Most organizations don’t have playbooks for the current turbulent, unprecedented situation since most have not seen anything like this before. A pandemic of this scale has not occurred in many countries in well over 100 years (i.e., Spanish flu). And while we can draw on lessons learned in the last 20 years from events like the H1N1/swine flu in 2009, and the global recessions of 2001 and 2008-09, the social and economic impacts of the COVID-19 pandemic are without precedent in most people’s lifetimes. The words “fluid”, “agile”, and “out of an abundance of caution” have become almost hackneyed to put into context the reality of our daily lives and the decisions that we must make each day as the full effects of the pandemic unfold.
We are still in the early stages of the COVID-19 pandemic; the situation is evolving rapidly and governments, societies, and organizations around the world are exercising care, caution and agility. Virus-testing and population-wide constraints are only now ramping up in many countries, so the full magnitude of the impact is not yet known. Organization leaders are seeking to provide stability, direction and clarity and mobilizing to provide information to their employees and customers.

People are inundated with messages from all types of organizations (governments, schools, service providers, caregivers, food and grocery providers, employers, etc.). It is quite likely that the situation for employers will continue to rapidly evolve. Two weeks from now, and two months from then, things will likely be very different. And different countries are in very different stages of the crisis.

As organizations are facing decisions with respect to rewards, we recommend they consider the following six principles to help guide decision-making:

1. Place employee well-being at the top of your priorities.
2. Leaders should lead by example.
3. Treat people like adults (share what you can as soon as you can, be honest, emphasize two-way communication).
4. Take a balanced approach (especially when considering labor cost reductions).
5. Remember this situation is temporary; avoid drastic near-term actions that could weaken prospects for bouncing back.
6. Tailor actions to fit individual company/industry/regional circumstances; “best practices” are what is best for you.
At this moment, many organizations are focused on helping their employees and customers with immediate safety and security needs, recognizing the immediate and short-term financial impacts for their businesses (people spend in particular).

These focus areas include:

• Determining an approach to ensuring a safe work environment for employees and customers.

• Providing guidance on good hygiene practices, social interaction/distance practices, and employee information updates.

• Determining how to close offices, stores, and other facilities and adopt work-from-home, or other alternative work arrangements.

• Dealing with customer cancellations and delays in delivering product and services.

When it comes to employee interactions, many organizations are currently focused on direct and frequent communications from leadership urging employees to be calm and smart about how they deal with this situation.

Communications about benefits policies, wage continuation and sick leave are a focus as is support in childcare, eldercare and general family wellbeing. Employment and wage continuity are the dominant concerns of both employees and employers.

A recent survey in USA Today found that most Americans are worried more about their finances than their health amid this coronavirus outbreak (by a 3:1 margin). This suggests that there are significant concerns with employees’ financial viability during this crisis, especially, if it is drawn out over an extended period. The facts are that 80% of American workers live paycheck to paycheck (source: CareerBuilder) and 60% of the working population have less than $1,000 in savings (Source: Yahoo Finance). Income and savings are typically far lower in most global markets.
70% of all hourly workers in the US do NOT receive sick-time compensation.

Outside the US, particularly in Europe, which has a stronger focus on workers’ rights for the bulk of employees, the concerns are around non-regular payments and the large populations of the self-employed.

In some countries there is a great focus on sick-time policies. 70% of all hourly workers in the US do NOT receive sick-time compensation. Organizations are taking action regarding wage and benefits continuity for their employees, in addition to the interventions made by federal, regional and local governing bodies. To do this, organizations are clarifying their employment, benefits and pay policies and making exceptions to policies given these exceptional times.

This includes:

• Providing hourly employees compensation for hours not worked due to the impact of this virus, not just for sick or health-impacted employees.

• Updating sick-leave policies so that infected and quarantined employees will receive sick pay, or care for family members that are diagnosed.

• Addressing health coverage for medical insurance and impact for employees not actively working, telehealth options and wellness programs.

• Clarifying employee disability benefits if they contract the coronavirus. Reviewing coverage provisions and limitations.

• Reviewing attendance and work at home policies.

• Planning for the impact on incentive plans; Do goals need to be re-calibrated? Should we just awards for missed metrics?

And all of these changes are being considered against the backdrop of actual or proposed additional government support, such as direct cash payments to workers below a certain income level and/or expanded healthcare coverage.
Some parts of the world (especially China and Italy) have been impacted by this virus longer than others. Many announcements to date have focused on compensation reductions for senior management (especially in the airline and hospitality sectors) with the intent of executives and management leading by example.

