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SMALL TALK

Some businesses forgoing raises for a second year

It's something many small-business owners across the country are dreading: Telling staffers they won't be getting a raise for a second straight year.

"I got a lot of blank stares," Matt Spaulding recalled. "I think they were really trying to process it" when he told his five employees there would again be no raises in 2009.

Many owners are finding that business just isn't strong enough to give workers the raises they deserve. Some bosses are trying to ease the pain in other ways, giving the staff flex time, lunches or field trips. Others are dipping into savings accounts to pay bonuses, or structuring their compensation so it's more performance-based.

Although profits at Spaulding's public relations business haven't been large, he was able to put some money aside the past few years. So he decided to go into that savings and give employees bonuses, which he said were more manageable than raises.

"Right now, with this economic uncertainty, I cannot commit to a fixed, larger expense," said Spaulding, president of Spaulding Communications in Decatur, Ga.

Moreover, because of the uncertainty, Spaulding wasn't sure raises would stick. "It would be disheartening if I came to you and said, 'you know that raise I gave you?

We're going to have to take that away,'" he said.

Human resources consultants say they are hearing from many clients that raises are again just not possible.

Rick Gibbs, a senior human resources specialist with Administaff, a Houston-based company that provides human resources outsourcing, said many of his firm's clients are reworking their compensation to be less dependent on traditional yearly raises. Instead, he said, they are going with plans set up with specific goals about what the organization is trying to do, and making payments accordingly.

Many companies are moving away from merit raises, which Gibbs said are often "based more on tenure and less on what [employees] actually do for the organization."

Gibbs said a rethinking of how employees are compensated is a good idea even in good economic times. But right now, it's a necessity for many businesses.

Companies are being forced to look closely at "what do we do, how do we price, how do we make money on what we do and translating that to what can each individual employee do to move us in the right direction," Gibbs said.

Owners also need to be mindful of how they relay the bad news, even when this is the first year that staffers are going without raises.

Most importantly, Gibbs said, is that the news not come as a total surprise. Owners need to be keeping employees informed about how the company is doing, so they will be prepared for the possibility of not getting raises.

Gibbs said an owner can break the news to employees as a group, but the next step is to hold individual meetings with the staff. If compensation is going to be based on performance, this is the opportunity to let workers know what's expected of them.

"Those may not be easy discussions," Gibbs said, especially when underperforming staffers need to be told they have to shape up to earn bigger paychecks.

If owners encounter anger or resistance, then it's time for employees to hear some reality. The economy is bad, the business is struggling and everyone, even you, has to perform to get better pay.

Of course, the news will sting, and many owners try to ease the pain.

Chris Rosica, CEO of Paramus, N.J.-based Rosica Strategic Public Relations, can't give his staff of 19 raises this year, so he is trying to make up for the deficit in other ways. Staffers who need help with some of their expenses, such as commuting, are getting some money to help defray their costs.

Joyce Roseberg writes about small business for The Associated Press.

