ATTITUDES TO REWARD AND REMUNERATION IN TMT COMPANIES

A CHALLENGING LABOUR MARKET

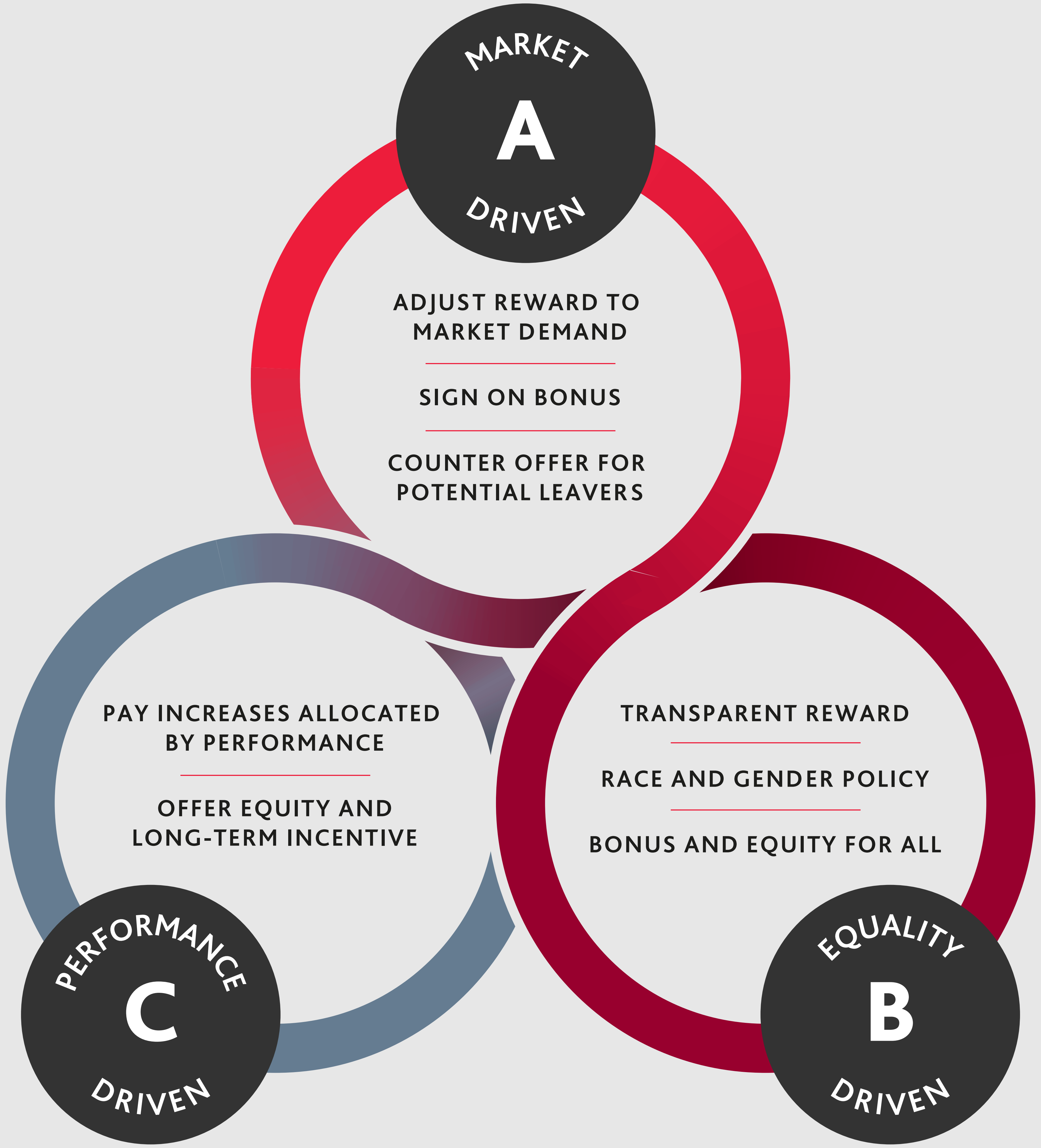
The competition for talent in the TMT sector is fierce and has been so for much of the past decade. TechNation, a trade association, reported over two million UK vacancies in the sector over the past year alone, a picture undoubtedly familiar around the world.

The Covid pandemic and continuing economic uncertainty appears to have had little impact on damping this demand. Salaries are increasing, often by significant amounts.

For the very largest technology businesses that is not a problem. They can attract top talent through their reputation and with salaries that are beyond the reach of many businesses. For the rest, a reward strategy that recognises both individual and corporate performance matched with a comprehensive incentive package and, increasingly, underpinned by equality and transparency is a must.

Reward strategies remain, however, a balancing act; junior roles are typically motivated by cash and are highly mobile. Management can be stickier but will move if salary reviews disappoint. And in hot roles, artificial intelligence and data for example, simple market economics will pull through.

Opportunity to do more with the data



THAT IS WHY IN JUNE 2022 WE COMMISSIONED A STUDY TO EXPLORE HOW TMT BUSINESSES ARE RESPONDING TO THESE CHALLENGES.

