

Analysis of COVID-19's impact on Intel, Microsoft, and Amazon's Corporal Governance

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Abstract. Since 2019 the breakout of Covid-19, the pandemic has strongly impacted individuals' lives and economic activities. Although there was much research on the influence of Covid-19, fewer researchers studied the relationship between the impact of the pandemic and companies' compensation policies. Therefore, the main goal of this essay is to analyze the influence of Covid-19 on technology companies' compensation policies. We chose three technology companies: Intel, Amazon, and Microsoft, and studied their proxy statement to collect the data on their director compensation and executive compensation from 2019 to 2021. After the comparison, we find that, for Intel, director compensation expenditure rises first in 2019 but drops dramatically in the following two years, with the executive compensation expenditure constantly decreasing from 2019 to 2021; for Microsoft, changes in director compensation are subtle during the pandemic and those in executive compensation are in the same direction with Intel; for Amazon, its expenditure on both director compensation and executive compensation drops rises magnificently from 2020 to 2021, showing a completely different trend from other two companies. This result shows that some technology corporates suffer loss from COVID-19, while some do not. The result also suggests that for those who want to serve as directors and executives in tech companies during the pandemic, a compensation policy with a several-year-long vesting period might be more beneficial and risk averse.

Keywords: Covid-19, corporate governance, director compensation, executive compensation, Stock award, Amazon, Intel, Microsoft.

1. Introduction

Covid-19 is an infectious disease which outbreak world widely in 2019. Since 2019, the pandemic has had tremendous impact to the economy around the globe, not only it had affected countries but also individual's living standards. Due to Covid-19 and government policies, businesses resulted in shutting down and stopped operating. This is impacted by many factors such as the plunge of sales, disruption of supply chain and growing number of people quitting their jobs so retaining employees during this period would have been more costly. To stimulate the economy, many countries overdistributed money which led to inflation. Industries during Covid-19 that have been affected includes both offline companies and online companies in different ways. Hence, a subversion of demand for offline services shifted to online services such as Amazon- a well-known online retailer. However, it is important to analyze company's compensation plan in both online and offline companies because a well thought compensation plan is usually a key factor for success in many organizations. So, by comparing between companies from different industries during Covid, insights about companies' strength and weakness of their compensation plan could be evaluated. This is important for managers to understand and make changes according to unusual circumstances during Covid-19.

So far, research about impacts of COVID-19 has covered fields including stock market (Ashraf, 2020), business modeling (Yahaya et al., 2020), labor market (Mayhew & Anand, 2020), the financial

sector (Baicu et al., 2020), corporate governance (Khatib, 2021) and SMEs (Ratten, 2020) [1][8][5][2][3][6].

Although evaluations of the pandemic impacts on all areas have been undergoing since the outbreak of COVID-19, few studies shed lights on the impacts of the pandemic on corporate characteristics such as corporate governance and corporate performance. One exception is a paper written by Shen et al. in 2020, which concluded that the performance of listed companies in China is negatively affected by COVID-19 [7]. Using the data of listed Chinese companies, they researched the impact of the pandemic on corporate performance. The research result showed that the pandemic has a negative impact on firm performance [9]. Moreover, it is more severe when a firm's investment scale or sales revenue is smaller. These findings are among the earliest empirical evidence of the correlation between COVID-19 and firm performance. Aside from this, a large number of the existing studies have centered on the stock performance in evaluating the pandemic impact on corporate performance. For example, Liu et al. (2020) investigated the influences of operating flexibility on firm's stock performance during the pandemic [4]. However, there has not been any research that evaluates the impact of COVID-19 on corporate governance by comparing financial data before, during and after the pandemic. Also, little research was done in the area of leading Internet corporates like Alphabet and Microsoft. Discussing these questions is meaningful in analyzing the companies' strategy under the COVID pandemic and the economic recession caused by it. This study analyzes the impact between COVID and compensation plans which may contribute to companies' experience.

