Advances in Economics, Business and Management Research, volume 215
Proceedings of the 2022 7th International Conference on Social Sciences and Economic Development (ICSSED 2022)

How COVID19 Affected the Compensation Plan of Tesla, Lyft, and DoorDash and Incentivized Different Industries

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ABSTRACT
The balance of a wage decrease as a result of world economic regression and incentives to promote worker's productivity has become a major problem most companies are faced with, especially during the epidemic seeping through 2020. This essay starts with analyzing the compensation plan of three companies in different industries, including Tesla representing the green energy car industry, Lyft representing online taxi service, and DoorDash representing takeaway company, to study the different ways of encouraging employees and directors in different industries. Among all three companies, a noticeable shift of compensation component from cash retainer to stock or option awards represents one of the incentives Tesla, Lyft, and DoorDash are implementing. However, the unstable or lower on average compensation may lead to other negative consequences such as cooperate conflicts or competitions.

Keywords: *COVID-19, Car Industry, Director Compensation, Incentives, United States.*

1.INTRODUCTION

The global pandemic of COVID-19 through 2020 affects the global economic system seriously, and almost all the industries and sectors are beaten hard, and the regular order of work and study all disrupted worldwide. Not only the medical and biological fields are overwhelmed, but all other industries also face serious impact. With the close of the city, firms and factories all affected. When the demand for traveling decreased sharply, airlines and other transportation companies were affected at the very beginning. And this not only led to their tremendous loss but also pulled the price of crude oil very low. Moreover, when people all stayed at home, the demand for shopping including new clothing or luxury decreased, which made those companies loss. However, there are rise in demand in other areas including household products and protective products, which make some industries earn enormous benefits during this special time.

When many industries face loss of revenue, the best way to reduce loss is by reducing the compensation to its employees. The balance of a wage decreases as a result of world economic regression and incentives to promote worker's productivity has become a major problem most companies are faced with. Different industries will have different working patterns, and thus they need to have diverse compensation plans to not only minimize the loss of company but also stimulate the productivity of employees during this special time. But it is clear that adjustments to director compensation are consistent with firms targeting a market level of compensation, and firms that deviate from their market wage symmetrically adjust compensation back toward the market level [3]. However, whether these compensation changes would lead to positive or negative consequences remain controversial. Evidence from China showed that firms paying higher remunerations to independent directors tend to recover quicker and firms located in more pandemic-affected regions experienced a more pronounced operating recovery if they received more independent directors' opinions [4]. On the other hand, outside directors may perform worse and contribute little to the company during a financial crisis even if the compensation changes positively because they are less connected with current CEOs [5].

This essay analyzes the director compensation plan of three companies in different industries. The director compensation is different from the CEO compensation or the Executive compensation in ways that the director compensation is designed for a group of non-employed individuals who are board members of the company. These non-employee directors act in the interest of the company and monitor the executives, yet hardly ever engage in daily management. More recently, in the wake of the 2008 financial crisis, the role of the board has been under close scrutiny, and directors have faced greater challenges than ever before which involves a far larger time commitment than it did two decades ago, and it carries greater risks [7]. And this leads to more analysis on the changes of director compensation, which is closely related to promoting their work performance. The compensation policy for non-employee directors usually includes cash retainer and equity awards. Any disparities in compensation may occur between individuals for a particular company in a given year are often as a result of serving on separate committees, acting as different roles. For example, the chair of a committee and lead director usually get higher payments overall. Differences may also exist in the committee fees and meeting fees. For DooDash, besides the basic cash retainer, chairperson of the board of directors gets additional $40,000; as a lead independent director, he/she gets additional $20,000; $15,000 per year for service as chair of our audit committee; $10,000 per year for service as chair of our leadership development, inclusion, and compensation committee; and $5,000 per year for service as chair of our nominating and corporate governance committee.

Table 1. Tesla director compensation in 2019 ($)

Name	Cash	Option awards	Other	total
Robyn Denholm	191257	2524440	27982	2743679
Ira Ehrenpreis	37500	-	-	37500
Lawrence Ellison	20000	5848976	-	5868976
Antonio Gracias	25240	-	-	25240
Stephen Jurvetson	19265	1184605	-	1203870
James Murdoch	32500	-	-	32500

Three companies will be analyzed: Tesla, Lyft, and DoorDash. Tesla representing the green energy car industry, Lyft representing online taxi service, and DoorDash representing takeaway service, to study the different ways of encouraging employees and directors in different industries. All three companies have the commonality of “car”, while Tesla, which will experience most impact of the pandemic on the car manufacturing industry, the other two companies including Lyft and DoorDash are facing different situations. That Lyft is affected by the demand and supply of the online taxi service, which is affected seriously since people all stay at home and the drivers will be unwilling to work at such risk. However, DoorDash, as a takeaway services company, benefits from the pandemic when people all stay at home and will order food more frequently.