Our research turned to senior management teams in listed and privately owned TMT businesses across the globe to explore five key areas:

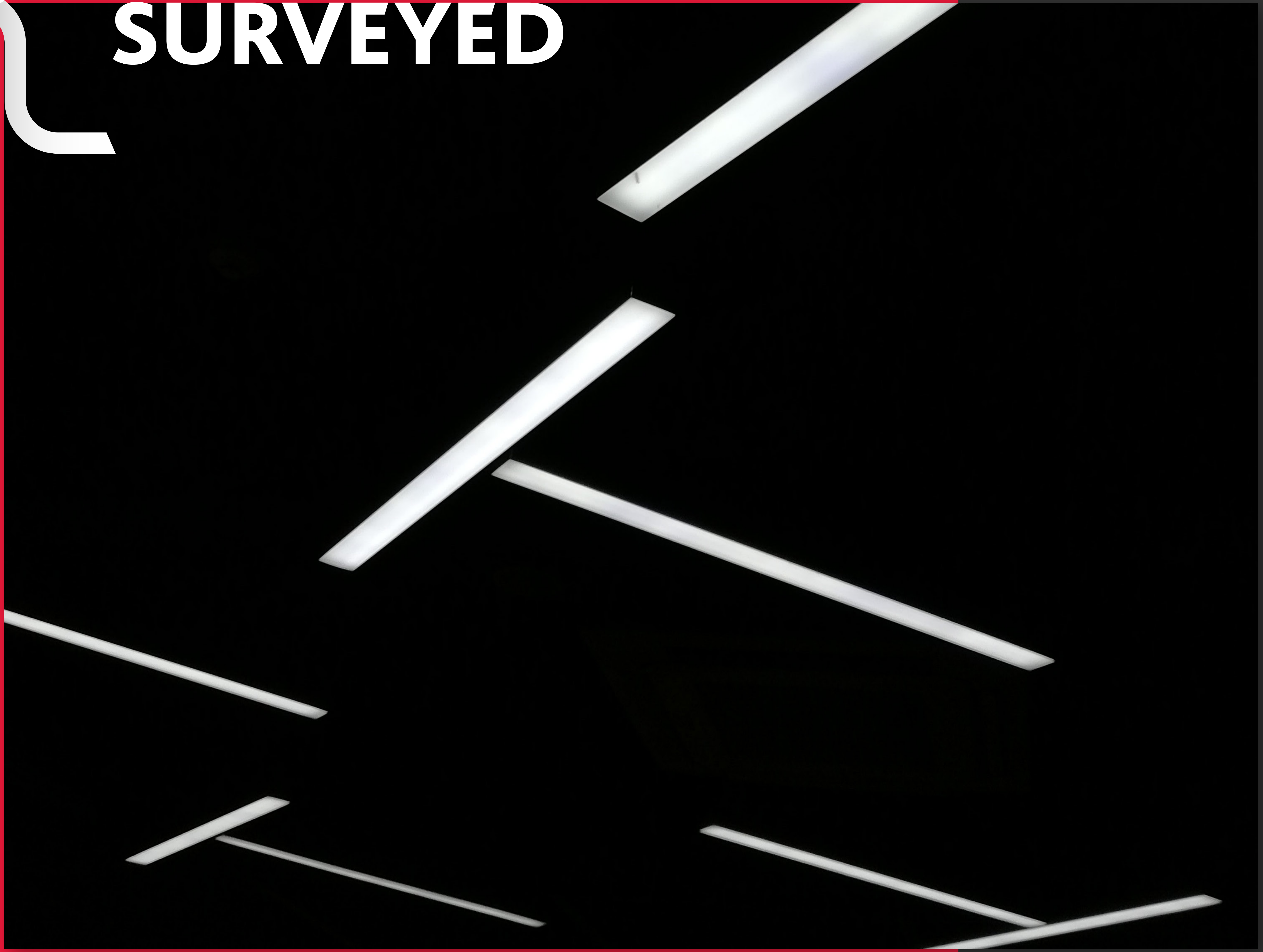
- To better understand the nature of the challenge.
- The impact that is having on pay and bonuses.
- The role equity plays in incentivising employees.
- Talent management strategies.
- And the impact of corporate culture.

As global economies prepare for a period of high inflation and the threat of recession, reward strategies will come under much greater scrutiny. A reward strategy that reflects today's dynamic market is essential.

We hope you find this report interesting and helpful.

We welcome your thoughts and insights and can join the discussion at @bdoglobaltech

