



OPTIMIZING REWARDS IN A CHANGING WORLD:

FIVE WAYS TO ENHANCE REWARD ROI

A man with glasses is shown in profile, looking out at a sunset over mountains. The scene is bathed in warm, golden light. The man is wearing a dark jacket. The background shows the silhouettes of mountains against a bright, hazy sky.

Introduction— Looking back

During March 2020, the world witnessed and implemented precipitous changes because of COVID-19. On March 1, “only” 87,831 cases had been confirmed worldwide, and many countries had reported just single-digit fatalities, including two in the US, one in Australia, and six in Japan. Wuhan, China, had been locked down since January 23, but Major League Baseball’s spring training was well underway, Wolves had just beaten Tottenham 3-2 in the UK’s Premier League and *Girl from the North Country* was set to open on Broadway.

Unsure of whether COVID-19 would have a greater impact than past news-making diseases—SARS, H1N1, Ebola—organizations maintained normalcy for as long as they could. But by the end of the month, with more than 857,000 coronavirus cases worldwide and 36,000 deaths, Major League Baseball, the Premier League, and Broadway had all gone dark as organizations everywhere scrambled to adapt to this unprecedented pandemic.

We conducted three surveys with 7,660 respondents from 99 countries over the course of March to May asking organizations what they saw the impact of the pandemic to be on their organization as a whole and to their rewards and benefits programs. In this paper we summarize the global findings and discuss how businesses plan to evolve their total rewards programs as they accelerate through the turn.



March survey: Cautious cutbacks

The pulse survey conducted by Korn Ferry in late March reflected a gradual shift from business as usual to business in quarantine.

Of the nearly 4,000 respondents, the majority of organizations **(60%)** expected a negative impact, **7%** expected a positive or neutral impact, and **33%** were uncertain.

Of those who expected a negative impact, many estimated that revenue declines would be significant (15%–30%). Perhaps even more significant is that one-third were unsure what the impact would be, indicating great uncertainty as normalcy transformed into crisis. Similarly, roughly a third (31%) of respondents either had not introduced business continuity plans (BCPs) or had, but without plans to adjust them as the crisis deepened.

At this point, relatively few organizations had implemented salary cuts (4%) or freezes (12%)

In March, a minority of companies had already undertaken salary adjustments, and of this group, many (41%) had either halted or were considering deferring annual merit increases. Viewed as an “oil tanker” among reward’s levers for change, it wasn’t surprising that only 4% had made salary cuts and only 12% had implemented pay freezes. But while relatively few had taken these measures at this point, a considerable number of organizations were considering them as an option for the future.

Likewise, about a third planned to adjust incentive programs, with short-term incentive reduction, deferral or delay outweighing long-term incentive reduction, deferral or delay, 36% to 21%. This reflected optimism that the pandemic would only affect business operations significantly in the short-term, after which stability would return.

Active leave management was the benefits adjustment that most organizations were applying at this point, with more than half (54%) of organizations either considering increased measures or already having put them in place. Nearly a quarter of organizations were considering unpaid involuntary leave, although at this stage only 6% had taken action.

In one of the largest and most rapid shifts in corporate life arising from the pandemic, an overwhelming majority (89%) of organizations had accelerated work-from-home arrangements, with an additional 7% considering it.

One of our clients noted that this shift to home working would normally have required weeks or even months of feasibility studies, pilots, cost analysis, and corporate soul-searching, and likely would probably have produced very limited change. And yet, within 96 hours, organizations moved all the roles they could into a completely different operational framework.

Consistent with the portion who foresaw a negative impact, 53% of organizations had delayed new hires, and 26% were considering it. But only a small minority had begun permanent (4%) or temporary (6%) layoffs. Much more effort was being put into non-people related cost reductions, which 28% of companies had already implemented.

These figures reflected a hope that by treading water—keeping operations safe, not adding new salary overhead, minimizing layoffs—organizations could successfully weather the storm.

May survey: Reduced uncertainty

Over the next couple of months, the global number of daily new cases of COVID-19 rose. By Korn Ferry's third pulse survey in late May, 4.9 million cases had been reported across the globe and stay-at-home orders had been in effect for weeks. Much of the global economy was shut down and this gave businesses some clarity, despite there being no definitive timeline for recovery.