This essay is going to analysis influences of COVID 19 on compensation policies by comparing compensations changing among three different companies which are Intel, Amazon, and Microsoft, trying to examine the hot issue of the impact of COVID 19 on incentive compensations with objective data. In this study, the general compensations will be refined into director compensations and executive compensations. In addition, the year 2020, as COVID 19 outbreak [10], will be used as the cut-off point to analysis differences in data before and after the epidemic outbreak. And the analysis method is a combination of single analysis and group analysis. In detail, at first, the study will analysis three companies' compensations policies before COVID 19 and after COVID 19 respectively and comparing inter changing of three companies. Secondly, the study will focus on a short-term data of 2020, observe and analysis the special figures in this year and compare the data among three companies by classifying three firms into different industries through recognizing these firms are mainly online or mainly offline. Based on the classification, the study will find data change in common within same industries also different industries and contrast data changing diversity between different industries. Finally, this essay will compare the performance among three firms by looking at share price change around 2020 and conclude the influence of COVID 19 on incentive compensations.

2. Data and Method

2.1 Data

To gather the data we need for analysis, we fetched the proxy statements of three companies with the date between 2019 and 2022 from US SEC official site: <https://www.sec.gov/>. In each proxy statement, we look into the Director Compensation and Executive Compensation sections and address data mainly from these two sections.

All the three companies we collect data from are leading Internet corporations, and they share the common point that all of them are affected by COVID-19 to some extent.

The first firm we choose is Intel. Intel Corporation (INTC on Nasdaq) is an American multinational corporation and technology company headquartered in Santa Clara, California. It is the world's largest semiconductor chip manufacturer by revenue, and is the developer of the x86 series of microprocessors, the processors found in most personal computers (PCs). Incorporated in Delaware, Intel ranked No. 45 in the 2020 Fortune 500 list of the largest United States corporations by total revenue for nearly a decade, from 2007 to 2016 fiscal years [11].

The second company we chose Microsoft Corporation, a famous multinational technology company was founded by Bill Gates and Paul Allen in 1975 to develop Altair 8800 and sell BASIC interpreters. Now Microsoft had already become the largest computer software provider and kept the leader position in PC software development around the world. Mainly focusing on developing and producing computer software services with its best-known software products the Microsoft Windows operating systems and the Microsoft Office suite [13].

The third company had been chosen is Amazon.com, Inc, a multinational technology company that was founded by Jeff Bezos as an online marketplace for books initially. Amazon is one of the companies that earliest started to operate e-commerce on the Internet and had become the world's largest online retailer and the world's second-largest Internet company, as it also entered into consumer electronics with Kindle e-book reader [12].

2.2 Method

The enterprise comparison method refers to the analysis of the operation and financial data of listed companies in the same or different industries as the evaluated enterprises in the capital market. In this essay we use comparison method in both individual and group analysis to form a profound understanding in the impact of COVID 19 on incentive compensations. In the individual analysis, by comparing three companies' compensations policies before COVID 19 and after COVID 19 respectively to find internal changing of three companies. Comparison method is a clear way to show the changes as time passing. For example, creating a histogram to indicate the cash compensation change for a single firm, which can evidently demonstrate differences and changing trend in the cash compensation amounts before COVID 19 and after COVID 19.

The purpose of carrying out group analysis is to examine the degree of difference or similarities the sets of data share for Amazon, Intel, and Microsoft. In other word, it is to find out if there are any correlations. First, we would examine the correlation between cash compensation paid to directors and executives for Intel and Microsoft using Pearson correlation coefficient before and after covid. Once we obtained the value for Pearson correlation coefficient before and after covid, we determine if intel and Microsoft's are having similar cash compensation plan or not. To compare the stock awards for Amazon, Intel and Microsoft. We will then work out the mean of each company's stock compensation before and after covid to see which company made the biggest adjustment.

3. Results and Discussion

In this project, to assess the impact of Covid 19 on firm's corporate governance, we evaluate both the director compensation and executive compensation of the three firms.

