

## Compensation Policies and Applications in Industries

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**Abstract:** Compensation policies and benefits policies are keys to companies in various industries, and COVID-19 made companies to change their policies. In this essay, compensation policies and benefits policies from companies in different industries will be discussed and compared to find possible relationships between various policies and firms' performance. Current research results will be studied, summarized, and analyzed and point out the significance and study direction of compensation policies in this essay. Examples and cases, which focusing on changes in compensation and benefits policies during the COVID-19 pandemic, are used to explain the importance and significance of studying compensation and benefits policies. We use data from various sources to decompose the increase in the correlation between compensation policies' shift and its contribution to companies' performance in various industries due to pandemic and factors which cause changes in incentives of labor in the companies. Both positive and negative cases will be discussed and an evaluation according to examples of both sides will be made, which shows that compensation policies shift can both benefit and harm the performance of the target companies.

### 1. Introduction

#### 1.1 Research Background

Compensation strategies and benefits plans are an integral part of every company. Whether a company is just getting started or has been around for decades, compensation and benefits are essential to attracting and motivating employees. When a company's top management decides what strategy they should develop, they consider how the overall reward program for compensation concepts should support the organization's business goals and how compensation concepts should align with its values and cultural system (Wolf, 2019) [1]. Companies should use compensation policies to drive growth and keep progress as consistent as possible across the company. In addition, the compensation and benefits plan also reflects how the boss changes the management of the company from verbal plan to practical action, from ideal to reality. When formulating specific plans, companies should consider the following questions: How does their compensation plan differ from the rest of the market? How can companies rely on these differences to attract more and better-rounded employees? What should you target in your own compensation plan? What is the connection between base pay and performance-based pay? These are some of the questions a company needs to consider creating a better and more attractive compensation package.

Through the above analysis, we can easily find that studying the company's compensation policy and welfare plan is necessary. However, since the outbreak of COVID-19 in 2020, businesses and most companies worldwide have been affected in terms of their business, which may affect the company's original compensation policies and welfare plans. From January to July 2020, more than 7 million people have been diagnosed with COVID-19 since the outbreak began, and many countries and regions have been affected to varying degrees. This influence is mostly reflected in trade and import and export, which has brought a huge blow to the economic exchanges between many countries

and countries in the world. For example, China’s GDP fell by 6.8% year-on-year in the first quarter of 2020 (Shen, Fu, Pan, Yu & Chen, 2020) [2]. Internally, most governments have responded by calling on citizens to reduce unnecessary trips and reduce the number and frequency of gatherings in crowded places. As a result, most shopping malls and some enterprises have suffered substantial economic losses. Based on data collected from 51 countries across the country, the World Bank Group found that tourism and all small businesses were more likely to be forced to close due to the pandemic. In the six weeks following the pandemic’s peak, tourism-related companies had a survival rate of less than or equal to approximately 75%, while accommodation and catering businesses had a start-up rate of 58% and 73%, respectively. Big companies are more likely to survive the coronavirus (Amah, Christine, et al., 2020) [3]. Nevertheless, some 89% of large companies and 86% of mid-sized companies can keep their businesses going.

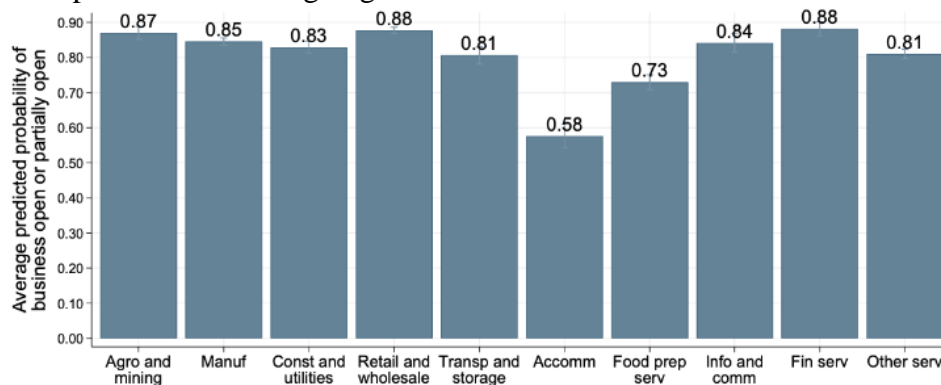


Fig 1. Average predicted probability of business open or partially open after 6 weeks from the peak of the COVID-19 shock (Amah, Christine, et al., 2020) [3]