Our survey identified that the percentage of organizations uncertain about COVID-19's impact had dropped from 33% to 15%. And sadly the future was not looking rosy. Organizations expecting a decline in revenue rose from 60% to 73%, the vast majority of which expected a significant impact, defined as a 15%-30% decline in revenue.

Outlook also varied by industry. Businesses relying on face-to-face connection with their customers had the direst outlook. For example, 44% of leisure and hospitality businesses expected a very serious impact of 50% decline in revenue or more. Uncertainty remained particularly high in the public sector (30%) and banking (32%).

By May, the percentage of organizations uncertain about COVID-19's impact dropped from **33%** in March to **15%...**

...And the outlook was less rosy. Organizations expecting a decline in revenue, rose from **60% to 73%**

As air and commuter travel dropped, oil and gas organizations were also concerned. While the environmental effect has been positive, 25% warned of economic ill-effects with a 30%-50% expected decline in revenue. Roughly the same portion of media companies also expected a 30-50% decline.

Understandably, Healthcare providers were the most optimistic, with 22% expecting positive or neutral impacts on revenue. Organizations in fast-moving consumer goods (FMCG), were also optimistic with 18% expecting either positive or neutral impact.

Still, some small shoots of recovery started to appear in a limited number of countries around the world and many organizations were thinking about the future of their businesses.

Salary adjustments

With social restrictions widened, more organizations had implemented salary cuts, freezes, and annual-increase deferrals. Cuts rose from 4% to 17%, freezes from 12% to 24%, and annual increase deferrals from 15% to 22%.

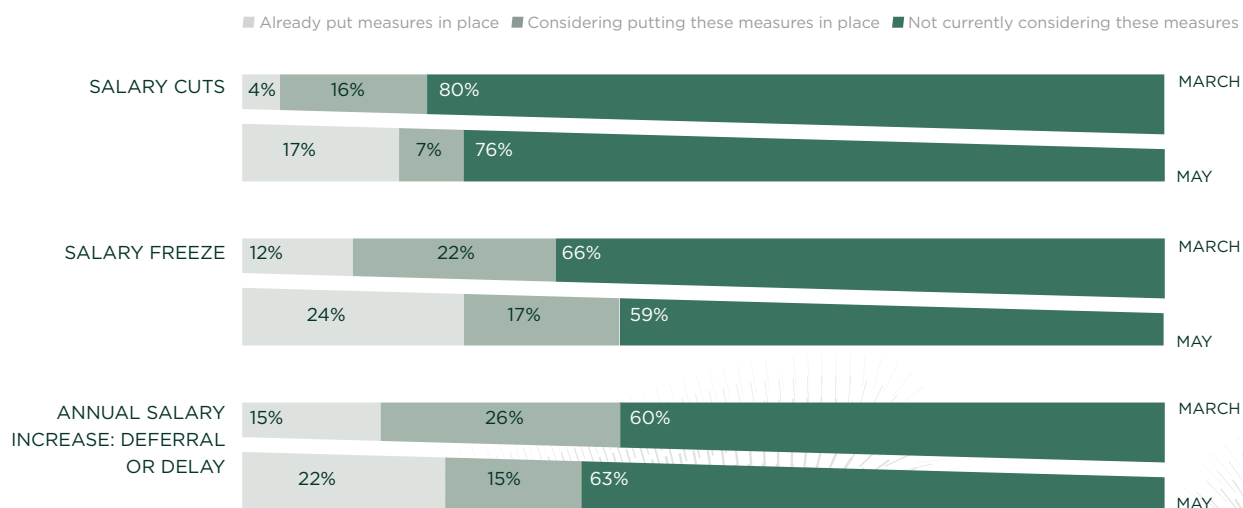
Additionally, most organizations were predicting that salary cuts would last three to four months.

Salary cuts among different tiers of the organizations were fairly even, with the global aggregate never deviating more than 3% across employee groups. Of the geographical zones, North American executives took, on balance, the most significant cuts, with a spread of eight percentage points between them (21%) and clerical roles (13%).

Executives also generally took more and greater salary cuts than those in more junior roles across industry sectors, particularly in high technology, telecoms, and media. Retail essential and natural resources were the two categories across all industries to significantly defy this pattern.

