

# Controlling Compensation Costs

ERC Survey Briefing - May 2009

## Overview

Compensation is one of the largest costs an organization must control, particularly in the current economic climate. In May of 2009, ERC conducted a survey on cost-control strategies related to base pay, variable and incentive pay, and sales compensation. In addition, the survey explored other means of managing base compensation costs including cutting hours and mandating furloughs and also measured human resource professionals' perceived effectiveness of these methods. Overall, the study confirmed that the majority of organizations are controlling only base compensation costs and not controlling sales compensation or variable and incentive pay costs.

### Key findings in the survey:

- The majority of employers are freezing wages and salaries as a primary means of controlling base compensation costs.
- Only 5% of employers are not controlling base compensation costs.
- Executives are bearing the largest wage and salary decreases, averaging a 13% cut in pay.
- Most employers are not controlling variable and incentive pay costs.
- Most employers are not controlling sales compensation costs, however some are raising sales targets.
- Reducing workweeks appears to be the most effective alternative method of controlling compensation costs, according to employers.

## Base Pay

Several organizations are controlling base salary and wage costs, primarily by freezing wages and salaries, delaying wage and salary increases, and decreasing wages and salaries. Fewer organizations are providing smaller wage and salary increases based on criticality of position or across the board with no differentiation based on performance or position.

Figure 1 | How is your organization controlling base salary and wage costs?

	Percent
Freezing wages and salaries	58%
Delaying wage and salary increases	37%
Decreasing wages and salaries	25%
Providing smaller wage and salary increases with greater differentiation based on performance	18%
Providing below market wage and salary increases	6%
Not controlling base salary and wage costs	5%
Providing smaller wage and salary increases across the board (no differentiation based on performance or position)	4%
Providing smaller wage and salary increases with greater differentiation based on criticality of position	4%

Among organizations decreasing wages and salaries, executives are experiencing an average decrease of 13.0%, the highest across all employee levels. The most common decrease for all levels of employees was 10% and the second most common decrease for executives was 20%

Figure 2 | If your organization decreased (or plans to decrease) wages and salaries, please specify by what percent for the following levels of employees.

	Average Percent
Executive	13.0%
Exempt	8.3%
Non-Exempt	8.1%

## Variable and Incentive Pay

Most organizations are not controlling variable and incentive pay costs, however, 20% percent are choosing to eliminate variable and incentive pay.

Figure 3 | How is your organization controlling variable pay and incentive costs?

	Percent
Not controlling variable and incentive pay costs	38%
Eliminating variable and incentive pay	20%
Delaying variable and incentive pay payout	9%
Decreasing variable and incentive pay payout	6%
Reducing eligibility for variable and incentive pay	6%
Higher performance targets	6%
Providing smaller variable and incentive pay rewards across the board (no differentiation based on performance or position)	3%
Providing smaller variable and incentive pay rewards with greater differentiation based on performance	2%
Providing smaller variable and incentive pay with greater differentiation based on criticality of position	2%

Among organizations decreasing variable and incentive pay, executives are experiencing an average decrease of 38%, which is substantially larger than the average percent decreases for exempt and non-exempt employees.

Figure 4 | If your organization decreased (or plans to decrease) variable and incentive pay, please specify by what percent for the following levels of employees.

	Average Percent
Executive	38.3%
Exempt	12.5%
Non-Exempt	5.0%

## Sales Compensation

Most organizations are not controlling sales compensation costs. If they are controlling such costs, they are using higher sales targets. Organizations also cite lowering incentive payout by decreasing sales quotas, lowering commission structures, reducing sales professionals' hours, and providing less reimbursement for cars and cell phones as other means of controlling sales compensation costs.

Figure 5 | How is your organization controlling sales compensation costs?

	Percent
Not controlling sales compensation costs	53%
Higher sales targets	11%
Increasing sales thresholds before commission / incentive payout	9%
Restricting commissions / incentives	5%
Lower commission / incentive rates	3%
Other	26%

## Other Means of Controlling Costs

The most common method of controlling base compensation costs is reducing the workweek or providing voluntary leaves of absences. Organizations also mention using shutdowns, layoffs, hiring freezes and not allowing overtime as other ways of controlling costs.

Figure 6 | Has your organization done any of the following to control base compensation costs?

	Percent
Reducing workweek	49%
Providing voluntary leaves of absence	32%
Mandating furlough	22%
Requiring use of paid time off	22%

Organizations state that the most effective method of managing compensation costs is reducing the workweek and providing voluntary leaves of absence. Requiring use of paid time off and mandating furloughs appears to be rated as less effective. No method was rated as not effective.

Figure 7 | To what degree has this been effective in managing compensation costs?

	Slightly Effective	Moderately Effective	Effective	Very Effective
Reducing workweek	6%	33%	39%	22%
Providing voluntary leaves of absence	17%	25%	42%	17%
Mandating furlough	13%	38%	38%	13%
Requiring use of paid time off	38%	13%	38%	13%

## Respondent Demographics

Figure 8 | Respondent demographics by industry and organizational size

Demographic Group	Percent
Number of Organizations	79
Manufacturing	51%
Non-Manufacturing	39%
Non-Profit	10%
1-50	19%
51-200	47%
201-500	11%
501+	23%