

Compensation & Benefits - COVID-19 Impact -

July 2020



Introduction

Page 2



Methodology

Page 3



**Participation
(Industry-wise)**

Page 4



Coverage

Page 5



Survey Findings

Page 6~16

India has encountered several crises, be it recession, epidemics and pandemics in past, but the human spirit has endured and survived. The COVID-19 pandemic has been unprecedented on many counts pertaining to public health, national security, and the global economy. The rampant spread of COVID-19 outbreak, across borders and geographies, has severely impacted almost the whole world and triggered significant downside risks to the overall global economic outlook.

In spite of more than 3 months of lockdown, all safety measures and protocols, India wrestles with COVID-19 pandemic. For an emerging economy like India, the lockdown has had severe economic consequences and is, thus, detrimental. Though the outbreak permeated almost every aspect of the economy, it is primarily a health crisis and possibly one of the biggest that the world has seen, with even the sophisticated health systems in the advanced nations struggling to tackle the disaster.

Due to the lockdown announced by the Indian Government, the economy has slowed down and this scenario will continue for few months. For most businesses, the slowdown could be in the form of supply disruptions, fall in consumption demand, and stress on the banking and financial sectors.

With the first phase of unlock already over, challenges for the Indian economy are many. With the pandemic causing significant distress to individuals and businesses, the role of industry - government partnerships will be critical in restarting the key engines of growth, as we build a self-reliant India that is competitive but is also engaged with the world.

COVID-19 has directly impacted our way of working and our working arrangements. It also has & will have impact on the compensation and benefits of an employee.

With most employers taking a wait-and-watch approach, India Inc. will see delayed or lower increments and bonuses during the current year. Organisations are evaluating possibilities of optimising their compensation programmes so as to preserve cash for immediate business requirements.

More than ever, companies would need resources & teams in place to - ensure business continuity, identify newer opportunities in the times of crisis, innovate, plan & operate new feasible business models etc.

These are difficult time for all and the best way is to keep trying to find the balance between maintaining employee's & customer's health, communicate transparently all facts & figures to employees from time to time and to ensure business continuity.



The survival and relevance of a business in the post COVID-19 scenario will be determined by the flexibility and agility in the decisions made by organisations today.

In continuation to our previous report - "Role of HR during COVID-19 Crisis" and looking at its impact on other aspects, we, at Omam Consultants have inputs from 100 plus companies to understand how COVID-19 has impacted Compensation and Benefits across industries.

The study talks about the mood of India Inc. w.r.t Annual Salary Increments - 2020, Variable Pay - Short Term and Long Term Incentive Plans, Compensation Realignment etc.



Planning & Understanding

- Identify and define objectives
- Identify industry and the companies to be covered
- Finalise key parameters of the study



Data Collection & Validation

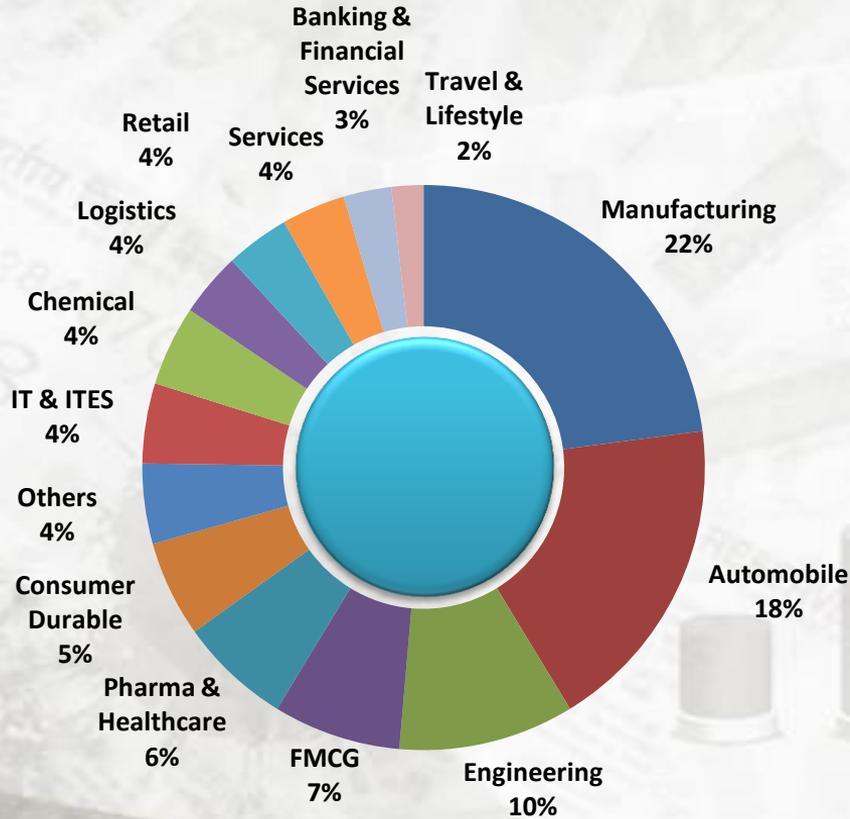
- Questionnaire design - to have structured inputs from the selected benchmark companies
- Data collection - capture & understand data from benchmark companies
- Data collation