Salary cuts rose from **4% to 17%** and freezes from **12% to 24%**

Salary measures implemented as a result of the pandemic between March and May 2020.



Source: Korn Ferry rewards and benefits pulse survey March-May 2020.
*Percentages exceeding 100 due to rounding of decimal places.

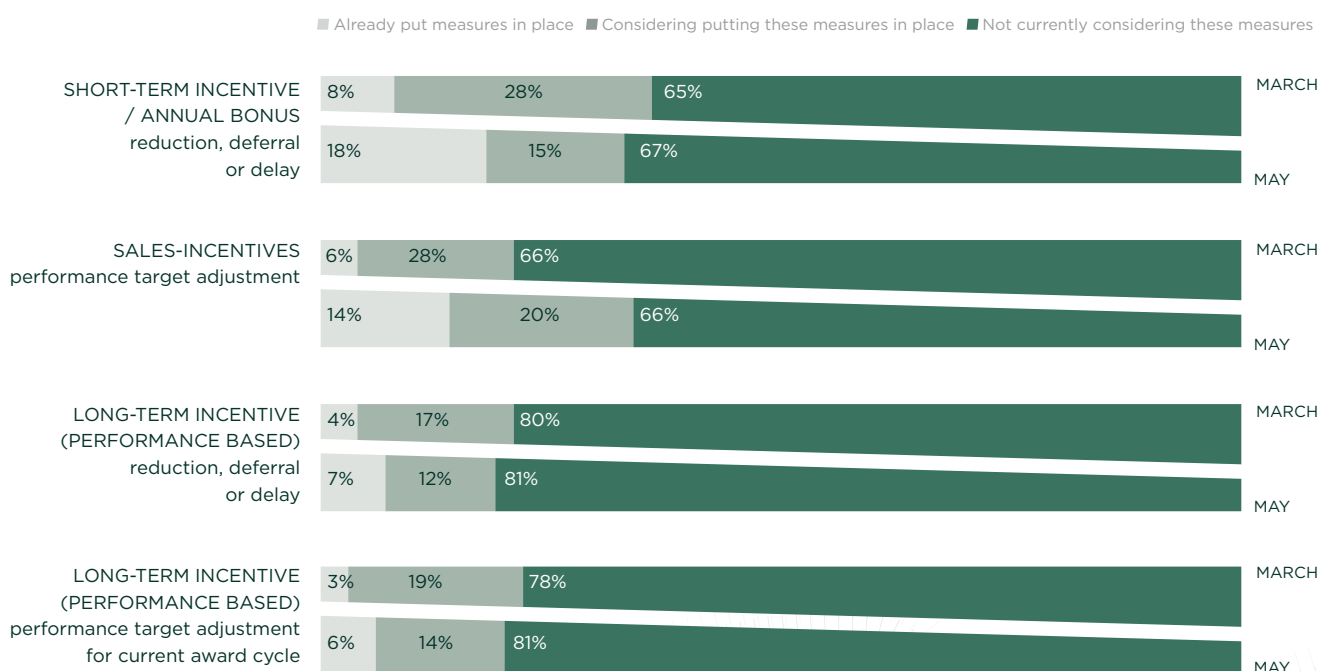
Organizations making bonus and incentive adjustments rose across all categories.

Bonus and incentive adjustments

Between March and May, organizations making bonuses and incentive adjustments rose across all categories, most significantly in reduction, deferral, or delay of short-term incentives and annual bonuses (from 8% in March to 18% in May) and adjustment of performance targets for sales incentives (from 6% in March to 14% in May).

Relatively fewer organizations were considering adjustments to their long-term incentive programs, with only a slight uptick in those who had implemented such adjustments between March and May. This light touch to many annual bonus arrangements makes sense as these programs are in place to reflect organizational performance as well as individual performance, declining by design as organizations underperform. Equally, long-term incentives are intended to be just that—long-term—and changes here are also linked with appropriate governance concerns, especially as many organizations take government support to help manage through the crisis.

Bonus and incentive measures implemented as a result of the pandemic between March and May 2020.