Employers are striving to stabilize their compensation strategies and benefit plans in order to provide as much income as possible for the employees of most companies to ensure that their income and family finances will not be severely affected. Some of the biggest and most capable companies even keep paying their employees even when they cannot return to work in time. In The United States as a whole, 70% of workers in 26 states are covered by Short-Time Compensation (STC) plans. Through the Coronavirus Aid, Relief and Economic Security (CARES) Act, the federal government plans to provide 100% of STC payments to states that have already signed up for the program and 50% of funds to those that are new to the program (OECD, 2020) [4]. Those who are STC recipients can receive an additional \$600 a week on top of unemployment benefits for a total of four months. What’s more, the US government has introduced some wage subsidy schemes, such as the Paycheck Protection Programme (PPP) and the Employee Retention Tax Credit (ERTC). During the pandemic, PPP specialized in servicing loans and paying employees to small companies or businesses. The ERTC applies to employers whose sales fell by more than 50% during the pandemic. For companies with fewer than 100 employees, the program provides a refundable tax credit of 50% of all employees’ salaries, regardless of whether they continue to work at the company. Retail-based firms such as Walmart and Kroger, for example, have pledged \$300 in incremental funds to their employees. Netflix set up a \$100 million relief fund to help employees who lost their jobs because of the pandemic. By March 2021, Facebook promised employees that they would hand out \$1,000 checks and revise performance ratings to ensure that employees’ performance pay would not be affected by the pandemic (Padilla, 2021) [5].

## 1.2 Research Significance

During the COVID-19 pandemic, the companies around the world have suffered through losses in profits and some even faced bankrupt. In this case, economists around the world are considering how to help companies recover from their losses. Some have argued that it is helpful for companies to change their compensation policies to adapt to this situation, while others suggest it is better for companies to make financial changes instead of shifting the company’s policies. Recently, researchers

have argued to make the compensation policy more incentive based to help the company earn more profit since workers with higher incentives are usually more efficient than those who don't. However, in this case, certain issues also showed up: what is the relationship between a shift of compensation policy and companies' performance? What kind of goals should be set to achieve? What direction should a compensation and benefits policy shift? Based on these questions, a more thorough examine of relationship between the shift of compensation policies and companies' performance is conducted in this paper to help solve the difficulties for companies when considering shifting their corresponding compensation and benefits policies.

### **1.3 Paper Organization**

The paper will contain four parts in the main body and a reference page at the end. The first part is the introduction. In this section, we will talk about information related to the topic of this essay, including definitions, characteristics, and main theme of the paper. Also, we will state the purpose of the essay and the significance of it. The second part is the literature review part. In this part, we will explain and compare different theories to support the main theme of the essay. Then, we will do an evaluation part according to previous part, which summarize the pro side and con side and make the essay more comprehensive and convincing. Finally, the paper will have a conclusion part, in which the conclusion of key findings, possible future studies according to the research, and certain limitations will be illustrated. The reference page at the end of the paper contains the sources we use for citations and data.

## **2. Literature Review**

Compensation policies are a wide range of policies, which includes from basic shift differential for employees who work for extra hours outside the normal working hours to companies' strategies that rewards employees for outstanding performance which meet the goals the companies set. Benefits policies are policies set by firms to reward both current and retired employees for their contributions to companies. Compensation and benefits policies have been important for companies as they can increase the employees' incentives. Different companies in various business have different compensation policies.