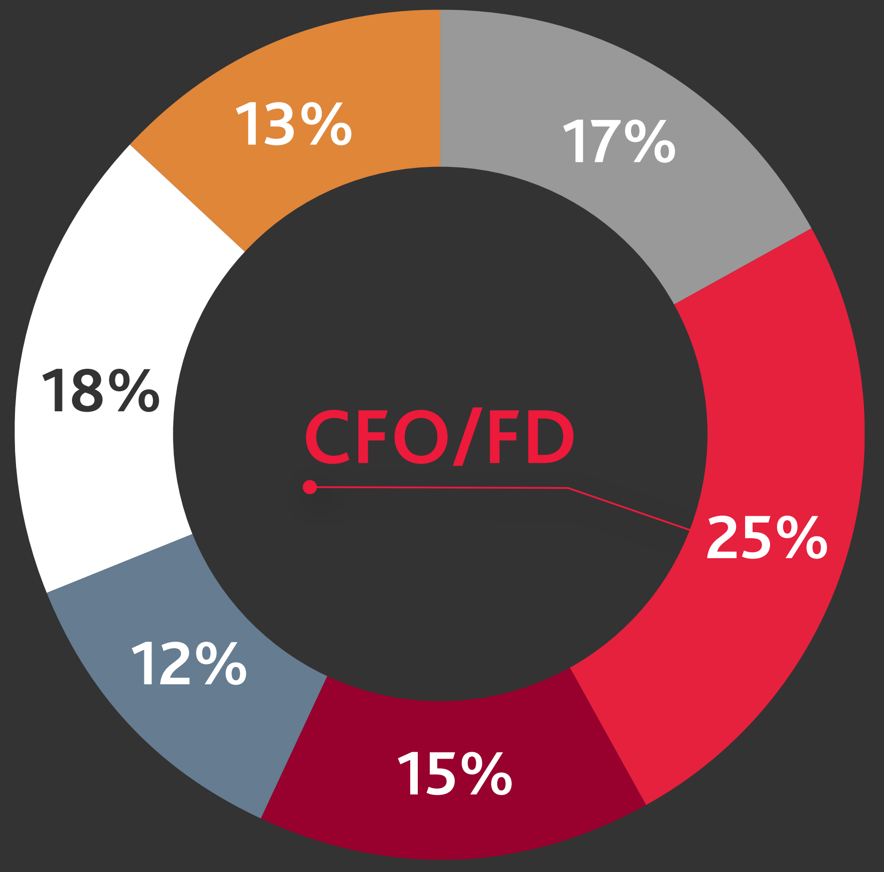
WHO WE SURVEYED



Q1
Role in organisation

Sample size: **60**

- CEO
- CFO/FD
- Director
- Financial Controller / Financial Manager
- Other
- HR Manager

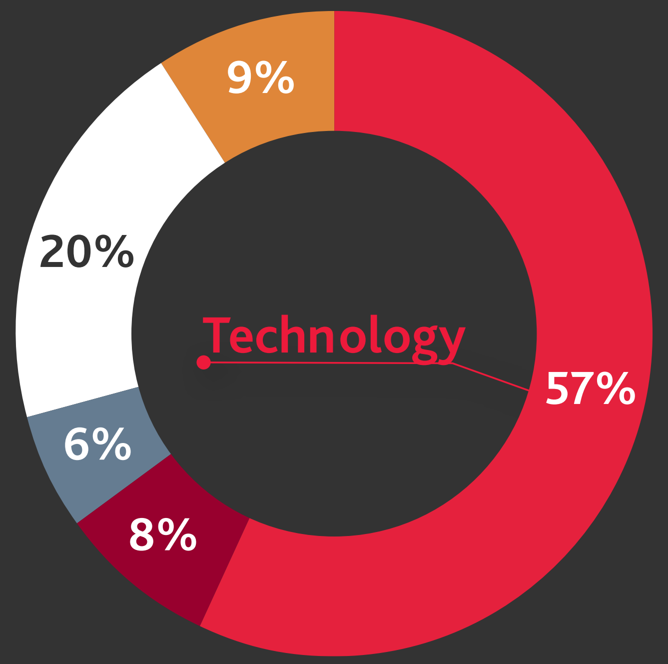


Q2
How long in current role

More than 8 years	25%
2-4 years	22%
1-2 years	18%
4-8 years	18%
Less than 1 year	17%

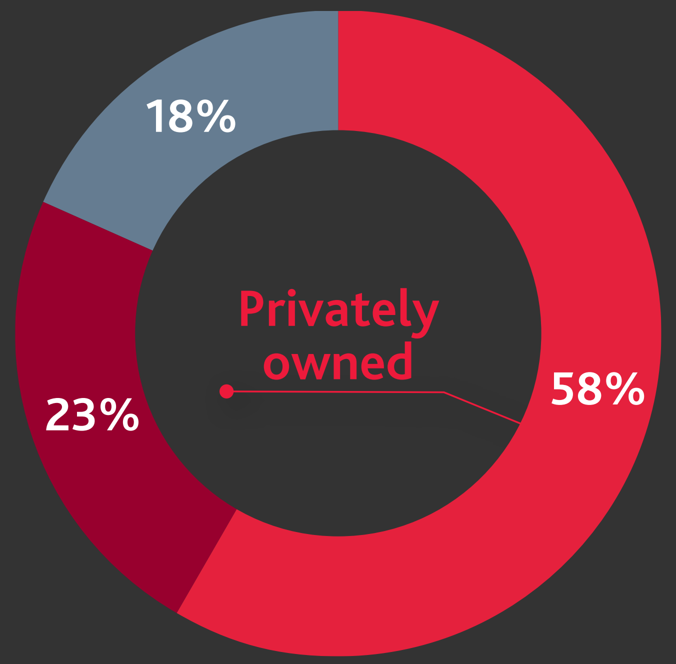
{Q3
Industry sector

- Technology
- Fin-Tech
- Media
- Telecommunivations
- Other



{Q23
Ownership

- Privately owned
- Private equity backed
- Listed



{Q21
Geography

Brazil	25%
United States of America	15%
Netherlands	12%
Argentina	10%
United Kingdom	10%
Ireland	8%
Canada	3%
China	3%
Australia	2%
Germany	2%

{Q23a
Turnover (this was asked if the answer was listed for Q23)

0-50	40%
1,000+	22%
101-500	20%
51-100	12%
500-1,000	7%

01

SHAPING THE MARKET

The labour market is shaped by two dynamic factors. The first is the very real scarcity of skills in growing and critical areas. Individuals with expertise and proven track record in, for example, AI, data and cyber security, command salary premiums. Secondly, most companies can be considered, to some degree, a technology business. A retailer, manufacturer or service provider all compete for the same talent as they need and rely on a wider range of specialist skills.

ADD TO THIS COMPLEX PICTURE A TIGHT TALENT PIPELINE, EMPLOYERS ARE FACING AN EXTENDED AND TURBULENT RECRUITMENT AND RETENTION LANDSCAPE.

