

Managing Compensation in The ‘New Normal’

By Michael Conover, BDO USA

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The novel coronavirus (COVID-19) crisis has affected all sizes and types of organizations, including the nonprofit sector. Regardless of the type of nonprofit, they have been impacted by: forced office closures, dramatic swings (upward or downward) in demand for their services, actual or threatened loss of revenue, budgetary and staff cuts, etc. As the crisis has unfolded, each organization has struggled to respond as new information and guidelines for moving forward have changed. And there is no certainty as to when or how things will begin to change for the better.

Because compensation is generally the largest expense for most nonprofit organizations, it should come as no surprise that many have been forced to reduce or eliminate salaries, and discontinue any bonus and incentive plans. Over time, additional compensation reductions may become necessary if revenues fail to recover to needed levels.

With the struggles to manage day-to-day operational issues a full-time affair, a discussion of compensation would seem to be a pretty low priority in most organizations... particularly since there is likely no good news to report. Like most difficult topics, however, this does need to be raised.

While we cannot make many specific predictions about the future as far as compensation is concerned, I believe there are a few things we can expect as things move forward:

- Staff and salary reductions in response to the crisis will likely result in no or negligible wage growth for the year with possible negative growth in some cases.

- Interest normally devoted to surveys about salary increases for the coming year will likely be focused instead on surveys of trends for addressing the “no growth” situation, which can include plans for restoration of salary cuts, use of one-time bonuses/spot awards, “premium”/hazard pay for essential personnel, etc.
- Boards will wrestle with decisions about compensation for the executive team managing the organization through the crisis period — pondering a basis for evaluation of performance and an appropriate means for rewarding steps taken for the organization’s survival versus a celebration of growth and profitability.

Under the best of circumstances, good advice for addressing an organization’s compensation needs is based on an understanding of the facts and circumstances associated with that organization. These uncertain times underscore the need for specific information, but very little is available. With little or no information about when or how things will begin to emerge from the crisis, it might be best to offer some general guidelines for managing compensation in the new normal. A few that come to mind follow:

- Prior to implementing changes in any compensation practices (if not already made), organizations must check with state regulations about required periods of notice before changes can be made. Similarly, plans for eliminating, delaying or changing the terms of payment under any formal plans or employment agreements should be thoroughly researched to avoid any adverse compliance issues.

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- Communication about compensation is always important and often not done well. In difficult situations it is more important and must be done better. Information must be shared and provided in advance of change (when possible) by board and management to staff.
- Periodic updates on compensation, particularly in cases where salaries have been reduced, is important. Ideally, plans for restoration can be shared. Until that can occur, communication of assurances that the subject has not been dropped and a plan will be announced as soon as one can be developed should be made. While employees may be reluctant to raise the topic, it is a top-of-mind issue on the home front.
- While board members are likely absorbed in many other issues, the annual compensation discussion may be delayed, but its return to the agenda is a certainty. Management has the same interest in and need for information about compensation as staff members.
- The typical review of actuals in relation to budget, personal objectives met and/or missed, etc. will likely be moot at this point. Similarly, efforts to reset bonus or incentive plans will likely be a pointless effort under current circumstances.
- Rather than delay consideration of management compensation decisions until several days beforehand, board members might do well to devote some time to identifying and discussing some new and/or revised criteria for assessing management's stewardship of the organization in the crisis. For example:
 - How well were employees treated?
 - How well were the organization's clients/service recipients treated?
 - How well were the organization's vendors treated?
 - How did the organization respond to the needs of the community?
- Explore some ideas and/or options for alternative compensation such as non-monetary alternatives for recognition, reward payments (e.g. one-time bonus/spot award, extra paid time off, etc.).
- As circumstances improve and plans for recovery begin to become clearer, communications with all parties about plans for compensation must be a priority. People should not be left in a position to wonder what will happen or be forced to ask. Proactive communication is the best approach.

We expect that in the weeks and months to come, there will be more information to share about trends that will impact compensation later in this year and into next. We will provide updates as they become available.

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