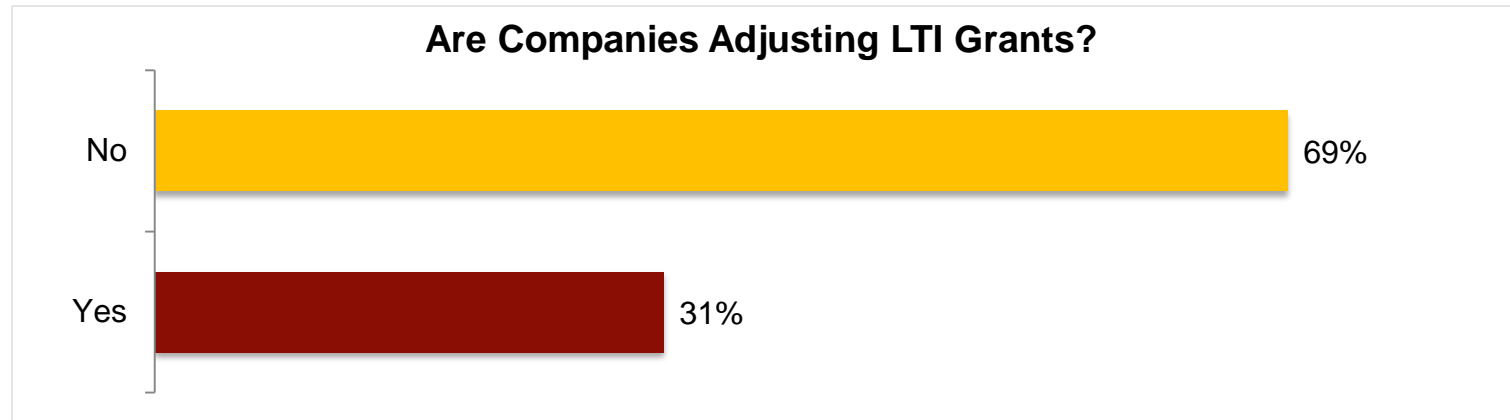
Defer Long-term Incentive Grant

- For those companies with a LTI plan, most of them (79%) have no plan in deferring their LTI grant. However, the recent significant drop in share price has a huge impact on LTI grants based on fixed value as more shares are needed to provide the same LTI value. This will drain the LTI reserve and need shareholder approval for any replenishment. In order to avoid excessive share dilution and windfall in LTI value, companies can consider:
 - Using an artificial share price to convert LTI value to shares.
 - Similarly, price averaging approach can be an alternative if market volatility persists. For example, take an average of the pre-crisis and current share price or value to reduce dilution or LTI value.
 - Settling part of the LTI in cash when cash flow improves.
- 21% of the companies plan to postpone the LTI grant for at least 6 months or even a year.



Change in Long-term Incentive Levels

- Even with the recent downturn in the stock market, most of the companies (69%) have no plan in adjusting LTI levels. It is important for companies to exercise discretion to manage share dilution and prevent ‘windfall’ LTI gains.



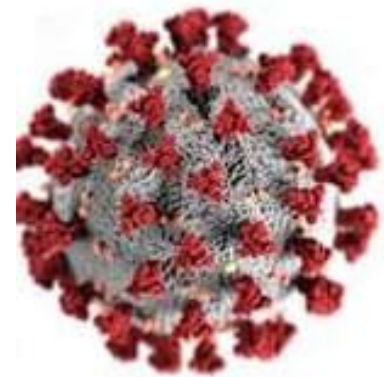
- The recent share price volatility has led to previous stock option grants becoming “under the water”, this has led to question on stock option repricing or exchanges. The exchange ratio, the extent of repricing and any additional vesting and forfeiture conditions associated with the adjustment will have an implication on accounting expenses, disclosure, and perception of fairness among employees.
- Some companies are also trying to rethink the appropriate LTI vehicle during a volatile market, with time vested restricted stocks becoming more resilient during the crisis. Restricted stock will not go “under the water” and requires no target setting, and have the benefits in fostering retention and at least some interest alignment.

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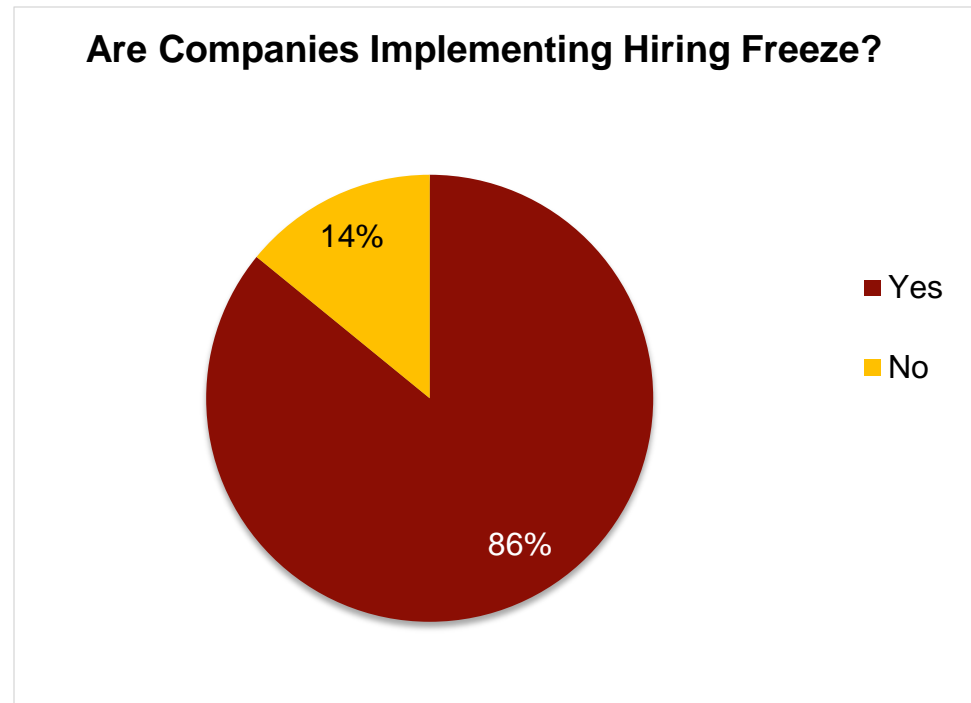
Staffing