To evaluate the compensation policies, we extract data of compensations policies for directors and executives of three companies which are Intel, Microsoft and Amazon from their proxy statements of 2019, 2020 and 2021. We mainly focus on two sections: Director Compensation and Executive Compensation. For each section, we divide into several subsections and study their changes separately. These subsections include cash compensation, equity awards, other compensation and stock ownership guidelines. Firstly, we look into the three firms individually by finding out their changes in these subsections across time. Then, we perform a group analysis by comparing these changes across firms and conclude their differences and possible outcomes of these differences.

3.1 Intel

1) Director Compensation

Before the pandemic outbreak, Intel adjusted its directors' equity awards and stock ownership guidelines to better align directors' compensation with the firm's overall performance. Since it has no correlation with COVID-19, these adjustments will not be discussed in the essay. In the fiscal year 2020, the only obvious change in Intel's director compensation is that it adds an additional fee of \$175000 for an independent chairman. Although COVID-19 has begun its outbreak across the world

in 2020, Intel did not seem to react immediately to it, for the cause that the impact of the pandemic is not significant enough. As time goes by and the pandemic becomes more and more severe, Intel makes its adjustment to its director pay plan in 2021. It eliminates fee for an independent chairman; it eliminates the chair fees for the Executive Committee upon the elimination of it; it integrates the chair fee and member fee for the Audit Committee and Finance Committee upon the integration of these two committees. As though Intel adds a chair fee of \$20000 for the newly created M&A Committee and authorized the use of private chartered airfare for all Intel-related travel by directors in 2021, it strives to control the cost of director compensation. As for changes in other subsections from 2019 to 2021, no changes took place in equity awards, other compensation or stock ownership guidelines in Intel's director pay plan. In order to show the changes across time more clearly, we make a histogram about Intel's actual cost in director compensation from 2019 to 2021:

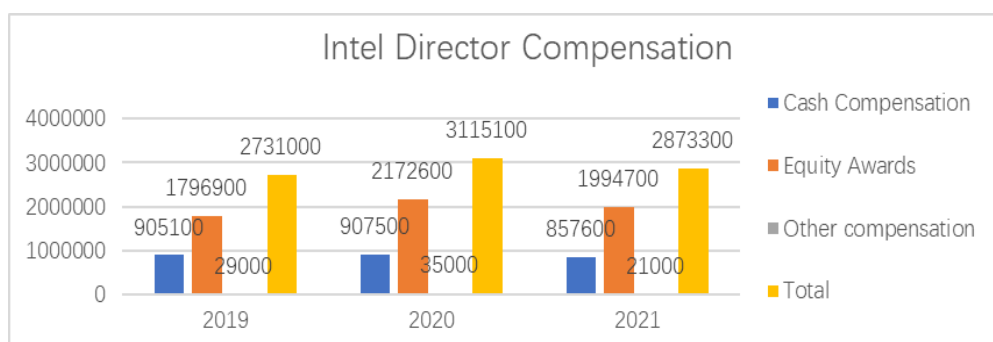


Figure 1. intel director compensation

From the histogram we can see that although changes in director pay plan from 2019 to 2021 only take place in cash compensation and travel expenses, the actual amount of total cash compensation, equity awards and other compensation for directors rise from 2019 to 2020 and decline from 2020 to 2021, revealing the fact that Intel has to constrain its employment cost in face of the pandemic.

2) Executive Compensation

As for the Executive Compensation, from 2019 to 2020, changes in Intel's Executive Compensation program mainly take place in the subsection of cash compensations. It updates the bonus amount of its annual performance bonus plan by changing the maximum payout from \$10000000 to 300% of the target incentive bonus opportunity set by the Compensation Committee. It also changes the performance metrics of its annual performance bonus plan from business-group specific metrics to three equally weighted metrics: year-over-year net income growth (33%), relative net income growth (33%), and "One Intel" operation goals. From 2020 to 2021, however, it only changes its financial metrics of the annual cash bonus plan, enhancing the rigor and variability of bonus payouts slightly. In 2022, Intel makes adjustments to both cash compensation and equity awards. For cash compensation, Intel changes the financial metrics again and adds a new metrics called "Individual objectives and key results" into the annual cash bonus plan. For equity awards, Intel redesigns the weighting of the two financial metrics of its long-term incentive program to reflect its new go-forward strategy. In general, COVID-19 does not seem to affect Intel's executive compensation much since it only enhances the variability of executives' cash payment. We also make a histogram of the listed executives' actual compensations from 2019 to 2021 to show the changes in Intel's executive compensation:

