

Human Resource Services

Linking pay and performance

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Agenda

- Russian Landscape
 - Salaries
 - Incentives
- Key challenges
- Finding the perfect model



Russian Landscape – main drivers

International environment

- Redesigning KPI systems
- Introducing deferred bonuses with claw-backs

Pressure from regulators

- Increased role of Remuneration Committees
- Fuller disclosure

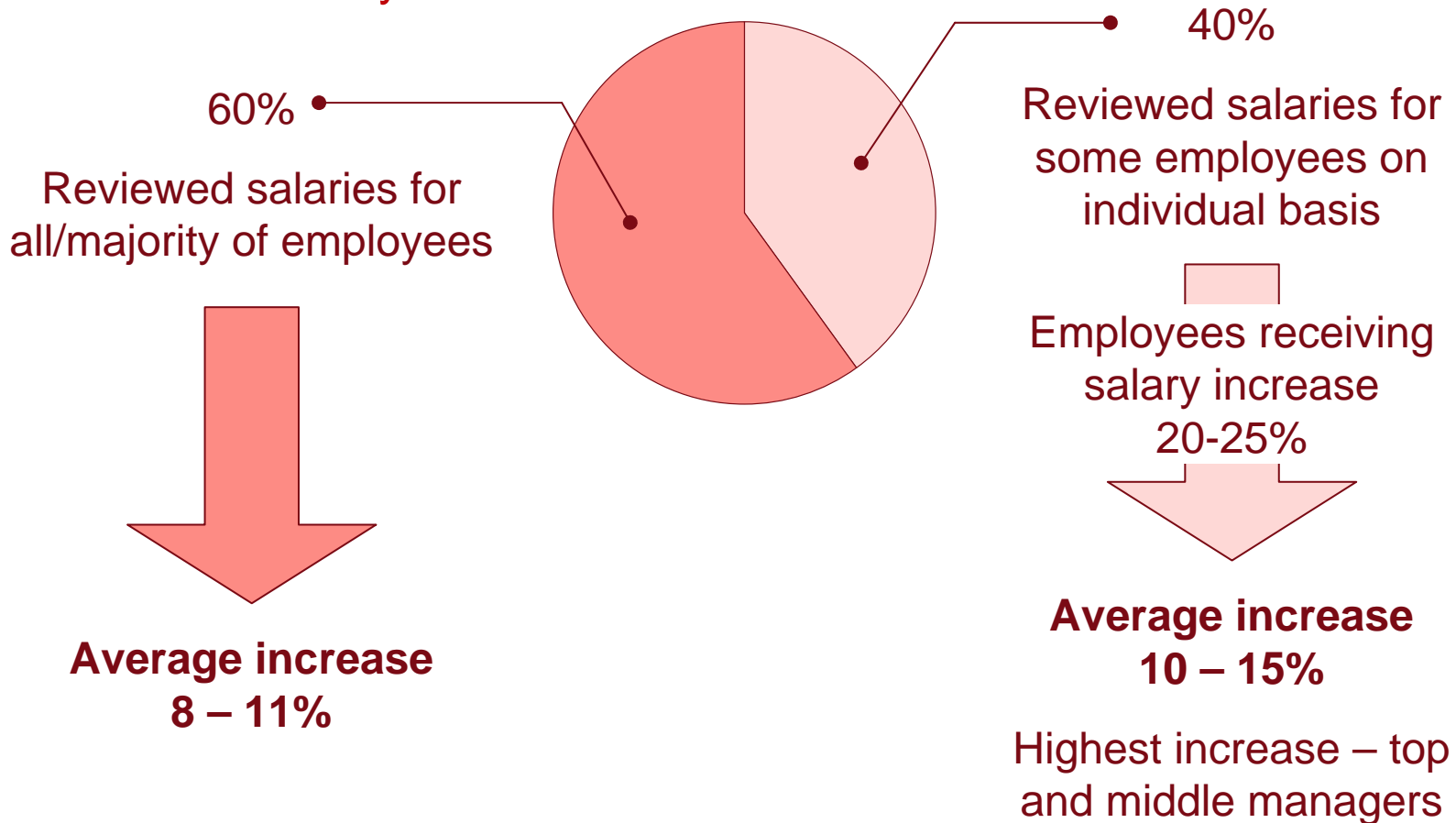


Local market realities

- Most companies are private
- Long-term incentives are not wide-spread
- Annual incentives tend to be discretionary rather than formula-driven

