

Managing Compensation in a Downturn: a checklist for decision-makers

Need to lower overall compensation? Be sure your actions will help you succeed when the economy grows again.

1. Keep your compensation philosophy aligned with your mission - vision - values.

Your compensation philosophy is integral to your company's culture. It tells your employees "the way we do things" and reflects the core beliefs of senior management. Stay consistent with those values, even when you must make difficult decisions. If not, you risk affecting employee engagement and productivity negatively. If you have worked to link pay and performance, then it probably won't make sense to suddenly decide on pay freezes or reductions, based on factors unrelated to performance - seniority, for example, or "fairness."

2. Manage by facts

In a crisis, we are all tempted to knee jerk reactions - decisions made without a full understanding of the context and potential impact of our actions. You can avoid both "paralysis by analysis" and overreaction by disciplining yourself to use the best data and employ, or even add to, your arsenal of analysis and modeling tools. You'll get the best results, if you work to understand the relationships between compensation reduction programs and your key business metrics.

3. Make lemonade

Lately, we've seen organizations announce across the board pay reductions. Certainly there must have been a great deal of angst in those decisions; they weren't made lightly. But, just as a "peanut butter spread" approach to pay increases doesn't help company's performance, pay reductions won't necessarily help either. Look for ways to use pay reductions the way you use pay increases - to differentiate activities and performance in ways that will improve results.

4. Embrace change management

Organizations like yours have embraced the concepts underlying change management for almost every operational endeavor. When you make compensation decisions in a downturn, you should be sure to deploy the best change management has to offer. Start by fully identifying all the key stakeholders - as in other change efforts that list will get surprisingly long.

5. Challenge assumptions

Reconsider the paradigms you have taken for granted. For example, over years of working with market pricing data, the trend has always been that pay rates rise. Sometimes quickly, sometimes slowly, but always up. Many such assumptions may no longer hold true. As Dorothy once said, "I've got a feeling we're not in Kansas any more."

6. Share information

Even in good times, communication about compensation is often overlooked. In tough times, when we the things we need to talk about are difficult, there's an even greater need for open lines of communication. Craft a top-notch communications plan to go along with any new compensation program, and make sure it gets executed! It's another chance to make lemonade out of lemons.

7. Consider your overall plan

Take a long look at your rewards plans. Do they incentivize behaviors that your company needs today? Look for unintended consequences in these changed times, and work to get rid of them. Remember, whatever your company rewards, that's what will get done. Understand what your business must achieve in today's climate, and make sure your rewards plans are focused on those achievements.

8. Understand your workforce

Different employee groups will respond differently to changes in compensation programs. If you have a mature workforce with a lot of seniority, they may prefer reductions in base pay rather than to lose their job. A younger workforce, on the other hand, may focus more on the present value of cash compensation and be less forgiving of a base pay reduction. No one-size-fits-all approach is likely to be effective. It's up to you to understand what is relevant to your workforce.

9. Take the long view whenever possible

None of us has a crystal ball. We don't know how long or severe the current economic downturn will be. But we do know that ROI on human capital is central to our companies' ability to prosper. Studies show that the short-term benefits of reducing headcount are accompanied by problems whose difficulty becomes clear when the pendulum shifts and it's time to re-staff. The cost and lost time of recruitment and training, the missing productivity, and the lost institutional knowledge can be expensive. That's why it's important to think long-term now, even as you make short-term decisions.

10. Know your market

Even a modest investment of time and resources in understanding your labor markets can pay significant dividends in this crunch time and beyond. Know what your local and industry competitors are doing with regards to their pay and staffing practices. Not so that you can follow blindly, but because understanding your labor market enables you to act in your organization's best interest.

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