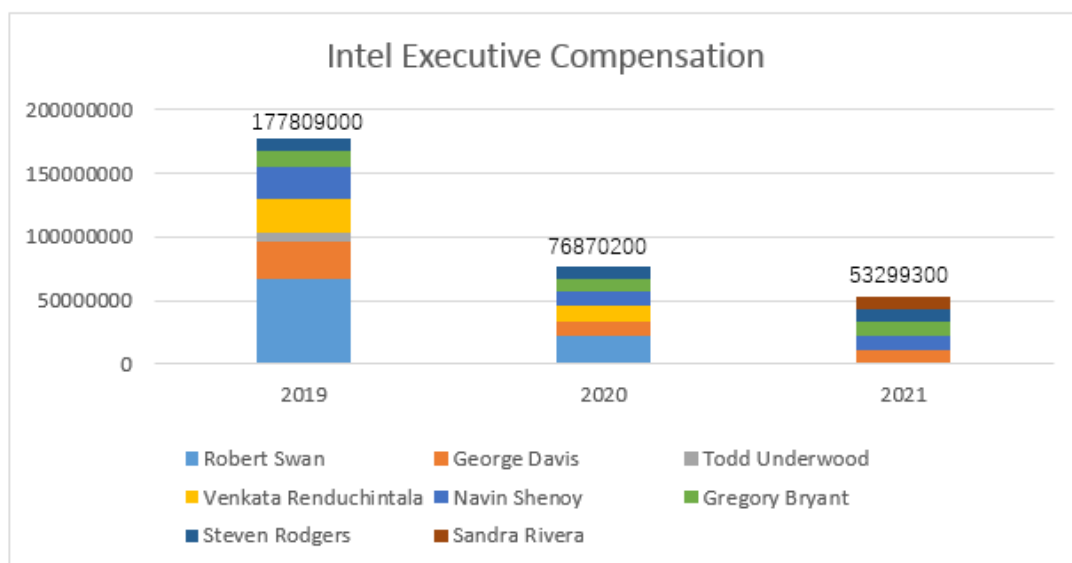


Figure .2. Intel Executive Compensation

From this histogram, however, we can clearly see that the executive compensation declines year by year from 2019 to 2021. This trend is mostly due to the impact of COVID-19.

3.2 Microsoft' Compensation

In Fiscal Year 2019, Microsoft had decreased its independent board Chair retainer by decreasing the stock award from \$550,000 to \$412,000. Although the first case of COVID-19 happened in America in January 2020, this change of retainer more likely was a normal adjustment. Two months later, the United States began to shut down to prevent the spread of COVID-19. Under this fiscal year, Microsoft's proxy statements show that the independent board Chair retainer decreased again by modifying stock award from \$412,000 to \$360,000. However, the next year 2021, the compensation to the board chair of Microsoft kept the same level. Furthermore, different from the board chair retainer, the regular retainer for directors did not change from 2019 to 2021.

