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## Making Pay Cuts Less Painful

To shore up morale, some companies are giving employees time off, instituting tiered salary cuts, or preserving critical employees' pay

By [Michelle Conlin](#)

As the recession grinds on and anxiety over mass layoffs mounts, the managerial class is trying something new: the 10% (or so) solution. Executives at such companies as Hewlett-Packard ([HPQ](#)), New York Times ([NYT](#)), and most recently, Best Buy ([BBY](#)), are slashing pay. Targeting compensation might seem like a no brainer: No one gets the ax. Bosses don't have to hire like mad when the economy snaps back. But there's little in officeland as psychologically loaded as money.

Yes, many employees would rather see their direct deposits docked than collect unemployment. But shriveled paychecks can make corporate strivers feel as if their lives are moving in reverse. "Employees know their bonus is going to go up and down, but base pay is supposed to be sacrosanct," says Laura Sejen, global director of rewards at employment consulting firm Watson Wyatt Worldwide ([WW](#)). Some thought leaders in human resources warn that across-the-board pay cuts are anathema to a performance culture. "The last thing you want is for your A players—or people in key strategic positions delivering the most value—to leave because you've mismanaged your compensation system," says Mark Huselid, a Rutgers University human resources professor and co-author of the new book *The Differentiated Workforce*.

A few strategies for managing the inevitable fallout from salary cuts are emerging. One major trend is to give employees something in exchange, usually time off. This month Matt Ferguson, the CEO of online job site CareerBuilder.com, decided to institute a pay cut. Instead of passing off the task to one of his minions, or, worse, blasting off an e-mail, Ferguson scheduled conference calls with all of the firm's branches. His message was positive and specific: He told employees the cuts would avert layoffs and—knock wood—last only through the summer. In return, everybody only had to work a half-day on Fridays. Some worried Ferguson was merely prolonging the death rattle. But his management of a difficult situation still drew praise. "I don't think anyone is ever happy about a pay cut," says Sterling Dortch, a senior account manager in CareerBuilder's Phoenix office. "But giving us time off was giving us something back."

Other executives are starting to customize pay cuts up and down their companies even more finely (and, they hope, more fairly). Earlier this year, Hewlett-Packard CEO Mark Hurd implemented tiered pay cuts, from as little as 2.5% up to 20%, throughout the ranks. He shrunk his own paycheck by 20%.

Some companies are sparing their top performers altogether, working on the theory espoused by Huselid and others that you don't want to anger those you need most. Geonerco Management, a Seattle real estate development firm, has gone through five rounds of layoffs in the past two years. In December, Greg Szymanski, the HR director, decided to try something different at the still-struggling company. He reduced his own salary by 20%. Then he tailored pay cuts to recognize how people's jobs had changed. Geonerco's real estate lawyers, for example, were enforcing contracts rather than doing big deals. Their jobs, and responsibilities, had shrunk, so many of them saw their pay drop by a fifth. But others, including executives on the finance team, were actually busier and doing more complicated work. Their paychecks went untouched. At the same time, Szymanski decided to give raises to workers in the lower echelons who had taken on the duties of those who had been let go and whose efforts were actually making money for the company.

Even when handled well, though, the danger of mass resentment—and an eventual backlash—looms. One IT Manager at Capital One, in Richmond, Va., says his boss did everything right when he had to shrink paychecks. Not a soul complained aloud. "But in this economy," he says, "who has the guts to stand up to them?"

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