Current situation in the Russian market – base pay

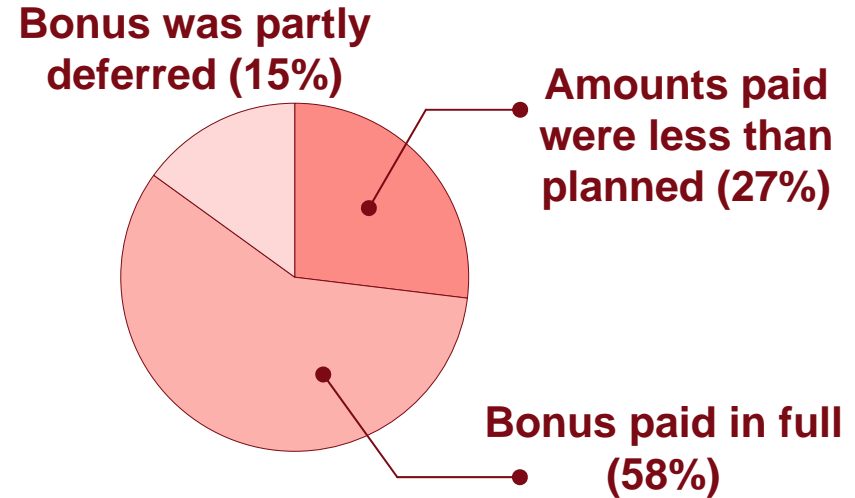
- 77% of companies conducted salary review in Jan-April 2010
- 6% cancelled salary review



Current situation in the Russian market – incentives

Annual incentives

- Bonus for 2009 results paid out by 78% companies
- 7% cancelled 2009 bonus payment



Long-term incentives

- Out of about 30% of companies operating a long-term incentive plan 93% made payments as planned
- Only one mentioned introducing additional KPIs to the plan, two – adjusting the size of the award

Challenges – executive remuneration

- General dissatisfaction with incentives
 - Executives perceive them as too complex and out of their control
 - Institutional shareholders believe that there is a tenuous link between pay and performance
 - Rem Cos struggle to design incentives to balance the interests of executives and shareholders
 - General public sees executive pay as *pay regardless of performance* rather than pay for performance
 - Incentives do not help retain talent, just make it more expensive to buy-out executives for a new employer

How to make incentives work?

Why use incentives at all?




Crisis lead us to re-discover certain things

Employers discovered...

- There is a need to appreciate people's efforts even when no substantial results were achieved
- Current KPIs are well-suited for the "growing mode" but fail in the downturn

Employees discovered...

- Incentive payments are provided for outstanding results and additional efforts
- Discretion is not always bad

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- Developing/altering criteria for performance appraisal
 - Using "smart" discretion to determine incentives
 - Making differentiated base pay increases
 - Using non-monetary incentives
 - Communication, communication, communication

Linking pay to performance – possible scenarios

Scenario 1: “best practice model”

- Introducing long-term incentives linked to the value of the company
- Introducing KPI-based annual incentives
- Introducing deferred bonus arrangements
- Formulaic approaches prevailing over discretion
- Fuller disclosure and better use of corporate governance principles

Scenario 2: “a simpler model”

- Shifting focus towards base pay
- Using “smart discretion” for annual incentives
- Developing simple long-term incentives with greater shareholding requirements
- Fuller disclosure and better use of corporate governance principles

Scenario 3: moving to the “best fitting” model

Designing reward system in accordance with specific targets and circumstances the company is facing

Questions and answers

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