By researching and discussing the changes of compensation over the pandemic in accordance with the companies’ performances, we discovered that even those three companies have the commonality of cars in the business, the compensation plan still varies to encourage the director and employee. Especially during the pandemic within the sample period, they experienced very different effects, losing, or benefiting from it. Besides the face value of the compensation, the structure of the compensation also reflects firms' diverse methods of stimulating the productivity and efficiency of both employee and non-employee directors.

2.DATA AND METHOD

Tesla is an electric vehicle and clean energy company in the United States, founded in 2003. Its foundation reflects the automotive industry's vision of the near future and the next step in the search for solutions in the face of severe oil shortage. As a leading industry player in the 21st century, Tesla has maintained a phenomenal rate of annual revenue growth and expansion. A noticeable increase in the annual revenue for 2020 did not lead to an increase in the compensation for workers. Even in the year of 2020, the option awards decreased to $0.

Table 2. Tesla annual revenue and increase rate from 2018 to 2019

Year	Annual Revenue	Increase From Last Year
2020	$31.536 billion	28.31%
2019	$24.578 billion	14.52%
2018	$21.461 billion	82.51%

Lyft is an American company that runs business of car renting, taxi service, and food delivery. Even in the United States, a country with a very high level of vehicle ownership per capita, Lyft has carved out a position that it cannot surpass in the car market. Lyft remained a

steady increase in annual revenue since its foundation in 2013. However, the hit of Covid-19 has led to a decrease in annual revenue for 2020 and so did the compensation.

Table 3. Lyft annual revenue and increase rate from 2018 to 2019

Year	Annual Revenue	Increase From Last Year
2020	$2.365 billion	34.6%
2019	$3.616 billion	67.67%
2018	$2.157 billion	103.48%

DoorDash, Inc. is a firm based in the United States that provides an online meal ordering and delivery platform. It is the largest meal delivery firm in the United States, accounting for 56% of the market. DoorDash has also showed a steady increase since its foundation in 2013. However, instead of hitting by the pandemic, DoorDash's annual revenue in 2020 tripled and is likely to skyrocket in the next year. DoorDash generated $2.89 billion in revenue in 2020. And brought in $1.08 billion in the first three months of 2021. In 2019, the number was $885 million. Motivated by the bright future of food delivery area, DoorDash abolished its compensation policy starting from 2014, and replaced it with an entirely new compensation plan that went effective in 2020.

3.RESULTS AND DISCUSSION

3.1 Tesla

Tesla do not have a regular compensation plan for all its directors, instead, each one will have different salary due to their different position in the board or the committee [6]. And the cash compensation changes with respect to the change in position, and the number of chairs they are in. Therefore, to find a general standard for comparison, we use the average of cash compensation and option awards to see the change from 2015 to 2020. The compensation composition for directors in Tesla is same from 2015 to 2020, which including cash retainer, option awards, and additional compensation. The annual cash retainer for general Board service is $20,000, which could be regarded as a minimum wage. Each director would have different cash retainer according to their position in different committees, in average, the cash compensation is around $30,000 each year from 2015 to 2020. This is relatively stable across these years, only when some directors get extremely high cash compensation would drive the average cash retainer high. However, in April 2020, there is a company-wide reduction for salaried employees, which is a temporary response to global market conditions during pandemic period [8].

The equity-based incentive is essential for offering long-term incentives to Tesla's director. And the equity awards are options to purchase shares of Tesla's common stock. The only incentive compensation for Tesla is the option awards which is part of company-wide patent incentive program. The total number of shares subject to the option was vested and exercisable on the applicable grant date of the option. The vesting schedule for 2020 will be the following: 1/48th of the shares subject to the option became vested and exercisable on December 5, 2020, and 1/48th of the shares subject to the option become vested and exercisable every month thereafter, subject to the grantee's continued service to us on each such vesting date. But the vesting schedule is always changing in past few years. and stock option awards granted as part of our company-wide patent incentive program. The option awards are about 98% of the total compensation were the option awards. This showing the director compensation for Tesla almost totally depends on the performance of Tesla overall. This would therefore encourage the directors to work hard for the benefits of the firm which will them bringing them more salary. However, on the other hand, this extremely high proportion of option awards will discourage some director as they may think it is hard for them to bring a huge improvement on the performance of the whole firm by their own work. So, when someone else did not work very hard, their effort may not be effective in the end. In addition, the option awards in Tesla are quite volatile that while in some of the years it achieves $6 million, it would drop to around $1.6 million in other years. Most importantly, in 2016, no director gets the option awards, which means they would only get the cash retainer. Therefore, even though the average option awards for Tesla across these years were pretty high, which amount to $3 million, it is in fact really volatile. Tesla does not have a formal policy regarding attendance by members of the Board at annual meetings of stockholders, but directors are encouraged to attend. The directors can attend the meeting in person, and they can also attend via online. And this situation is not due to the global pandemic, since 2015 the directors are simply encouraged to attend annual meeting instead of required to. But all the directors who served at the time of the prior year's annual meeting of stockholders attended such meeting. There is no meeting attendance fee in Tesla, the only additional compensation is the reimbursement for the cost of traveling, lodging and related expenses associated with attending Board or Board committee meetings. The stock ownership guidelines in Tesla are that each director should own shares of stock equal in value to at least five times the annual cash retainer.