Below the senior executive levels, some sectors have already gone through a round of workforce reductions (although the costs and process associated with making such changes mitigates against these actions in many countries). Alternatively, for some businesses, investment in and supplemental payments to select employees are a priority (e.g. JPMorgan is paying its “front line” employees $1,000 [but not more than 10% of their salary in certain countries]).
Relative to mid-to-long-term workforce reward considerations, we recommend organizations consider a framework to managing labor costs during this period of uncertainty. The following framework is proposed:

**PHASE 1**
Review the organization’s reward strategy and involve a team of leaders across the business to develop the strategy and tactics on the why, what, and how of labor cost reduction programs.

**PHASE 2**
Develop a multi-pronged approach on reducing labor costs vs. relying on a few traditional approaches.

- Among the dozens of ways organizations can take out labor costs are layoffs, hiring freezes, reduced hours, less reliance on contractors, reducing overtime, delaying bonuses or merit increases, suspending certain benefits like retirement savings/capital accumulation programs, and many others.

- Headcount reductions are often the default go-to strategy, but there are significant downsides to this, especially in rebounding the business afterwards; and in certain counties the protection of employment mitigates against this, even in the mid-long term.

- Savings may be realized across a number of areas – and this reinforces to staff that the organization has exhausted other avenues before it gets to the more emotional options of layoffs and wage cuts.

**PHASE 3**
Assess the financial impact of cost reduction opportunities versus the employee relations risk. The quality of ultimate decisions, and ownership of the results, will likely be higher. This involves:

- Comparing financial impact to engagement, litigation risk, leader credibility and timeliness of the action

- Involving a cross functional team (HR, Legal, Operations) to determine the relative risk of the options.

**PHASE 4**
Implement with care, empathy and thoughtfully planned communications, - and be agile and change course as needs dictate.
Executive Compensation

As we see with workforce rewards, not every company is being affected the same way. Many companies are currently taking a wait-and-see approach before making specific changes in executive compensation, while organizations that face the greatest impact (e.g., travel and hospitality industries) are taking immediate and dramatic actions, including implementing immediate drastic cuts to CEO and senior executive pay.

We believe the following practices will likely unfold over the next several months given these unprecedented times...
Pro-active **Remuneration** and **Compensation** Committees

Committees need to quickly agree if there is a need for immediate, decisive actions. Near-term decisions include temporary adjustments to salary (reductions, total eliminations) and suspension of short-term incentives already projected to be unattainable. These actions are typically limited to situations where the impact on the business/employees is very high. In almost any other situation it is most prudent to monitor and hold off on any immediate moves. In addition, we suggest putting a plan in place for “exception” management. Are COVID-19 metric impacts already adjusted out by plan design? If not, how will exceptions to results be managed (if at all) for global results, regional results, and/or officers (e.g., US Section 16)? Committees should seek to understand the impact of 2020 plans already in place, and those about to be implemented.

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2020 Plans **in Place**

It is important to note that if plans have been implemented/disclosed the Compensation Committee can still act to make changes. In addition to managing exceptions, the Committee should be considering replacing the short-term incentive with a six-month plan or stub plan if, for example, the incentives are now significantly unattainable or have become misaligned.

The Committee should be monitoring this fluid situation ready to make course correction(s) during the year and contemplating potential changes for 2021.

2020 Plans **Not Yet in Place**

If nothing has been disclosed, consider eliminating executive salary increases. Some surveys may still suggest executive increases, but those surveys are getting further out-of-date by the day.
FOR SHORT-TERM INCENTIVES we suggest...

• Establishing “adjusted” financial goals that eliminate the impact of the current crisis. The Compensation Committee can always adjust awards later if they are inconsistent with overall results.

• Considering shorter incentive plan measurement periods (e.g., semi-annual, quarterly) in industries hardest hit, could help improve “line of sight” to performance goals.

• Considering widening incentive plan payout curves (the shape/slope of threshold to target, or target to maximum), particularly below target levels, to manage the uncertainty of incentive plan metrics results.
Many of the design changes can be similar to short-term incentive changes: adjusted goals, shorter time horizons, and wider payout curves. An important additional factor to consider for long-term incentives is how to set share grant levels in a depressed stock market. Practices to consider include using a longer average stock price for setting grant levels (2-6-month averages) or simply using last year’s share awards levels, reducing or eliminating the link to delivering a defined compensation value.