{Q4

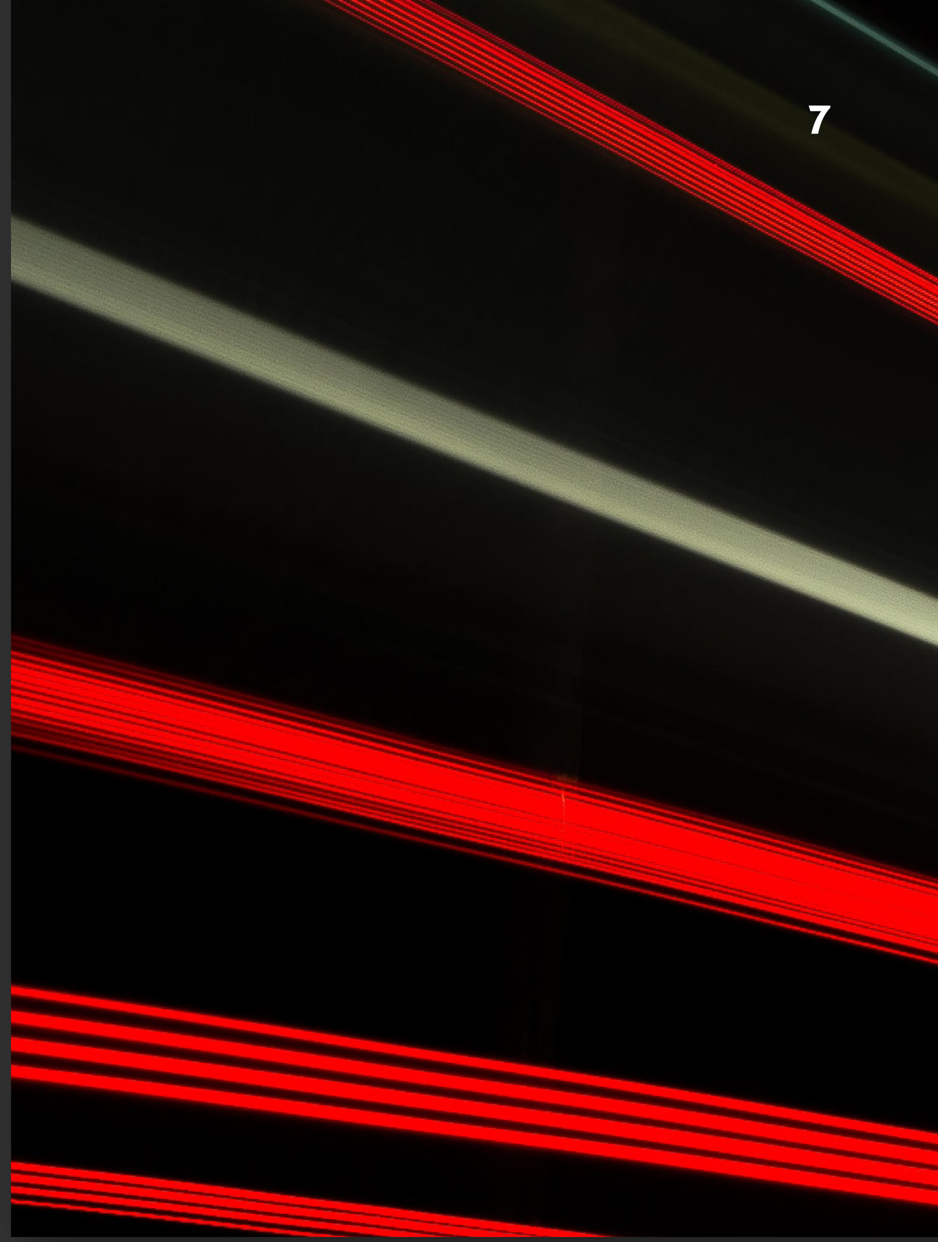
What are the biggest remuneration challenges faced by your organisation?

Difficulty in attracting (and keeping) high quality, scarce, technical skills	72%
Pressure to increase salaries to keep pace with inflationary trends	68%
Competing for global talent	47%
Effectively linking individual performance with reward	33%
Rising pay bill putting pressure on margins	28%
Target setting in a volatile environment	22%
Gaining value from the long-term incentive program	15%
Managing pay equity and pay transparency	15%

Organisations that are not considered traditional tech businesses or with a less-than-exciting brand have little or no choice but to offer great salaries, often above market rate, to attract critical roles.

Pressure valve

The impact of increasing inflation has yet to be felt by businesses in the sector. 2022 salary review rounds will have started when inflation was still, at least by today's standards, relatively low. The pressure valve on salary expectations will be released in 2023 and will prove challenging for many businesses.



{Q6

How will pay increases be allocated this year?

A.
Equally to everyone with a few exceptions (i.e. a "cost of living" award)

32%

C.
It will vary according to how a role is positioned against the market

7%

B.
It will vary according to colleague performance

32%

D.
There will be no pay rises this year

3%

Both B. & C.

27%

Salary increases are likely to be high reflecting inflation but are unlikely to be evenly allocated. We expect employers to reward business-critical roles with higher salary awards rather than smaller awards distributed equally across the business. We also expect salary awards to be accompanied by a wider review of junior and middle management roles and with considerable movement at those levels. We already see early signs of this, with Tesla and Meta both questioning staffing levels. Much of that movement will be voluntary. Employees who believe their role may be at risk or who are unhappy with their salary awards are unlikely to find it difficult to find a new role.

Junior roles have always proven to be fluid, moving easily for larger salaries. Management can, naturally, be a little stickier but will move if 2023 salary reviews disappoint. It is, of course, a very different picture in the most senior roles. Our study shows that just **8%** of those in senior positions moved into a new role in the last six months **{Q7}** and of those that did move, just 20% received a greater salary **{Q8}**. Here, money it seems is rarely the primary motivator.