Data Analysis & Report Generation

- Study data & revalidate
- Survey analysis
- Report generation

The survey was conducted during the month of June 2020 covering 100 plus companies across various sectors. The result of the survey is compiled and presented in the following pages –



- Manufacturing
- Automobile
- Engineering
- FMCG
- Pharma & Healthcare
- Consumer Durable
- Others
- IT & ITES
- Chemical
- Logistics
- Retail
- Services
- Banking & Financial Services
- Travel & Lifestyle



Impact of COVID-19 on **Compensation**

- Annual Increment 2020
- Realignment of Compensation
- Performance Target Adjustment



Impact of COVID-19 on **Benefits**

- Leave adjustment/ deduction
- Change in the medical policy



Impact of COVID-19 on **Company Hiring Policy**

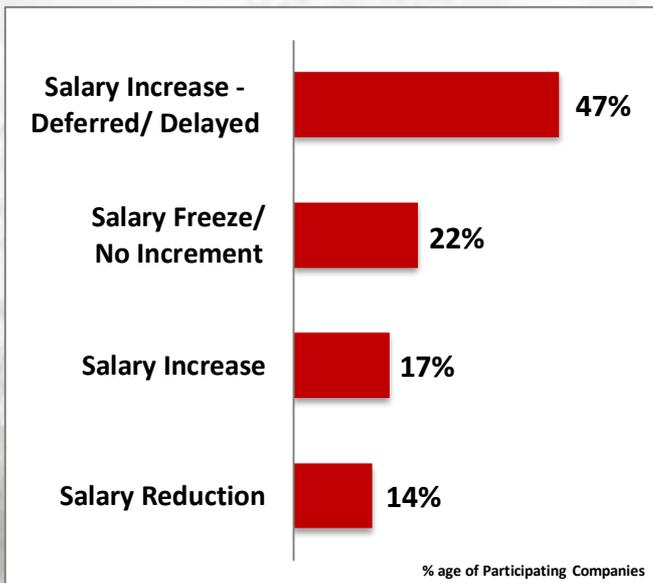


Impact of COVID-19 on **Layoff/ Retrenchment**

In the current scenario, managing cost is the most critical aspect for any organisation. Current situation has surely impacted the overall environment/ sentiment and hence most organisations have taken bold decisions such as – deferring salary increase, salary freeze, salary reduction, freeze on hiring etc.

Undoubtedly HR has effectively realigned people, processes & technology and is currently supporting businesses to realign their compensation & benefits norms/ policies.

1.1 Impact of COVID-19 on Compensation

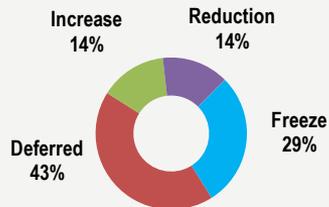


- Organisations with calendar year appraisal cycle have had no impact of COVID-19 on Increment – as they had completed the cycle.
- Organisations with financial year appraisal cycle are trying to balance between the capacity to pay and need to pay.
- Organisations which have their appraisal in July are keeping a watch on the situation & working on their options.
- 69% of the organisations surveyed have either deferred the salary increase or decided on salary freeze for Yr 2020.
- 17% of the organisations surveyed have gone ahead with salary increase for Yr 2020 & 14% have reduced salaries.
- The impact of COVID-19 is pronounced in middle management category; which, across most industries, represents the largest component of the overall cost.