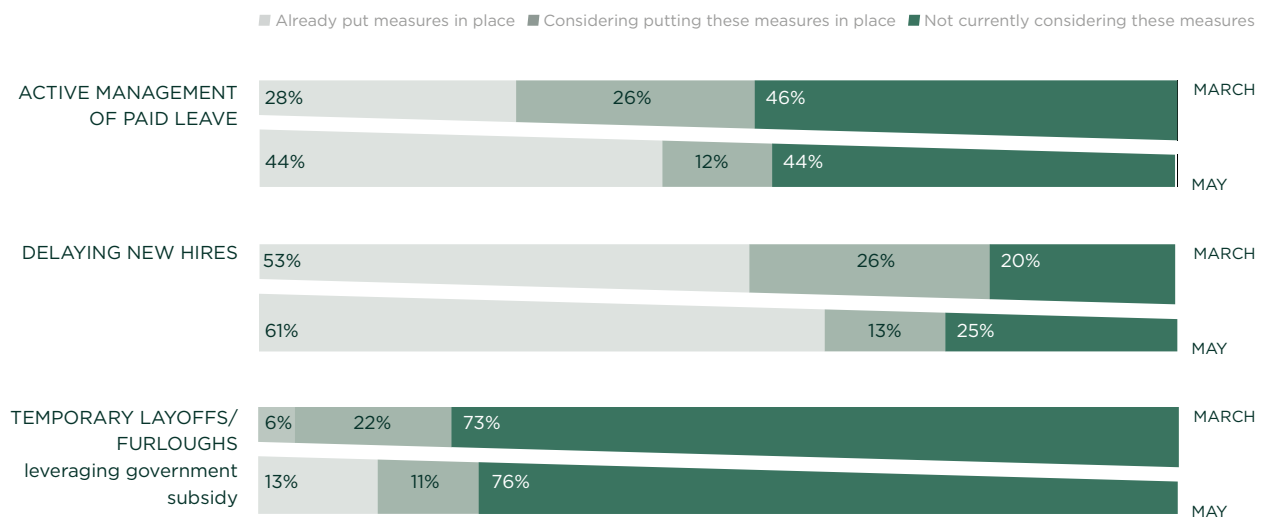
Source: Korn Ferry rewards and benefits pulse survey March-May 2020.
*Percentages exceeding 100 due to rounding of decimal places.

Workforce management

Similar percentages of March and May survey respondents were considering or implementing active leave management processes, but by May, 16% had transitioned from considering them, to implementing. Likewise, an additional 8% who were thinking about delaying new hires in March had actively done so by May. By May, 24% percent of organizations globally had implemented or were considering furloughs with government support, and 18% were doing the same without such support. Of the organizations taking these steps, an average of 26% of the employee population was affected. This survey showed us that permanent layoffs were not as prevalent as salary cuts and furloughs. Approximately 7% of businesses had laid off staff, with another 17% considering it. Not surprisingly, the industries most affected by these workforce reduction measures included travel, leisure and hospitality, and retail.

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Workforce management adjustments implemented as a result of the pandemic between March and May 2020.



Source: Korn Ferry rewards and benefits pulse survey March-May 2020.
*Percentages exceeding 100 due to rounding of decimal places.

The next several months

While negative outlooks outweighed positive and neutral outlooks in both surveys, uncertainty in March was replaced by more certainty and additional negativity in May. Early expectations about the adverse economic impact of COVID-19 prompted companies to react quickly in March. Many implemented immediate and multifaceted cost-cutting measures. Over the two months between surveys, expectations solidified.

Organizations either kept in place measures they had already started or followed through on measures they had been considering.

As this crisis continues to play out, we expect these actions to increase, particularly in the areas of layoffs and furloughs in the hardest-hit sectors.

However, optimism does exist, with few respondents doubtful that they will emerge from this crisis. The overwhelming majority are now squarely focused on the recovery of their business after COVID-19 and learning from their response to the crisis. **Seventy-five percent** of organizations expect increased reliance on virtual operations, **56%** expect greater cost-management discipline, and **47%** expect more direct and transparent two-way employee communications.



The longer term

Before COVID-19 organizations would have struggled to evolve at the pace forced upon them by the crisis. Now most will have more latitude (and a greater sense of urgency) to make necessary program changes. And they have a window to develop strategies, programs, and practices that are better aligned with their business needs and objectives.

The majority of sectors and organizations have been hit hard by this pandemic and are addressing changes in their reward programs. The issue is more acute for sectors such as non-essential retail, leisure and hospitality, oil and gas, and distribution. They will have an even greater urgency to make needed changes.

