

COMPENSATION AGILITY IN AN ERA OF ECONOMIC VOLATILITY & TALENT SHORTAGES

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Judy Canavan

MANAGING DIRECTOR, COMPENSATION & BENEFITS SURVEY BUSINESS

- ▶ Judy has more than 30 years of experience in survey management, total rewards strategy, market assessment, pay plan design.
- ▶ Served on the faculty at the University of Southern California, Bovard College as an Assistant Professor of Human Resource Management.
- ▶ She leads BDO USA's Compensation Surveys practice.
- ▶ Her industry experience includes health insurance, clinical research outsourcing, pharmaceuticals, reinsurance, utilities, engineering, food processing, higher education, and nonprofit organizations.



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Kristen Kostner

SENIOR MANAGER, GLOBAL EMPLOYER SERVICES

- ▶ Kristen has more than 20 years of experience in compensation plan design, where she manages client engagements for companies with diverse ownership profiles (publicly traded, privately held, not-for-profit, public sector).
- ▶ Her industry experience includes banking and financial services, government contractors, manufacturing, private equity, professional services, real estate & construction, retail & wholesale trade, and technology, among others.
- ▶ Her experience includes staff level, executive, and incentive compensation plan design, and board of director studies related to structure, remuneration, and governance issues, along with M&A integration, performance management, leadership transition, and succession planning.



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Today's Presentation


-  Current and Ongoing Challenges
-  Pressing Compensation Planning Topics
-  Case Studies
-  Solutions

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Current and Ongoing Challenges



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Current Challenges

Companies are facing perplexing challenges in the face of a uniquely uncertain economic outlook.

ISSUE	GUIDANCE
High Turnover/ Talent Shortage	<ul style="list-style-type: none"> ▶ Develop compensation or total rewards strategy ▶ Assess market competitiveness of pay and benefits ▶ Assess all rewards of work - especially culture and career opportunities ▶ Ensure proper allocation of compensation budget ▶ Create a suite of approaches for attraction and retention of employees
Work from home "demands"	<ul style="list-style-type: none"> ▶ Defining policy - work from home versus remote work ▶ Ensure fair pay practices ▶ Appropriately managing pay and policies for those positions that can work from home and those that cannot ▶ Consider tax implications
Escalating Pay	<ul style="list-style-type: none"> ▶ Inflation impact on pay ▶ Talent shortage impact on pay ▶ Tools to limit increasing fixed costs

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Current Challenges

Some challenges are ongoing and specific to the structure of the company.

TYPE OF COMPANY	ISSUE	GUIDANCE
Non-Profits	Executive pay/ Intermediate Sanctions	<ul style="list-style-type: none"> ▶ As a disinterested third party, provide assessment of the competitiveness of executive pay levels to help mitigate risk of intermediate sanctions ▶ Assist in the design of bonus plans
Partnership	Reasonable pay	<ul style="list-style-type: none"> ▶ Determine if pay is reasonable either as a result of an IRS audit, dispute between partners, or for company valuation

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Current Challenges

Some challenges are ongoing and specific to the structure of the company.

TYPE OF COMPANY	ISSUE	GUIDANCE
Private Equity Portfolio Company	Executive ownership Transactions	<ul style="list-style-type: none"> ▶ What portion of ownership goes to executives ▶ Mergers: Is pay administered equitably across entities ▶ Consolidation of benefit plans
Public companies	Pay for performance	<ul style="list-style-type: none"> ▶ Annual incentives ▶ Long-term incentives ▶ Salary administration - merit increases ▶ Performance management ▶ SEC disclosures and compliance with proxy advisor guidelines
Public/ private companies	Attracting board talent	<ul style="list-style-type: none"> ▶ Board/ committee member profiles ▶ Competitive pay levels ▶ Fiduciary vs. Advisory Boards

Next, we will explore some of the most pressing topics ▶

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Pressing Compensation Planning Topics



