

# **Reward in a Recession**

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# 1

## Overview

Recession rhymes with depression, and although the two words may, in an economic context, share some common traits and features, they should not be confused. Though both have catastrophic impact on the workplace, the timescales over which their influences are felt will differ.

Recession, hopefully, will be shorter and less deep in its effects than depression, though the dividing line may sometimes be unclear. The focus in recession will usually be on the optimistic “when” of the recovery, rather than the pessimistic “whether”.

From an employer’s point of view, the priority becomes one of maintaining products or services at the required demand level, and minimising the cost of doing so, without causing long-term damage to its employee skills base.

# 2

## Sector effects

Public and private sector employers, where the balance between and degree of control over the economic and political drivers of an organisation differ, will typically react in different ways.

The private sector response will generally be to control costs to a level that reduced product and service demand can tolerate and support, and do so quickly to minimise the effects on current year operating.

The public sector, by comparison, is less likely to see a reduction in demand for its (usually) service orientated output, and may well see an increasing and sustained demand, that will need to be satisfied within constrained finances and staffing levels. Efficient output becomes a key consideration.

# 3

## Employee costs and the skills base

Employment costs are an essential part of the operation of most organisations. The proportion of total costs they constitute will vary greatly between capital intensive and service-based operations. From purely a cost angle, the ability to mitigate the effects of a recession will change with the nature of the business. However, employment

costs are measurable, and will reflect the scale of an operation and the value of the accumulated skills and experience of the workforce.

What is less easily measured in a workforce is the group of softer issues around being employed: those that give the “feel-good factor”; being a part of something worthwhile. These characteristics are often grouped under the banner of employee engagement and can have a profound effect on the psychological contract between employee and employer.

A wise employer will be looking to take action to control current and future employment costs, with their ensuing damage to relationships and morale.

There will be an upside for companies that survive, and maintaining and nurturing your skills base is essential now and in the future.

## **4**

### **What *can* an employer do?**

Returning to the optimistic view of recession, focusing on the positive “when” of the recovery, employers can consider a number of actions and strategies towards increased organisational strength.

There is certainly no reason to feel helpless or at the mercy of a faltering economy.

#### **4.1**

##### **Long term focus**

Barring a total collapse of the economy, there will be an end to the recession.

Organisations should stay strategic in their approach to reward and the wider HR policies that make up their employer brand. Giving up at the first sign of trouble will not engender loyalty, especially in those talented employees who may otherwise have seen an opportunity to build a career with you.

Keeping faith with a well designed reward strategy in tough times will still reinforce business goals: only the extent of reinforcement may vary with the available cash.

#### **4.2**

##### **Redundancies**

When faced with the prospect of a sustained recession, it is tempting to reach for the redundancy option as a way of immediately cutting employment costs.

It may well be part of a total solution, but could be counterproductive in the long run, when training and re-hiring costs post-recession are factored in.

If cuts in numbers have to be made, be selective and build the business case on meeting longer term strategic goals.

### **4.3**

#### **Pay freezes or reductions**

Suspending the normal pay review process is common sense. But some employers, especially those in the public sector, may have legal problems in the absence of a statutory pay policy. One recent survey indicated that as many as two employers in three were making downward changes to their planned salary review budgets for 2009, with about 25% indicating they would have a total freeze.

Freezes or reductions may be appropriate and justifiable if in-house pay levels are demonstrably higher than those of competitors. Employers should benchmark pay levels carefully and take action where costs are higher than necessary. When doing so, be realistic about who the competition is rather than setting aspirational targets more appropriate to a situation of progressive economic growth.

Reduced working hours over an appropriate working cycle with pro rata reduction in pay can be a practical alternative to mass redundancies. Gaining agreement to implement it could be difficult, in the absence of established procedures for doing so.

### **4.4**

#### **Performance management**

If your organisation practises, or claims to practise performance management, make sure that it does so. Raising performance expectations is one essential route to success; recognising that success is essential. The objective should be to raise standards overall, rather than eliminate underachievers: this aspect of the message must get through clearly and is particularly relevant in the public sector, where demand for many services may be stimulated by recession.

Line managers are not always good at delivering in this area: provide additional guidance, support and training for those who need it. HR departments can provide support and guidance in this area, but line managers should be the ultimate decision makers.

As a last resort you may need to consider replacing those managers who can't or won't differentiate on performance.

## 4.5

### **Selective pay reviews**

These are the enactment and reinforcement of the performance management process.