Key Findings from the Survey



Hiring Freeze

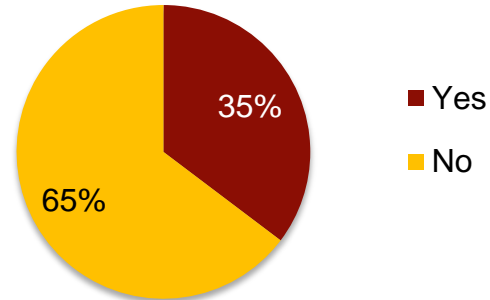
- About 86% of the companies have implemented hiring freeze which includes no replacement hires, however there are wide variations across industries.
- All the benchmark companies in the hardest hit sectors such as Tourism and Airlines, Retail as well as Food and Beverage industries reported hiring freeze.
- Financial services and the Media industries are in better shape with only 44% and 50% respectively of them are implementing hiring freeze.



Unpaid Leave

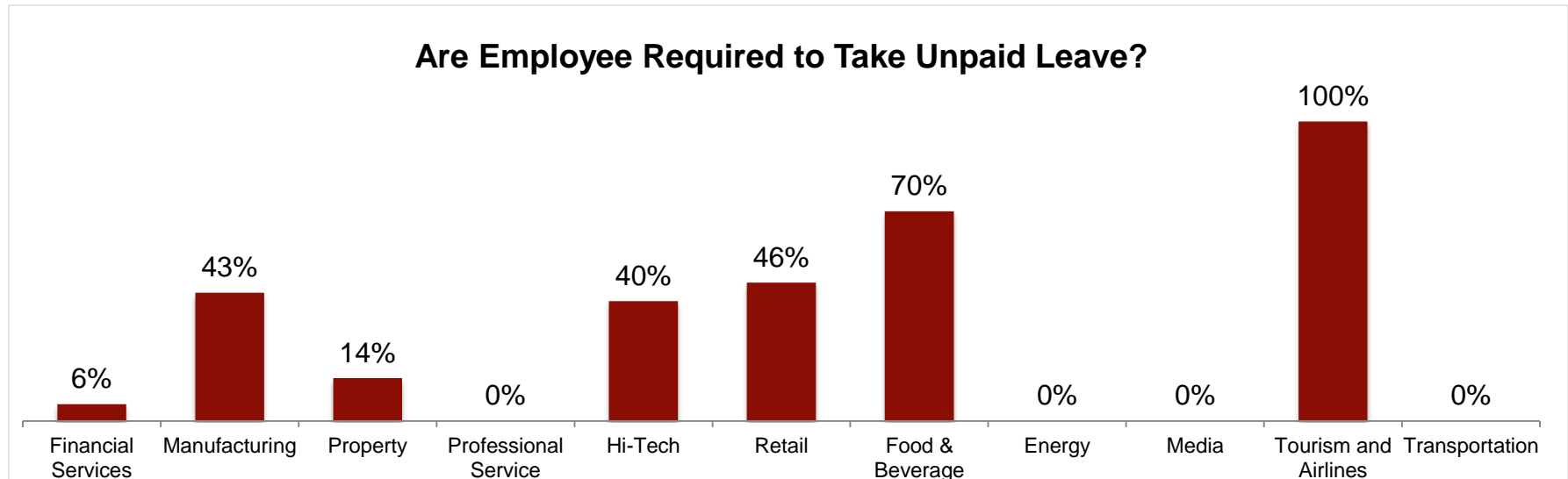
- 32% of the companies require their employees to take unpaid leaves. The common practice is to take 4 days off per month.

Are Companies Implementing Unpaid Leave?



- The unpaid leave practice is the most prevalent among Tourism & Airlines as well as Food & Beverage industries.

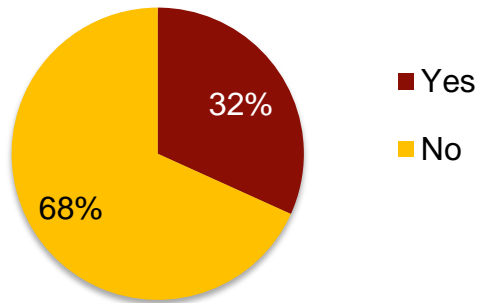
Are Employee Required to Take Unpaid Leave?



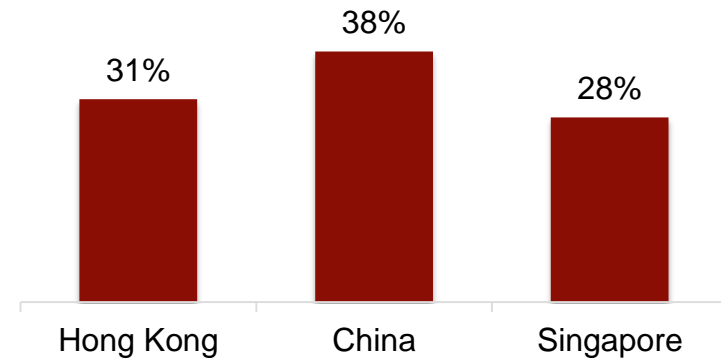
Downsizing / Layoff

- 68% of the companies have no plan to downsize or layoff employees. The median downsizing scale is 15% of the total employee population. The prevalence of downsizing in different locations is correlated with the duration of lockdown and access to government funding or subsidy to avoid redundancy.

Have Companies Planned Downsizing or Layoff?