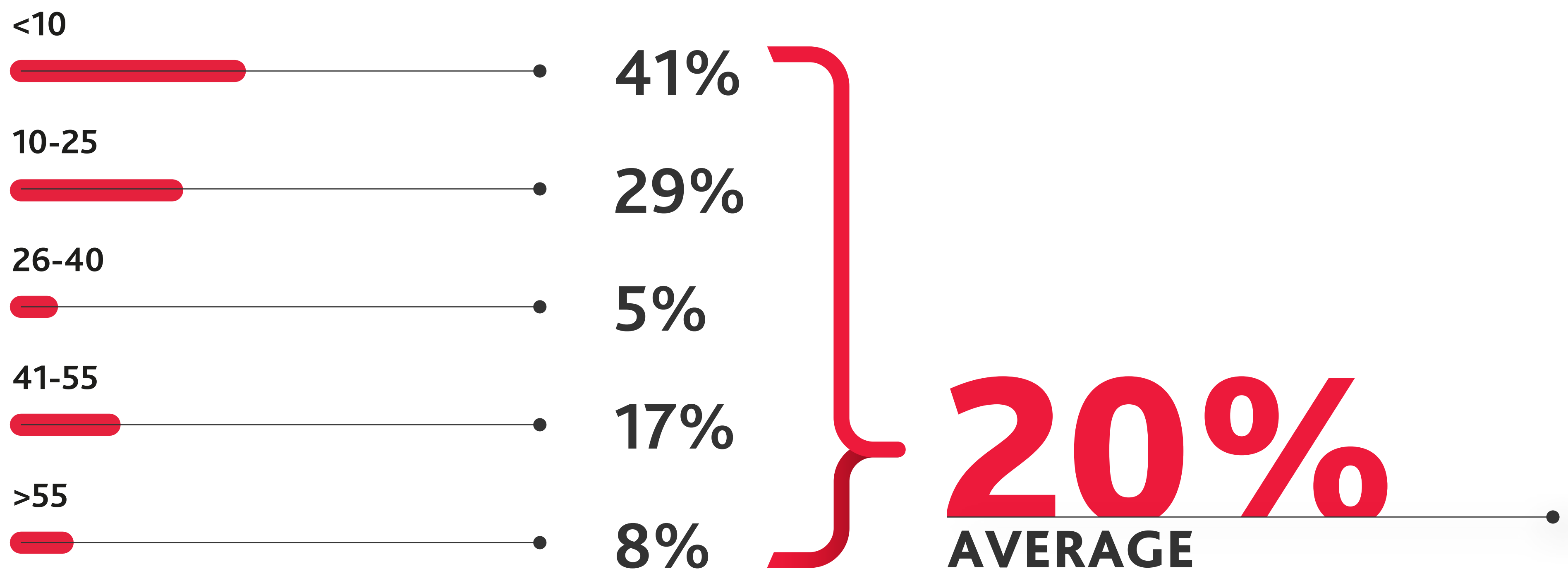
02 PAY AND BONUS

Rising inflation around the world has once again put pay at the forefront of minds. It has created in many corners of society a ‘cost of living crisis’ that will undoubtedly be reflected in salary demands and awards.

OUR SURVEY POINTS TO AN AVERAGE SALARY INCREASE OF OVER 20% ACROSS THE SECTOR, A SIGNIFICANT JUMP FOR MOST BUSINESSES AND ONE THAT PERHAPS HAD NOT BEEN PLANNED.

{Q5

Budgeted salary increase for next financial year



Businesses are cautioned to consider how salary increases are awarded. Those that have historically promised salary increases in line with cost of living are likely to find themselves in a difficult position as inflation soars. If global economies dip into recession, businesses will need to ask whether they can afford cost of living indexed salaries.

Salary award strategies need to consider how a role is positioned in the market alongside the performance of that individual and the organisation. Cost of living may be part of that picture but should not drive decision making.