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Talent Shortage

WHY THEY LEFT THE LABOR FORCE

Parents	<p>More expensive, harder-to-find daycare gives parents reason to stay home rather than return to work.</p> <ul style="list-style-type: none"> ▶ Day-care centers are short of workers, turning away families. <ul style="list-style-type: none"> • Workers down 10.4% • Wages of workers up 10% <ul style="list-style-type: none"> – More employment options for childcare workers (Amazon may pay more).
Junior Level Employees	<p>Burnout: Junior personnel in white-collar industries have often had to work long hours "without benefiting from the training, mentorship, and client interactions that previously made such jobs rewarding," which in turn may have lowered their tolerance for such demands.</p>
Modestly Paid	<p>Reshuffling trillions of federal relief dollars made many less eager to return to strenuous, modestly paid jobs.</p>
Retirees	<p>Early Retirement: Over 3 million Americans retired early (about 2x what was expected and represent over half the workers missing from the labor force).</p>

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U.S. Broad Industry Pay Trends¹

Within Professional & Business Services:

- ▶ Wages grew more than the national average.
- ▶ Current wage growth is more than twice the average historical.
- ▶ Job switchers are experiencing a historic average pay increase of 12.2% - 63% above the average since 2014.

While these pay increases are more than typical, with the most recent consumer price index for inflation at 9.1%, real wages do not rise as much as it appears.

Source: ¹Principal Data Scientist, Jeff Neza, [ADP Workforce Vitality Report](#)

U.S. wage growth for 2021 and comparison to prior years from 2014 to 2021

End of Year 2021	National	Prof. & Business Services
Wage Growth - Overall	4.40%	6.20%
Job Holders	5.90%	6.40%
Job Switchers	8.00%	12.20%
Entrants	3.00%	7.50%

Yearly Wage Growth for Prof. & Business Services*			
Year	All	Holdes	Switchers
2014	0.5%	3.8%	7.1%
2015	2.0%	3.7%	7.0%
2016	1.3%	4.4%	6.8%
2017	3.1%	5.1%	8.4%
2018	2.6%	4.0%	8.0%
2019	3.3%	4.6%	7.5%
2020	4.1%	3.3%	7.8%
2021	6.2%	6.4%	12.2%
Average	2.4%	4.1%	7.5%

*12 months as of December of each year

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2022 Salary Increase Budgets Rose Throughout the Year

BDO 2022 Salary Increase Survey

Predictions as of Q3 2021	Predictions as of Q4 2021	2022 Q1 Average Reported*	For Profit only Salary Increase Budget	4.6%
			All Organizations % of Organizations that Recently Increased Budget	47%
			All Organizations Average Budget for those who Increased	5.1%
3%	3.9%	4.4%	For Profit Only % of Organizations that Recently Increased Budget	48%
			For Profit only Average Budget for those who Increased Budget	5.4%

► 2001 - last time budgets were over 4%

► 1991 - last time budgets were 5%

13 *Source: BDO Salary Increase Flash Survey, 440 companies, conducted in January/ February of 2022
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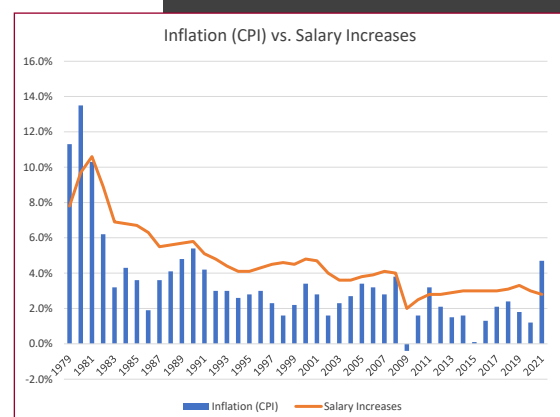
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Salary Increases Budgets and Inflation

IMPACT OF OTHER FACTORS

There is a correlation between inflation and salary increases, but inflation does not explain 100% of salary budget decisions.