There are other more complex processes such as using discounts to market, or setting share/dilution limits, but these generally return similar results and are more challenging and more difficult to communicate to participants.

Monitor Results

As mentioned, the Compensation Committee needs to monitor the current situation closely. There are four ways to do this most efficiently:

- Immediate Committee notification of peer group changes
- Realizable pay analysis
- Monte Carlo simulations on goal attainment
- Equity usage analysis

Organizations might consider doing each of these at least quarterly and this can provide a view as to how well your plan is working and whether you need any in-year or following-year changes.

Proxy advisors may not support all of the changes described above, but they respond better when companies provide well-constructed arguments.
A slowdown in sales productivity is inevitable as a result of the current pandemic. However, not all industries will be impacted equally—and there could be widely different impacts even within the same industry (e.g., FMCG). Most organizations are currently considering actions to help protect their employees and stabilize the “bottom line.”

There are typically a wide range of options to manage the salesforce as growth and profit slow. On the extreme end, companies may consider layoffs and furloughs of sales resources to curb costs as sales opportunity slows. Unfortunately, this strategy often proves to be damaging on morale and counterproductive during short-term crises and natural disasters. As productivity inevitably picks up, quite often in a relatively short period, it becomes more difficult for these organizations to ramp back up and meet pent-up demand for their products, which in turn can cause the slowdown to last even longer for them.

A better solution is to holistically review your sales compensation strategies. In past crises, companies have seen better results by incentivizing sales reps to keep working hard and driving toward their goals. In many cases, what might appear to be counterintuitive today is a better solution for tomorrow.

Enacting a short-term increase to cost of sales via sales compensation design components and policies will likely pay dividends over time. It will also be viewed as a morale booster and an investment in your people.
So how do companies do it? And what should leaders consider? First, get organized and be prepared for and mindful of the needs of the sales teams by considering these protocols:

1. **Set up an incentive compensation relief team** to include HR Leads, Operations Leads, Sales Leads and Finance. This team will manage decisions and review cases on an as needed basis. Obviously, this team needs to be sanctioned by senior leadership and build the business case for expenditures and remediation efforts.

2. **Identify affected sales roles or channels** that need relief. The whole organization should be considered if the impact of the crisis is felt throughout the organization. If not, specific “triggers” should be established to identify employees or business development agents in need. Typical triggers include:
   - An anticipated substantial decline in sales over a measurement period (say 20-25% miss, 20% quota miss, increase in the percentage of accounts below expectation, etc.) actual fixed pay becomes a larger percentage of total pay for a quarter or two - off target level.
   - A substantial negative incentive impact (e.g., 15-20% lower payout then target Total Variable Compensation expectation).

3. **Determine policies and methods best suited for your sales organization** to ensure the most impact to future sales and the sales resources that will deliver them.
Once protocols are in place, there are a number of **temporary tools for adjusting sales compensation design** that should be considered. This includes:

1. Increase ramp times and periods for new sales reps.
2. Redefine acceptable performance levels.
3. Provide non-recoverable draws (guaranteed earnings) for a predetermined amount of time.
4. Lower threshold performance levels on primary sales compensation measures.
5. Provide special incentives and spot awards (use cash vs. non-cash awards) to sales reps for continued business development efforts.
6. Provide quota relief on new business or revenue measures.
7. Shift incentive measures to customer relationship/service/quality.
8. Shift incentive measures to activity-based measures.
9. Shift sales reps. focus to retention, usage and consumption efforts on previously sold products and services.
10. Lower target excellence levels for top performers.
11. Increase accelerated payment levels.
12. Remove performance linkages on multiple measures.
13. Move from billed/collected revenue to new contracts and new logos.
14. Review your measurement and payout periods to ensure they are well aligned with the current environment.
15. Provide a stay bonus if there is a creditable threat of sales reps leaving.

Amongst these options, it is important to ensure all relief efforts have a defined timeline and clear performance expectations associated with them. Related to this, they should be offered only to employees in good standing. It is also important to consider time commitments and payback terms if an employee terminates after receiving these added benefits. Lastly, you need to continue to manage your overall cost of sales to ensure you stay within acceptable limits.

In summary, these are unprecedented times, with an undeterminable end point. For organizations, we believe there is one prudent decision roadmap: focus first on employee well-being, prepare for a return to normalcy, make the necessary changes, and invest in the future.