



March 2009 – Compensation Trends Update

News on the compensation front is grim. While the recession didn't hit Puget Sound as fast as it hit other parts of the country, it's more than caught up in the last eight weeks.

INCREASE PROJECTIONS

Pay increase projections have dropped from about 4% in August to 1.7% this month (2.6% in hi-tech and bio-tech). This is due to a large number of employers (25% to 42% depending on the survey) freezing salaries for 2009. Organizations that are providing increases are tending toward a 2.0% to 3.0% increase at this point, but increases are inconsistent.

Even a favorite economist's recent seminar was bleak. Every chart and graph presented was down – except for unemployment, which of course, is up sharply. In February we hit 8.4% in Washington State.

Take a deep breath and remember the Chinese proverb, "May you live in interesting times." For HR and compensation folks, it doesn't get much more interesting than this.

ACTIONS TO TAKE

WATCH INTERNAL EQUITY – Employees are more likely to stay in their jobs rather than move to new jobs with less seniority. Many of them are under tremendous financial pressure with loved ones unemployed or working reduced hours. Because of this, internal pay inequities are likely to chafe far more than usual. Make sure you have a process for administering pay that is fair and consistent.

IF YOU CAN AFFORD INCREASES – The same dollar expenditure this year will result in more employee appreciation than previous years. A 3% increase in 2009 will *feel* more like a 6% or 8% increase. This is also a great opportunity to set your organization apart; tout the fact that you're providing a pay increase when others are not.

IF YOU CAN ONLY AFFORD TINY INCREASES – Typically, pay increases below 2% have a demoralizing effect on employees, creating a "why bother" attitude. This year may be an exception, as even small pay raises may be greatly appreciated. Also consider whether a slightly larger increase at 18 months would be more beneficial than a slightly smaller one at 12 months.

IF YOU ARE IN A UNIONIZED INDUSTRY – Watch what's happening with union contracts in your industry. Many union contracts span three years, some up to five years. Even if your employees are not unionized, union contract increases will affect the market rate for those skills. If you are in an industry that has been threatened with unionization, try to keep your pay on a par with the unions or you may end up with a union, too.

If all your competitors are unionized with long term contracts, doing nothing may result in loss of staff. If a cash increase is unfeasible, consider offering more creative alternatives, such as extra time off, flexible scheduling, telecommuting, etc.

IF YOU MUST CUT WAGES – Previously, layoffs were considered the most effective way to cut wages, not wage reductions. However, organizations under heavy financial pressure are



now using temporary across-the-board pay reductions as a way to manage costs while still retaining staff. Historically, this would result in employee turnover. This year, however, employees are anxious to hold onto their jobs until things settle down.

LEAD BY EXAMPLE – The organizations using wage freezes successfully are leading by example, with executives taking a larger pay cut than other staff. Asking employees to make bigger sacrifices than executives promotes an atmosphere of resentment and mistrust. Employees are watching and will remember how decisions were made. They may not voice frustrations immediately, but expect resignation letters once the economy improves.

REMEMBER YOUR KEY EMPLOYEES – Keep close contact with key employees during this time. Companies are still anxious to hire highly skilled staff and top performers, even in this difficult economy. As always, these talented individuals have more opportunities than any others.

BRIGHT SPOTS

There are still a few bright spots. There have been 32 recessions in the US since the 1800s. The US economy has resiliently survived all 32 of them. According to official figures, the current recession has already been in progress for 15 months. The Great Depression's contraction was 43 months, so comparatively, this recession is already a third of the way completed.

There are also mitigating factors in place now that didn't exist in 1929. On the downside, this is a global recession, not just a US recession. On the up side, instant communication is available and the US government is actively managing the economy. Only time will tell how long and how tough this recession will be.

YOUR EMPLOYMENT BRAND

It's extremely important to manage your corporate employment brand through this turbulent time. Employees are panicked and communication is imperative. Communication can be as simple as, "Here is what we're seeing with our industry currently. Based on what we know, we are taking these specific actions. We'll continue to watch the trends and keep you apprised."

Within each industry and each organization there are many nuances and variables to consider. What works for one company may not work for another. Please contact me if you have questions.

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