- On a macro level drivers include:
 - Overall demand for talent
 - Other economic indicators (growth/expansion vs. recession)
 - Global impact - currently the strong dollar makes U.S. goods and services more expensive
- On a more micro level (company specific) drivers include:
 - Need for talent
 - Affordability
 - Other "rewards of work" benefits, culture, work life balance
 - The impact of inflation on the workforce based on demographics (inflation tends to have the most profound impact on lower income families)



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Salary Increase Budgets

APPROACH TO HEDGE AGAINST ECONOMIC UNCERTAINTY

Salary increases are permanent, inflation is not, support employees in ways that do not permanently add to the bottom line.

- ▶ Define your total rewards philosophy/strategy
- ▶ Commit to competitive levels that reflect performance
 - Larger salary increase budgets allow for greater differentiation of increases based on performance
- ▶ Consider other “inflation busting” approaches, examples include:
 - Gas cards
 - Other offsets for commuting costs (parking, mass transit)
 - Inflation busting checks (\$1,000 - \$2,000)
 - Lunch provided on core office days
 - Performance bonuses
- ▶ Focus of financial support on those roles that are most impacted



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Remote Work

Over the last few years, many companies have moved from a traditional approach of all employees working in a company office to include remote work options. The most common approach is a hybrid model with a mix of Work from Home (WFH) and remote work if the nature of the work accommodates this model.



Traditional Work in the Office



Hybrid: Mix of WFH and Office



100% Remote

THERE IS NO “ONE-SIZE FITS ALL” SOLUTION

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Defining Remote Work

There are two buckets of “remote work” for the purposes of setting policy. Later in the presentation, these definitions will need to be subdivided for the purposes of tax implications.

WORKING FROM HOME	REMOTE WORK
<ul style="list-style-type: none"> ▶ Employee works from home - typically for a predefined percent of the week ▶ There is workspace available at the company office location ▶ Home is within commuting distance of office/primary work location 	<ul style="list-style-type: none"> ▶ Works from a home-office exclusively ▶ No defined workspace available at company office ▶ May or may not be within commuting distance of a local office

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Remote Work Policies

By defining these two categories, policies can be developed that minimize the need for individual exceptions:

POLICY	WORKING FROM HOME	REMOTE WORK
Requirements/ Guidelines for Working in the Office	<ul style="list-style-type: none"> ▶ Company may require employees to be in office a certain number of days a week or month ▶ Emerging policy is to have two core days and a minimum of an additional “floating office day” 	<ul style="list-style-type: none"> ▶ No regular requirements ▶ May require occasional attendance at office meetings for defined purpose ▶ Company may pay travel to office
Home Office Set Up	<ul style="list-style-type: none"> ▶ Important to determine if the employee has a home set-up that facilitates their productivity (desk, phone, computer, privacy) ▶ Company is less likely to pay for home office because workspace is provided in the company office 	<ul style="list-style-type: none"> ▶ Company may have a home office set-up allowance and may pay for some recurring costs (e.g., toner for printer, cell phone, etc.)

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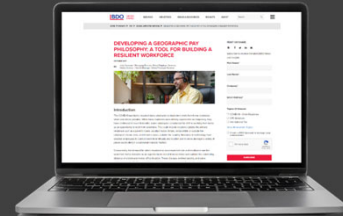


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Geographic Pay Differentials

This is another policy that is best defined by differentiating between WFH vs. remote work employees.

POLICY	WORKING FROM HOME	REMOTE WORK
Geographic Pay	Base geographic pay differential on office location/corporate policy	Geographic pay differential may be based on any of the following: <ul style="list-style-type: none"> ▶ Location of employee ▶ Location of the nearest office ▶ Location of headquarters ▶ National



More details regarding how to develop a remote work geographic pay philosophy can be found here: [How to Develop a Geographic Pay Philosophy | BDO Insights](#)

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Remote Work and Compensation

Work from home policies can help with attraction and retention:

- ▶ Lowers commuting cost.
- ▶ Many employees appreciate the time saved by not commuting.
- ▶ Many employees feel that they can manage work-life-balance more effectively.
- ▶ National Bureau of Economic Research estimated that WFH could account for 2% lower salaries. Employees are willing to trade from 1.5% to 7.3% of earnings to be able to work from home.

