Rebalance Compensation From Top to Bottom

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The scenario: Budget cuts and fear of layoffs are killing employee morale, and productivity has come to a standstill.

The tactic: Sacrifice executive pay and reward those further down the ladder to send a unifying message.

“Spread the wealth around” is a loaded phrase these days in politics, but for businesses staring at cutbacks, possible layoffs, and sinking morale, rebalancing employee compensation — asking for pay cuts primarily from the top layer of management — can help keep a company moving forward through a financial storm. Patrick M. Wright, a professor of strategic human resources at Cornell University, says this tactic shows employees that the company is doing everything in its power to avoid layoffs, and if lower-level staffing cuts eventually need to be made, employees will be more understanding of them when they happen. “Employees are bright,” he says. “If they see senior leaders are sacrificing as much if not more, they won’t resent [layoffs].”

Take Sysco Corp. for instance: the Houston-based, $37.5 billion food-distribution juggernaut. In late June, as the U.S. economy began its downward slide, the company’s 15 senior-most executives voluntarily announced they would take a 5 percent pay cut for the next year. At the same time, the company announced that the rest of its executive ranks — more than 150 employees — would get a salary freeze for the same period of time. The real surprise? Sysco took the additional step of handing out a 3 percent pay *increase* for the entire rank and file — more than 50,000 employees in North America.

“We wanted to show our people that it was a tough economic time, but that the corporate office was going to take the first hit,” says Sysco spokesman Mark Palmer. While Palmer won’t comment on the financial calculus involved, Wright suggests that Sysco’s call to trim back executive pay was based on morale reasons rather than the need to slash costs — and handing out increases to so many others suggests that it cost a lot more than it saved. While companies can often save some money with this tactic, the real power of top-level salary cuts is symbolic. “It reaffirms the message that we’re all in this together,” says Ken Pinnock, director of Denver-based HR Services Group at Mountain States Employers Council Inc. “We saw this happen during the downturn after 9-11.”

Cutting executive pay as Sysco did is a tactic that can be used at nearly any company, but it’s rare because most execs won’t volunteer to cut their own salaries, says Greggory Warren, an equity research analyst with Morningstar. But it was a savvy move for Sysco, whose operation is fairly decentralized, making it difficult to communicate a unifying message. With the salary rebalance, Sysco employees across the nation could find evidence that they were appreciated in their own paychecks.

Executives decide to cut their salaries to get their payroll “where it needs to be,” says Lane Tranou, a Houston-based manager of benefits and compensation with Society for HR Management. The tactic is smart, she says, adding that pay cuts will get companies through hard times, and executives can receive bonuses in future years to make up for what they lost.

Caution: Trimming executive pay may also act as an omen that more cuts are soon to come, says Bob Cartwright, president and CEO of Intelligent Compensation LLC. “The gesture’s nice, but it’s not going to necessarily make everybody feel great,” he says.