

Zero salary budget round?

Some hints for managing morale and communication

Half of the 50 or so respondents in our recent [pulse poll](#) are facing a zero to 1% salary increase budget. As CEOs and HR managers, what's the best approach to managing and communicating this?

First of all, we recommend you don't be defensive. It's not just a cliché – remuneration isn't everything. A quote from an MD we know, during a discussion of employee engagement, highlights this:

'I have been reminded a few times over the past few weeks that pay is only one of the motivations for being content in one's job. When I was going through a performance review, a key employee mentioned two other positions offered in the past few weeks, both of which paid more than our job. They weren't accepted because the employee believed the working environment wouldn't be as good as at bidorbuy. The other was someone I met socially, working at a big corporate, who told me she would have no problem taking a pay cut to work somewhere more interesting, where things happened faster. For her, recognition for what she does is far more important than what she earns. I agree it is good to remind ourselves of this ...'

You may have little or no flexibility to increase any individual's pay, other than for promotions. However, with careful thought, you can still achieve some positive results.

Other forms of recognition are key

Encourage people to take on more challenging projects – one unexpected outcome of recruitment freezes in the US has been increased job satisfaction. People who have had to step up to the next level have enjoyed the challenge. They are also developing new skills, which they know will stand them in good stead. Job rotation, participation on project teams and, if your budget will stretch to it, attendance at conferences and seminars will all increase job satisfaction.

Recognise and reward good customer service - while customer numbers may be down, there is more opportunity when it's quiet to provide outstanding service and go that extra mile. Aside from helping retain your customers, building great client relationships also increases job satisfaction. There are many ways of rewarding good customer service aside from the annual pay increase – public recognition, some time off, movie tickets, a monthly prize are all good ways of saying thank you.

Communicate, communicate, communicate.

Communicate the value of the existing package – more than half the participants in our 2009 Corporate Services and Executive Management survey say they don't communicate the value of benefits to employees. We recommend you use a simple remuneration statement to demonstrate the whole value of benefits (excluding KiwiSaver), so that people know what their package is worth. Otherwise, you may as well not provide that car park, health insurance and life cover; people will focus on base salary and nothing else.

Link business outcomes to employee results – employees know that things are tough. It's a good time to clarify the link between their results and your organisation's outcomes. Minimising costs tends to be where employers focus – while this has the most instant effect on the balance sheet, cutting all spending on investments is not a good long-term strategy.

Use the recession as a prompt to try some innovative management practices

The recession may be a good time to look at 'fixed costs' you have always assumed are a part of the business. If you are fortunate enough to have a lease renewal coming up, think about the size of this overhead. Do your employees all need to come into the office every day? Do your managers trust them to do a good day's work out of the office? We're not suggesting people spend their whole time working at home, but there are some real benefits to encouraging people to work at home one or two days a week.

It may be feasible for more people to share offices, reducing your office space not just now, but in the long term. People save money by not having to commute. This may not sound like much, but even \$10 per week adds up to \$500 per year after tax, which for a person on \$50,000 is the equivalent of a 1.5% pay increase.

On the revenue side, encourage your employees to contribute ideas that increase sales – you may be surprised at the opportunities that emerge.

Redistribute your remuneration to people who really deserve it

In fact, a zero salary increase budget may still give you the scope to reward some employees. If you have some flexibility resulting from natural attrition, you may decide to target increases to outstanding individuals. If so, encourage your managers to make a genuine business case, demonstrating the value these people add to the business and the justification for providing them, rather than every other employee, an increase.

In summary, a zero increase message may not be your preferred option, but if you manage the communication carefully and consistently and use other forms of recognition, you can still keep your employees engaged and focussed on producing the outputs your organisation needs.