The risk is the potential for a negative impact on culture, team, as well as impeding growth and development of junior team members.



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Culture Considerations

- ▶ Culture is often cited as a large reason for employees to stay with or leave a company
- ▶ Remote work can create challenges to culture:
 - Teamwork: challenges managers to be creative
 - Training & Development: may place larger burden on managers to train junior employees as they no longer have direct access to other teammates
 - Isolation, mental health, burnout: Computer screens provide only limited proxy for direct human interaction

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CASE STUDY: INVESTMENT BANKING

Why are analysts and associates leaving?

- ▶ Part of what makes the analyst and the associate years bearable is the sense of camaraderie developed with peers.
- ▶ Being a junior investment banker isn't always fun, but at least you're with similarly-minded people and can blow off steam as you're waiting to turn comments at 2am for the third night in a row.
- ▶ With the rise of WFH, this dynamic was entirely shifted as you no longer really got to know your peers in the same way.



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Culture Considerations

HOW DOES A COMPANY HANDLE MULTIPLE REMOTE WORK SCENARIOS?

- ▶ **100% in the Office/Onsite:**
 - Some jobs require employees to be on site (manufacturing, receptionists, medical staff, etc.)
- ▶ **Work from Home:**
 - Some jobs are easily transitioned to WFH (the "laptop class").
- ▶ **Remote Work:**
 - Talent pool for some jobs resides in locations not convenient to the company office and now employees are less willing to move - requiring company to offer a remote work option as a recruitment alternative.

Issues that can arise:

- ▶ "Them versus us" (must be in office vs. those who work from home)
- ▶ Commuting costs - may be an extra burden on those who must come into the workplace, and these may be lower paid roles who are most impacted by rising gas prices.
- ▶ Inconsistent application of policies across departments.
- ▶ Inconsistent application of policies among employees in the same job.

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Culture Solutions



The following are solutions that companies have implemented to help maintain culture
Financial, Fair, Facilitate, Fun

- ▶ For those who come into the workplace, provide transit support (more details on this later in the presentation)
 - Qualified
 - Non-qualified (gas cards)
 - “Inflation busting checks/bonuses”
- ▶ If a subset of employees are required to come to the workplace, ensure some percent of WFH employees are also there
- ▶ Encourage work teams to come into the office on the same days to facilitate collaboration
- ▶ Create “buddy system” for new remote work employees to facilitate them getting the lay of the land
- ▶ Provide lunch on one of the core office days to support team and culture
- ▶ Ensure continuation of traditional and create new company activities and parties

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Case Studies



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CASE STUDY ONE:

Private Family-Owned Manufacturing Company

 CHALLENGE	 PROCESS	 DETAILS	 RESULTS
<ul style="list-style-type: none"> ▶ High turnover ▶ Many large employers locally ▶ Compensation program lacked structure ▶ Minimal to no definition of roles ▶ Employees resisted taking on new responsibilities ▶ Management was considering a pay-for-skills program 	<ul style="list-style-type: none"> ▶ Collect compensation data, plan documents and benefit information ▶ Conduct in-depth interviews with department managers ▶ Determine the required skill sets and selected the appropriate comparator market ▶ Conduct data analysis of employee population to determine the range of pay, experience and certifications 	<ul style="list-style-type: none"> ▶ Defined roles (production technicians, quality assurance, stockroom, etc.) ▶ Defined job levels (entry, journeyman, senior, lead, supervisors) ▶ Assigned employees to jobs and levels ▶ Defined career levels with training and certifications aligned with the levels ▶ Created communications documents 	<ul style="list-style-type: none"> ▶ Employees became excited about the career opportunities ▶ Company was able to fill the more complex roles with internal candidates ▶ Attraction and retention became much more manageable, and prospects have indicated that they chose this company because of the career opportunity