While it's better to follow your internal compass versus chasing a common market practice that may not be relevant in the "next normal", it's easier said than done. We know from the many client conversations and industry roundtables we have conducted over the past several weeks that understanding what others are doing remains a key input in creating your new frameworks.

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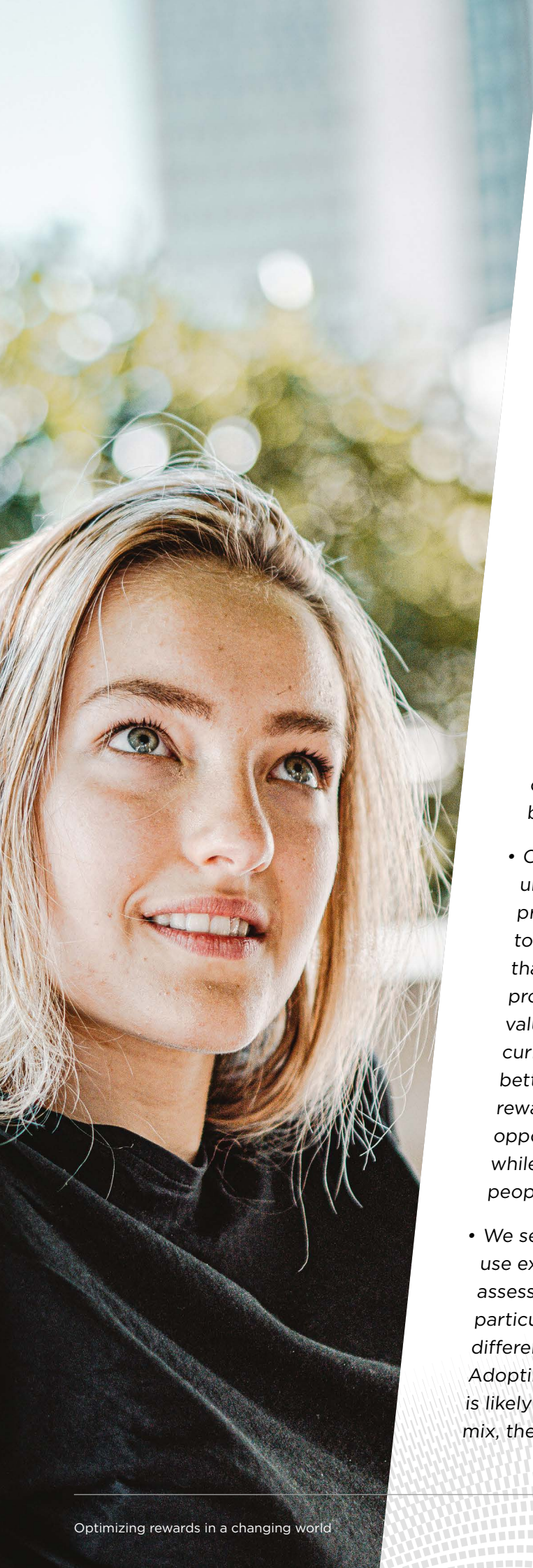


One key question is what is next for total reward programs?

Our global research and consulting work with clients indicate five key areas of focus in total rewards over the next six months to two years:

- 1** Fit-for-purpose total reward strategy.
- 2** Performance management programs.
- 3** Short-term incentive/bonus pay design.
- 4** Job architecture, job evaluation, and career development frameworks.
- 5** External pay benchmarking processes.

We have a perspective on each of these five areas, outlined on the following pages.



1

Fit-for-purpose total reward strategy

Taking a renewed look at the organization's total reward strategy—and refining and clarifying that strategy—is the highest-rated area for change over the next two years. In our conversations with business and HR leaders we are hearing several themes:

- More “collective reflection” on organizational purpose and priorities. For many individuals who have experienced this crisis from within their organizations, there has been a shift in the psychological contract between them and their employers. This is top of mind as organizations consider how to develop differentiated reward offerings that engage employees with authenticity, empathy, and collective purpose. And get the maximum buy-in and investment from their people.
- Organizations will be developing a deeper understanding of the needs and preference profiles of employee groups. They will use this to recreate financial and nonfinancial rewards that optimally align the investment in these programs with their perceived employee value. Surprisingly, most organizations don't currently do this. This suggests the need for better analyses and closer scrutiny of where reward dollars are being spent, identifying opportunities to reduce overall labor costs while sustaining engagement via rewards that people value the most.
- We see organizations reconsidering how they use external benchmark data and how they assess their competitive market position, particularly for roles and functions that provide differentiated value to the organization. Adopting the same market positioning strategy is likely not appropriate across all jobs. The pay mix, the amount of pay at risk, and the amount

invested in benefits programs should all be assessed for organizational strategic fit as opposed to fit with market practice.

