

COMPANIES FREEZE PAY AND BONUSES AS RECESSION BITES

HR managers should review reward arrangements, warns Innecto



Nearly two thirds of companies are freezing pay this year, new research shows. The vast majority are also withdrawing bonuses that would normally be awarded.

Reward experts Innecto surveyed 238 HR professionals from a wide range of organisations, both in the private sector (including representatives from banking, retail and construction) and not-for-profit:

- 59% said they were freezing pay in 2009
- 69% were either not awarding bonuses in 2009 at all, or were paying them at a reduced amount.

Year-on-year pay increases and annual bonuses have become the norm in recent years. The loss of both pay increase and bonus represents a significant reduction in salary for many people and a difficult reward situation which most HR managers have never encountered before.

Justine Woolf, Senior Consultant at Innecto warns: "Companies that freeze pay without addressing their reward schemes are going to be at a major competitive disadvantage.

Productivity tends to go down as employees lose their financial incentives to achieve objectives, and the differential created as some companies do increase their pay makes it harder to attract and retain talent. Catching up will require larger pay rises in the in the future, something which the business may not be able to sustain."

Woolf recommends HR managers in this position carry out an assessment of their total reward to make it more efficient, targeted and better structured towards achieving the goals of the overall business.

"HR managers might dread the thought of an empty pay pot at bonus time but with a bit of careful work, they can refine and develop their reward package to create something that is much more effective than the existing one," she says.

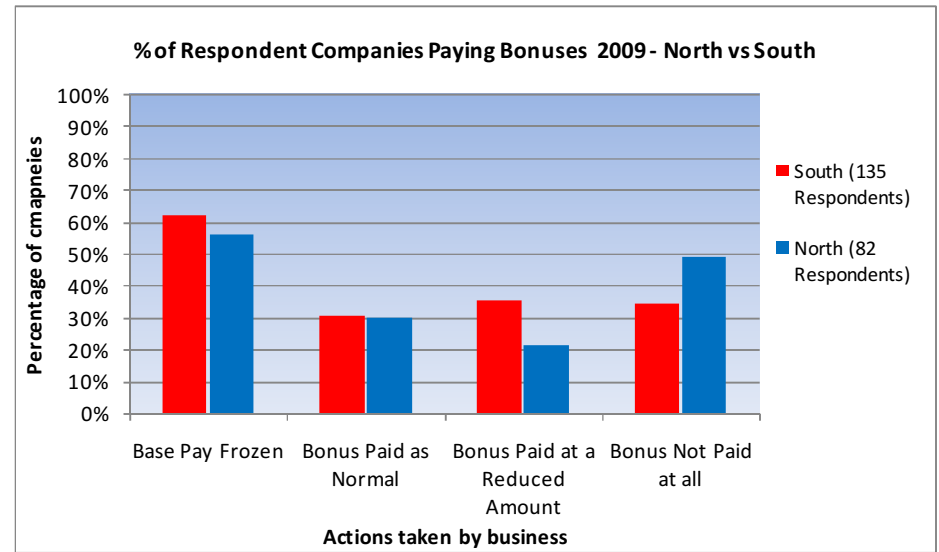
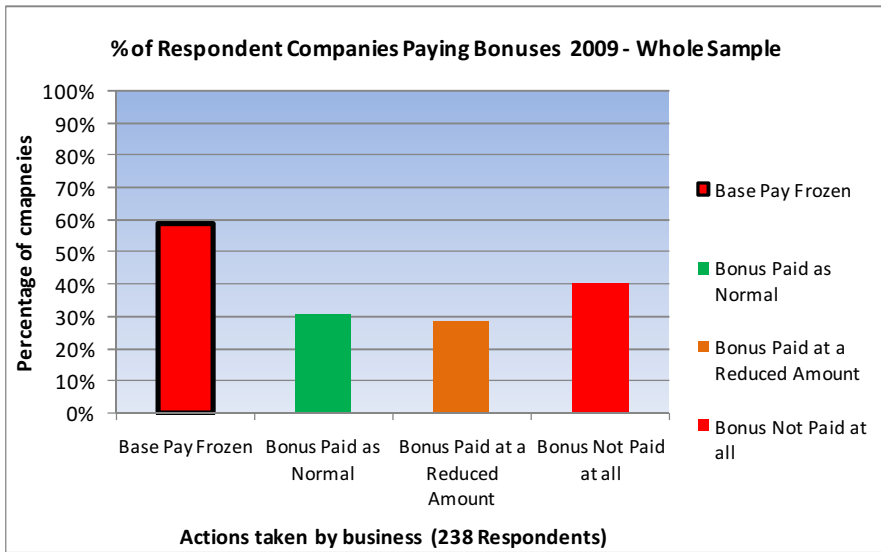
To see the results of the survey in more detail, with data cut by sector and region, please refer to the graphs below.

