

Employee management in the time of COVID-19



It is often said that a company is only as good as its people. It is a company's people who work on the front lines and in the background, overseeing every aspect behind every product, service, and metric that investors evaluate. The way that companies manage their people can set them on a path of long-term success, or struggle. In this piece, we examine the topic of employee management from the investor perspective and discuss recent trends resulting from the spread of COVID-19.

Employee management encompasses three core issues

In the corporate context, employee management refers to practices used to recruit, retain, and develop a company's workforce.¹ The goal of effective human capital management is to maximize productivity, innovation, and ultimately, business results. Companies do this by hiring the right people and keeping them engaged and productive.

There are three issues fundamental to the management of employees²:

- **Labour Practices.** Companies' policies and practices should facilitate good working relationships with their labour force, including in the areas of financial compensation, adherence to local labour laws and standards, and general employee satisfaction. This is important for both direct employees of the company, as well as for the [labour force embedded within the supply chain](#). Failure to institute effective labour practices can lead to workflow disruptions due to labour unrest, reduced productivity and product quality, negative impacts on employee culture and morale, and loss of competitiveness due to damage to reputation and brand value.
- **Health & Safety.** Companies must ensure that working conditions preserve employee wellbeing by creating policies and practices that minimize on-the-job incidents. Employee accidents can lead to personal loss for employees, and production disruptions, litigation, and liability for employers.
- **Employee Engagement and Development.** Typically associated with the management of highly skilled or highly trained workers, this issue encompasses companies' ability to attract, develop, and retain employees throughout the workforce. Companies strive to instigate policies and practices that improve employees' engagement, productivity, innovation, and ultimately, retention. Factors such as culture and diversity can greatly affect engagement.

The extent to which these factors affect companies depends on sector, business model, and even type of role. Companies that adhere to best practices in managing their human capital tend to satisfy or excel in all three areas, with culture and corporate policies reinforcing performance in each. Those that fail to meet industry standards, on the other hand, can face costly litigation, employee turnover, reputational risk, and failure to acquire license to operate in certain jurisdictions.

¹ MSCI. Human capital risks in a changing world. Andrew Young, Meggin Thwing Eastman. November 2019.

² Developed based on research from MSCI ESG Ratings Methodology and SASB Materiality Map and industry reports

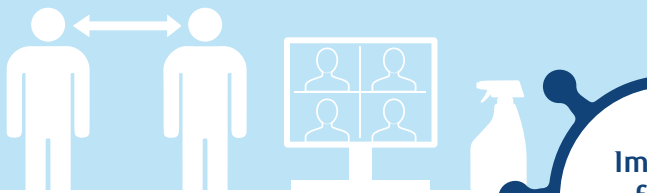
COVID-19 has introduced new dimensions to employee management

The current pandemic has shined a spotlight on companies' employee management practices. Customers and employees alike are intently focused on companies' responses to the pandemic, and actions companies take now could have longer-term impacts that carry over into a post-COVID-19 world.

The following are trends we have observed since the global spread of COVID-19 began:

Protecting the health and safety of employees from a highly contagious virus has changed the way we work.

Companies with front-line workers have had to instigate new policies related to social distancing and higher standards for sanitation in the workplace. Major grocery stores like Costco, Loblaws, Metro, and Walmart, for example, have taken a number of measures including limiting the number of employees and customers allowed on site, installing protective screens between employees and the public, and purchasing personal protective equipment for workers and customers.³ For many others, ensuring health and safety has meant transitioning to remote work arrangements.



Recognition for essential services and front-line work is changing the way that employees are compensated.

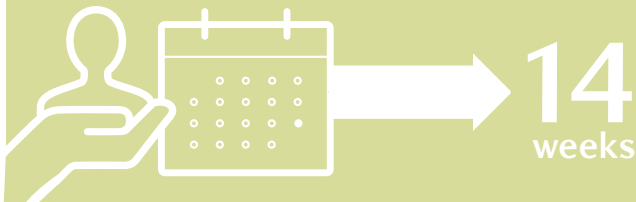
Many employers have offered wage increases and one-time bonuses to front-line workers as compensation for the extra risk and taxing nature of their work. Indeed, some companies have granted paid sick leave to low wage workers for the first time, while others have expanded their health care insurance plans to enable more comprehensive care for employees during the pandemic.⁴



Impacts from COVID-19

The widespread nature of COVID-19 as a social and economic threat has led to the emergence of an "all in this together" mentality

Several companies are going above and beyond to generate a positive impact for employees and society during this critical time. Often funded from foregone executive and board compensation, companies like Accor and Georg Fischer have created special relief funds for employees and communities who may be facing added hardship from the impacts of COVID-19.⁵ Johnson & Johnson even created a paid leave policy to enable medically trained employees to provide health support in their communities for a period of up to 14 weeks.⁶



Plummeting demand in many sectors due to government lockdowns, social distancing measures, and quarantined living has led to record unemployment and reduced hours for many.

