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## The Road Less Traveled – Compensation Impacts of COVID-19

No map or plan could have prepared organizations for the compensation impacts of COVID-19. The bumpy path likely involves more hairpin turns and steep slopes before arriving at the destination – the new normal. Designing, implementing and analyzing compensation strategies as a part of an employer's total rewards strategy requires agility and stamina. Most importantly, organizations must utilize strong data to back a thorough understanding of what it takes today and will take in the future to balance business needs with the ability to attract, retain and reward employees using every total rewards tool, including compensation.

### Businesses with Unique Compensation Impacts

Developing and implementing the best compensation plan is not a one-size-fits-all exercise. COVID-19 shifted the growth trajectories of businesses and strategies within various sectors of the economy. With those changes come reformulations in the numbers, make up, and needs of employee populations. Each variation requires compensation strategies that were, most likely, not part of this year's original total rewards plans. Developing the right compensation plan is not universal and differing approaches reflect the unique needs across the economy.

For businesses that suffered downturns, employee furloughs, layoffs and reductions in staff likely came with compensation price tags in the forms of severance, benefits transitions and salary reductions. These businesses need to reevaluate their overall business strategy and realign their total rewards package to meet current needs.

Businesses that have thrived during this pandemic may see increased compensation costs through recruitment, hiring and retention costs. It has been difficult for many organizations to attract workers to essential services jobs and many have reached deep to offer higher wages, bonus payments, and ongoing incentives to be an employer of choice in a difficult hiring market.

Regardless of which side a business falls on, the pandemic has impacted compensation. In April 2020, salary.com surveyed more than 1,000 companies, 65% indicated no change to base pay in 2020, 10% saw a reduction in base pay during 2020 and 17% froze salaries at pre-COVID-19 levels.

### Common Considerations

Even as business sector needs vary, reviewing compensation structures within organizations involves careful analysis of several components within the framework of short and long-term planning. As one of the largest expenses to every company, managing financial viability of compensation is critical. Businesses need to recognize and react to immediate needs and adjust their total rewards strategy to address compensation, as the veil of the COVID-19 pandemic slowly lifts. Considerations to weigh include:

**Base pay structures** – Examining the data used to develop a base pay structure involves reviewing the original assumptions and data sources. It is safe to assume that five-year-old data will not accurately represent today's conditions. It may be time to utilize more current data to update the underlying structure of base pay plans to more accurately reflect the current and future financial impacts of the pandemic.

**Incentive compensation** – Businesses assessing incentive compensation plans on an annual basis may still require additional analysis in the short term to ensure incentive compensation is financially practical for an organization that may be struggling. Companies experiencing growth and profitability are likely to continue or increase incentive pay to reward and motivate performance. In every case, incentive compensation should align with current business conditions and the company's strategic plan.

**Premium pay** – Businesses with essential workers and organizations experiencing growth are using premium payments as a way to attract and retain employees. According to a recent World at Work pulse survey, incentives and spot payments are more popular now than prior to the onset of the global pandemic. Of the 26% of organizations offering hazard pay, 9% offer a flat cash amount, 8% tie incentives to hours and shifts worked and 9% offer hazard pay based on other performance criteria.

**Executive compensation** – It may be likely for many employers that the pre-pandemic budgets set for short-term incentive (STI) and long-term incentive (LTI) targets no longer apply. Employers will need to consider addressing the compensation targets in the future and the availability and role of discretion with variable pay.

Taking action to address the needed compensation shifts may culminate in a stronger compensation plan that meets the needs of the organization and its employees.

## Data-Driven Decisions

Compensation evaluation requires market data as one source of information used to align practices with markets and create a fair play environment within organizations. Compensation studies and surveys are typically published one year after completion. Historically, the data lag has not been significant enough to be of major concern to compensation professionals but during these unprecedented times, market compensation information is severely impacted by data lags. Current surveys won't reflect COVID-19 related shifts in base pay, Payroll Protection Program impacts or cash incentive payments made during pandemic business operations. These factors must be taken into account when using data produced in 2020.

Therefore, additional information sources are useful. Some sources are aggregated more frequently, and the savviest compensation plan designers augment traditional data points with other sources of information including pulse surveys from reputable sources and industry publications.

## The Road Ahead

Even as businesses reopen and employees get back to work, early indicators tell us that the COVID-19 pandemic will impact employers and employees for longer than originally anticipated. Understanding the overall financial impact on businesses will continue to be the primary step in designing and implementing an effective compensation strategy. In all cases, compensation can be an emotional factor in the employee value proposition. The same level of analysis and thought that lays the foundation for compensation planning must be used to develop compensation communication. Addressing issues requires careful and clear communication around compensation as a component of total rewards. In all cases, compensation is more than a wage package. Leveraging a total rewards approach allows employers to offer traditional and non-traditional benefits to recognize and reward employees.

Depending on your company's financial health, companies are finding new ways to leverage compensation to attract and retain employees. For example:

- Microsoft announced that it pays all hourly service providers during the COVID-19 pandemic regardless of whether or not their services are needed.
- Starbucks will pay employees for up to 14 days if they have been diagnosed with, exposed to or in close contact with someone with the coronavirus.
- Amazon and other retail giants are paying hourly employees \$2 more per hour than pre-pandemic rates.

## Conclusion

Compensation continues to be the largest expense for employers. Managing the complexities and leveraging the power of pay programs to attract, retain and engage employees has grown more difficult in recent months due to the swiftness and intensity of COVID-19. We expect this to continue throughout this year and into 2021. It is more important than ever for organizations to examine their compensation strategy and ensure it is viable for the near future.

To learn more, contact Jen Givens at [jen.givens@findley.com](mailto:jen.givens@findley.com) or [216.875.1944](tel:216.875.1944)