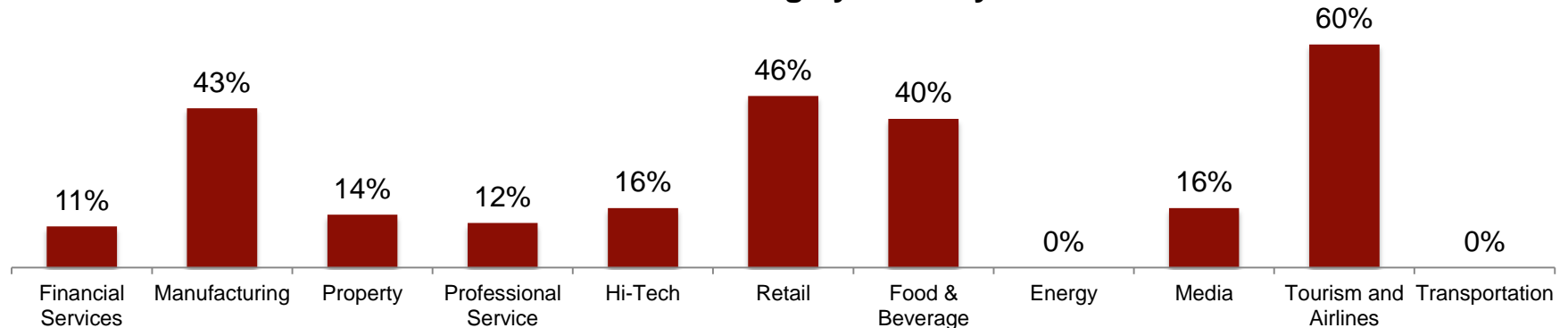


Downsizing by Location



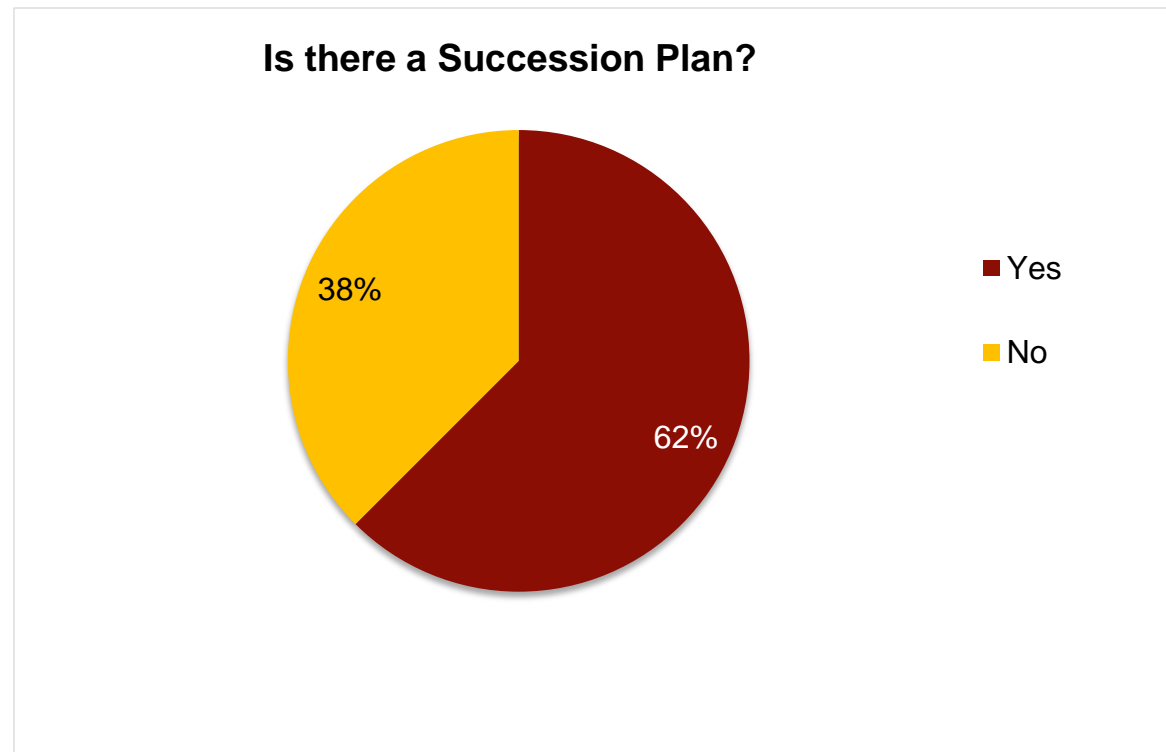
- Downsizing plans are commonly found among Tourism and Airlines, Retail, Manufacturing as well as Food and Beverage sectors.

Downsizing by Industry



Succession Planning

- 62% of the companies have succession plan in place to deal with temporary or extended executive absence after contracting the virus. Most of them have proper succession plan or backup plan for the purpose of taking different types of leave.
- Each company needs to have “ready now” successors for all senior executives and critical positions. Special compensation, incentives or recognition for taking up emergency or interim roles can be considered.