Performance reward

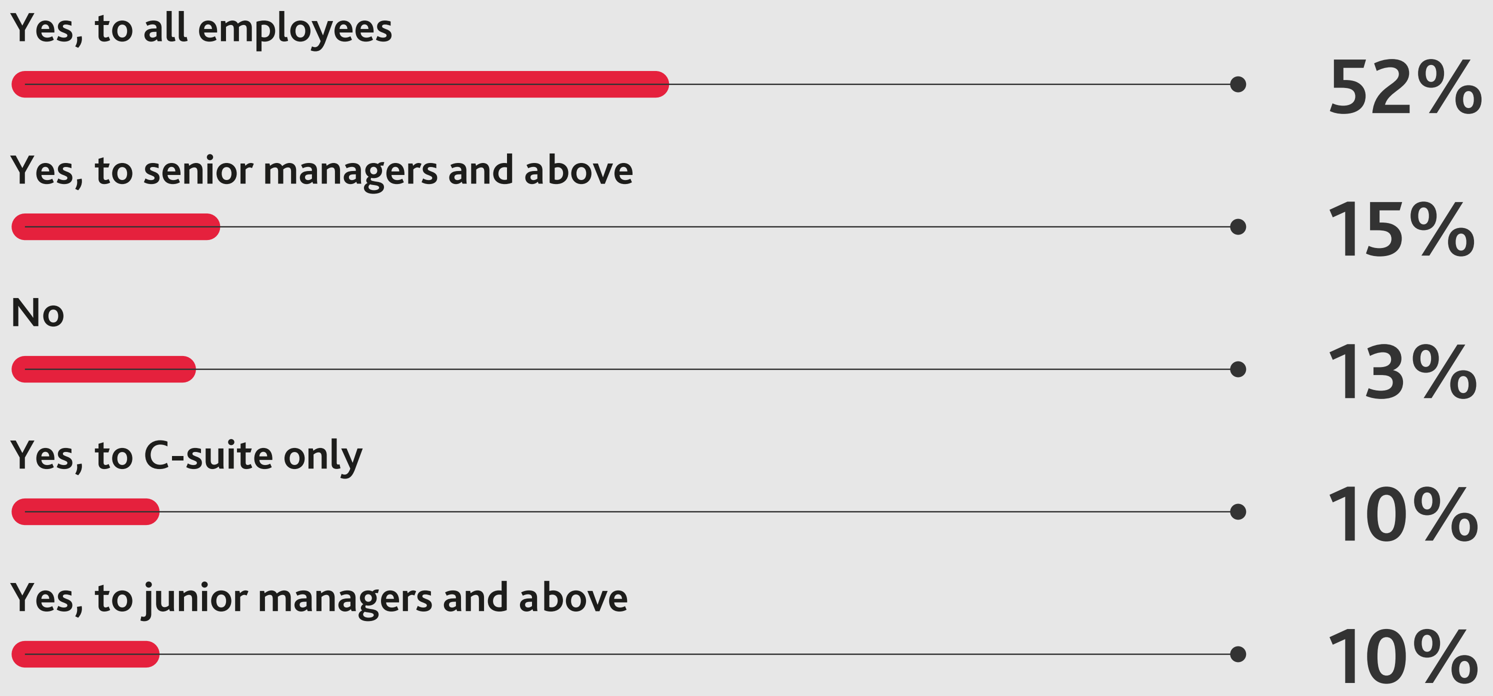
Salary packages with a performance element offer the flexibility businesses need when facing economic uncertainty. That ability to respond quickly should not be under-estimated.

Bonuses form a significant part of a reward strategy, and whilst half of those in our survey offer a bonus or similar incentive to all employees, they become more important in senior roles.

Yet balancing salary and performance elements remain critical; sales teams will need the incentive of a bonus to drive performance, yet for lower-paid roles, more likely to be affected by cost of living crisis, there will be greater value in their salary. It becomes more nuanced at the top of an organisation as to great an emphasis on performance can drive undesirable behaviours.

{Q9

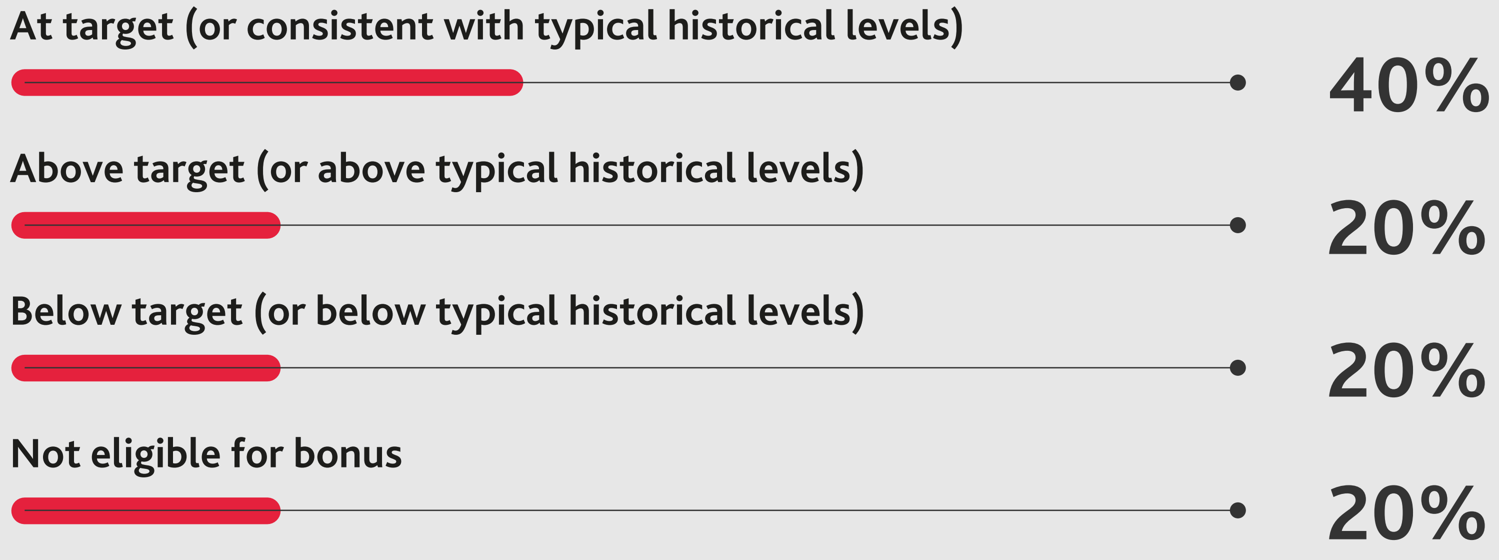
Does your company offer an annual incentive or bonus?



Bonuses have proven resilient to economic conditions, paying out on or above target in most instances – a picture that was largely echoed throughout the Covid pandemic. That is perhaps not surprising given the link between bonuses and healthy corporate performance.

{Q10

Assuming you were personally eligible to receive a bonus, did your bonus pay out?



Our survey asked respondents whether they would be happy to take a **20%** reduction in salary for an increased bonus that is significantly higher than the forgone salary?

