How Our Conception of Pay Has Changed

Many companies have been forced to reassess their objectives and business strategies, including their employee and executive pay systems.

December 13, 2010

By Sandalio Gómez & Ignacio Contreras

If you've gone the past two years without a bonus or a raise, you're not alone. According to the 2010 Global Talent Management and Rewards Survey Report published by the professional services firm, Towers Watson, 55 percent of companies worldwide have frozen salaries, while another 36 percent have scaled back incentives. In those countries where the crisis has bitten hardest, such as Ireland and Spain, the salary freeze extends to 67 percent of companies. Even in the most flexible labor markets, such as in the United States, cutbacks have been made across the board: less hiring (66 percent), more layoffs (74 percent), lower salaries (61 percent) as well as fewer bonuses (41 percent) and other financial incentives (44 percent).

For many employees, motivation levels are flagging just as much as their pay. Although the overall economic situation appears to be on the up, expectations regarding salary levels for 2011 remain low. Many are worrying what their compensation will look like when the dust finally settles. The fact that they still at least have a job provides cold comfort.

A recent study by IESE's SEAT Chair of Labor Relations and KPMG into the Spanish financial and insurance sectors gives some indication as to why the majority of companies have opted to modify their employee and executive pay schemes. In this article, we take a closer look at the main trends and present some sound principles to help companies strike the right balance between fixed and variable pay schemes.

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This article is published in IESE Insight Issue 7 (Q4 2010).

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Sandalio Gómez

Professor emeritus of managing people in organizations at IESE.

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