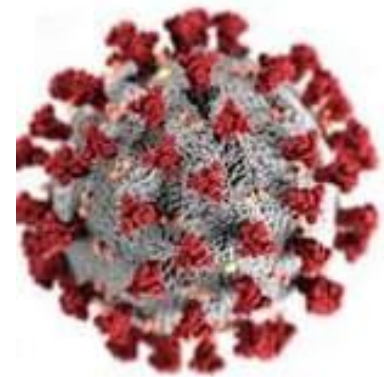


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Flexi-Work Arrangement

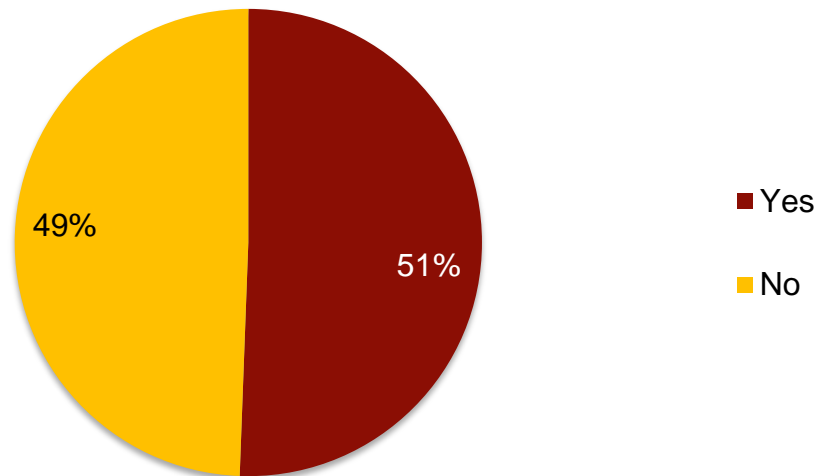
Key Findings from the Survey



Work from Home

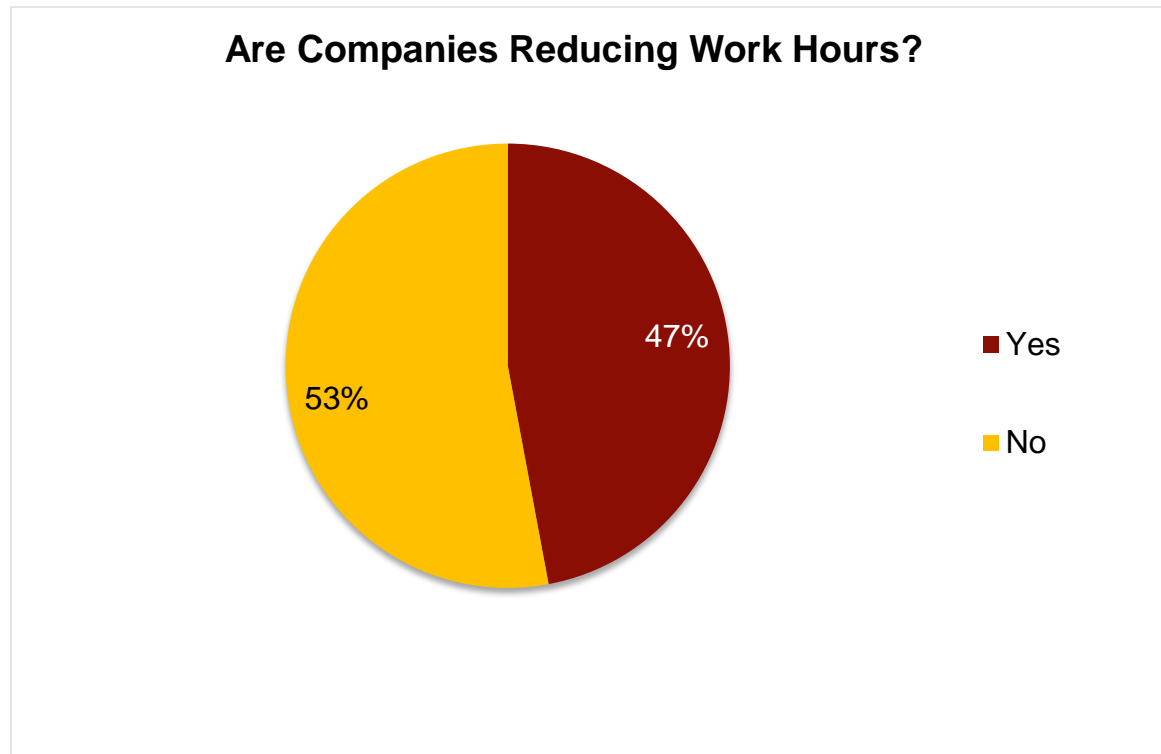
- 51% of the companies have encouraged employees to work from home due to social distancing, and among them, 88% of them apply an alternate work schedule or split team system. As it is impossible for some frontline employees in some industries such as Manufacturing, Retail, Food & Beverage industries to work from home, only staff in corporate functions can work remotely.

Have Companies Encouraged Employees to Work From Home?