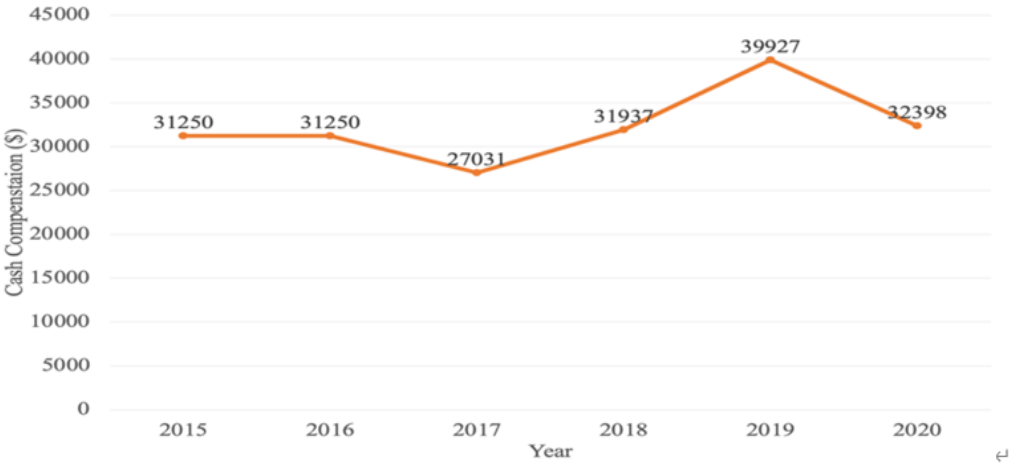

Figure 1. Tesla cash compensation from 2015 to 2020

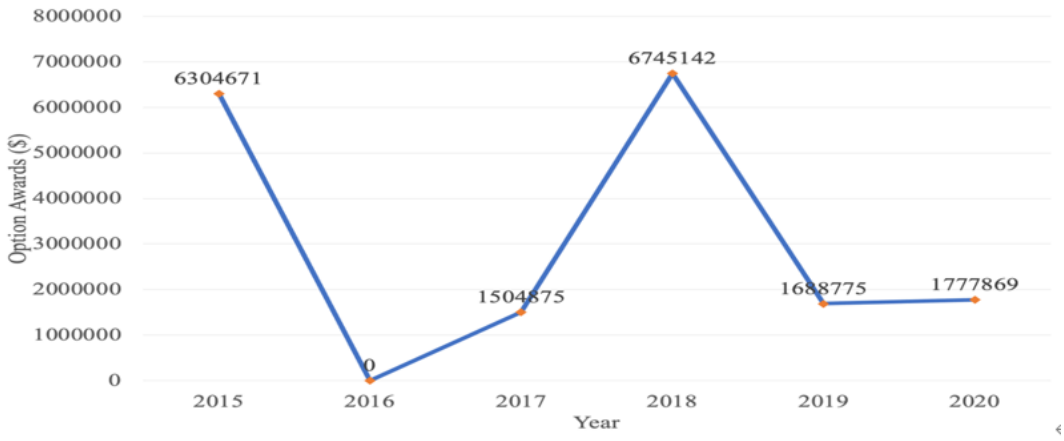

Figure 2. Tesla option awards from 2015 to 2020

3.2 Lyft

For the Lyft the compensation of the outside directors can be divided into two parts: the cash compensation and the equity awards. There are no meeting fees for the directors. The chair of directors receives total of 90,000 dollars per year and the members receives 40,000 dollars. They pay the equity awards as RSU (Restricted Stock Units). Each newly joined non-employee director can receive a grant of RSUs (Restricted Stock Units) at the time of the director's appointment equal to $260,000 multiplied by the fraction obtained by dividing Initial Award Vesting Period (number of months between beginning and the end of anniversary year) by 12. After the first year, non-employee director can receive a grant of RSUs equal to 260,000. In 2019 each non-employee director received an award of RSUs on June 11, 2019, due to the initial timing of the IPO. And the date moves to June 19, 2020, the day of the 2020 annual meeting of stockholder.