- Expect a more intense focus on internal pay equity, external scrutiny of that pay equity, and sustainable pay equity processes. Fairness and inclusion considerations will become higher-priority focus areas in talent management. In challenging times, employees realize that “we’re all in this together,” and procedural fairness in how rewards are determined, communicated, and allocated supersedes in importance the quantum of rewards provided. Pay-equity legislation will continue to evolve around the world, which reinforces the importance of pay-equity management approaches. Current events in the US—which are echoing around the world—with respect to addressing issues of systemic racism in society and corporations will play an even greater role in how organizations evaluate and address issues of pay equity.
- Rewards consist of everything the organization provides its employees of perceived value—and this goes far beyond base-salary increases and incentives or bonuses. Nonfinancial rewards play an even larger role in more challenging economic times. Our research indicates that these nonfinancial rewards (e.g., meaningful work, career development, training, recognition, and energizing work climate) are more instrumental in talent engagement and retention than base pay and variable pay programs. At a time of heightened anxiety,

Organizations are considering how to develop differentiated reward offerings that engage employees with authenticity, empathy, and collective purpose.

uncertainty, and change, all employees (particularly top talent) need to see value manifested in multiple ways.

- Clear and transparent reward communications are correlated with trust and the credibility of leaders. Many organizations will need to make improvements in the quality, clarity, transparency, and effectiveness of total rewards communications. In addition to explaining the “what” and “how” of specific programs, they need to get to the heart of the purpose and principles of the rewards programs offered, the value of these programs to employees and the places employees can go with questions.

2 Performance management programs

Our research indicates that performance management processes are the second highest-ranked area of change for the next two years. From our conversations with clients we see that many elements of the performance management process have been abandoned during the crisis, and yet there is confidence that organizations will be able to differentiate and award both development opportunities and reward outcomes without these activities. We expect the following areas of focus:

- Organizations will take a stronger view that performance management is a primary catalyst for refocusing the workforce on the things that matter most. We see organizations taking advantage of current business conditions as well as resilience and tolerance for disruption to make the changes to performance management programs that are in dire need of renewal.
- More flexible goal-setting processes will be implemented, with more flexibility in redirecting goals as needed. For many roles, we also expect annual goal-setting processes to be accelerated—to semiannually or quarterly—given challenges in unstable economic environments.
- Balancing metrics will be a priority for organizations that have been too focused on measuring and rewarding on trailing financial measures (e.g., revenue growth, profit, return measures). Given the need to build a line of sight and employee connection to outcomes, we see organizations rebalancing their focus with a few key metrics around organizational values, customers, operations, and human capital throughput metrics.

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- Organizations will be more disciplined about conducting regular performance feedback and development conversations. Interpersonal connectivity is more important now than ever, and managers' capabilities are being tested with increasingly remote work. More frequent and substantive performance coaching will become the most important work your managers will do.
- Typical "five-level rating" schemes, in gentle decline, will be replaced with alternative approaches enabling organizations to credibly and efficiently identify those who are not contributing and those who are making a very substantial difference.

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3 Short-term incentive/ bonus pay design

As indicated, performance metrics, goal-setting processes, and pay mix will evolve for employee groups in many organizations. We anticipate the following impact on the design of short-term incentive/bonus pay programs:

- Organizations will focus on clarifying team and individual priorities and performance objectives. Many organizations have already begun the process of addressing this— 40% of organizations report that they have made changes in key performance metrics in the past few months, including moving from growth metrics to profitability and operational efficiency metrics.
- In challenging economic times, many organizations establish a tighter line of sight in metrics and payouts at the individual and team levels versus the enterprise level. We anticipate greater use of individual and team performance modifiers as well as management discretion (within a framework) in determining variable pay—particularly in the immediate future.
- Many organizations hardest hit by the financial crisis will lower performance thresholds and lower the payouts associated with these lower thresholds.
- There is an increased need for communication about organizational performance results and how they affect rewards. This includes connecting variable pay to broader organizational performance messages, establishing two-way (versus one-way) communications with employees, and better-equipping leaders and managers to deliver messages.