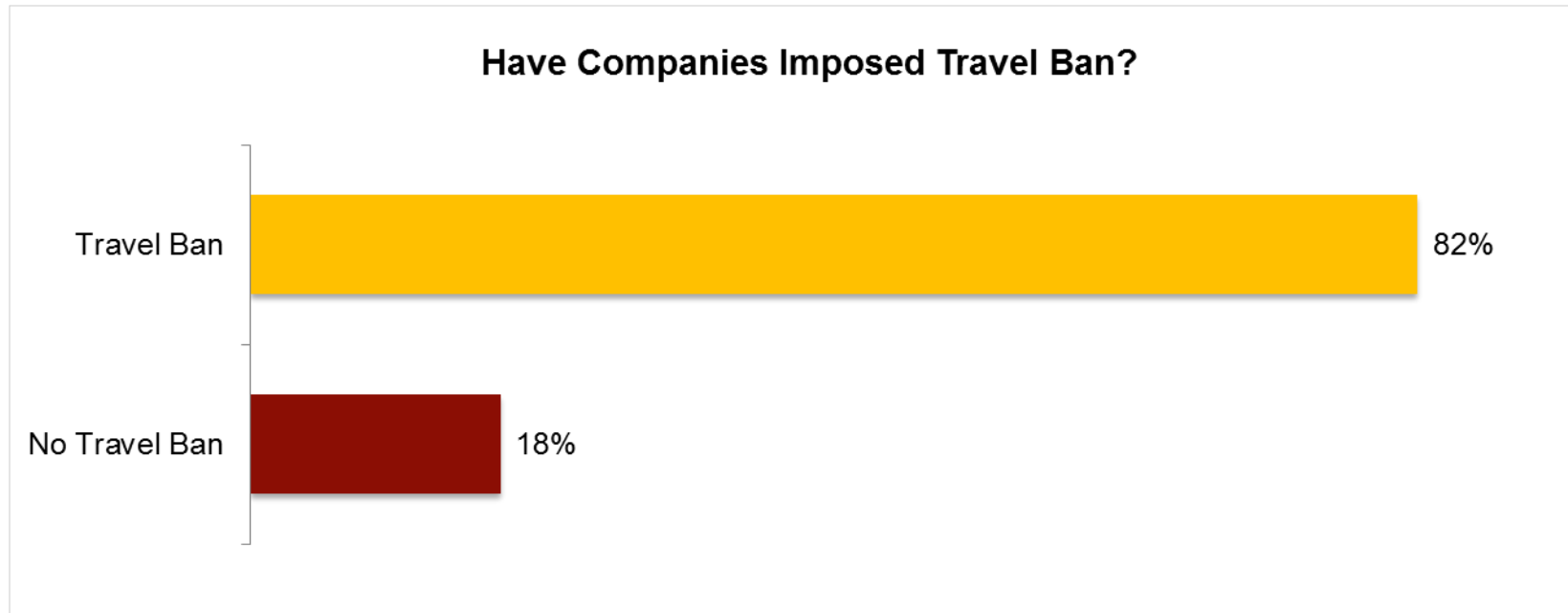
Reduced Work Hours

- Nearly half (47%) of the companies show they have reduced their work hours, for example, early time off to avoid rush hours. Companies in the Food & Beverage and Retail industries adjusted opening hours so as to reduce one shift to manage costs.
- For those companies that have not reduced work hours, they usually encourage flexi-hours to protect their employees.



Travel Ban

- With the number of imported confirmed cases rising, more than 80% of the companies have imposed travel ban. Some of those ban are only confined to certain high-risk regions; some essential business travels require executive approval.

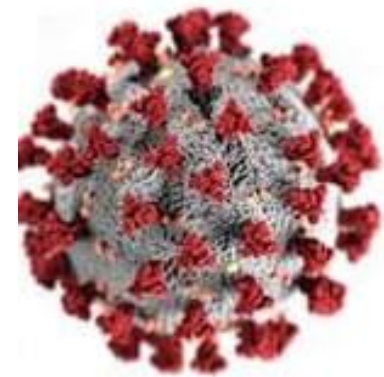


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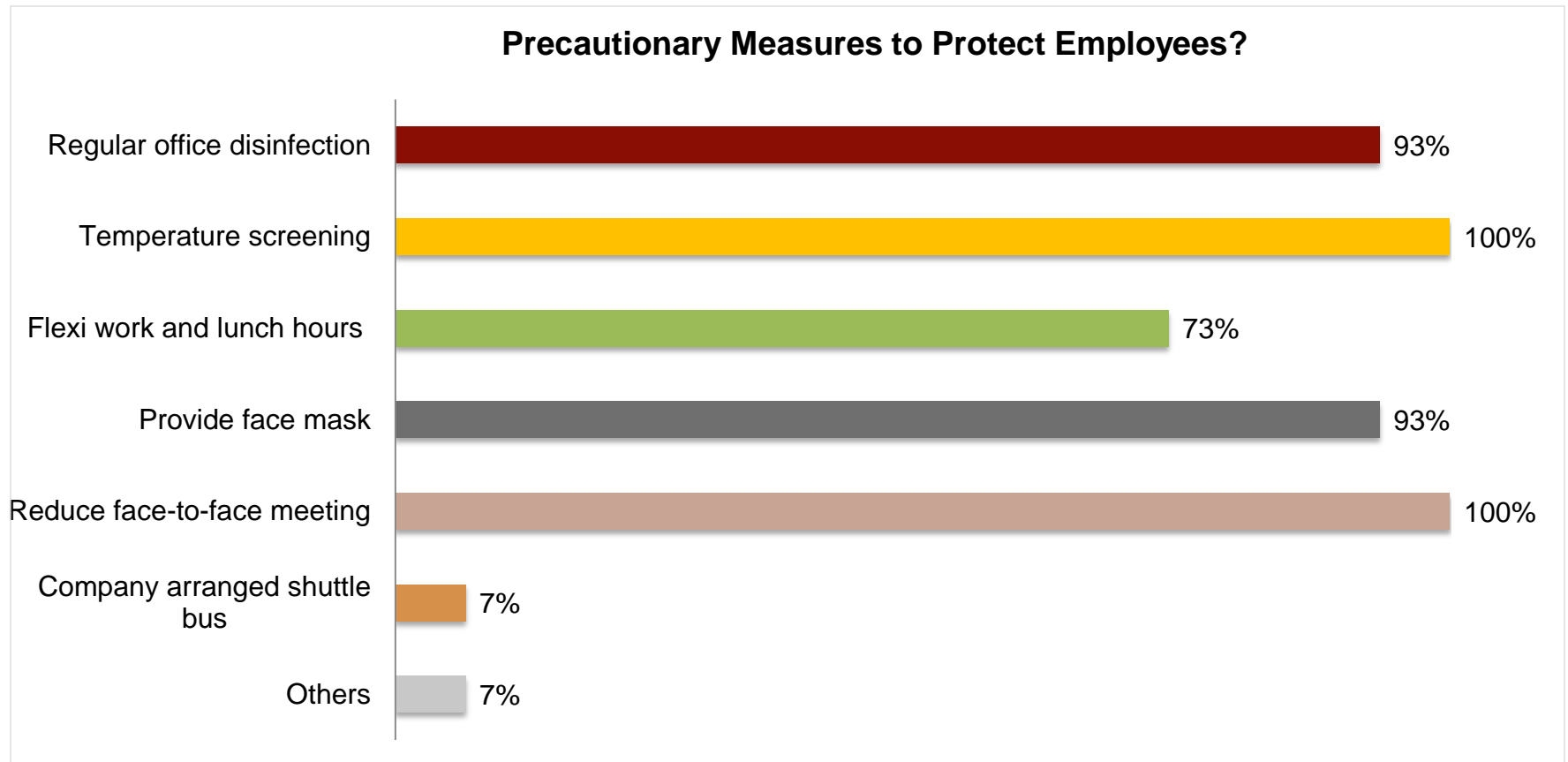
Precautionary Measures & Allowance