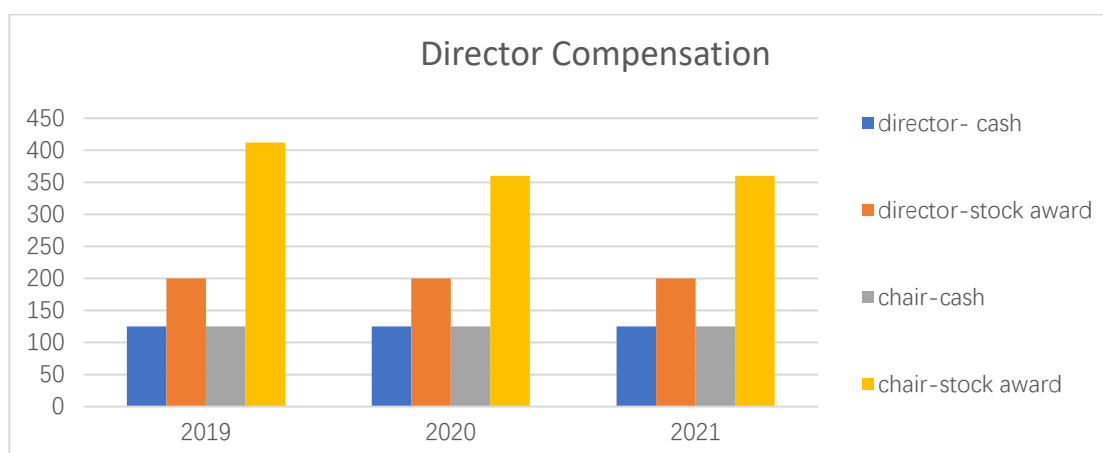


Figure.3. Microsoft's Director Compensation

Microsoft's record in 2019 performance ended due to the COVID pandemic and economic crisis. Compare with 2019 which Microsoft had increased several named executives' base salaries, no executive's base salaries got increased in 2020 and 2021. However, although with the challenges of COVID-19, Microsoft mentioned in the proxy statement that it achieved greater financial performance in 2020 compared to 2019. Under this condition, the stock award to their executives kept the same value. In the next year, Microsoft achieved greater target performance which reflects in their

executives' stock award. Looking at the proxy statement of Microsoft between 2019 to 2021, Microsoft was not influenced a lot by COVID. They even catch the chance to expand the business and reflects on their named executives' salaries which increased. The other part of compensation such as post-employment compensation and strong clawback policy kept the same.

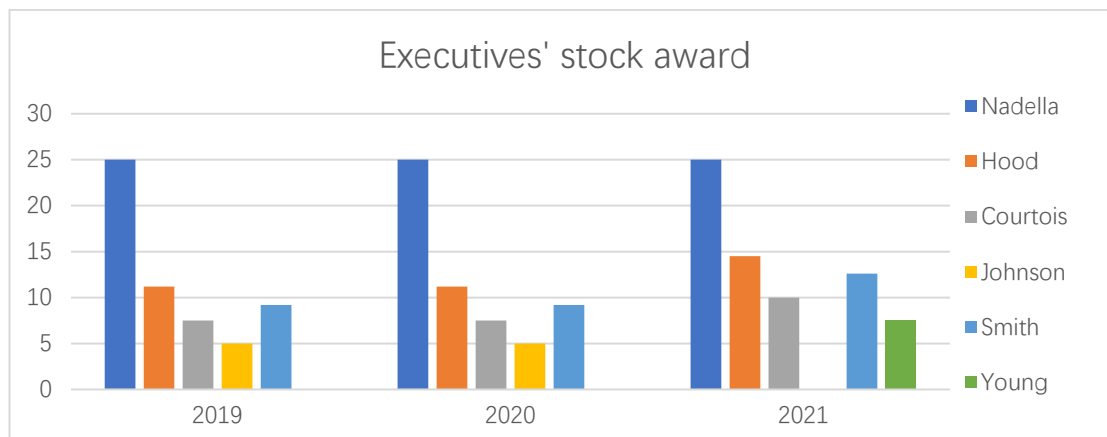


Figure.4. Microsoft's Executives' stock award

3.3 Amazon's Compensation

Amazon's directors do not receive any cash retainer instead they are offered stock awards every three years. Under the table Amazon provided, seven of ten regular directors received the stock award in 2019, and the average amount of directors' compensation is around \$312,000. In 2020, three directors received the stock award with an average amount of \$311,000 one year. In 2021, the average amount of annual salaries for regular directors is around \$326,000. The first case of COVID-19 was found in the United States in January 2020, and soon the pandemic of COVID has caused an economic crisis in the United States. At this point, COVID did not make a significant negative influence on Amazon's directors' compensation.

