

Pay Incentives Planned to Limit Post-Recessionary Flight

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By Stephen Miller

Many U.S. employers are planning to use compensation incentives to limit "post-recessionary employee flight," according to a survey of HR decision-makers by Workscape, a provider of employee performance, compensation and benefits administration services, conducted at the end of March 2010. According to the survey report, *Managing Employees and Total Rewards during the Economic Upswing*, 65 percent of respondents are considering or strongly considering pay increases to drive retention as the economy recovers, while only 46 percent will consider benefits increases.

"Our results confirm that when American firms are convinced the recovery has taken hold; they will take measures to prevent attrition," said David Turetsky, Workscape's director of total rewards strategy.

Looking back, only 10 percent of organizations cut employees' pay as the recession entered its third year in 2009, but 39 percent froze compensation, respondents indicated. The vast majority of those that awarded increases held them to 3 percent or less, and only 2 percent of respondent organizations increased average compensation by 5 percent or more.

However, the smaller the organization (by number of employees), the more likely it was to have reduced or frozen compensation in 2009.

Employees who say they intend to provide incentives to retain and engage employees as the economy recovers are most likely to offer:

- **Merit increases** (cited by 66 percent).
- **Performance-based bonuses** (52 percent).
- **Market/equity adjustments** (24 percent).
- **Lump sum payments** (12 percent).

"The most likely explanation for organizations' interest in merit and performance-based bonuses is their desire to find retention tools that specifically reward top performers and avoid the fixed costs that come with salary increases" and expanded benefits, said Turetsky. Survey respondents in all sectors except government said that merit increases and performance bonuses are the most likely compensation tools they will use in 2010.

*Employers seek to reward top performers
while avoiding fixed-cost increases.*

Limited Pay Increases

"Our survey confirms the trend to small [pay] increases in 2010," Turetsky added, noting that the majority of surveyed organizations (55 percent) expect to offer a 2-3 percent increase in average compensation for 2010. However, almost one-quarter (24 percent) expect that their compensation budget will remain flat. The healthiest pay raises can be expected in the consulting and technology sectors, the survey found.

Additional Findings

Among other survey highlights:

- **Respondents were cautiously optimistic about an economic recovery in 2010.** While more than a third expected to experience business expansion within six months following the survey, the majority believe they will need to wait longer. A full 25 percent expect business to remain stagnant for at least another year; this is especially true of large organizations in the 5,000-10,000 employee range, 40 percent of whom expect business growth to be more than a year away.
- **While 71 percent fear retention challenges** as the economy recovers, relatively few expect those challenges to impact in 2010.
- **Communications are being planned to stem attrition.** Among respondents, 82 percent said they will increase manager/employee communications during the recovery.
- **Technology sector respondents expressed the greatest optimism,** with half expecting business growth within six months following the May 2010 survey and almost 80 percent within nine months. Also optimistic are those in the manufacturing and consulting industries, the great majority of which expect to reap the benefits of recovery within nine months following the survey.

Pay vs. Benefits

"Companies recognize the importance of retaining valued employees but are more likely to incentivize employees with more money rather than more benefits," said Turetsky. "And while salary increases were at the top of the retention strategies, offering flexible work schedules and implementing greater employee/management communications are also being considered."

As competition intensifies for qualified talent, "employers need to take a comprehensive view of employee rewards," Turetsky summed up. "This includes pay, increases, short and long-term incentives, benefits as well as corporate culture, mission, opportunities for growth and other environmental factors."

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