Key Findings from the Survey



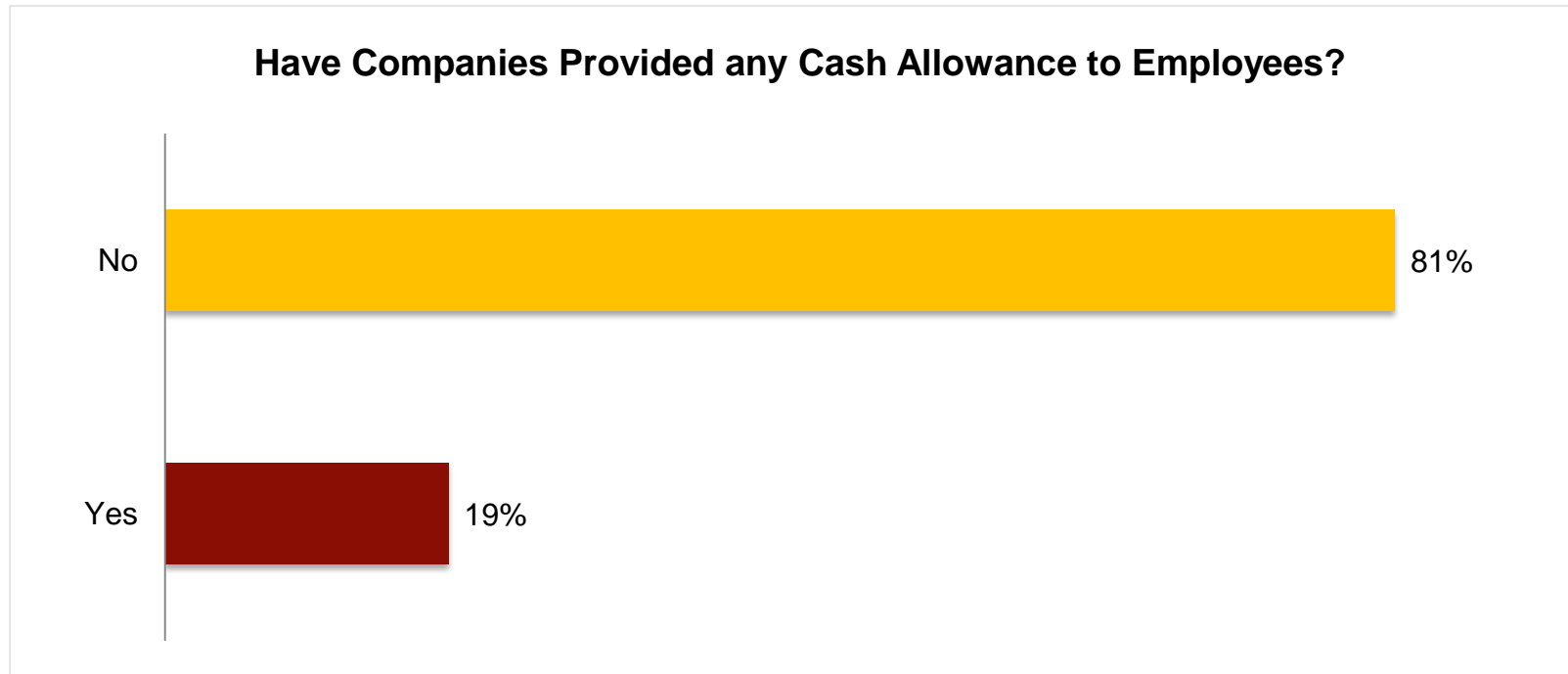
Precautionary Measures to Protect Employees

- All companies have taken some precautionary measures to protect employees, temperature screening and reducing face to face meetings are “must-do”. Providing face mask and regular office disinfection are the most standard measures. Other measures include providing face masks and hand sanitizers for family members.