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CASE STUDY TWO:

Private Family-Owned Retail Company

 CHALLENGE	 PROCESS	 DETAILS	 RECOMMENDATIONS
<ul style="list-style-type: none"> ▶ To have a disinterested 3rd-party ensure that the executive compensation packages are internally equitable, externally competitive, and reflect industry best practice in structure and design ▶ Utilize a process that will be accepted by the family members 	<ul style="list-style-type: none"> ▶ Collect compensation data, plan documents and benefit information ▶ Conduct in-depth interviews with each executive ▶ Define the appropriate comparator market. ▶ Conduct analysis 	<ul style="list-style-type: none"> ▶ Develop an Executive Compensation Strategy that considered all rewards ▶ Assess base salary, total cash compensation and long-term awards for non-family members ▶ Review the perceived value of benefits relative to cash compensation ▶ Identify other compensation and administrative issues to address 	<ul style="list-style-type: none"> ▶ Full assessment of pay levels that was transparent and accepted by the family members. Recommendations included: <ul style="list-style-type: none"> • Increases to salary levels • More structured incentive with target awards • The addition of developmental goals to the incentive plans • Formalization of the strategic plan • The addition of an advisory board to serve as a resource as the company moves to achieve its strategic goals.

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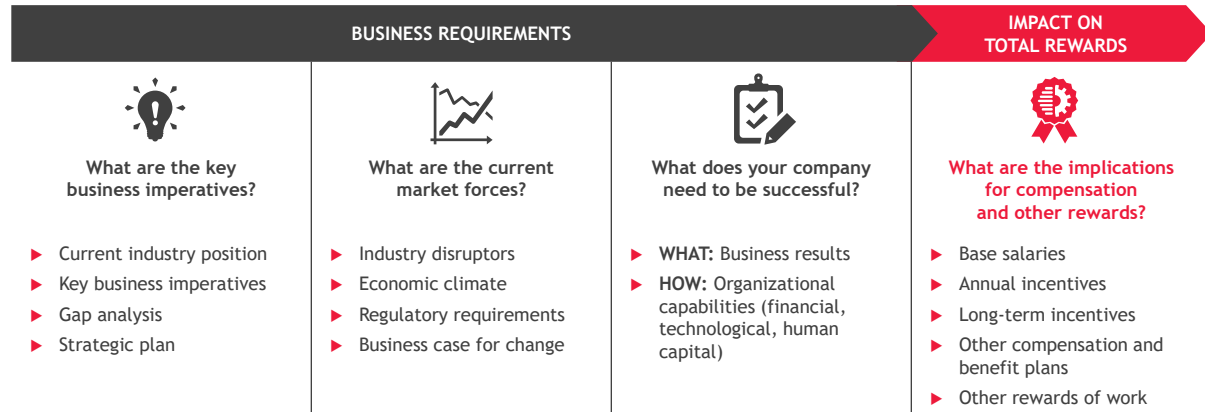


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CASE STUDY

Total Rewards Strategy

As a first step, we defined the approach to compensation in terms of how it needed to support the business requirements.



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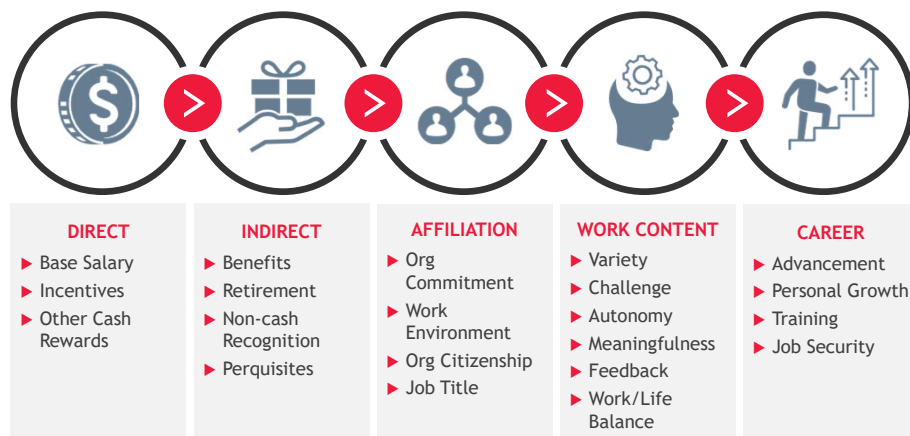
CASE STUDY

Total Rewards Strategy

Total rewards are a comprehensive view of what attracts, retains and motivates employees.