Almost half, **49%**, responded with a 'definite no' and just **15%** with a 'definite yes'. The remaining **36%** might 'possibly' consider such an offer. It appears that the security of salary holds primacy over the promise of a bonus. That may well reflect the current economic conditions and a shift in attitude towards greater fairness in pay.

03

EQUITY AND INCENTIVES

Whilst bonuses are commonplace, we were surprised by how few businesses participating in this survey do not offer equity. With just over half **(53%)** offering equity of some form and with over three quarters **(77%)** **{Q13}** of those having recently changed roles coming from companies that offered equity, it begs the question of whether equity has fallen out of favour?

{Q12

Does your company offer a cash-based long-term incentive plan?

Base size: **60**

	GRANT EQUITY	OFFER A CASH-BASED LONG-TERM INCENTIVE PLAN?
No	46.7%	60.0%
Yes, to senior managers and above	18.3%	8.3%
Yes, to all employees	16.7%	11.7%
Yes, to C-suite only	15.0%	16.7%
Yes, to junior managers and above	3.3%	3.3%

It should, of course, be recognised that attitudes towards granting equity vary from country to country, but of perhaps the greatest concern raised by employers is that it can be an expensive programme to operate with questions raised over whether it does indeed encourage staff to stay.

From the perspective of an employee, granting equity depends on a future event, a sale for IPO for example. They often question whether such an event will happen and if so, when? The promise of cash tomorrow appears not to be a strong enough incentive to encourage staff to stay put, particularly when greater salaries are offered.

{Q12a

Why does your company grant equity?
(This was asked if any of the yes options were answered at Q11)

To retain employees	70%
To align employee interests with those of shareholders	60%
Competing for global talent	50%
Effectively linking individual performance with reward	30%
Rising pay bill putting pressure on margins	20%
Target setting in a volatile environment	20%
Gaining value from the long-term incentive program	10%

WAYS TO GIVE EQUITY

There are four ways businesses typically grant equity to their employees. These are:

- Restrictive shares. Issued by the company directly to staff and awarded in line with time spent at a company.
- Performance shares. Broadly the same as restrictive shares but linked to company or individual milestones.
- Share options. Giving employees the right to buy shares at some future point in time at an agreed price.
- Growth shares. Giving employees equity in a business over and above a set financial point.

When considering offering employees equity, businesses should first consider the following five questions:

1. What behaviour are you trying to drive? Building a business for a sale, for example, will require a different approach than building for long-term growth.
2. Industry practice. What is standard practice in your sector?
3. How much are you happy for employees to earn under such a scheme?
4. Are you happy for individuals to own larger share holdings that are linked to performance?
5. The tax position. Share options, if exercised, will leave staff with increased income tax liabilities, whereas growth shares can create capital gains tax liabilities.

Granting equity to employees is not a step a business should take lightly. Advice should always be sought.

04

TALENT MANAGEMENT AND RETENTION

Talent management programmes designed to encourage retention of key staff must now be considered an essential function in all businesses. They will help shape strategies for in-demand and scarce skills, nurture key individuals and teams, and create a culture and strong employer brand. Without a comprehensive talent management and retention strategy, businesses will know they have a problem but will have little idea of how it can be addressed.

IT IS THEREFORE SURPRISING THAT WELL OVER HALF (56%) OF BUSINESSES CONTRIBUTING TO THIS STUDY {Q14} HAVE NOT CONDUCTED A REVIEW OF TALENT IN ORDER TO SHAPE ANY PROGRAMME.

THEY SHOULD.

Without such a review, a business will have little idea whether salary reviews stand them apart from their competitors, whether incentive programmes match market offers, or even if the right people are being rewarded in the right way.

Talent reviews will typically explore attrition rates, length of services, time to hire and recruitment activity in critical spaces. The aim is to arrive at an evidence-based outcome and avoid simply channelling more cash towards any problems.

Keeping hold of talent

A simple and often effective option is a cash-based programme linked to service. Put crudely, the longer an employee remains, the greater the reward. Such a programme can be introduced easily and is cost-effective. It is surprising, therefore, that they are not used by more businesses. This is a missed opportunity.

Talent management appears in many instances to be a reactive tool. Where a business believes a key member of a team may leave, **41%** respond with the offer of an increased salary. If they have already received an offer, **34%** will respond with a counteroffer.

Reactive measures are often expensive, can create animosity amongst colleagues and often only delay a decision to move.

Golden handshake

It is surprising when the labour market is as tight as reported that just over a third **(36%)** have adopted sign-on bonuses. They are one of a range of tools a business can adopt to help get new talent across the line. Businesses will often consider a pay premium or positioning the role into a high pay band to fill mission-critical roles.

{Q12

Does your company offer a cash-based long-term incentive plan?

Yes, to all employees	52%
Yes, to senior managers and above	15%
No	13%
Yes, to C-suite only	10%
Yes, to junior managers and above	10%

{Q15

If the company feels an individual may leave and wants to retain them, will the company reward them more generously?