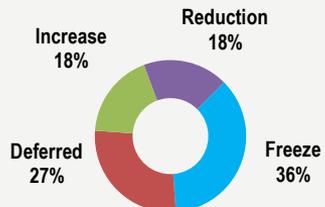
Impact of COVID-19 on Compensation – Across Sectors

% age of Participating Companies

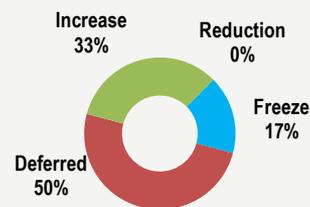
Automobile



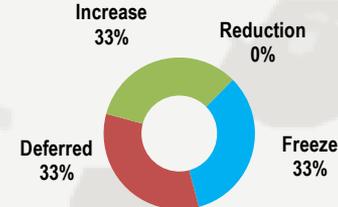
Engineering



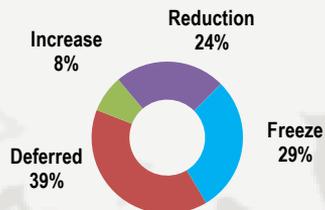
FMCG



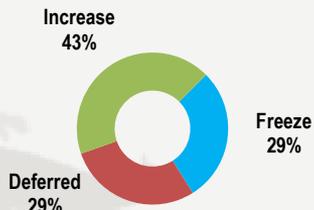
IT



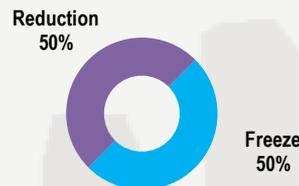
Manufacturing



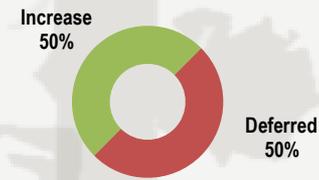
Pharma & Healthcare



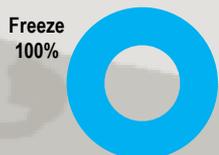
Services



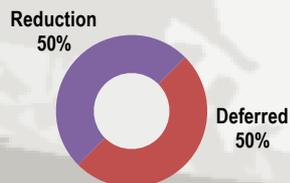
Logistics



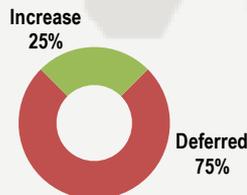
Retail



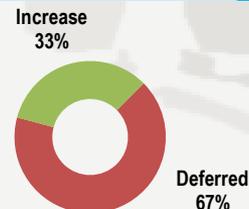
Travel & Tourism



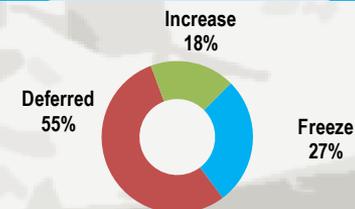
Consumer Durable



Chemical



Others





Annual Increment

As it is clear that most of the organisations (83%) have decided to freeze/ no increment or deferred/ delayed annual increments for their employees across all management levels. However few organisations (17%) have given increments as per their capacity to pay and need to pay.

Key Observations

Average Increment (Overall)

8%

Level-wise Increment (Average)

