

Pay Cuts Become More Common in Pandemic Downturn

How to keep affected employees motivated

By Nancy Cleeland

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A growing number of companies in sectors hit by the coronavirus pandemic are turning to pay cuts instead of layoffs to reduce their labor costs, hoping to preserve their workforces for a fast recovery.

Employment attorneys and HR practitioners said that approach makes sense in these uncertain times, but they cautioned that cutting pay has to be done right to avoid generating resentment, lowering productivity and eventually driving away the best employees.

Businesses that emerge in the best shape from a period of pay reductions will probably have these things in common:

- They are consistent and fair; employees doing the same work get the same cuts, and top executives sacrifice more.
- They are open about business financials and the company's strategy for recovery.
- They have two-way conversations with employees and listen to workers' ideas.
- They restore original pay as soon as it becomes sustainable.

Also, it doesn't hurt if top leaders set an example by cutting their own pay first, as a number of airline and hotel executives have done, said Tom McMullen, senior client partner in the Chicago office of Korn Ferry, an organizational consulting firm.

"In terms of engagement and morale, you'll be in a better place if leaders are out front, treating employees like adults and also saying, 'We'll come out of this and here's how,' " he said. "Organizations that can do that will have better-engaged folks."

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Impacts Are Widespread but Uneven

A Korn Ferry survey of 340 U.S. employers found that 38 percent had implemented or were considering pay cuts. About an equal share had laid off or expected to lay off employees. That's a different approach from the one employers took during the recession of 2008 and 2009. "We saw more people go straight to layoffs in '09," said McMullen, co-author of the survey findings. "It was a learning experience, and some organizations felt they didn't come out as well. They had trouble ramping back up when it was over."

Another striking difference in this recession is its unevenness, he said, with sectors such as hospitality and travel being pummeled while grocery stores and delivery services thrive. Some employers, including Amazon and Kroger, have awarded temporary bonus pay to front-line workers. Meanwhile, significant pay cuts have been announced by hospitals (<https://www.modernhealthcare.com/finance/hospital->

ceos-take-pay-cuts-amid-covid-19), newsrooms (<https://www.poynter.org/business-work/2020/here-are-the-newsroom-layoffs-furloughs-and-closures-caused-by-the-coronavirus/>), law firms (<https://www.law.com/americanlawyer/2020/05/08/pay-cuts-layoffs-and-more-how-law-firms-are-managing-the-pandemic/>), accounting firms (<https://goingconcern.com/tracker-job-cuts-pay-cuts-both-covid-19/>) and even a private zoo in Illinois (<https://www.wqad.com/article/news/niabi-zoo-says-covid-financial-struggles-could-hurt-their-future/526-b08e7798-9750-4fd6-bd1f-593d6d82e6b3>).

The Korn Ferry survey, which was conducted April 15-24 as part of a larger global survey, found that executives were most likely to experience cuts in pay, with about 70 percent of those represented in the survey seeing their salaries fall. But, as McMullen noted, salary tends to make up a smaller share of total compensation for this group. Pay was also reduced for 52 percent of middle managers, 41 percent of professionals and supervisors, 33 percent of those in clerical roles, 21 percent of workers in manufacturing and operations, and 24 percent of those in customer-facing roles such as retail floor work.

A survey of 4,917 U.S. adults (<https://www.pewsocialtrends.org/2020/04/21/about-half-of-lower-income-americans-report-household-job-or-wage-loss-due-to-covid-19/>) conducted April 7-12 by the Pew Research Center found similar results from a worker perspective. One-third of respondents reported that they had taken a pay cut in recent months, largely due to reduced hours or demand. The cuts hit unevenly across demographics, with 51 percent of Hispanic and 34 percent of black workers saying they had to take a cut in pay, compared with 29 percent of white respondents.

However, no group was spared. "Across racial and ethnic groups, income tiers and educational backgrounds, the share of adults saying their household has experienced job or wage loss due to the coronavirus outbreak has gone up in recent weeks," according to a summary of the Pew survey. "The gaps across age groups that were apparent in March are less pronounced now, as adults ages 30 to 49 are now as likely as those younger than 30 to say they've experienced a major job setback."

Negotiating to Save Jobs via Pay Cuts

In general, members of organized labor will do what it takes in tough times to save their businesses and the jobs of fellow workers, including negotiating temporary pay reductions, said William E. Spriggs, chief economist for the AFL-CIO federation of unions. But he added that union agreements to reduce pay "are fraught with difficulties because when times recover, so many [employers] forget that [workers] did them the favor." Negotiations regarding cuts are ongoing with employee unions in state and local governments, major sports franchises, and other heavily unionized sectors.

The Los Angeles Times Guild announced on May 1 that it had reached a deal with the newspaper to avert more than 80 layoffs and save more than \$2 million by reducing weekly schedules and pay for all editorial staff by 20 percent until August. In a statement (<https://latguild.com/news>), the guild said journalists would remain whole because their reduced pay would be supplemented by a state program that provides partial unemployment benefits during a downturn. Known as work sharing, this type of benefit is available in 28 states (<https://www.ncsl.org/research/labor-and-employment/work-share-programs.aspx>) but "is rarely used in journalism despite its obvious utility for an industry known for layoffs," the statement said.

Spriggs, who also teaches economics at Howard University, said that when the economy recovers, companies that worked out a way for employees to stay, perhaps by tapping into a state work-share program, "are going to be light years ahead of the ones that sent their workers home on unemployment."

An Era of Shared Sacrifice

From an employer perspective, layoffs have traditionally been preferable to pay cuts, according to Karl W. Smith, vice president of federal tax and economic policy at the Tax Foundation in Washington, D.C. Writing in Bloomberg Opinion (<https://www.bloomberg.com/opinion/articles/2020-05-05/coronavirus-is-making-pay-cuts-preferable-to-layoffs>), Smith said pay cuts can hurt morale, lower productivity and prompt the best workers to leave. In contrast, "by laying off some workers, an employer is able to maintain its relationship with those that remain, who are often its most prized employees," he wrote.

But things are different now.

"COVID-19 has changed this dynamic. In general, the sense of widespread sacrifice—which goes beyond any single business or industry—means that the damage of pay cuts to any employer-employee relationship is less than it might be," Smith said. "More specifically, federal payroll-support programs have allowed some businesses to reduce labor costs without shedding employees. The combination of more generous unemployment benefits and the (hopefully) limited duration of the shutdown has allowed the majority of employers to put workers on furlough rather than resorting to permanent layoffs."

To maintain that sense of shared sacrifice, employers must be as open and honest as possible throughout the downturn and avoid overpromising, said Vanessa Matsis-McCready, assistant general counsel and director of HR for Engage PEO, an HR services provider headquartered in Hollywood, Fla. When employees ask when pay will be restored, it's all right to say you don't know.

"The employer can share that it is their hope to do it, and they should constantly re-evaluate it," she said. Keep in mind that employees will go through phases after their pay is cut, she advised. "Maybe initially it was, 'OK, I still have a job!' That starts to change after a period of time when you can't meet your bills." As the business starts to recover, provide frequent updates and restore employees to their original pay as soon as feasible, she said. Otherwise, "there will be resentment, and you don't want to lose the people who stuck with you."

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