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Are Merit Increases Becoming Meaningless For Regular Staff?

A lot has been said about top executive remuneration and how enhanced transparency and disclosure may have driven up executive pay. First, top executives want to be appropriately recognized for their ever-more demanding leadership act, and second, the board — acting on behalf of its shareholders — must be able to attract and retain top talent, and thus, appropriately reward performance. With top executive remuneration information for listed companies being widely disclosed pretty much everywhere, including on the Internet, nearly everyone can make their own statistics to assess their relative pay position.

As with increasing globalization, market interconnectedness and advances in information technology, markets have become ever more volatile during the past 10 years; we have moved from "pay for performance" over "pay for top performance and critical talent" to "pay for critical talent." With merit budgets that have been depressed for years and companies not only looking into temporary actions to relieve cost pressure, but needing to establish a new normal, merit pay for regular staff becomes more an expression of variable pay and other forms of recognition. This is perhaps an exception to a few bankers whose pay was overly weighted to variable and is being rebalanced to a more appropriate fix/variable pay mix.

The beauty of variable pay for employers is that it generally does not impact pension rights and can be reduced or waived if a committed threshold level of performance isn't reached. This is despite that in some jurisdictions (and perhaps with the exception of investment banking and asset management), variable pay is still seen to contain some "entitlement element" in the form of an expected payout for demonstrated achievement of a committed level of performance. In the aftermath of the financial crisis, new legislation is supporting adjustment of pay even in what were previously considered sacred areas, such as variable pay for less objectively measured qualitative achievements and pensions already committed or being paid. Also, deferred portions of already assigned variable pay can be reduced or waived if a certain level of performance is not sustained over multiple years.

How does all of this impact employee commitment? In times where merit increases are becoming irregular for many staff and variable pay less predictable even for top performers, it is essential that companies get the other part of the employment deal right, that is, interesting/challenging work, development opportunities and a supportive general work environment. Now, does different compensation practice at the top vs. the middle/bottom of the organization risk creating the next unsustainable imbalance? Not if companies understand employee engagement and look at pay "horizontally" against market as well as "vertically" across staff, as already required in some jurisdictions.

Sincerely,

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