

COVID-19 and Employee Rewards

KPMG in Nigeria

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Covid-19 is not only a pandemic with widespread impact, it is changing the way we view and approach different aspects of our lives, businesses and economic order. In the area of employer-employee relationship, we are seeing changes in compensation and benefits practices mostly targeted at ensuring business continuity. Interestingly, the changes are diverse and unprecedented, just like the virus itself. The changes depend on the type of business, industry, country, extent of Covid-19 spread and disruption. One thing that is clear is that there are changing preferences and there is an emerging new normal.

One major issue that businesses have been addressing is liquidity, given that they still need to incur significant expenses even though there is little or no cash. It is not surprising, therefore, that some businesses are already furloughing employees or paying them reduced salaries.

In this article, we review some of the changes to employee rewards, which represent companies' continuous efforts in balancing business continuity and providing the support that employees need at this challenging time.

Remote Working

This is part of the emerging new normal. Before Covid-19, many organisations viewed with skepticism the idea of remote working. Unfortunately, the virus, leaving no one with time to prepare, has thrown organisations into the deep, where they must swim or sink, in terms of making remote working work.

Companies are learning quickly the tools and support that employees require to be effective. In Nigeria, the greatest challenges are:

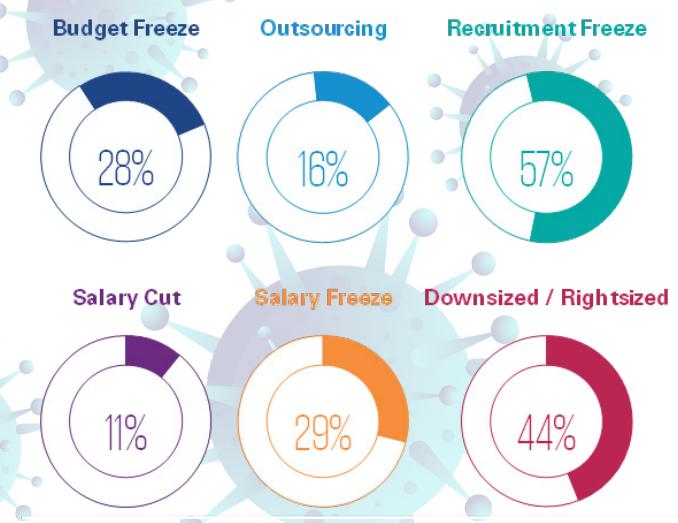
- **Unreliable Supply** – This largely depends on the employee's location. Employees are incurring considerable cost in providing alternative power supply to facilitate work. Companies may need to consider whether they need to provide support in this regard. Such support may include reimbursements or paying some cash allowances. However, it is important that every business considers the impact of any support on its ability to survive, especially given the impact on liquidity. Where any business decides to provide such support, it must also consider the tax implications.
- **Data & Connectivity** – This is also largely a function of the employee's location. Connectivity and network quality

may be better in some locations than others. So, a one-size-fits-all approach may not be effective. Companies may need to consider how to provide support to their employees to enable them deliver work seamlessly.

Measuring Work: Companies need to figure out how to evaluate the value of work done and how to reward for that. This raises the question of Managers' readiness and ability to measure output rather than physical presence.

Considerations for Staff Cost Containment

In a KPMG survey of 106 companies, following the 2016/17 recession, many companies adopted recruitment freeze, down-/right-sizing, budget freeze, salary freeze, etc. for managing people cost, as shown below:



We are seeing some similarities in the decisions being taken to respond to Covid-19, which is much more disruptive:

1. **Leave for Idle Staff** – some companies have advised employees whose work cannot be performed remotely or who are redundant to proceed on leave (paid or unpaid). This is to ensure that, when normalcy is restored, enough hands are available to pursue recovery. This will also avoid a situation where companies are carrying more cost than necessary to support a lean operation. In the USA, millions of employees have been furloughed as a result of the downturn.

2. Cancellation of International Training Programs/

Board Retreats for the Rest of 2020 – This will help save cost and ensure that only essential costs are incurred. Moreover, online learning solutions are gaining popularity as cheaper alternatives for achieving development objectives.

3. Temporary Pay Cuts at Executive and Senior Management levels

– Some executives are taking pay cuts; Delta CEO, Ed Bastian, announced he would suspend his salary for the next six months. Hotel executive Monty Bennett, CEO of Ashford, Inc., cut his own and all executive, pay by 15% - but then had to let go or stop paying 95% of their staff at 130 properties in the USA (WorldatWork). In the UK, the Prudential Regulation Authority has directed banks not to pay cash bonus to senior staff and all material risk-takers, as well as to suspend dividends and share buy-backs in 2020. In Nigeria, perks and perquisites of office are being reviewed. These include Gym / Club Subscriptions, Vehicle Fueling, Overseas Holiday Travel, etc. These adjustments will set the tone at the top and send a strong message to the entire workforce on the severity of the virus' impact.