Senior Management

6%

Middle Management

7%

Junior Management

9%

Salary Components Considered for Increment

CTC – As Basis of Increment

82%

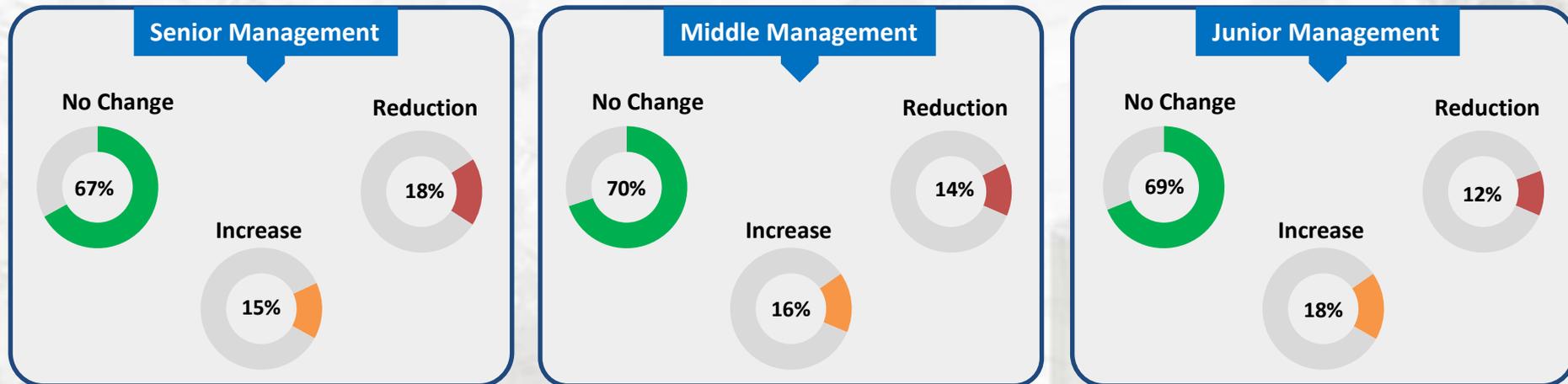
Gross Salary - As Basis of Increment

15%

- 17% of the organisations surveyed have gone ahead & given increment @ 8%; ranging from 6% to 9% of CTC at management levels.
- Most of the organisations surveyed (82%) consider CTC for the basis of increment.
- 15% of the organisations surveyed consider Gross Salary for the basis of increment.

1.2 Realignment In Compensation & Benefits

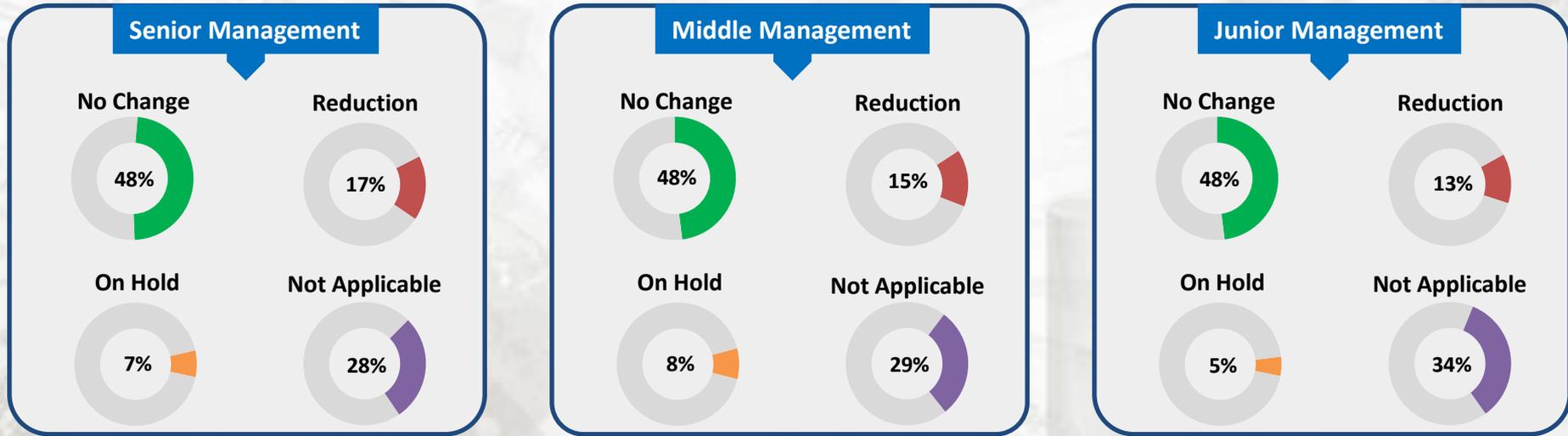
Impact on Fixed Pay



- For most of the organisations surveyed (approx 70%), there has been no change in Fixed Pay for employees across management levels.
- Approximately 14% of the organisations surveyed, has seen a reduced fixed pay and around 16% has seen increase in fixed pay portion.