### **2.1 Research on Compensation Policies of Retail Sale Companies**

Retail sale companies are companies which sell finished goods and services to its customers in exchange for money, for example, Target Corp, Walmart, and Macy's. The compensation policies of different companies have different components, and the weights of these components are also different. However, they can be divided into two main parts: one is called non-incentive base salary (base salary), and the other is incentive-based salary (LTIs) [7]. Due to different companies have similar factor weights, existing research results are consistent with real life in some cases. For example, for Target Corporation and Walmart, the basic salary weights of the CEOs of the two companies are similar. From the data, unlike what was assumed by other research, a decrease in base salary increases the profit of both companies in the first quarter of the year. In this case, the decrease in base salary will help the company to earn more profit. Also, both Kroger corporation and the Nordstrom companies weight the component called long-term incentives or LTI similarly in their compensation policies. Although Walmart and Target corporation called short-term incentives differently, which in Walmart, it is called annual cash incentive, they weight this component in their compensation policies similarly. In this case,

However, there are certain cases which does not match with the research finding even with the same element. The main problem is that different companies may weight different elements in their compensation policies differently [8]. For example, for base salary component in the firms' compensation policy, Nordstrom weights it significantly higher, which is 15% CEO's total income, than the rest of the companies do, which were around 9%. Performance-based components in different companies are weighted differently as well. In Walmart, the performance-based components weight

significantly lower than in other companies, which it only weights 75.3% compared to 85% in Nordstrom, 91% in Target, 88% in Macy's and 91% in Kroger. Also, for PRSUs, which stands for Performance-based restricted stock units, in target and Macy's, they calculated them differently as well. In target, PRSUs is calculated at the end of the three-year performance period with the number of shares based on relative three-year TSR performance versus our retail peer group, which has a range of 75% to 125% and it will be adjusted up or down by 25 percentage points if Target's TSR is in the top one-third or bottom one-third for the retail peer group, respectively. In Macy's, however, the maximum payout for is 50% [9]. Therefore, we can see PRSU in target weights significantly higher than in Macy's. Moreover, there are certain type of benefits which are distributed to stock owners as restricted stock. What is restricted stock? Restricted stock units are a type of compensation in which a company gradually transfers shares to an employee. Depending on the performance of the company, restricted stock units can fluctuate in value. The Bonus in Nordstrom stands for performance-based annual cash Bonus. In Kroger, 50% of total cash and equity payout will be given in the form of restricted stock instead of paying cash directly to CEOs. While in Kroger, bonus paid can reach 2.5 times an executive's target bonus opportunity and is calculated but in the past 10 years, the Kroger have not paid out bonuses more than 150% of target.

## **2.2 Research on Compensation Policies of Financial Companies**

Most financial firms are expected to make equity adjustments since a significant portion of executive or employee pay includes stock option awards. Prior to the pandemic, stock payments were based primarily on the highest individual performance an employee could achieve. For conditional performance awards, the company could determine the cost of compensation when the employee reached the performance conditional. After the pandemic began, the company started to re-evaluate employees' stock options, which was re-evaluated based on service, performance, and existing market conditions (Burgmeier, 2020) [6]. As a result, companies would expect the relevant risk assessment committees and valuation experts to be involved. Although the current situation of the pandemic has been effectively contained in many countries, we cannot know what the future holds. For this situation, the combination of risk assessment and valuation experts is the best choice. Risk assessment can make the company realize some potential assets and risk factors with impairment risk earlier and deal with them in time to eliminate the hidden trouble as soon as possible in the early stage. At the same time, the changes in the market are unexpected (Burgmeier, 2020) [6]. Valuation specialists can assess assets throughout the financial system to ensure that companies are better protected against risk.