4. Revision of Variable Pay Schemes

– There is a need to recalibrate underlying targets and metrics, as the virus has thrown out all prior assumptions and budgets. As it is more difficult to make useful projections, companies may consider using relative targets, rather than absolute ones. Also, for long term incentives, it may be useful to increase vesting periods to provide more time to achieve targets. Cancellation of already-existing awards will lead to accelerated costs in the books, so this may not be advisable at this time. Pending grants can be suspended and discretionary clauses in scheme rules may need to be activated. Interestingly, companies with a lot of cash (like Facebook) have adopted the generous approach of paying bonus that corresponds to the highest performance level, as a way of supporting all staff during this tough time.

5. Pro-ration of Lumpsum Annual Payments to reflect period worked

– Lump sums like Leave allowance, 13th Month may be pro-rated to reflect actual periods of work.

6. Rotation of Staff

– Even in teams where working from home is possible, the workload may have reduced, due to the slow-down. Rather than retain the entire team, work-sharing may be adopted such that employees work weekly on rotational basis. Such reduced hours may afford employees the flexibility to deal with the disruption to their lives and livelihoods.

7. Pay Restructuring

– Companies may need to relook their pay structure and pay delivery mechanisms such as lump-sum versus monthly payments. Benefits like subsidized employer loans, with direct impact on cash flow, may need to be relooked. Conducting a pay structure review

for cost-efficiency involves seeking cost-saving changes, while balancing impact on employee perceived value.

8. Hazard Pay

– For front-line employees and those performing essential services that cannot be done remotely or from home, companies need to consider an incentive or premium as reward for the heightened exposure. Hazard pay practices typically range from 2x to 3x the standard base rate for the duration of the assignment (WorldatWork).

Other Considerations

Measuring Performance / Assessing Role Relevance –

How is work done remotely going to be measured? Are team leads equipped to pre-determine the time expected to be spent on tasks vis-à-vis the quality of output expected? How capable are performance measurement systems in assessing employee contributions and ensuring appropriate rewards?

Engaging the Union - As employee representatives, it is important that the Union is carried along, as much as possible, in decision making and changes being implemented. When should the Union be informed of key decisions? What should be the engagement strategy and what level of detail should be shared? Transparency is key to building trust.

Legal / Regulatory Considerations – Given the tendency for knee-jerk reactions, companies need to watch out to avoid breaking any laws or regulations that may lead to future exposures.

Government Palliatives – Unfortunately, there is little or no government subsidy or benefit that employees that suffer pay cut or job loss can tap into at this time. The food and other relief items government approved for distribution have been fraught with various controversies. It is reportedly grossly inadequate and ineffective.

For job loss, the Pension Reforms Act, 2014 allows employees that are unable to secure another job within six (6) months to apply to access a portion of their retirement savings account balance.

Communication – Communication needs to be transparent, regular and empathetic. As much as possible, individual (one-on-one) conversations should be held in situations of employment termination. Frequently Asked Questions and relevant responses should be prepared and accessible to employees. The tone at the top and demonstration of organization-wide impact of decisions will be critical. Companies should focus on inspiring employees to support ongoing reforms and recovery plans, post-Covid-19. Communications must address employees' concerns about health and safety of family members, friends, and loved ones; tomorrow's uncertainty and being able to live the lives they love.

What Will Life Look Like Post-Covid-19

The forecast is that the world economy will plunge into a recession, post-Covid-19. Some businesses will fold up, while others will thrive and grow from the opportunities that Covid-19 presents. Employee jobs and pay will not be spared. Everyone should brace for an impact of some sort. A lot depends on the length and effectiveness of containment measures, the impact of government policies, handling of a possible resurgence, etc. One thing that is clear is that the new normal will be different from what we were used to.

Beyond the immediate reactions highlighted above, companies must look ahead to think and act strategically in the context of the emerging new normal. Businesses need to build strategic risk management capabilities to inform future strategy and better prepare them for the next shock.

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Conclusion

As businesses focus on surviving through and thriving post-COVID-19 pandemic, rewards professionals need to contribute strategically to cost containment and business sustainability. Companies also need to demonstrate resilience and empathy in decision-making, as their actions today will define employee and public perception of the business. COVID-19 Pandemic has revolutionized the way we think about working; consequently, our approach to rewards needs to be redefined in line with the emerging new normal.