1.2 Realignment In Compensation & Benefits

Impact on Variable Pay (Short Term Incentive/ Sales Incentive)

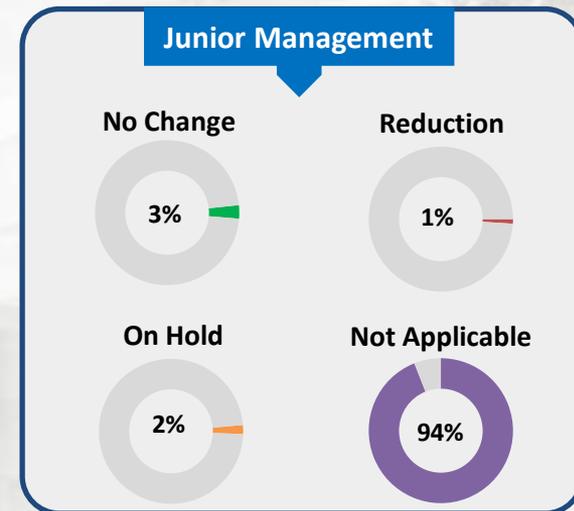
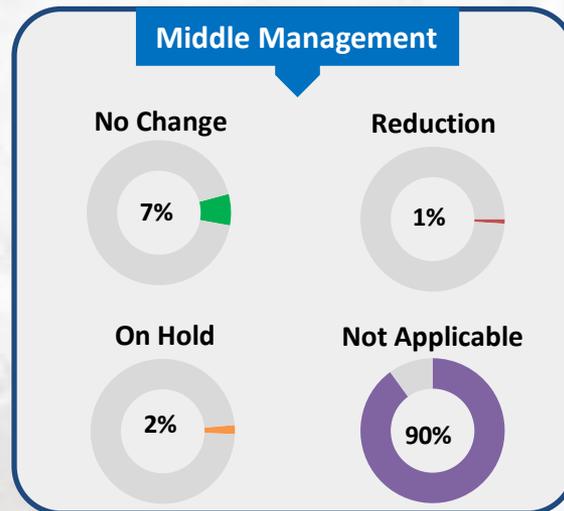
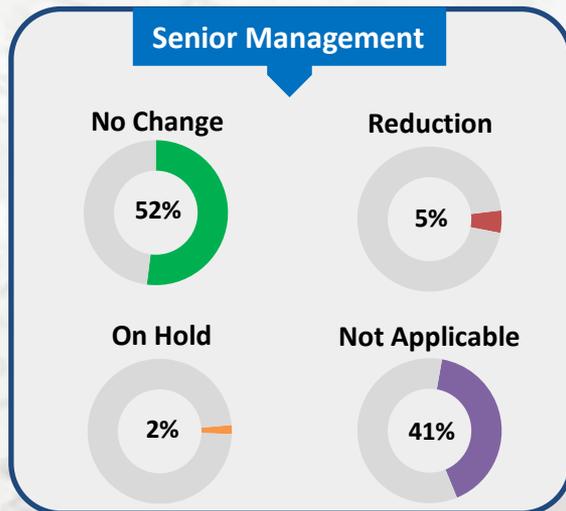


- Approximately 15% of organisations surveyed have seen reduced variable pay component across management levels.

1.2 Realignment In Compensation & Benefits

% age of Participating Companies

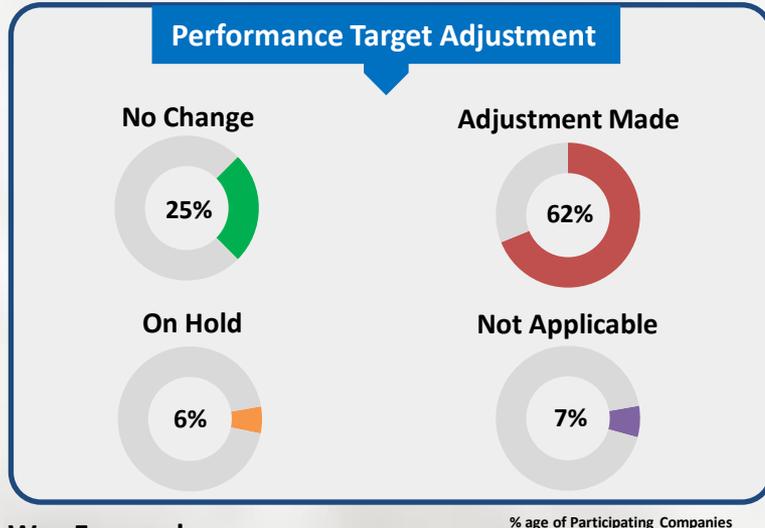
Impact on Variable Pay (Long Term Incentive Plan - LTIPs)



- Most of the organisations surveyed across the industries have confirmed that either there is no impact or they don't have any such incentive plan
- Long Term Incentive Plan is generally applicable for the Senior Management Level

1.3 Performance Target Adjustment (For Variable Pay Payout – FY 19~20)

- The COVID-19 outbreak has had a swift and volatile impact on business operations across industry verticals.