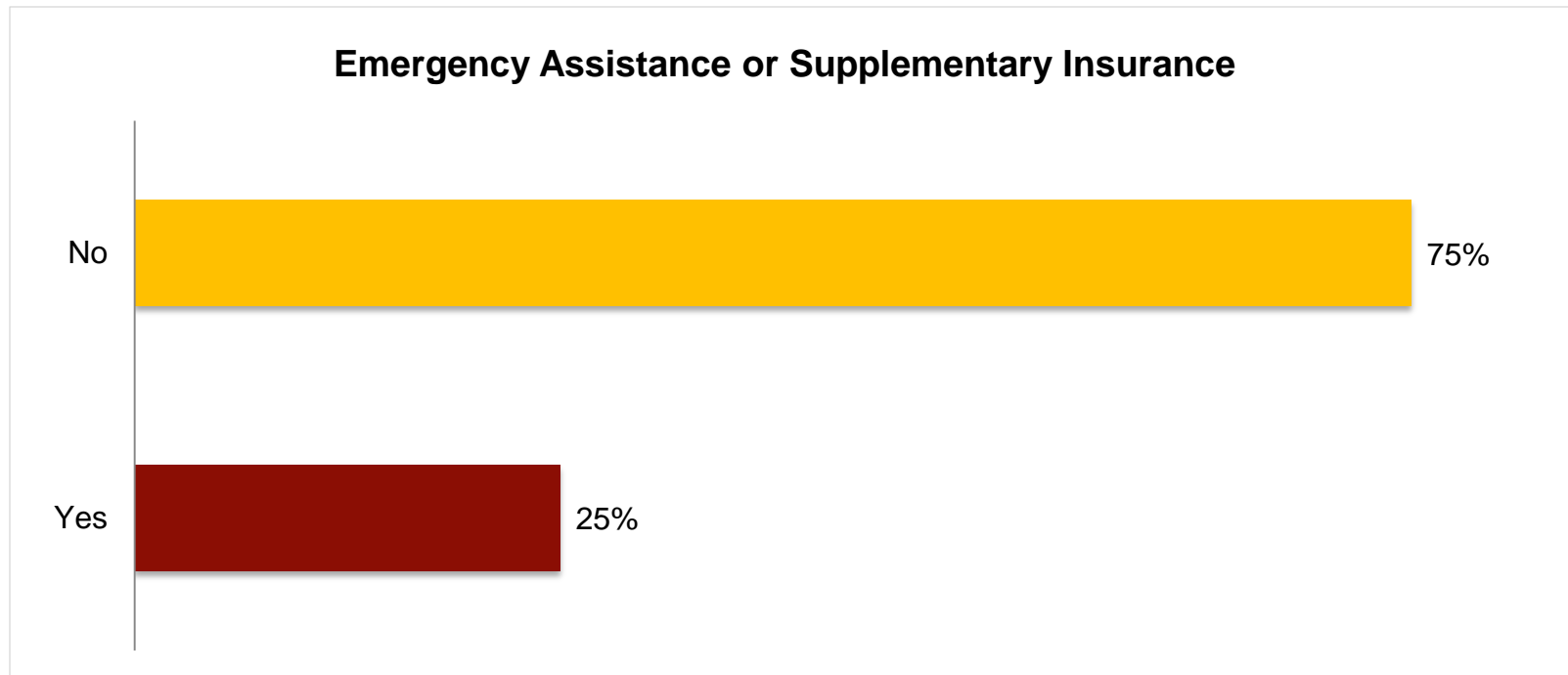
Cash Allowance

- 19% of the companies provide cash allowance to high-risk or frontline staff who need to work “on-site” during the most critical period. Some allowances are intended to be hardship nature; some are for subsidizing transportation and meal expenses or purchase of home office equipment.
- The cash allowance is usually structured as a flat amount, either on a daily basis or as a lump sum depending on the nature of the allowance.



Emergency Assistance or Supplementary Insurance

- About 25% of the companies have supplementary benefit under medical insurance which covers COVID-19. Employee assistance program is also available to employees during quarantine or affected by the pandemic.

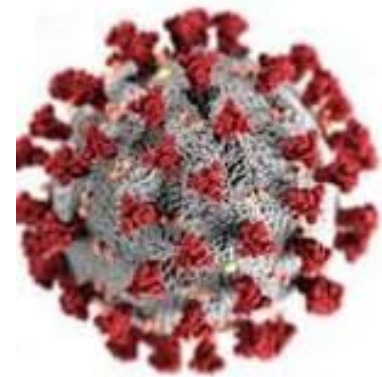


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Appendices

Other Relevant Surveys



Our Proprietary Surveys

- Apart from this survey, our regular market research on related topics may provide additional reference. Please refer to the following links:

- [Compensation Level Survey](#)
- [Incentive Practices Survey](#)
- [Benefits and Employment Conditions Survey](#)
- [Year-end Rewards & HR Trends Survey](#)
- [Pay & Performance Survey](#)
- [Independent Non-Executive Director Fees Study](#)
- [Top Management Survey](#)

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Strengthen Pay & Performance
Alignment For Top Executives



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4% Salary Increase for Hong Kong and Singapore Despite Uncertainties but Bonus Tipped to be Down

HONG KONG, November 14, 2018 –Salaries in Hong Kong and Singapore will increase by 4% among financial services firms despite uncertainties in 2019. Bonus will be down to 5 months due to stagnant performance, according to independent management consulting firm, Pretium Partners Asia Limited ("Pretium").

Pretium Year-end Rewards and Human Resource Trends Survey - 2018 ("Survey") examined changes in salary increase, bonus levels, business performance, headcount changes and staff mix ratios as well as top human resources priorities. It covers 67 international, regional and local investment banks, commercial banks, asset management and private equities firms with multiple offices in Asia. Key insights from the survey are as follows:

Business Performance in 2018, Projected Salary Increase and Bonus Payout in 2019

Hong Kong is planning to increase salaries by 4% in Hong Kong and 5.5% in Mainland China in 2019, compared to 4.8% and 6.2% respectively in 2018. Singapore is set to increase salaries by 4% in 2019, compared to 4.2% in 2018.

Actual and Projected Salary Increase 2018/2019

Countries / Locations	2018 Actual Salary Increase Median ¹	2019 Projected Inflation Rate ²	2019 Projected Salary Increase Median ¹
China	6.2%	1.6%	5.5%
Hong Kong	4.8%	2.4%	4.0%
Singapore	4.2%	1.5%	4.0%

Source: Pretium Year-end Rewards and Human Resource Trends Survey Report - 2018

* Source: Trading Economics

81% of the surveyed firms indicate 2018 business performance will be around the same as last year. Performance in private equities and real estate investment will be better than last year, followed by investment banking and wealth management. "First half business performance shows signs of growth but economic uncertainties have dampened market sentiment on pay increase," said May Poon, Managing Partner at Pretium.

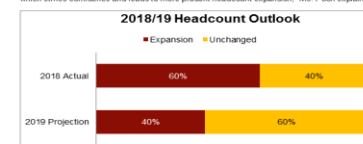
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The projected bonus to be paid in 2019 will be 5 months of salaries, down from 7.8 months in 2018. As performance in fixed income, currencies and commodities and equity will be significantly worse than last year, this will be reflected in the bonus levels.

Headcount Change and Staff Turnover

40% of the surveyed firms intend to expand headcount in 2019, mainly for Fixed Income, Research and Compliance. "Growth prospects are increasingly threatened by uncertainties surrounding trade which stifles confidence and leads to more prudent headcount expansion," Ms. Poon explained.



Source: Pretium Year-end Rewards and Human Resource Trends Survey Report - 2018

About Pretium Year-end Rewards and Human Resource Trends Survey - 2018

Pretium Year-end Rewards and Human Resource Trends Survey Report - 2018 examines performance, reward and human resources trends in Asia, including salary increase, bonus levels, business performance, headcount changes, staff mix ratios and changes in HR priorities. It covers 67 international, regional and local investment banks, asset management and private equities firms as well as insurance companies with multiple offices in Asia.

