

The Five O'Clock News[®]

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"One organization with a long record of success in helping people find jobs is The Five O'Clock Club."

FORTUNE

The Changing Compensation Picture

How Good Employers Are Trying to Keep You When They Can't Give You a Big Raise

by David Madison, Ph.D., Director of the National Guild of Five O'Clock Club Career Coaches



Deborah Fuller
Director of Human Resources
Scholastic



Pete Lupo
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VP, Human Resources
Publishers Clearing House

KATE AND DALE TALK JOBS

HOW TO FIND JOBS THAT DON'T EXIST

THE BEST INTERNET SITES FOR JOB SEARCH

About Your Compensation

FIND OUT WHAT GOOD EMPLOYERS ARE THINKING

Employees—and job hunters—can lose perspective. Do you remember when “they” used to say that “you should leave your old job only for a 10 percent pay increase.” Where did “they” come up with that advice? Even in good times, that maxim is not thoughtfu—on two counts:

- ◆ How could an arbitrary 10 percent apply in all cases? Instead, you want to be paid fairly, earn at market rates, and be compensated in a way that shows your employer respects your contribution and is thinking of you as part of their future.
- ◆ So what if someone offers you 10 percent to leave your job—and the new job takes you “off course?” In that case, 10 percent or even 20 percent isn’t worth it. A five percent hike might be a good idea if a new opportunity moves you solidly toward your Forty-Year Vision!

You can gain more perspective on your own compensation only if you understand what *employers* are thinking. On April 9th, 90 senior HR executives met in New York to discuss their current compensation issues and what they could do to reward employees in this time of declining profits, compensation budgets, and the extras employees have come to expect. Stock options that were once hot

are now “under water,” that is, they are worth nothing at all.

The cover story in this month’s *Five O’Clock News* contains the report from that meeting. Read it for yourself so you can get back to reality, and pass it on to your HR Manager. It’s best to keep everyone informed.

Speaking of keeping informed, Five O’Clock Club studies show that people who see themselves as successful told us that they:

- ◆ are knowledgeable about trends in their industry
- ◆ are satisfied with the steps they have taken in managing their careers
- ◆ are able to articulate their strengths clearly
- ◆ are able to respond well to change
- ◆ feel confident that they can market themselves in their industry

You can keep more up-to-date on trends in your industry, and we’ll help you do that. Wendy Alfus Rothman, our favorite research expert, is back with the best websites for helping you keep up-to-date in your career and in your job search. Although the article is addressed to job hunters, those who are *not* job hunting should also be able to answer such questions such as, “how is my industry organized?” “what is the industry profile?” and “who are the key players?”

Keep the Five O’Clock Club in mind to help you grow and change in your career. And make sure your HR manager knows about us too. It’s best to keep both yourself and your employer informed.



Kate Wendleton
President and Editor-in-Chief

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from America’s Premier Career-Coaching Network

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The Changing Compensation Picture

How Good Employers Are Trying to Keep You When They Can't Give You a Big Raise

by David Madison, Ph.D., Director of the National Guild of Five O'Clock Club Career Coaches

This article is based on a panel presentation to the HR Network Breakfast, co-sponsored by Marsh and the Five O'Clock Club, on April 9, 2003. The panelists included:

- ♦ *Peter A. Lupo, a member of the Performance, Measurement and Rewards Practice at Mercer, a consulting firm in the March & McLennan family of companies;*
- ♦ *Deborah Fuller, Director of Human Resources at Scholastic, a global children's publishing and media company; and*
- ♦ *Jordan Vargas, Vice President Human Resources at Publishing Clearing House. The panel was moderated by Kate Wendleton, president of the Five O'Clock Club.*

The compensation specialist is the HR officer charged with making sure everybody gets paid fairly. That's a tall order even in normal times, but as we move toward the middle years of the decade there are three great truths facing compensation analysts:

- ♦ By far the most important commodity of any company is the morale of its employees. If that is damaged or ruined, a company may survive but operates at a huge disadvantage.
- ♦ Most people consider base pay the measure of fairness: What's in that envelope every two weeks? It's not that they discount or ignore all the other benefits, but "show me the money!" tends to overshadow everything else.
- ♦ Times have changed. During the 90's and the dot.com boom, our national theme song might have been "Happy days are here again." But those days have ended, money has dried up, and there's great pressure on everyone to watch the bottom line.

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It's Hardly the Great Depression, But...

We've seen bad times before—obviously we've seen much worse times. But 'it could be worse' is scant comfort as we grapple with an economy stubbornly resistant to healing. Even though 6 percent unemployment is not alarming historically, it's up fifty percent from its low two years ago. Many companies are struggling to grow revenues and profits, and are strapped for cash. There are cutbacks, layoffs, and mergers—hardly an environment in which management can think about bonuses and raises, or hire aggressively by offering competitive salaries and sign-on bonuses. Rising health care costs have taken no holiday, adding further to the pressure on management to squeeze and skimp wherever possible.