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4

Job architecture, job evaluation, and career development frameworks

The combination of rapid business transformation and digital technology is accelerating the way that organizations approach work management—how they organize it in a job architecture, how they measure it, and how they link it to talent management processes. We see the following trends over the next two years:

- The sudden and material change in how work is getting delivered through the pandemic has many organizations revisiting their strategies for workforce transformation. It is pushing organizations to the limits of flexible job design and rapid reskilling of people and forcing them to think about approaching work in a more agile way.
- Organizations are seeking to optimize their labor costs and ensure that jobs truly reflect the value of work. Many organizations are acting on title inflation, personal grades, exceptions, and resulting pay premiums that are difficult to sustain when facing decisions about layoffs, furloughs, and pay cuts.
- New HR information-system implementations are prompting organizations to clean up or scrap existing job catalogs and skills libraries. Work-measurement calibration tools that are essential for aligning jobs, skills, capabilities, and talent data take on greater importance.

- Organizations will require flexible and efficient tools to support job design, analysis, documentation, and evaluation as well as career-pathing frameworks. They need to leverage this information and have a single source of truth about work and roles, rather than different variations of content and formats cast across varied sources, platforms, and timeframes.

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5 External pay benchmarking processes

In challenging economic times, it is natural to take a more internal (versus external) focus on rewards management. While it's tempting to think about "sitting out" an external benchmarking process this year, due to the pandemic and constrained finance sources, this could be short-sighted.

External pay benchmarking processes and competitiveness strategies will evolve. We are already seeing a shift in companies moving from an "extreme" market benchmarking posture to a "rational" benchmarking process that is more deliberate, focused, and streamlined. A confluence of factors is driving this, including a tough economy, evolving and dynamic roles, complex organization structures, and limited management bandwidth. We see more rational market benchmarking processes consisting of the following:

- Moving from utilizing many surveys for many jobs (often of a questionable quality match) to a select benchmark of high-quality surveys covering a benchmark sample of jobs of reasonable breadth.
- Moving away from overly precise definitions of market competitiveness (e.g., a 62.5-percentile positioning strategy) to a "competitive zone" framework. This will enable the establishment of compensation targets more flexibly and consistently, with a focus on internal need versus blindly following market data points.
- Increased focus on benchmarking the aggregate investment in collective employment costs and pay programs versus solely a job-by-job comparison of competitiveness. While this organization benchmark data has historically been more challenging to obtain, information providers (including Korn Ferry)

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better aggregate labor-cost benchmarking databases to ensure that the overall spend on compensation is within reasonable levels and staffing is appropriate to revenue levels and the (new) ways work is done.

- All of this is driven by the pendulum swinging from a classic benchmarking orientation of "we let the market determine our investment in people" to organizations realizing that they need to determine the level of investment in their people.

Conclusion

This pandemic and the related economic fallout have affected lives and businesses around the world like no other event in recent memory. Our world has changed. Our way of doing business has changed. Being successful in the future demands taking the lessons learned during the response to the crisis and evolving our organizations.

We have identified several areas in the total rewards portfolio where we see leading organizations establishing a new way forward. These organizations view these changes as effective investments of resources well beyond this crisis. To successfully change reward programs, you will need to clarify, design, role-model, and communicate new expectations of managers and employees. There is no “Easy” button for much of this, but the payback will likely provide the largest return on investment from your organization’s human capital.

Get the data

To access the full set of results for each of our COVID-19 rewards pulse surveys, please use the links below:

[DOWNLOAD](#) [March 2020 report](#)

[DOWNLOAD](#) [April 2020 report](#)

[DOWNLOAD](#) [May 2020 report](#)



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About Korn Ferry

Korn Ferry is a global organizational consulting firm. We work with organizations to design their organizational structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward, develop, and motivate their workforce. And, we help professionals navigate and advance their careers.