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Highlights

How to implement Fair Employee pay cut During the Pandemic?

If you're like most of the small and medium businesses being impacted by COVID-19, you probably have some anxiety about how to handle the economic uncertainty created by our response to this virus.

A response that is unquestionably saving lives, but that comes at an economic cost.

If you can't make payroll, employers are considering three options:

- Layoffs
- Furloughs
- Pay cuts

The Difference?

The main difference between layoffs and furloughs is that layoffs are permanent while furloughs are temporary. In some cases, furloughed employees can maintain their benefits and there's always an expectation they'll return to work after some weeks or months.

Layoffs and furloughs are bad, no matter how you cut it.



What about pay cuts? If you're going to do a pay cut instead of or in addition to layoffs or furloughs, you're not alone. HR can play a critical role in working alongside your owner, investors, and CEO to manage it. Here's how:

1. Be transparent with your financials.

If you're going to tell employees that you're cutting their pay, you need to be transparent. At the very least, you should share revenue and expense trends that show today vs the last 12 months. You should share all the information you can, you owe it to employees to tell them why this is happening.

2. Make sure the cut with leadership is significant.

If employees are taking a pay cut, senior leaders should be the first ones to take them and lead by example.

CEO compensation should go to as low as possible – not for altruism, but for survival and future reward.

It's not inappropriate for the CEO to say something like, "Look, I'm doing everything I can to make sure this business survives and thrives again. I'm taking a significant pay decrease with the hope and expectation that our board and investors see this sacrifice. And like you, I hope I'll be rewarded for that when we get through this together."

3. Communication should be clear and written.

Don't call a Zoom meeting and tell everyone you're cutting their pay. The decision should be written, explained, and sent in a sincere and careful email so team members have time to react and reflect before any meeting is called.

4. Present the steps needed to return the company to normal.

Explain what the trigger will be that reinstates pay to normal levels. For example, if revenue is down 70% compared to last month, explain that sales need to return to last month's numbers before full pay is reinstated.

5. Don't overpromise.

Finally, be careful not to give false hope or promise something that is out of your control. Employees will see through it if you say, "this is temporary and we expect it will only last 2 months"... when everyone knows you have no idea when things will return to normal.

Cutting pay is going to be bad for morale, there's no way around that, the last thing you want to do is add insult to injury by overpromising and under delivering.

Hopefully your business has enough cash to continue to make payroll for the foreseeable future. If you don't, remember that real leaders are forged in crisis, and your team will remember what you say and do at this time.

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