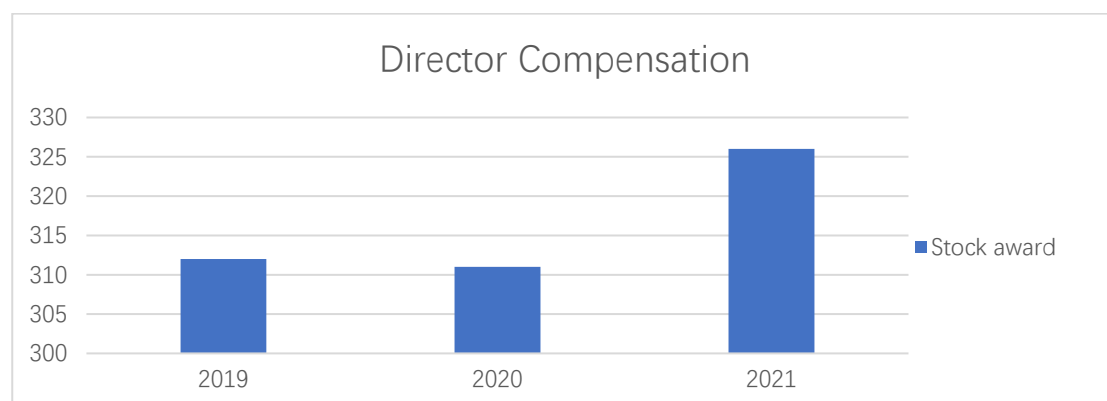


Figure.5. Amazon's Director Compensation

For executives' compensation, according to the proxy statement, Amazon offers a minimum level of cash compensation, and the primary component is stock -award compensation. From 2019 to 2021, the base salary for executive almost has no change and range from \$81,840 to \$175,000. Amazon also mentioned that periodically a smaller number of shares do not necessarily reflect lower total compensation since they more focus on total compensation over time. In 2019, Amazon only grant any stock award to their executives while in 2020 four executives received the stock award with a total of 20 million dollars. In the next year 2021, Amazon granted Chief Executive Officer 200 million dollars as his compensation for the coming years, as the other two executives received 130 million dollars for the coming years. Furthermore, looking at the stock vest table in the proxy statement, the value of stock vested has small differences as Amazon had mentioned that their stock price had

increased approximately annual growth rate of 31% in 2020 and 33% in 2021. It would be inferred the COVID pandemic did not bring a significant negative influence to Amazon's compensation. All other compensation such as 401(k) plan and claw back policy kept the same.

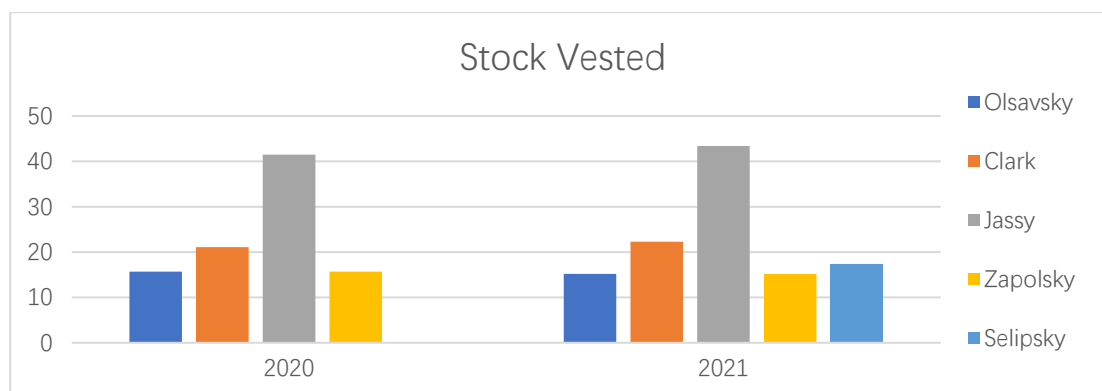


Figure.6. Amazon's Stock Vested

3.4 Comparison

Following descriptions of each firm, the essay will compare three firms in pairs. At first, we will compare the changes of each firm in aspects of both director compensations and executive compensations compensation policies. Amazon and Microsoft, Microsoft and Intel, Amazon and Intel respectively. Sequentially, we will focus on the effect of COVID-19 on compensation policy by observing the changes between the special period of 2020.

