

Reward in a Downturn

The Hay Group March 2009 Reward in a Downturn survey reveals a deepening recession that has become truly global, and which is affecting the pay, benefit and job prospects for employees at all levels throughout the world. Pay has been affected in all countries, with salary increases at or below inflation rates, even in previously fast-growth economies. Salary freezes have become very common with employees in 36% of organizations globally facing salary freezes, and actual or proposed salary cuts

their staffing levels, compared to 17% in November 2008. Many organizations which a year ago were having trouble filling vacancies are now having to resort to job cuts. In contrast to recent years, executive pay is likely to rise even less than that of their employees – and in practice many executives will receive significantly less than in previous years, as bonus pay-outs drop and the value of share-based payments is hit by stock market falls.

In such a difficult environment, organizations top concern is maintaining employee engagement.

advantage of the upturn when it comes.

However, employers can't afford to pay more on reward. But employees work for more than money: they work to get training and career development, to make a valuable contribution, and because they enjoy contributing to a common vision and making their place of work a better place to be. Leading organizations understand this and are focusing on improving non-financial aspects of reward, even if financial rewards are being squeezed.

	Business results significantly worse	Median salary increase – all employees	Decreasing staffing levels
Global	39%	2.8%	27%
North America	40%	2%	33%
South & Central America	23%	10%*	18%
Europe	45%	2%	30%
Asia	39%	5%	13%
Pacific	33%	3%	33%

	First Quartile	Median	Third Quartile
All employees	0.00%	2.80%	5.00%
Senior Executives	0.00%	1.50%	4.50%
Management/professional	0.00%	2.50%	5.00%
Support/clerical	0.00%	2.50%	4.50%
Blue collar/skilled trade	0.00%	2.20%	4.20%
High performers/potentials	0.00%	3.00%	6.00%

looming for others. The pace of change is also remarkable, with a sharp decline in business confidence and the severity of impact on reward practices since our last survey. Projected salary increases for 2009 have fallen to only 2.8% – down from a projection of 4% only four months ago. Around the world, 27% of organizations are decreasing

When doing more with less, the discretionary effort of employees willing to 'go the extra mile' is even more critical for surviving the downturn and being positioned to grow once the environment is more favorable. Similarly, organizations are concerned about retaining their high performers in order to get through the downturn and take full

Based on the trends shown in this and previous surveys, if the global downturn continues to deepen then the following scenarios are real possibilities for the rest of 2009 and beyond:

- An increasing number of organizations will impose salary freezes

- A growing number of employees will face the choice of either accepting pay cuts or facing job losses
- Pay-out levels from bonus schemes will fall further
- Organizations will increasingly look to cut their contributions to pension schemes, and the trend

away from defined benefit schemes will accelerate

- Other benefits (such as medical insurance, car schemes etc) which have been spared review so far, will come under scrutiny.

In a growth market, some organizations were able to take a simplistic approach to pay, relying

largely on benchmarks (internal or external) plus set annual increments to determine salaries. The downturn will force many of those organizations to adopt a more strategic approach to reward based on their strategic goals, ability to pay and critical talent needs, in addition to market comparability.

	Utilizing	Considering	Utilizing / Considering
Organization restructuring to reduce staffing levels	22.60%	19.20%	41.80%
Temporary pay freeze	23.10%	14.50%	37.60%
Promotion freezes	9.70%	15.00%	24.70%
Reduced benefits (other than retirement)	7.10%	15.40%	22.50%
Reduced incentives that are otherwise earned	7.30%	14.10%	21.40%
Job sharing	6.00%	11.70%	17.70%
Early retirement packages	7.40%	9.60%	17.00%
Increasing co-pays on benefits programs	5.80%	11.10%	16.90%
Voluntary reduced work week/working hours, with reduced pay	3.10%	12.40%	15.50%
Voluntary unpaid leave / unpaid sabbaticals	3.90%	10.80%	14.70%
Enforced reduced work week/working hours, with reduced pay	3.90%	10.30%	14.20%
Other	3.70%	8.60%	12.30%
Voluntary/negotiated salary cuts	3.00%	7.70%	10.70%
Reduced retirement benefits	4.40%	6.30%	10.70%
Temporary salary cuts	2.70%	7.50%	10.20%
Enforced unpaid leave / unpaid sabbaticals	1.90%	6.60%	8.50%
Compulsory salary cuts	2.30%	5.60%	7.90%