While some companies like the Royal Bank of Canada and Bank of Montreal have been able to provide security to employees through no-layoff commitments, and others like CVS have even increased hiring during this time, this has not been the norm.⁷ Countless companies have laid off employees in order to stay afloat. Many others have kept employees on payroll, but have forced them to take unpaid leave or pay cuts to keep businesses running. April jobs reports in the U.S. and Canada showed record job losses of 20 million and 2 million respectively. The U.S. unemployment rate rose to 15% in April, its highest level since the 1940s. In Canada, while the official unemployment rate was lower than the U.S. at 13%, the overall hours worked in Canada had fallen by 28% cumulatively over March and April – almost double the amount in the U.S. Whether it's layoffs or reduced hours and furloughs, employees are suffering.⁸

³ CTV. How to grocery shop safely during the COVID-19 outbreak. Nicole Bogart. March 25, 2020; Loblaw Companies. Galen on what to expect with evolving safety measures in stores. Galen Weston. April 9, 2020.

⁴ CNBC. Here's how every major workforce has been impacted by the coronavirus pandemic. Riley de León. March 13, 2020.

⁵ Accor. ALL Heartist Fund. April 2, 2020; Georg Fischer. Covid-19 pandemic - GF business update. Beat Römer. April 2, 2020.

⁶ Johnson & Johnson. How Johnson & Johnson is supporting its global workforce during COVID-19. Peter Fasolo. May 4, 2020.

⁷ BNN Bloomberg. COVID-19 jobs tracker: Layoffs, furloughs and hiring during the pandemic. Michelle Zadikian. June 9, 2020; CVS. CVS Health to provide bonuses, add benefits and hire 50,000 in response to pandemic. March 23, 2020.

⁸ RBC Global Asset Management. COVID-19: Examining the impact on the consumer. Eric Lascelles. May 13, 2020.

Many short-term human capital impacts are likely to persist in the long run

Looking beyond the initial impacts of COVID-19, these developments in employee management may prove to have long-lasting effects. Many policies that were previously considered unfeasible have been thrust into implementation and are now in a mass “test” period. Once this period passes, it is likely that to some extent, the most successful of these policies will remain:



Remote work may become a new normal.

As COVID-19 has forced companies into adopting remote work environments, many firms are considering whether certain positions and functions may stay remote for the long haul. Pre-pandemic, research from Gartner had already suggested there would be an estimated 30% rise in demand for remote work by 2030.⁹ In late March 2020, Gartner published results of another survey wherein 74% of companies said they plan to permanently shift some portion of their workforce to remote work post COVID-19¹⁰, suggesting a potential acceleration in the trend.



Debates surrounding minimum and living wages are likely to continue.

With companies and governments alike increasing compensation for lower wage employees and citizens during the pandemic, we may see some of these changes persist past the eventual recovery. For example, Charter Communications, a U.S. broadband connectivity company and cable operator, has already announced that it will permanently raise its minimum wage to \$20/hour over the next two years.¹¹ At the national level, in Spain, Economy Minister Nadia Calvino stated that part of the government’s response to COVID-19 includes creating a universal basic income system “that stays forever, that becomes a structural instrument, a permanent instrument.”¹²



Reputational impacts may affect companies’ long-term prospects.

More than ever, companies are being judged by customers and employees alike on how seriously they take stakeholder interests into account. Companies perceived to have inadequately responded to the pandemic could face social backlash and boycotting, not to mention potential regulatory penalties. Those who treat employees poorly now or do not foster good morale throughout the crisis may find it difficult to attract and retain new employees later. Meanwhile, those that communicate transparently and often, listen to employee feedback, and enact policies to address employee concerns, can significantly decrease the anxiety faced by their employees. These firms may become attractive employers in the future. Even in companies that must lay off or furlough employees, the way that these decisions are communicated and the way that both departing and remaining employees are treated can materially affect the firm’s reputation and its future hiring prospects.

⁹Gartner. With Coronavirus in mind, is your organization ready for remote work? Jackie Wiles. March 3, 2020.

¹⁰Gartner Research. COVID-19 bulletin: Executive pulse, 3 April 2020. April 2, 2020.

¹¹Charter. Charter statement regarding plans to permanently raise minimum wage to \$20/per hour over next two years for all hourly employees. April 6, 2020.

¹²Bloomberg. Spanish government aims to roll out basic income ‘soon’. Rodrigo Orihuela. April 5, 2020.

Integrating employee management considerations helps us identify investments that meet our clients' objectives

From the investor perspective, the COVID-19 pandemic has placed the quality of financials, management teams, and cultures of investee companies under greater scrutiny. Those that are able to safeguard the health of their employees and keep their workforce engaged and productive through these unprecedented times, all while maintaining the financial wellbeing of the business, may be better positioned to emerge from the pandemic and benefit from a recovery that follows.

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