Microsoft and Intel

Comparing the total Director Compensation of Intel and Microsoft, The Compensation policy of Intel is to go up first from 2019 and then go down from 2020, While Microsoft's compensation is down first in 2019 and then from 2020 to 2021 is a constant trend. When we pay attention to the epidemic period, we can find that the compensation of both companies has not increased, and even the Internet has a trend of decline.

Executive compensations, on the other hand, declined at Both Intel and Microsoft from 2019 to 2021, especially after the outbreak in 2020.

Both Intel and Microsoft operate mainly online, but the physical stores of Intel are relatively more, which is why we can observe that after the epidemic, starting from 2020, director compensations or Executive compensations, As can be seen from the diagrams above, the compensation of Intel is reduced more because the epidemic hit the physical industry more than the online office industry.

Amazon and Microsoft

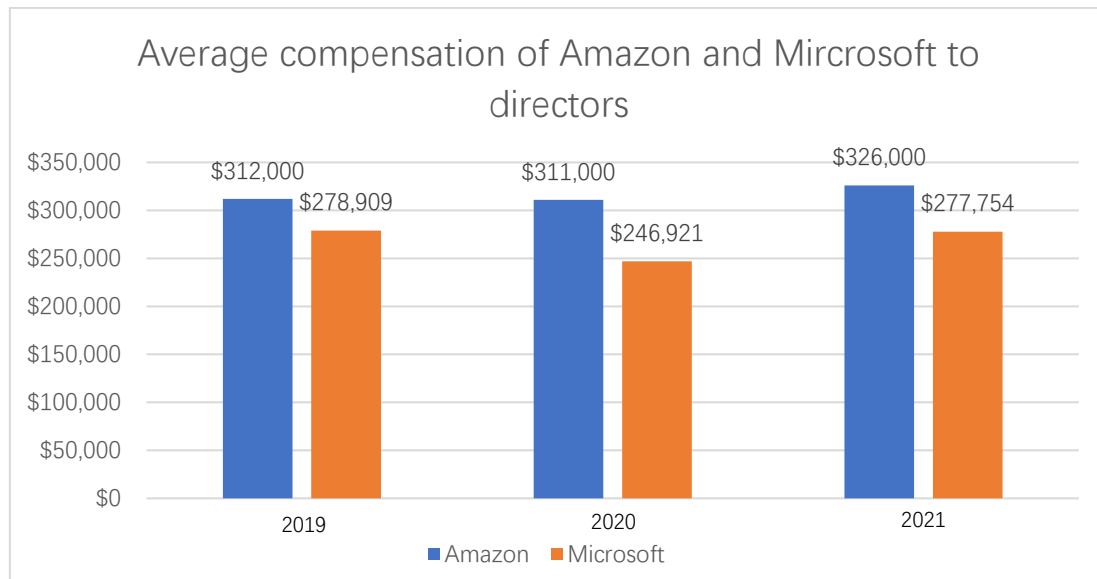


Figure.7. Amazon vs Microsoft

After examining both the compensation of Amazon and Microsoft from 2019 to 2021, it is noticeable that the change in compensation plan to directors and executives varied between these two companies. Amazon, as they rely mainly on restricted stock unit, in fact for non-employee directors, they are solely paid stock awards. As these stock unit vests over a 3-year period, Covid outbreak will not have a massive impact on the stock award they are going to receive. However, the amount of restricted stock unit that would be granted after covid can have a difference depending on the effect covid have on Amazon. As Amazon has a big sector in the ecommerce industry, Amazon had been favorably affected during Covid, which can be proved in the increase of average director compensation from 2019 to 2021 in the description part above. On the contrary, Microsoft's compensation for directors like independent board chair had been continuously plunging from 2019 to 2021 in terms of the stock award.

