

# EMPLOYEE RECOGNITION AND REWARDS STILL MATTER IN A SLOWDOWN

By Priya Kapila

*Current indicators abound that the broader economy as well as the engineering and construction industry are entering a slowdown.*

There is wide variation in how different market segments and geographies will fare, [as FMI's latest industry outlook report](#) suggests, but overall construction spending is expected to end 2023 up 5% compared to up 12% in 2022, with spending slowing in 2024.

For some employers a softer market may be welcome following several years of consistent customer demand and the struggle to keep up while facing labor and supply limitations. However, this doesn't mean now is the time to rest or, at the other extreme, ramp up business development to fight for every opportunity. There are several key factors to consider first:

**1. Slowdown doesn't mean recession.** Total construction spending will continue to grow, and key markets – like transportation, communication and nearly all publicly funded segments – are projected to have favorable growth through 2027.



- 2. There are productivity and profitability issues to address.** With [widespread reporting of labor inefficiencies](#), taking time to improve productivity has the potential to significantly improve business performance. Tackling this challenge before complacency sets in or there is intense pursuit of projects that may be run ineffectively could prove essential.
- 3. Labor dependencies remain.** Demand for people will continue to be strong. As we have seen in the industry in the past, the concern that work may dry up will prompt employees to look elsewhere – in and out of construction – and an aging workforce will continue to leave without adequate backfills.



Current compensation growth trends are further evidence of ongoing attraction and retention issues. FMI's latest Salary Increase Survey results show that the average base pay increase projected for 2024 is 4.0%. This is nearly a full percentage point less than the average increase observed in 2022 and 2023, but remains well above increases in prior years.

As a result, employers should make efforts to establish optimal environments through assessing and improving operational and labor practices to ensure that well-regarded talent stays with the firm during a slowdown. A natural offshoot is that employee compensation programs should reflect current market situations and align with employee needs and interests.

## Valuing all employees for their contributions

While engaging employees and helping them feel valued by others in the company extends beyond someone's compensation package, this is a clear way to communicate the worth of a position. It is important that employees' compensation accurately represents the intentions of leadership regarding recognizing job functions, performance, tenure, experience and so on.

For example, a company that routinely touts that it hires only the best and the brightest and follows a low-cost approach on compensation will soon struggle to maintain staff unless other attractive employee benefits are offered (e.g., customized work environments and locations, unique development opportunities, a branded culture, etc.). On the other hand, a company that has a generous payroll, but the components of the compensation package are not appreciated by employees is also operating at a disadvantage.

In addition to establishing compensation packages that meet the needs and interests of employees, it is best for compensation to align with the organizational culture and business outlook as well as the competitive labor market. Increasingly, varied compensation structures within a company are desirable as this improves the extent to which an employer can provide employees with what they value most.

It is critical that compliance requirements are met. Beyond meeting applicable regulations, equitable and fair treatment is also necessary. If employees feel they are not receiving packages that are aligned with their peers, motivation and job satisfaction can severely decline.

It is not practical for most companies to address compensation on a case-by-case basis, and given the potential pitfalls of doing so, leaders can benefit from documenting a compensation philosophy. A compensation philosophy sets forth the general guidelines that leaders will follow when making pay decisions for a single employee or the entire workforce. Communicating the philosophy also encourages employees to better understand the how and why of the compensation package structure.

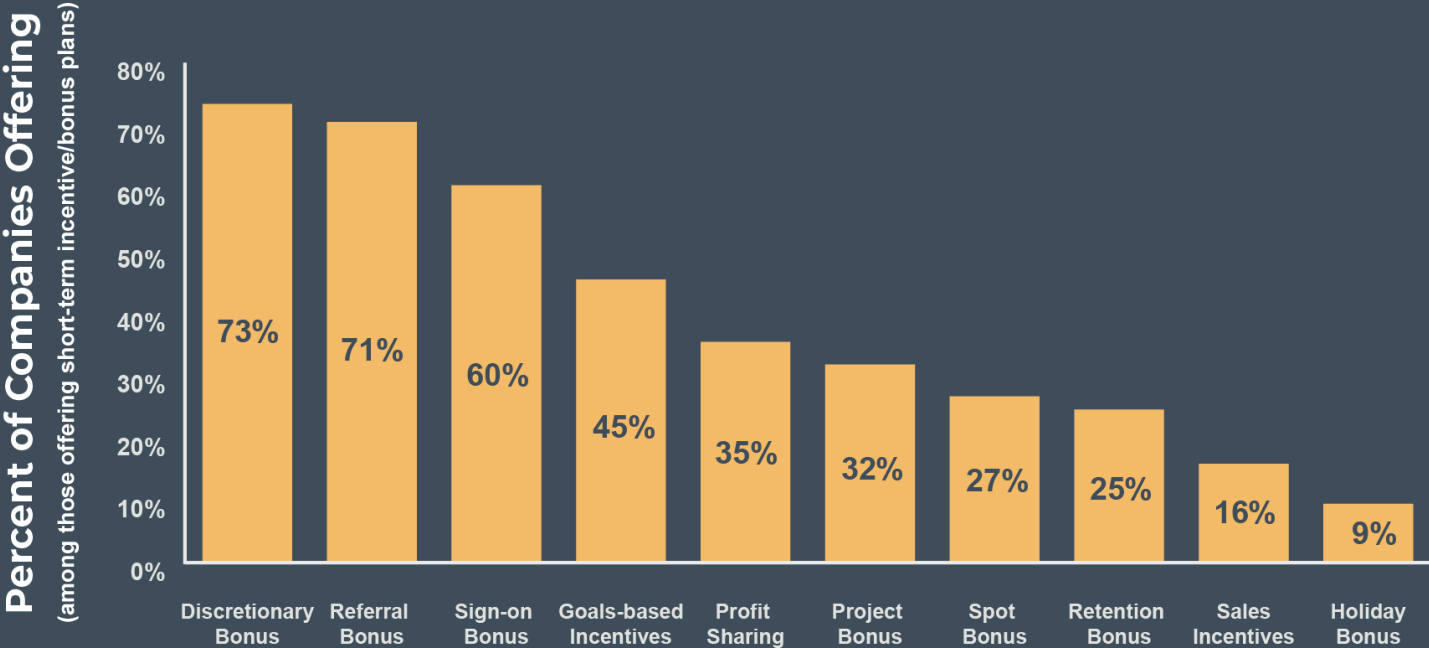
### Defining performance and rewarding accordingly