Following the graphs we include **'Innecto's Pay Freeze Reward Survival Guide'** – 5 positive steps you can take to manage reward in your organisation

*Survey carried out by eMedia for
Innecto Reward Consulting,
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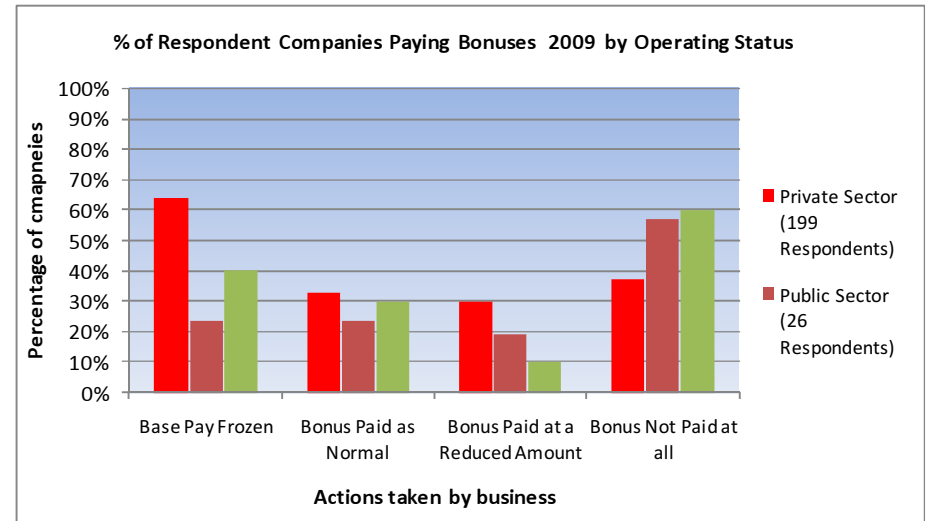
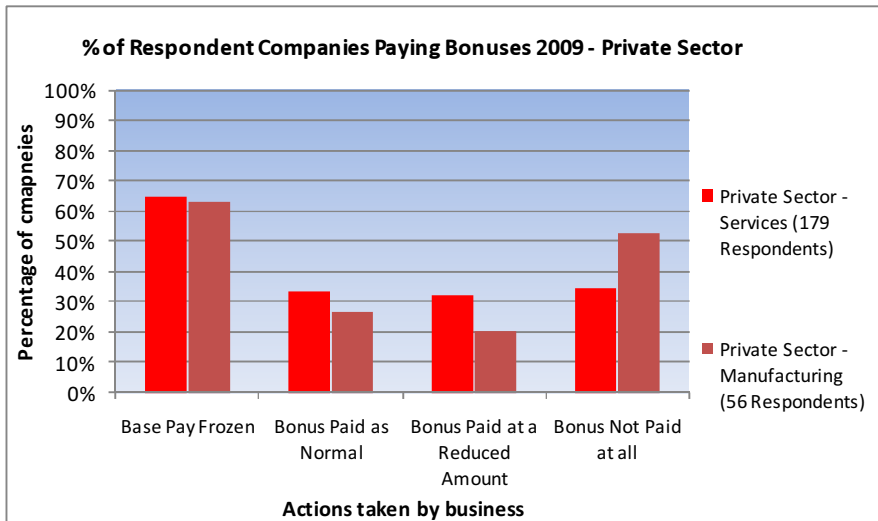
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Innecto's Pay Freeze Reward Survival Guide

Step 1. Audit your reward package

Carry out an assessment of all the ways in which you reward employees including base pay, bonuses, pension, benefits and recognition schemes.

Woolf advises costing each one and measuring its effectiveness in motivating staff to drive business performance. "You might find you are operating parallel bonus schemes which double count delivery, or that you are paying administration costs for a benefit which no-one uses," she adds.

"If you can introduce reward efficiencies that free up even a small amount of cash for pay increases or bonuses, employees will thank you for it."

Step 2. Identify your needs

Work with other senior managers to identify where any available financial reward should be directed for maximum impact. Which areas are most important to the success of the organisation?

Woolf says, "Look at the demographic of your workforce and consider how different packages work best different groups of people. For example, people who are single under 30, married with children, or 50+ and considering retirement will have different interests, both financial and in leisure, and so be incentivised by different benefits.

"If you are considering a major re-structure to save costs, consider the focus of the business – an arbitrary 'last in first out' process or a straight 10% of headcount is unlikely to be the most effective pruning activity you can take. Keep the business critical talent, and cut surgically where you can."

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Step 3. Agree a course of action and cost it out

If the pay pot is reduced, it might seem logical to cut the bonus before the annual pay increase but a bonus has the advantage of being a non-consolidated payment which doesn't increase the annual pay pot or lead to year-on-year knock-on costs for National Insurance and employer pension contributions.

Woolf says, "Be smart with your benefits. Which ones are going to have most impact and cost least? Childcare vouchers for example provide NI savings for the employer as well as savings for the employee.

"It can also be very effective to reward people with time off. An extra day's holiday in lieu of a bonus is often a welcome alternative. If you are faced with making bigger cuts, can you dig out any flexible working requests or even offer a sabbatical to some employees."

Step 4. Communicate

Involve employees in the situation. Ensure they understand the economic circumstances that have led to the pay freeze and are on board with the plan to get the business back on track.

"Demonstrate that everyone is in the same boat – awarding your executive team differently will totally undermine your reward message," says Woolf.

Make sure employees have a clear picture total reward package: not just pay but pension contributions, benefits and recognition. All too often, staff are unaware of how much reward their employer offers and don't take advantage of cost-saving benefits available to them.

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Step 5. Review, review, review

Woolf recommends making this an ongoing process. "Keep going back to your reward package to look at what can be done differently as the business moves on. Are certain areas working as well as they could? Is your recognition scheme clearly linked to the business plan. Could more be done to communicate the value of pension contributions or benefits?"

"When the times of plenty return, you will be in a much stronger position to make pay increases and bonuses count towards higher performance and better business success."

About Innecto Reward Consulting

We are Reward specialists who carry out a range of activities, from acting as an extra pair of hands on salary benchmarking projects to developing detailed Reward Strategy and building an employee proposition. We focus on building strong client relationships and involving employees in the design of their new pay structures, performance management systems and recognition schemes.

Our consultants and analysts are highly customer-centric and user friendly, and as most of us have also worked in the 'real world' of line management, we do understand the difficulties faced in an operational setting, and so strive to ensure our solutions actually work in practice.

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