About Pretium Partners Asia Limited

Pretium Partners Asia Limited ("Pretium") is an independent management consulting firm that helps accelerate clients' growth and increase profitability through unique spectrum of solutions which include rewards, performance management, benchmarking, organization transformation and integration for mergers & acquisitions.

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More diversified business mix helps mitigate slower market environment, Pretium live polling expects bonus in 2020 will be par with 2019.

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Budgeting & Manpower Planning: Top-down or Bottom-up?

With the end of the third quarter around the corner, it marks the time of the year for HR leaders to partner with Finance counterparts to drive the annual budget and manpower planning process. A strategic HR leader would embrace these processes to gain credibility from the executive team – a great opportunity to reposition and reinforce HR as a strategic partner. However, as most of the HR leaders are not finance experts and the budget process could be daunting, some of them may just abdicate their responsibilities and leave this strategic task to their Finance counterparts. Some HR leaders face difficulties in collecting relevant data for the budget process while others may have issues with knowing what data needs to be collected and where to start.

Budgeting involves the systematic collection of both historical actual data and forward looking business forecast so as to achieve firm's short and long-term objectives. A widely adopted approach of budgeting involves using the current numbers to make upward or downward adjustments to each item based upon expectations. In most companies, staff costs make up the majority of fixed costs. HR typically collects the following information for budgeting purposes:

- Actual staff costs incurred in the current year
- Projected cost increase for next year
- Number of projected headcount for next year

Bottom-up: Projecting Current Staff Costs is Not Always Easy...

After collecting the above data, the easiest way out is to adopt a bottom-up approach by projecting current compensation costs incrementally and use that as the base by adding the new headcount and subtracting the number by the projected attrition. This seemingly logical approach has actually oversimplified the calculation as it assumes current pay levels are largely competitive and a broad-brush year-over-year salary movement is usually applied across all employees. In addition, the long-term business perspective may not be fully considered by this approach. A more holistic bottom-up

Embrace the budget process to gain credibility from the executive team

Budgeting & Manpower Planning: Top-down or Bottom-up?

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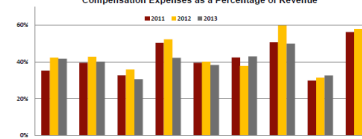
approach is to benchmark individual employees against market pay levels as the starting point for budget planning and identify the specific functions, positions or levels that are under competitive pressures. Then HR leaders need to identify the pay gap and customize the necessary salary movement that is needed for retention purpose to determine the necessary compensation budget.

The incremental bottom-up budget and manpower plan is rather simple and easy to put into practice. However, it is more suitable for firms with stable year-over-year growth which allows for gradual change within the company. As stability is the keyword here, it does not account for major business expansion or downturn since substantial variance to previous year's budget is being frowned upon. In reality, HR leaders often find significant deviations between actual and budgeted costs due to major changes in operations and business environment along the year. This rather simple bottom-up budgeting process is insufficient to cope with these fundamental changes and it often encourages a detrimental "use it or lose it" mentality among business heads when business outlook cannot justify the planned staff costs and headcount.

An Alternative Approach: Top-down

As opposed to the incremental bottom-up budgeting, a top-down perspective provides an alternative to provide a logical yardstick. As compensation and benefits costs made up a big chunk of the total costs, an initial compensation budget could be developed based on the benchmarking outcome of compensation and benefits costs as a percentage of revenue against target comparator groups. This will provide a high-level reference on the market range of compensation expenses to start with and offer an overall perspective on whether the total compensation costs is justified.

Compensation Expenses as a Percentage of Revenue

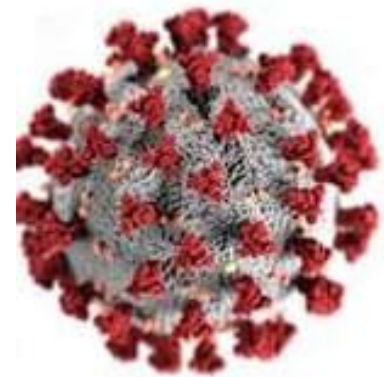


Pretium Partners

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Appendices

About Pretium



Our Service Chain

- Pretium is an independent management consulting firm that helps accelerate clients' growth, increase profitability and transform the company through effective rewards, performance management and strategic human resource strategies.



- We advise Board and Senior Management on the people aspects during transformation, with reference to business needs, the latest market data, corporate governance trends and best practices.
- We help our clients create value and architect change through our unique spectrum of management consulting solutions which includes strengthening compensation structure, short / long-term incentive plan, organization transformation and performance management.
- Our extensive consulting experience and ongoing proprietary research put us in a unique position to combine market intelligence and our industry insights to drive important business decisions.

Our Recognition & Strategic Partners

- Pretium Partners has been recognized by many listed and private companies as the trusted advisors to Remuneration Committees on rewards, performance and transformation on an ongoing basis. Some of our recent recognition includes:



- Pretium Partners has won the Best Compensation & Benefits Consultant (Silver Award) in 2019 organized by Human Resources Magazine. We have also been selected as Top 5 Best Compensation & Benefits Consultant in the last 4 years. It is a long-running annual award assessed by Regional Head of HR of prominent companies that recognizes the best solution providers in Asia.
- Pretium founded the HR Forum and serves as the ongoing advisor to different industry groups. They are used as a major platform for exchanging market intelligence, sharing of industry best practices.
- Our insights and thought leadership from proprietary surveys are frequently quoted by the media as the benchmark for industry trends.
- Pretium collaborates with a number of solution providers across the globe to provide comprehensive and one-stop solutions to our clients. We leverage the respective strengths with our partners who specialize in the tax / legal aspects, share plan administration or regulatory and market practices in the US, UK and Europe to bring total solutions with broader geographical coverage.