- Most of the organisations surveyed (69%) had to adjust/ revisit their performance target due to the pandemic.
- 80% of the manufacturing based companies had to reduce their production targets for the year.
- Most of the companies with calendar year cycle issued their annual incentive in February or March - that was, just before outbreak of COVID-19.

Way Forward -

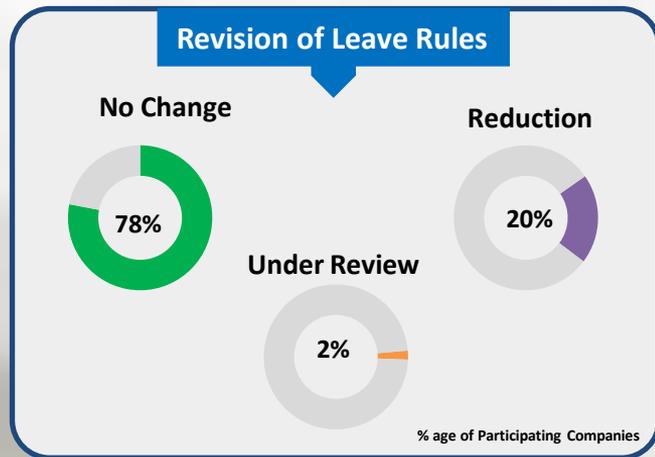
- Since this is happening concurrently with the annual increment cycle of most companies, the issue at hand is - how will companies address target and incentive setting in this environment.
- COVID-19 is now making it virtually impossible to set performance goals on long-term and short-term incentive plans.
- To be effective, performance awards need to have realistic goals so that the recipients perceive a high line of sight between their actions and the ultimate payout.

2.1 Impact on Benefits – Leave Policy

The ongoing COVID-19 pandemic has made a profound impact on the way we work through unforeseen circumstances.

Special Leave for COVID -19

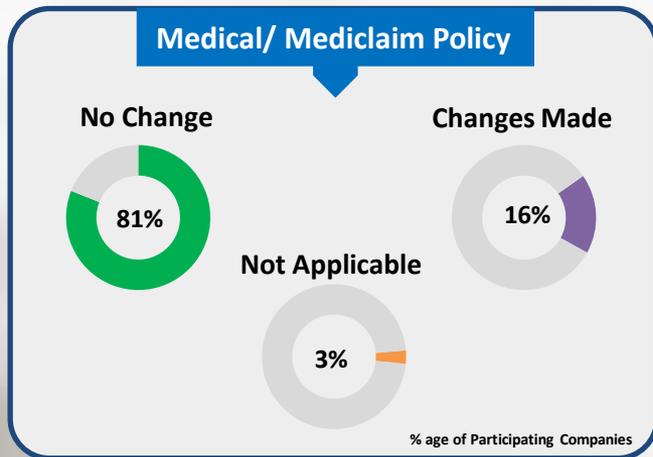
- Most of the organisations surveyed are reviewing their policies to include special provisions to ensure isolation doesn't hit employees salary.
- The Special Leave for COVID -19 has been introduced by 87% of the organisations surveyed, which can be availed by an employee who wants or is recommended to self-isolate.



- Most of the organisations surveyed (78%) have stated that there is no change in the leave entitlement of the employees.
- 20% of the organisations surveyed have stated that they are looking for reduction in leave entitlement of the employees.
- 10% of the organisations surveyed have asked employees to consume PL and there will be no carry forward or encashment of leave for the Yr 2020.
- 10% of the organisations surveyed have asked employees to take mandatory offs (12~15 days) – adjusted against leave.