Total pay freezes are a blunt instrument. They will do nothing to encourage or motivate the key staff you will need to survive the recession and come out fighting. What cash the organisation can afford must be wisely allocated in line with business needs.

Performance management and development potential assessment processes will give accurate pointers to where priorities lie, when it comes to allocating scarce resources. Where there is the opportunity for any discretionary spend on salaries, consider using the triage process as a complement to formal performance management:

- Employees judged essential for the success and survival of the organisation.
- Employees whose voluntary departure would be unfortunate but could be survived.
- Employees underachieving, who need to find new roles inside or outside the organisation.

Again, HR departments should provide advice on the means or methods for line managers to implement.

## 4.6

### **Remodel the salary review process**

Traditionally, salary reviews result in an increase in basic salary for employees whose performance is judged to be at least satisfactory. In some parts of the public sector, where incremental salary scales are widespread, there is little or no discretion available to managers as to whether there should be an increase.

But in other organisations there is some latitude as to whether increasing basic salary, which builds the employment cost base year on year, is appropriate in a recession. It may be more appropriate to consider one off cash awards – bonuses by another name – to recognise achievement, rather than build in cost for the future.

## 4.7

### **Maintain Employee Engagement**

Tools are available that can help to measure employee engagement, so if you do not already do so, consider a stock-take of where you are at present, as a guide to key priorities for action.

In the search for swift cost reductions, don't be tempted by some of the easy pickings that support employee engagement or demonstrate the essence of the culture. Keep the "great place to work" ethos going, maintain a recognition culture... and don't stop providing biscuits for internal meetings! What is saved in money terms will be lost many times over in reduced morale and trust.

Look for cost savings in other areas if you need some quick wins: HR policies often provide some scope for cost saving in status-related areas, e.g. use of first class rail or business class air travel. These may provide a more palatable way of keeping costs down without seriously damaging business operations.

## **4.8**

### **Communicate Total Reward**

Few dispute the importance of salary in the working relationship. But it is by no means the only issue that determines the quality of that relationship. You can:

- Emphasise the non-salary elements of the total employment package;
- Introduce or develop recognition schemes;
- Consider how flexibility within the benefits that are offered to employees can be built up as a major benefit in itself;
- Introduce Total Rewards Statements that capture the financial dimensions of all employee benefits on a single piece of paper; and
- Market your organisation externally to its strengths.

## **4.9**

### **Maintain the use of incentive schemes**

If your organisation has a performance culture and good performance management, the chances are that you operate bonus schemes for some or all of your staff. Don't abandon them simply because some business sectors such as "the City" have tainted them.

Well designed bonus or incentive schemes can generate rewards for employees who achieve, on the basis of incremental improvements in financial performance, i.e. extra pay from extra net income generated.

Make sure the schemes you operate are soundly designed and targeted on the groups of employees who can make a real difference

to performance, whether they are in Sales, Customer Services or senior management.

Market benchmarking may provide some guidance as to appropriate levels of output, but in a recession situation what is more important is what is right in your own particular situation, and applying that consistently.

#### **4.10**

##### **Communication**

Few things breed rumour and discontent better than silence. Employees won't thank managers who don't front up to a realistic assessment of the state of business.

For listed companies, there may be restrictions on how much information can be shared with employees without it also being put in the public domain. But there are many ways that the message can be put across without breaching Stock Exchange rules.

Those on the front lines of manufacturing or customer services are often the first to spot the signs of a prolonged downturn and will not be slow in asking awkward questions – so stay ahead of the game wherever possible.

#### **4.11**

##### **Consistency and Commitment**

There are seldom quick wins in reward that can deliver lasting business improvement. What matters in the longer term is that organisations have a clear strategy for reward which aligns with and supports their business strategy.

This remains true in a recession: what changes is the business response to the recession, and reward strategy must respond to that. There is no single club in the reward adviser's golf bag that can solve all an organisation's pay problems, especially in a recession.

A balanced consideration of the elements cited above, in the light of a business plan which addresses the issues created by recession, can help to control employment costs sensibly while maintaining the competitive advantage to be gained from high levels of employee engagement.

Working through a recession will never be easy. But commitment to soundly based reward principles, and ensuring they are applied consistently and fairly, will make the chances of survival so much greater.

## 5

### **More information**

For further information on Salary Benchmarking, Employee Engagement, Incentive Design or Performance Management, please contact:

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You can also read our Case Studies and Business Scenarios, to see how we have delivered Reward services in practice.