These trends, of course, do impact that precious commodity, employee morale. According to one 2002 Mercer survey, pay raises across the board—from clerical to executives levels—held in the 3.3 to 4.1 percent range. Workloads have increased because of layoffs or because poor performers have been fired. People may feel trapped: "I'm working harder and longer, I'm not really appreciated or rewarded—I can't wait to get out of here." And there is the perception that, because the job market is so tough, it's no good trying to move to green pastures. Workers have experienced good times—the 90's are not exactly a distant memory—and have a hard time adjusting to the reality

that 'what they were worth in the market' five years ago isn't what they're worth today. With the benefit of hindsight we can see that there was considerable 'salary distortion' at the time, the bi-product of an overheated economy.

Workers have a hard time adjusting to the reality that "what they were worth in the market" five years ago is not what they are worth today.

The first quarter of 2003 was also under the shadow of war and the uncertainty of when things will 'get back to normal'—a lot depending on how long and how demoralizing the war might be. As this is written in mid-April, we have moved from the battle phase to the occupation/rebuilding phase in Iraq, and everyone seems to be breathing a collective sign of relief. But it remains to be seen how soon the economy will shrug off the general malaise that has been holding it back.

When Push Comes to Shove

Who could have predicted three years of a bear market—and who can guarantee that's its near an end? In other words, the pressure to watch the bottom line and take all necessary measures to stay afloat mean that 'fair compensation' must be accomplished on a lean budget, and employees may not see as much in that envelope on payday.

According to a 2002 Mercer compensation survey, companies that took steps to reduce payroll costs implemented

the following—all of which can negatively impact morale and retention:

- ◆ Workforce reductions (28%)
- ◆ Salary freezes (24%)
- ◆ Merit increase budget reductions (21%)
- ◆ Extended review periods (20%)
- ◆ Reductions in work schedules (16%)
- ◆ Voluntary leaves (15%)
- ◆ Temporary pay reductions (4%)

Other measures included hiring freezes, benefits reductions, encouraging early retirement and elimination of bonuses. These are techniques to save cash quickly, but some of the enticements that were part of ‘the landscape of the 90s’—to attract and retain talent—have also lost much of their practicality and appeal. Although almost a quarter of companies now grant stock options, by early this year, two-thirds of all stock-options offered in earlier years are under water (according to one survey of 350 major companies). And broad-based equity incentive plans have probably peaked (or will soon), since now fully 20 percent of equities are used for employee incentive purposes—a practice that shareholders are fighting.

Two-thirds of all stock-options offered in earlier years are under water.

What To Do When There Is No Money

One strategy—let’s call it the ‘survival strategy’—is to identify the top 20 percent of your employees, those whom you value the most in terms of talent and long-term planning, and pay them as well as you possibly can. Identify the bottom 20 percent and hold the line on pay increases for these employees, or simply clean house. The middle 60 percent of the workforce should be treated as fairly as finances allow. But whatever strategy you adopt, employee morale is at risk unless company policy is well articulated. Compensation specialists who are asked to work miracles can point out to management that corporate policy for weathering tough times must be firmly grounded and explained convincingly.

Communicate and Educate

The message to employees must be, “Here’s our dilemma. We’re trying to make our way out of a rough patch-work with us on this.” This can resonate with employees unless the company has a damaged reputation. It’s pretty hard to plead poverty if top executives have been walking off with unseemly bonuses and outrageous severance packages. The top brass at American Airlines provoked a firestorm when it disclosed huge pension guarantees for itself—right after winning major concessions and givebacks from employees. If colossal greed and gross company mismanagement have been making the headlines, and resentment is already rife, it will be an uphill battle to ask for sympathy and sacrifice. But companies without such handicaps should embark on campaigns to be as informative as possible. It’s important to explain financial realities, and it can also be helpful to review the total compensation package offered by the company. Make extra effort to insure that employees understand all the benefits—people may not even be aware of everything they’re getting. Take concrete steps to send the message, “Your employer cares”—despite the fact that everyone is being asked to tighten their belts. This can include offering employee seminars on retirement planning and personal financial management, especially as employees see their own portfolios shrink. This is a way of saying, ‘we’re all in this together, and we’d like to help you weather the storm.’

Communicating the corporate dilemma to employees can help—unless top executives have been getting unseemly bonuses and severance packages.

Alternatives to ‘Business as Usual’ on Raises and Bonuses

With raises commonly in the 3 to 4 percent range these days, it’s clear that payroll costs have been a primary target, and companies continue to experiment with ‘variable pay’ programs, i.e., alternative ways to reward employees, putting

less emphasis on guaranteed raises and bonuses. Morale will suffer if employees are not rewarded for good performance. Even people who have become used to generous annual bonuses might appreciate smaller ‘spot’ or ‘project bonuses’ designed to reward jobs well done—or done before deadline and under-budget. Such awards can be done on an individual or team bases. The Mercer survey mentioned earlier revealed that 73 percent of firms had adopted non-monetary recognition awards. For example, people do enjoy getting a voucher for a night out on the town, e.g., dinner and a Broadway show in recognition for a job well done.

Employees appreciate smaller “spot” or “project” bonuses to reward jobs well done.