There is an array of methods for incentivizing employees and recognizing them for performance. That said, there are some approaches that are more common than others, as displayed in the chart below, which presents cash-based awards that are provided on a short-term basis.

A compensation philosophy may help define what types of incentive compensation are available, and further describing performance expectations can be instrumental in ensuring employees’ knowledge of how they can earn incentive pay. While some performance measures, such as company profitability, are more common and relevant than others, the initial step is communicating what successful performance looks like – preferably for the business and each employee.

This underscores the challenges of a truly discretionary bonus in encouraging high performance: If employees believe they have no clear influence on what they will receive as a bonus, it’s unlikely to be a motivator. This doesn’t necessarily mean that the company will lack a high-performing workforce, but leaders may be wasting money on bonuses that could be put to better use elsewhere. These payroll dollars might be allocated to base pay raises, enhanced training programs, new or discounted benefits or supporting the company’s balance sheet.

## Short-term Incentive/Bonus Plan Types



Source: FMI's 2023 Compensation Trends Survey

Interestingly, intense labor constraints and turbulent business results have prompted renewed growth in both discretionary and project profit-based bonuses. While the former largely ignores objective performance criteria, the latter can produce overt problems because performance and awards can become misaligned.

The premise is that a highly profitable project will result in incentives for the project team. However, project profitability is not necessarily in direct correlation or, moreover, the direct cause of the team's performance. Teams could be rewarded for project performance that was not directly their doing, or they may be penalized for making the best of a bad situation that still resulted in losses or below-budget results.

Incentive programs with longer-term performance and award structures may be mutually beneficial to employers and employees during a slowdown. If significant operational improvements, growth and/or talent upgrades are expected in the next several years, establishing a plan that rewards the employees responsible for driving that success is an effective strategy for aligning interests and future

expectations. These types of mid- or long-term plans can be accompanied by self-funding features that act as natural safeguards such that awards are only made if key milestones and results are achieved over the multiyear period.

## Creating reasonable flexibility for special circumstances

Many E&C companies do not want overly strict compensation plans because of diverse situations that routinely arise. Therefore, the combination of a companywide approach and platform for valuing and rewarding employees with predetermined areas where special consideration may be needed or where leadership adjustment may be necessary is key. The documentation need not set forth the policy to be applied, but rather how to reach an appropriate decision.

Acknowledging traveling workers is a good example. While some criteria such as who is eligible and when may be clear, broader mobility and relocation guidelines may better support leadership in addressing ongoing and new engagements in a manner that adequately recognizes employees' contributions for an applicable period.



Flexibility may also be effectively employed as many companies seek to establish pay ranges, either to meet legal requirements or to pay employees more consistently and competitively. Employees' placements within ranges and jobs assignments to ranges should be routinely evaluated and considered for adjustment based on employer expectations for the future, shifting job responsibilities, market changes and so on.

## Steps to prioritize employees in a slowdown

In these early stages of reduced growth in the E&C industry, companies that take care to maintain employee programs that help stabilize and motivate the workforce are more likely to navigate upcoming challenges and opportunities. To do this, leaders should consider the following:

### 1. **Know your market and business forecast.**

Because there are stark differences in how companies will be affected over the next several years, undertaking relevant research to gauge future market conditions as well as thorough planning is advised. If leadership can determine likely scenarios on how the company will perform, there can be better preparation and implementation of teams, identification of mission critical roles, and assessment of employee attributes that will be most effective.

### 2. **Set or refine your total rewards strategy (as an extension of the compensation philosophy).**

With a clarified view of future operations and the potential impact on employees, leaders may evaluate and confirm ideal compensation and benefits programs as well as less quantifiable elements of employees' experiences and work environments. Executive decisions concerning the approaches for establishing total compensation packages should reflect the total rewards strategy. Doing so will better ensure that total

rewards are affordable and sustainable to the business and encourage recruitment, recognition and retention initiatives.

### 3. **Communicate and demonstrate value to employees.**

Leaders may be highly transparent in explaining the total rewards strategy or may communicate compensation approaches more generally. Organizational culture and leadership styles often dictate communications; regardless, some explanation to employees is paramount. Furthermore, actual compensation practices and other employee programs must be believed by employees to align with communicated leadership objectives and employees' own interests.

It's important for companies to remain true to their compensation philosophies, particularly during an economic slowdown. Use your pay and benefits to reward and retain your top talent and show them they are valued.



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