Yes, to all employees	40%
Yes, to senior managers and above	33%
No	30%
Yes, to C-suite only	20%

05

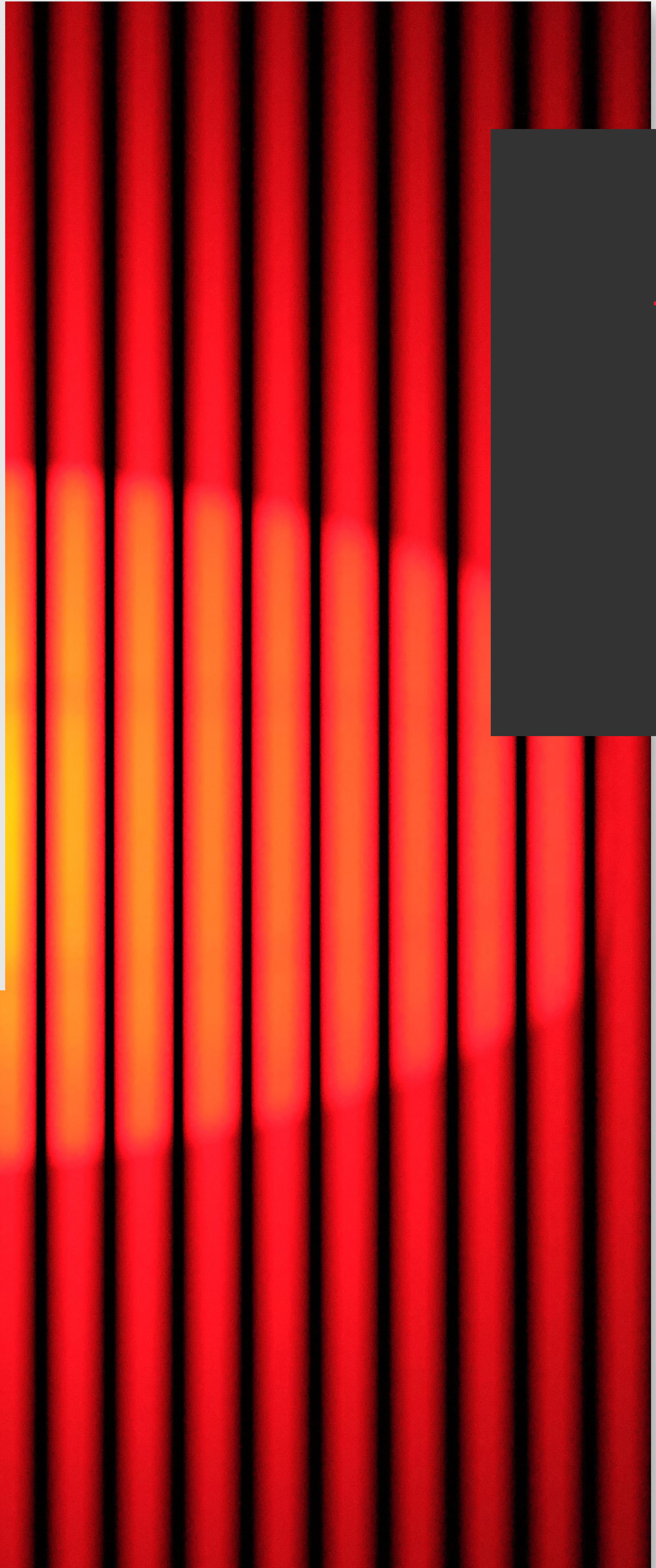
TRANSPARENCY

Reward strategies are changing, pushed both by legislation and pulled by the demands of staff and other stakeholders. For some, salary or working for the largest technology companies is not the primary motivator. They may be drawn to smaller organisations, working on challenging projects or with a close-knit group of like-minded individuals.

CORPORATE CULTURE, PARTICULARLY THOSE THAT ENCOURAGE TRANSPARENCY AND EQUITY IN PAY AND REWARD STRATEGIES IS AN INCREASINGLY POWERFUL MOTIVATOR FOR STAFF. THEY ARE VITAL FOR BUSINESSES THAT CANNOT COMPETE ON SALARY ALONE.

18% of businesses in our study **{Q19}** have a race pay policy, **27% {Q1}** has a gender pay policy, and **30% {Q17}** publish pay bands or similar.

Working patterns have accelerated over the past two years with hybrid working commonplace. It is, for many, part of the culture of a business, yet conversely makes it harder to build and foster a strong corporate culture. Businesses need to work to connect with employees.



{Q20

Do you think you are being fairly paid?

Yes	No	I don't know
58%	20%	22%

We do expect to see greater calls for transparency in pay and reward strategies around the world both from legislators and from organisations themselves that wish to 'do the right thing'.

Whilst legislative measures may not always provide the outcomes hoped for, that does not mean it has failed. It often starts a prolonged public discussion and raises awareness that would otherwise not exist.

Voluntary actions too are important. The value of a strong employer brand is widely recognised and valued, with actions speaking louder than words. Culture is a powerful differentiator in a crowded market and that will translate into competitive advantage.

Greater transparency must, however, be supported by the comprehensive training of managers and team leaders. They need to understand and be able to explain what, for example, salary bands mean, and how staff can move upwards, whilst managing the expectations of those teams.

Are you being paid fairly?

The final question in our study asked respondents whether they believed they are being paid fairly when compared to their peers in similar roles. It has never been easier for employees to understand their worth in terms of salary with the ability to very quickly compare salaries in competitor companies. Employees are also much more comfortable talking about pay. We would hope that the answer would be a 'yes' in most instances.

To connect with your local Reward expert, please contact Nina Chesterton.
E: nina.chesterton@bdo.global

Disclaimer:

This publication has been carefully prepared but written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication. No entity of the BDO network, its partners, employees, and agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Publication name: BDO's 2022 Attitudes to reward and remuneration in TMT companies
Publication category: Thought leadership Produced by: Global TMT industry tea,

Service provision within the international BDO network of independent member firms ('the BDO network') is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with VAT/BTW number BE 0820.820.829, RPR Brussels. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, and the member firms is aseparate legal entity and has no liability for acts or omissions of the other such entities. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, and / or the member firms of the BDO network. BDO is the brand name for the BDO network and for each of the BDO member firms.

www.bdo.global