Cut Costs Everywhere—not Just Payroll

Salary freezes or cuts and cancelled bonuses are a lot easier to take if employees see that a company is serious about eliminating extravagance and waste across the board. Is everything being done that can be done to aggressively manage variable costs company-wide? If you’ve gone to the trouble to analyze salaries and how they can be trimmed, it’s also a good idea to do a comprehensive organizational review. There will be considerable resentment if people feel that management is overly focused on saving money on payroll, but tolerates sloppiness in other areas. Scrutinize all departments. How are they structured? Are they operating at optimum efficiency? Are the right people in the right jobs—are talents being put to the best possible uses? Have high potential people been identified for nurturing? Things will turn around and there will be crucial roles for these people when the company is in a growth mode again. If they are disgruntled—if they are among those who ‘can’t wait to get out of here’ because they’ve been overworked in poorly run departments—then an organization is only buying problems for the future.

It’s probably time as well to review all aspects of compensation policy. How

long has it been since pay policies have been studied? Are they in line with current industry norms—or are some distortions from the dot.com era still evident? Have health and pension plans been reviewed recently? Adjustments to both, with even modest savings, might be possible. If a few huge health insurance claims have impacted premiums, stop-loss insurance might be an option, to set limits on company exposure.

There are compassionate ways to fire people, of course, as opposed to brutal ways that spark outrage.

Making It a Better Place to Work

If morale has already been seriously eroded, and there's a high level of resentment toward a company, some steps that might be taken could be greeted with ridicule and cynicism. But if there's a fair level of goodwill—people really do have the feeling that 'we're in this together, trying to make it through'—there are relatively inexpensive measures that management can take to make the office a more pleasant place to work. If people are being asked to put in more hours, make sure they're comfortable, e.g., by buying ergonomic chairs. Flexible hours might ease the burden for people who have been forced to take low-paying second jobs, or who have childcare issues.

If people are working longer hours, make them comfortable. Buy them ergonomic chairs or provide snacks in the break room.

Damage Control During Terminations

As was indicated at the outset, the morale of the workforce should be a primary concern, if for no other reason than that happy people are better workers. But good morale also means that people tend to speak well of their employers when they're not at work—and any organization should covet a good reputation in the community. Everything in this regard

is put under strain when an organization is cutting back—especially if this means laying people off. How can a company insure that its reputation remains intact as it consolidates and terminates? There are compassionate ways to fire people, of course—as opposed to brutal ways that spark outrage. And it is 'penny wise and pound foolish' to save money by reducing headcount and not extend a helping hand to the people losing their jobs. Providing decent severance, extension of benefits and outplacement help means that companies will save less than a full year's salary on each downsized employee, but it will help the company keep its reputation, and lessen resentment among the workers who remain. Compensation specialists, with the welfare of everyone in mind, should be involved in constructing sound exit policies. Their message to management in tough times should be, "Yes, you could save money by just pushing people out the door with no safety net, but that's probably a lose-lose formula for everyone."

Publishers Clearing House: A Dramatic Case Study

Throughout most of the 1990s Publishers Clearing House, the huge multi-magazine subscription service, enjoyed a very prosperous run, known especially for its sweepstakes. Sales averaged about \$1.3 billion per year. But it's a very different picture these days, with sales running about \$500 million per year, down about 60 percent. Employee count dropped from 1800 to 700 (down 62 percent), customer base slipped from 12 million to 2.8 million, and mail volume declined from 500 million pieces per year to 200 million.

Several factors contributed to the downfall of PCH, including a wave of class-action litigations in 35 states and changing demographics: its primary customer base had been people of the World War II generation. But PCH is still alive today, largely because it reinvented itself as a direct mail mechanizing company. Ninety percent of sales are now consumer products. But it has survived also because,

moving from a cash-rich to a cash-poor environment, it began to pay much more careful attention to cost and compensation issues. On the cost front, it restructured fixed overheads and managed variable costs as aggressively as it could—while trying to improve employee attitudes on controlling costs.

Don't mistreat people during down economies. Things will turn around, and valued talent will leave.

On the compensation front, PCH didn't want to abandon generosity to employees that had been one of its hallmarks in the 90s, but had to run a tighter ship. Although its reasons for financial difficulty are unique, some of the steps PCH adopted in compensation practice, to adjust to the new reality, are worth noting:

- ◆ **Study the current marketing pricing for jobs.** Are you paying above or below the standards in your industry?
- ◆ **Are merit increases truly linked to performance?** You may do performance appraisals, but are they used as effectively as they can be to determine raises?
- ◆ **If you are laying people off, are you paying sufficient attention to the people you don't want to lose?** Consider implementing employment contracts and retention bonuses as a component of succession planning. As painful as layoff may be, there's even more pain if your 'brightest and best' decide to jump ship.
- ◆ **Don't tinker with your health plans** if you can avoid doing so. You may be able to increase employee contributions, but reduction of health benefits will usually be noticed and they won't be popular.
- ◆ **Show compassion to the people you have to let go.** Treating people well on their way out is an important factor in maintaining a positive image for the company. Generous severance and outplacement support should be provided for everyone. ●