Compensation plan for executives in Amazon is slightly different to the directors, they are predominately offered restricted stock unit just like the directors, but in addition they are offered a base salary, ranging from \$81840 to \$175000 and perquisition including vacation, medical, relocation, and other perquisites is usually offered. Amazon focus on total compensation over time, so periodically a smaller quantity of shares does not reflect a lower compensation. Amazon's compensation for executives were not affected negatively. Similarly, the stock award and other compensation such as post-employment and strong clapback policy for executives in Microsoft remained the same after covid. However, the base salary fluctuated, from 2019-2020, there was rise, and from 2020 to 2021, it stayed the same. Hence, we can conclude that Microsoft and Amazon are not hugely affected by covid.

Amazon and Intel

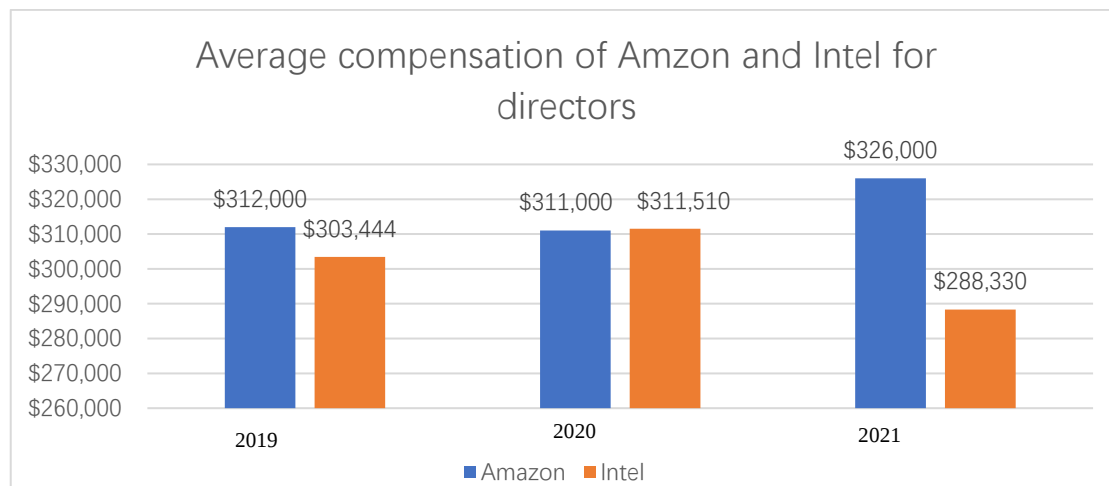


Figure.8. Amazon vs Intel

Like Amazon, intel did not show an obvious change in director compensation other than adding an additional fee of \$175000 for an independent chairman at the beginning of covid. Intel also had no changes in the equity awards. However, as covid begin to have a larger impact on intel, some adjustment in director compensation were proceeded. For example, in 2021 it eliminated fee for independent chairman, chair fee for the executive committee and finance committee as mentioned above. It is done to control the expense used for director as Intel once went into recession where their stock price dropped massively. This is shown by the huge dip of compensation to director from 2020 to 2021. For the executives of Intel, they've made changes in the ways they compensate their executives which is described clearly in the description. Therefore, Covid-19 did not have a big impact as it solely enhances the variability on the executive's cash compensation.

4. Conclusions

Our research, description, and comparison show that the compensation to directors and executives in Amazon, Intel and Microsoft did not have a major difference in their compensation plan before and after the Covid pandemic. As these companies were affected to different degrees by covid, they differed slightly in terms of their compensation plan. For Microsoft and intel, despite director compensation stayed the, their executive compensation both decreased. Covid has had larger impacts on physical industry. Amazon, Intel and Microsoft predominately serve via online and plays a large role in the ecommerce sector, they were not impacted hugely compared to other industries. However, intel has relatively more regarding to physical store, and this is why they adjusted their compensation for executives more obviously. For Amazon and Microsoft, using histogram to compare, director and executive plan did not change much. This shows that Amazon could not make changes to the amount of equity due to contract, and thus stock award vested before and after covid remained similar. The similarity between compensation plan for Amazon and intel is, stock award is a huge factor of their payments, in fact directors in Amazon receives 100 percent on stock award. Executive of intel had their compensation decreased mainly due to the decline in stock price, so the value of stock decline in their grant date.

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