Within the first five year of becoming non-employee directors, they must hold a minimum of shares of common stock with a value equal to five times their annual base cash retainer. To shift the control of the director position, their equity award will be fully vested immediately prior to the consummation of the change in control. The compensation policy includes a maximum annual limit of $1 million, which includes cash and equity compensation. The policy has also provided a reimbursement for up to $10,000 per two-year period for documented education expenses for the directors relating to the better service on board, and it also provides reimbursement of $5,000 as a travel expense with documented reasonable purpose. Here, in Tesla we can see the negative relationship between director compensation and the firm's performance. When most director only get very limited amount of cash compensation, and only some of them will have option awards, which again closely related to company's performance. Thus, in Tesla we can see the negative correlation between the director compensation and the firm's performance, which means the relativity low cash compensation of directors reflect the good performance of the Tesla. And thus, this kind of compensation plan

that related director compensation with their effort works more efficiently in creating value for the firm.

3.3 DoorDash

In DoorDash, according to the new director compensation policy in 2020, board members' service compensation is divided into two major components, one for cash compensation and one for equity compensation. The equity compensation is further divided into the initial award and the annual award. For the cash compensation, each non-employee director receives a $60,000 yearly cash retainer, which is paid quarterly in arrears on a prorated basis; however, in terms of the different roles and positions in the board, directors may receive additional cash retainer for their additional service. For the initial award of equity compensation, each non-employee director will automatically receive an initial award of restricted stock units on the twentieth day of the month following the date on which such individual is appointed to the board of directors, but only limited to whoever first becomes a non- employee director. The initial award is the sum of the "New Hire Award" and "Prorated Annual Award". "New Hire Award" consists of some shares of DoorDash's Class A common stock equal to $250,000 divided by the average fair market value of a share of the Class A common stock for the market trading days in the completed calendar month immediately preceding the calendar month in which the Grant Date occurs, rounded down to the nearest entire equity. If the non-employee director's appointment to the board of directors does not coincide with an annual meeting of the stockholders, the initial award will cover an additional number of shares of the Class A common stock equal to $250,000 multiplied by the fraction obtained by dividing the days between the date such person is appointed to the board of directors and the first anniversary of the most recent annual meeting of the stockholders, which is the "Prorated Annual Award". The annual award refers to a number of shares of the Class A common stock having a grant date fair value of $250000 given to each non-employee director on the date of each annual meeting of stockholders. Moreover, there are some rules of the compensation policies. Except for the initial year of service as a non-employee director the maximum compensation is $1000000, in any fiscal year the maximum compensation of cash and equity is $750000. In addition, every director must comply with the minimum equity ownership guidelines, which stipulate a minimum equity ownership of a value equal to four times the annual cash retainer for service as a non-employee director. Before the policy changed in 2020, DoorDash used to pay its non-employee directors a base salary of $300,000 plus an outstanding equity. The change in the compensation policy leads to a more incentive-based compensation strategy during the pandemic.

However, compared to Tesla, DoorDash shows a more stable and relatively lower compensation for non-employee directors. Although the cash compensation is higher for DoorDash, the average equity awards have huge gap. This may be due to DoorDash's smaller scale and its short journey after it went public. Among the three companies, DoorDash is more similar to Lyft as they both have a higher cash compensation than that of Tesla and similar amount of equity awards. But Lyft does greater job in attracting employers because its relatively higher cash compensation than DoorDash.

4.CONCLUSION

The economic impact of the COVID-19 pandemic is obvious in many sectors, from services to manufacturing sectors, this brings an enormous social economic impact. This pandemic certainly has a big impact on the vehicle industry, which the supply chain and production process both affected seriously, and declining interest of customers all making the car industry become more difficult [1]. As all the three companies we studied are closely related with the car industry, their revenue will also be affected by the pandemic. Also, it is important to note that even before the hit of coronavirus, the traditional car industry has already faced a significant disturbance and movement due to technological progress and people's increasing focus on clean energy. So, this brings the rise of companies like Tesla, which already give some impact on the traditional car industry even before the pandemic; DoorDash has taken a qualitative leap forward as the epidemic has brought a boom to the gig economy, especially the food delivery industry. Companies like DoorDash, such as Ubereats, have seen exponential growth in revenue. Yet, companies that totally rely on consumer's car demand are damaged severely.

