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TOTAL REWARDS

Figuring out total rewards in a rocky economy

By Gail Evans

What is the right direction for a total rewards strategy in the current economic turmoil? This has been a common question since the start of 2015.

To answer, it is important to first interpret the economic context in which organizations are operating. Recent global factors include: geopolitical turmoil in the Middle East and the impact on the volatility of oil prices; the recent Greek crisis and bailout by the European Union; and the new American agreement with Iran.

Issues closer to home include a stronger economy in the United States, the falling Canadian dollar, low oil prices and uncertainty around a royalty review by the new NDP government in Alberta.

The good news? Exports to the U.S. are increasing, particularly in manufactured goods and lumber. Plus gasoline costs are lower, as is inflation, and slow economies in Alberta and Saskatchewan are expected to rebound.

More balanced responses

Although about one-half of employers are reporting no change to their economic outlook, more organizations operating in the Western provinces are less optimistic, according to a June survey of more than 300 respondents by the Wynford Group. This trend is most dramatic in Alberta and Saskatchewan, while two of the strongest economic regions are British Columbia and Ontario.

With the retraction in energy projects in Northern Alberta, salaries in the resource-rich provinces are showing lower increases and salary increases are markedly more modest across Canada (see sidebar).

Human capital practices

A trend we are seeing nationally is a sharp cut to hiring. Many companies are opting for a lean workforce and waiting to see the business impact of the unsettled economy before increasing the size of the labour force.

Many indicators suggest organizations are optimistic for the future, but are not prepared to commit more resources to human capital expenditures until conditions stabilize. Fortunately, the consensus of many economists is the worst of the "oil shock" has happened and there will be a slow and steady rebound throughout 2015, with 2016 starting to look brighter for most sectors.

Cost management strategies

Although there are variations in different industries, cuts to budgets in areas such as training, usage of summer students, and reductions in overtime indicate some companies are under severe cost constraints. While these strategies (as well as hiring freezes) are used to provide flexibility, the significant increases in layoffs or staff reductions are a more serious indicator of structural change in some industries.

As a number of organizations (particularly in oil-producing provinces) have experienced a dramatic decline in their economic situation, we looked at the strategies they are using to reduce costs yet maintain core skills within the organization.

While "not replacing vacancies" was used by 50 per cent of respondents, "reducing hours of work" was a significant proportion, at almost 30 per cent, as well as "increasing cost-sharing on benefits" (see sidebar).

The most common approaches to reducing work hours included:

- reducing paid hours of work on a daily basis and reducing paid days of work from five to four

Economic environment over next 6 months

	National	East	West	Alberta
Unchanged	47.6%	53.5%	45.5%	49.1%
Growth	28.4%	41.9%	23.4%	14.3%
Decline	24%	4.7%	31.2%	36.6%

Human capital strategy

	Employed	Planned
Increase worker share of benefits cost-sharing	16%	12%
Job sharing	7%	4%
Offering unpaid vacation	8%	8%
Encouraging leaves of absence	8%	2%
Increasing unpaid days off	8%	6%
Pay rollback	10%	1%
Reducing hours of work	24%	5%
Early retirement	12%	3%
Deferred incentive pay	11%	4%
Not replacing all vacancies	43%	7%

Highest average regional 2015 base salary increases:

	Zeroes omitted	Zeroes included
Canada	2.69%	2.41%
B.C.	2.84%	2.50%
Alberta	2.78%	2.43%
Ontario	2.71%	2.41%

- increasing the number of unpaid Fridays off
- offering additional unpaid vacation or leave.

This appears to be the result of lessons learned during the last recession where a greater number of organizations rolled back base pay, and then had to play catch-up once the recession was over.

Smoothing out the bumps ahead

As a result of the continued uncertainty, employers would be wise to to keep apprised of:

- the broader economy and its impact on their industry
- their strategic direction
- their organizational culture and feedback from employees.

They should also continue investment in HR infrastructure to be prepared for the next bumps in the road:

- Focus on performance-based compensation to reward and retain key talent.
- Look for unique learning opportunities such as mentoring, cross-training and lunch and learns.

It's also a good idea to consider total reward strategies such as:

- using performance-based incentive strategies
- reviewing pay mix and considering more variable programs
- developing a variety of variable pay strategies that include deferred short-term incentives as well as mid- and longer-term incentive programs
- gain-sharing.

Lastly, it's important to support employee engagement through: continued skill training and development, educational leaves, job sharing, flexible time or days and wellness and fitness programs.

The period of turmoil does not appear to be finished so progressive organizations will stay flexible in their approach to total rewards for different employee groups and keep an ear to the ground to respond to continuing changes, both internally and externally.

Gail Evans is president of the Wynford Group in Calgary, which provides expertise in developing a broad range of total reward strategies and national market surveys and infrastructure tools. She can be reached at wynford@wynfordgroup.com.