How each element is valued is strongly impacted by the industry, location, size and culture of the organization.

Development of a Total Rewards Strategy provided the foundation for determining how to use all rewards to best attract, motivate, and retain strategically critical talent.



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Solutions



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Compensation Solutions

Compensation consultants can assist in many aspects of compensation related issues.

Compensation Strategy

Develop executive and broad-based compensation strategies

Compensation Programs

Design & benchmark programs for executives, managers, key contributors, professionals & support staff

Market Competitiveness

Determine market competitiveness of all compensation components

Executive and Broad-Based Incentive Plans

Assist with and develop executive and broad-based incentive plans

Annual and Long-Term Incentive Plans

Assess and develop annual and long-term incentive plans for both public and private companies

Compensation Committee

Assist the board of directors in enhancing the Board governance posture with a focus on the Compensation Committee

Compensation Disclosures

Prepare Compensation Discussion & Analysis (CD&A) and other executive compensation disclosures in proxies and 10-Ks

Succession Programs

Develop leadership succession programs and performance management plans

Custom Surveys

Conduct custom surveys to define compensation levels and identify program characteristics unique to specific industries

Geographic Pay Philosophy

Develop remote work policies

Employment Agreements

Design & review employment agreements with an emphasis on change-in-control, severance plans, and non-disclosure/non-compete issues

Transaction Compensation Support

Transaction due diligence, integration/ separation, and retention support

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BDO's Global Employer Services

<p>GLOBAL MOBILITY</p> <p>In a rapidly changing environment for employers and their global workforces, the need for effective mobility strategy and execution is greater than ever.</p>	
<p>GLOBAL REWARD TAXATION</p> <p>Tax planning and compliance for global reward programs ensure optimum outcomes for employers and employees while minimizing tax cost and risk.</p>	
<p>PEOPLE AND ORGANIZATION STRATEGY</p> <p>Lifecycle events such as succession planning, acquisitions, divestitures, right-sizing, or restructuring bring strategic people and organizational challenges to the forefront.</p>	
<p>RETIREMENT PLANS</p> <p>Retirement programs are a successful employee incentive and retention strategy, yet employers must navigate complex rules and regulations to design and operate them effectively.</p>	

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BDO's Global Employer Services

We help companies achieve their business and financial goals by effectively managing their most important asset - their people.

<p>GLOBAL MOBILITY</p> <p>Expatriate Tax</p> <p>Working with multinational employers to minimize tax burdens and compliance risk while providing integrated services and essential tools, such as our business traveler tracking application, to enable seamless global and domestic employee transitions.</p> <p>Mobility Consulting</p> <p>Developing strategies with company stakeholders to determine key objectives and create or modify a global mobility program to meet these objectives through enhanced assignee selection criteria, policy design, repatriation strategies, cost analysis, market analysis, and effective communication.</p> <p>Global Equity</p> <p>Helping employers with multinational stock compensation programs minimize tax burdens and compliance risk through our international network and tools like the BDO Global Equity Mobility Solution and Global Equity Rewards Matrix.</p>	<p>GLOBAL REWARD TAXATION</p> <p>Global Payroll</p> <p>Providing payroll review and recommendation, implementation, assignment benefit and compensation gathering, and compensation schedules to reconcile U.S. and foreign payrolls.</p> <p>U.S. Employment Tax</p> <p>Identifying and implementing reductions in current and future employment tax burden and exposures; taking advantage of federal, state, and local opportunities to recover overpayments and credit opportunities; and assisting with managing the unique complexities of remote work arrangements.</p> <p>Executive Tax</p> <p>Providing tax consulting for nonqualified deferred compensation plans, stock options and other equity-based plans, golden parachute issues, transfer of partnership interests, and review for IRC 409A compliance.</p>
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BDO's Global Employer Services

We help companies achieve their business and financial goals by effectively managing their most important asset - their people.