The cooperate management and revenue are reflected by their compensation policies respectively. The compensation plan for Tesla changed a bit, which decreased the compensation of all employees as a temporary reaction to the cost and loss brought by the global pandemic situation. A very important point in the compensation plan of Tesla that makes the company still earn a great amount of revenue even during the pandemic period is because a very large portion of the salary of directors are incentive based, which is the option awards. This is making the income of directors closely related to the performance of the companies in the stock market. While in the pandemic period many firms experience a sharp drop in stock price, the director in Tesla will have the stimuli and the stress to make the decision that is best for the company because their salary almost totally depends on stock price of the company. Under this compensation policy, Tesla's performance and revenue is not affected by the pandemic seriously.

The change of director compensation policy can be explained by the management's response to the entire post-epidemic Gig economy and post-IPO DoorDash was to reform DoorDash's operating model in the food delivery industry by changing the composition of the director compensation. As we can see, while DoorDash's revenues are booming from 2019 to 2020, it has changed its director compensation policy and reduced the already huge cash retainer by 80%, from $300,000 to $60,000, while increasing the weight of equity awards. However, this radical downsize of cash retainer will not be likely to lead to a serious brain drain because although 80% is a huge change, the changed result of $60,000 is still attractive as the average cash retainer in the industry remains relatively low. For example, Ubereats paid its directors an average cash retainer of $35,413, which is even lower and thus less attractive than that of DoorDash. By remaining a lower, yet still attractive, amount of cash retainer, and expanding the contribution of equity awards, DoorDash shifted from a more solid compensation payout to one that portends more volatility—DoorDash aimed to motivate its directors or non-employees as the compensation is based on the performance of the stock prices. If equity values are rising, there is virtually no immediate offset to compensation in the form of fewer shares or options awarded or reduced cash payments [3]. This way non-employee directors are likely to focus on promoting the stock price in the market, especially in the overall hard times. If a similar epidemic or economic crisis were to occur again, DoorDash's compensation policy would provide a greater incentive for its non-employees to fight the external crisis head-on to secure the number and price of shares. Rather than choosing to avoid or focus on trivial matters that would be no beneficial to the growth of the company. Therefore, we recommend that all large companies adapt their compensation policies to different economic contexts and increase the percentage of flexible pay, such as option awards, when it is necessary to give employees the pressure and motivation to make choices that will benefit the company at critical times. However, what percentage to be changed and how long should it last are two more challenging questions. An over high component of option awards could be an incentive for directors to work hard, but the diminishing return will lead to useless effort.

Another suggestion would be the form and the intensity of the policy change. What is more worrying is that the change in the compensation policy is too radical, almost a complete reversal of the policy that has been in place for years since DoorDash was established. It may take time to adapt to the huge change in compensation figures and the composition of compensation that seems too "risky" compared to the previous one. As a whole, the newly launched company may not be skilled enough to cope with the changes in the market, and it is still unclear whether it can cope with the crises lurking in different economic environments. Therefore, it is doubtful whether non-employee directors are really prepared both psychologically and practically to face the challenges ahead of them.

Finally, it is necessary to clarify the object of compensation change. Although this paper discusses the director compensation, it is important to realize cooperate governance goes beyond the board of directors. Crowd delivery is a new phenomenon that is likely to become more important in the digital age of the future. An important aspect for such success platform is worker participation [9]. When companies rely largely on its ordinary employees to expand the business, how to stimulate or retain these ordinary bottom workers is also worth considering. The online taxi service is impacted negatively by the pandemic. As the government exerts “stay-at-home” and quarantine policies, all services are changed to online and the demand for transportation decreases dramatically. This is a first strike on online taxi service. Moreover, on the supply side, all online taxi services significantly cut their working hours and will choose to serve only at peak hours. Even after the reopening of work and school, online taxi service is still facing a slow recovery[2]. Therefore, the revenue of Lyft in 2020 still has a serious decrease when it has experienced a rapid growth in the past few years. For companies like Lyft, it may be not enough to only stimulate directors, as the incentive for individual drivers is also very important to increase the revenue of the company. During the post pandemic period, many drivers will be unwilling to face the risk as their health problems are more challenging than others. But the personal incentive for the drivers is particularly important for the recovery of the whole company. The same situation applies to DoorDash, as HaitouGlobal indicates that high labor cost and deepening contradiction between platform and distribution have become the survival dilemma of all delivery platforms [10]. Although differences occur in motivation factors, there is an agreement on financial remuneration perceived autonomy and enjoyment; Financial remuneration is by far the most mentioned motivational factor [9].

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