The company has also made changes in retirement benefits, sick leave, paid holidays, and vacations in terms of benefits. Take vacation schedules, for example. Companies may choose to force some employees to take time off to save money. Restaurants and stores, for example, require only some regular staff to stay and serve customers, while others are put on compulsory leave. But it is essential to note the difference between unpaid leave and paid leave. Unpaid leave requires an employee to take time off without pay or with a reduced salary in order to continue receiving fringe benefits offered by the company. The company's final decision on which method to adopt requires a final confirmation based on the time and cost at the time. In addition, employees are also judged based on whether they are positive or negative at work. The judgment criteria include but are not limited to whether the employees who accept the leave are ready to return to work and whether the employees still engage in activities beneficial to the employer and the company during the leave (Burgmeier, 2020) [6].

## **3. Conclusion**

The situation of policy changing is complicated, especially under the background of Covid-19. Although some researchers have argued certain solutions to help the companies solve the problem, the direction of changing compensation and benefits policies should be carefully examined since the elements in different companies' different compensation policies are different. Also, even for companies which have similar compensation elements because the weighting of elements is different, one should change the direction of compensation policies accordingly [10].

The conclusion and the research process can also be used for future studies. Future studies may reconsider the relationship between the shift of compensation elements and the companies' performance after COVID-19 pandemic to get a more precise and universal result. In addition, future research can focus on companies that focus on different fields rather than retail and find the potential relationship between compensation policies and company performance. There are also certain limitations of this research. The first limitation is the background of this research is set during the COVID-19 pandemic, which will cause random error in our measurement [11]. The second limitation is that the sample size of different firms and their compensation policies selected are too small so that the random error might be larger than other research results. Moreover, as the epidemic gets better or worse in different regions, companies in different regions will adjust their pay policies and benefits plans to reflect the local situation. Therefore, compensation policies and benefit plans are changing all the time. Finally, although the data came from authentic sources, the method and the process organizations used to collect and calculate data might contain some error itself, which will make the error in our research and calculation larger. However, all the limitations can be solved using a more specific and scientific research process.

In general, after studying the different compensation policies and benefit plans of American retail and financial companies, the authors believe that there is a high probability that humans and the epidemic will co-exist for a long time. As a result, global economic supply chains and previous trade between different countries may not fully return to pre-pandemic conditions and levels for a long time. In this case, companies should spend more time thinking about policies that are more consistent with how to best benefit their employees in the long run if they don't want to lose a lot of capable employees and want to maintain stable business activities during the pandemic. For example, the company should classify employees who return to work, quarantine or apply for an extension to return to work and formulate corresponding measures. First, the company should communicate with employees before the resumption of work and know the different situations of different employees. If an employee is in quarantine or unable to return to work on schedule, the company should negotiate with the individual about whether they can work remotely, such as by phone or Internet, at home or from another location. If the company doesn't have the ability to work remotely for the time being, the company can consider whether it can give employees the right to take their paid annual leave in advance. If an employee can telecommute, the company should pay the employee according to the usual compensation policy. Besides, according to the various plans of assistance and financial subsidies provided by the US government for individuals and companies affected by the epidemic analyzed in the introduction part, the article believes that the government should also participate in the process of making compensation policies of companies, which means that the government should promulgate programs or laws related to epidemic subsidies. As mentioned above, the government needs to come up with some measures for those who lost their jobs during the pandemic or who could not return to work in time because of infection and were eventually laid off. For this group, governments should provide fixed weekly or monthly compensation or benefits to help the unemployed survive during the pandemic. At the same time, for those families who have children to support but are in financial difficulties, the government should provide them with additional assistance, such as providing child welfare payments or exempting student loans. The Government may need to consider whether medical care can be provided free of charge to an infected individual who is not able to receive timely medical help.

#### **4. Conflict of Interest**

The authors declare no conflict of interest.

#### **5. Author Contributions**

Yudi Ma identified research directions and searched literature and data as well as images; Zhouhao Bao wrote about abstract searched literature and information and compared results to get conclusions.

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