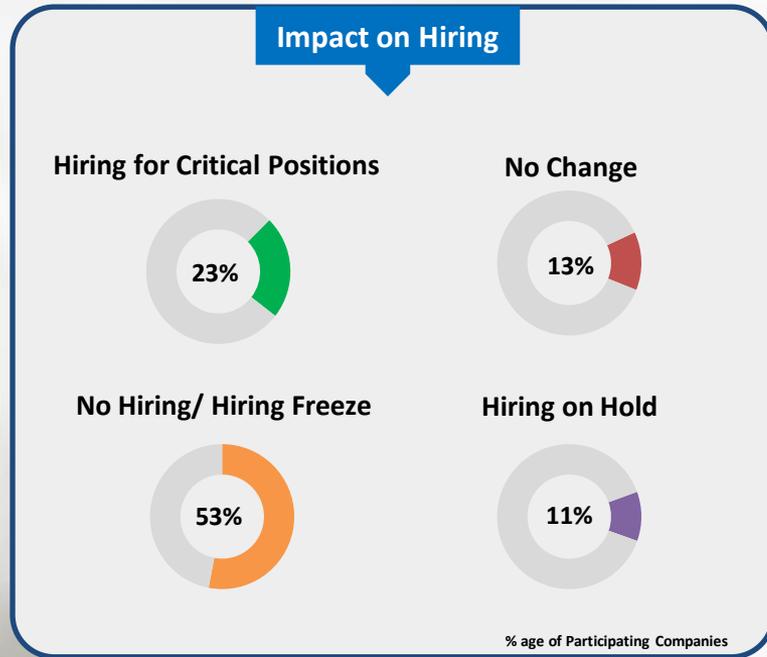
2.2 Impact on Benefits – Medical Policy

- Companies are making a concerted effort to ensure that both employees and their dependents are supported during the COVID-19 crisis.
- Health insurance is a key benefit companies are offering its employees during this Pandemic.



- Most of the organisations surveyed across the industries (81%) have made no changes in the medical/ medicaid insurance policy.
- However, most of the organisations surveyed have added/ revalidated COVID-19 in the coverage.
- Few companies had added separate top-up coverage for COVID-19.
- Few companies have increased the sum insured for the employees.

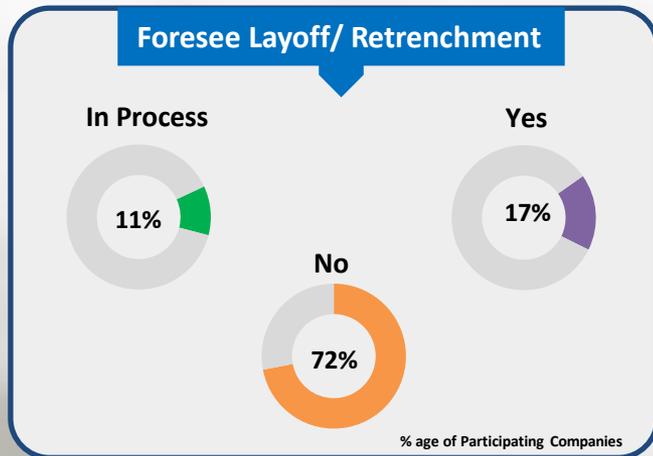
3.1 Impact of COVID-19 on Company Hiring Policy



- COVID-19 pandemic, nationwide lockdown and its extension across the major metro cities has resulted in drop in hiring activity across the industries.
- Many industries are being severely affected by the COVID-19 pandemic such as travel and tourism, hospitality, real-estate, entertainment etc.
- Due to prevailing crisis, hiring in most organisations surveyed are on hold or on freeze.
- However, most organisations surveyed have honoured all earlier hiring and released offer letter.
- About 23% of the organisations surveyed stated that critical hiring is still taking place.
- Around 7% of the organisations surveyed have indicated that the hiring activity will be started for critical positions in Q2.

4.1 Foresee Layoff/ Retrenchment

- Sufferings of industries due to the current pandemic is now getting translated into layoffs/ retrenchments.
- Even-though severe impact of COVID-19 is seen on the performance of companies, still they are taking optimistic approach towards the situation and most of them have stated – “that this crisis is very much temporary and we come out of this, new job creation and hiring will surely start”.



- Around 28% of the organisations surveyed have either gone ahead or are in the process of envisaging layoffs in the near future (Out of this around 35% of the companies states that the layoffs are temporary).
- Interestingly, 72% of the organisations surveyed do not see any job cut/ layoff as of now.
- 60% of the layoffs is happening in the Middle Management level followed by Junior Management level.

Hope this report will help you in understanding the initiatives taken by companies
& impact of COVID-19 on Compensation & Benefits.

Thank You for your participation!!!

In case of any query/ suggestion, please write to us at – hrcc@omamcrd.com

OUR BELIEF...

INDIAN Problems Need INDIAN Solutions !

Think GLOBAL, Act LOCAL !



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