PEOPLE AND ORGANIZATION STRATEGY

Employee Stock Ownership Plan (ESOP) Advisory

Helping companies evaluate and transition to a shared ownership with employees through an ESOP, a tax-advantaged mechanism for business owners who are looking for liquidity while maintaining a legacy for valued employees.

Compensation Consulting & Surveys

Providing total compensation program design and benchmarking, long-term incentive strategy development, board briefings and support on the executive compensation regulatory environment, preparation of executive compensation disclosures and performance management.

Workforce in Transactions

Helping companies assess risks, costs, and exposures relating to the people and HR elements of all transaction types by providing workforce due diligence and post-deal strategy services spanning the full people and organization continuum.

RETIREMENT PLANS

ERISA Consulting

Providing comprehensive design and operational support for all qualified retirement plans, including traditional defined benefit pension and cash balance plans, 401(k), and various profit-sharing plans and ESOPs.

Actuarial Services

Providing independent actuarial review for defined benefit plans and retiree health and welfare plans by acting as a pension accounting resource, conducting merger and acquisition and plan design reviews, and providing forecasting services and non-qualified plan consulting.

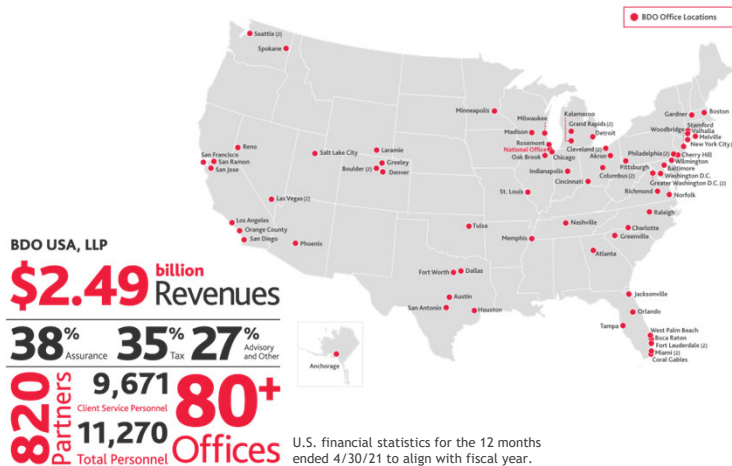
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100 YEARS, AND COUNTING.

For more than 100 years, BDO USA has been recognized as a premier accounting, tax, and advisory organization for our exceptional client service; experienced, accessible service teams; focus on quality and efficiency; and our ability to adapt to, and navigate successfully in, a changing marketplace.

Founded as Seidman & Seidman in New York City in 1910, the firm has grown to serve clients through more than 65 offices and over 740 independent alliance firm locations nationwide.

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BDO's Global Presence

BDO INTERNATIONAL

\$11.8 billion Revenues

42% Accounting & Auditing 22% Tax 36% Advisory (Consulting, BDO, Corp. Fin., Other)

7,234 Partners 76,467 Professional Personnel 167 countries & territories
5th largest accountancy network in the world

1,728 offices

BDO International is represented in dark shaded countries.

BDO's seamless global approach allows us to serve clients through a central point of contact, granting access to relevant experience across borders to be where and when our clients need us.

BDO's strength is derived from our structure as a cohesive global network and dedication to internal integration. In each country, BDO Member Firms are composed of people who are knowledgeable about national laws and business customs, and familiar with local and international business methods.

As our clients expand globally, our access to our international network can help them do business with a depth of experience in international matters, significant resources, and international client service capabilities.

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