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Spreading the pain around

Some firms cut wages, hours instead of positions

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You like Bob.

He sits two cubicles from you. Over nine years, you've seen his children grow up through the ever-changing photos on his desk. You've debated the relative merits of sports teams, television shows and corporate plans in meetings and over lunch, season after season. He's a nice guy and a hard worker.

But do you like him enough to take a pay cut so he can keep his job?

There is no specific "Bob," of course, and companies are unlikely to leave such decisions up to their workers. But cutting employees' wages or hours is emerging as a trend to avoid layoffs.

"This is something we have heard of, and we have been consulted on," in the last three or four months, said David Lewis, president of the Stamford human resource consulting firm OperationsInc.

Art Crane, president and owner of the HR consulting firm CapStone Services in Sherman, said he's working with one company whose 60 employees are taking furloughs every other week, without pay.

"They wanted to avoid layoffs," because they don't want to lose the talented work force they've built up, Crane said.

Workers who are furloughed without pay, Crane said, can apply for jobless benefits during their time out of work.

Nationally, news of companies cutting pay either alone or in conjunction with layoffs seems to come every day. For example, four McClatchy Co. newspapers -- including The Miami Herald and The Fresno Bee -- have announced layoffs and reduced salaries and hours. And Hearst Corp. last week agreed on concessions with the union at its San Francisco Chronicle as part of efforts to avoid selling or closing the newspaper. Hearst owns the Connecticut Post, The Advocate, Greenwich Time and the News-Times in Danbury.

It's difficult to find small companies that are willing to talk publicly about making wage cuts, but Lewis and Crane offered a broad view without speaking specifically about their clients.

"What I'm seeing and hearing is going across industry lines," Crane said.

Lewis described wage cuts as spreading the pain around and making everyone miserable,

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instead of just a couple of people. It's not necessarily a great strategy, he said, and sometimes people need to throw their ideas of community out the window in favor of a "healthy level of selfishness."

In non-sales positions, he said, the pay cuts seem to be averaging from 5 percent to 15 percent, which is significant in itself. But there are also people whose spouse or partner is also seeing a pay cut, or a job loss, he said. Most of those affected were already living paycheck to paycheck, not earning six-figure salaries.

The decision makers earning those six-figure salaries should also be wary about appearances, Crane said.

He saw one company cut the hourly workers' time but not the higher-ups. That created a backlash from unhappy workers, Crane said. "I think they're going to be changing that soon."

The question of whether wage cuts are a good move depends on the company, Crane said. In the previous example, "That was just hip-shooting, inappropriately."

Both companies Crane described came to him after making these decisions. A better move, Crane and Lewis said, is to seek advice first. Crane said it's important to maintain transparency, so workers know the sacrifice is shared, and to set and report time limits for wage and hour cuts.

When fewer people are parceling out the same amount of work -- and getting paid less while doing so -- it can be difficult to keep up service and quality levels, Lewis said.

"You're kind of damned if you do (lay off) and damned if you don't," said Lewis, who counsels clients to lay off workers and find ways other than pay cuts to trim costs. "Unhappy and trapped workers" adversely impact productivity and morale," he said.

This is especially true when the jobs saved belong to people who aren't carrying their weight, Crane said. Instead, companies need to identify poor performers and use layoffs to get rid of them.

Drawbacks aside, cutting wages and hours to save money is allowed, said Gary Pechie, director of the wage and workplace standards division at the Connecticut Department of Labor.

His division is getting a lot of complaints now about these tactics and others, such as not paying laid off workers for unused vacation time, and he expects to see even more down the road. But "People are tolerating a lot more" from their employers because of the abysmal economic conditions, he said.

Employers are allowed to set the rate of pay and number of hours to be worked, Pechie said, as long as they give employees proper notice, which is usually one pay period. And if a company's written policy is to not pay out vacation time, it can choose not to do so. This is true even if the company makes this the new policy a day before a layoff, Pechie said.

But companies can't change commissions retroactively. Pechie said they must pay their salespeople what had been the agreed-upon commission at the time of the sale, but can make changes going forward.

Workers who choose to quit instead of live with the changes will have to go through the process to determine unemployment eligibility, Pechie said. A "tremendous" wage cut would tip the scales in the employee's favor, he said.

Overtime can be a major complication when it comes to furloughs with pay cuts, said Dan Green, who chairs the employment group at the Westport law firm Begos Horgan & Brown. Green said he's getting a lot of calls these days from employers, and even more from employees.

The question to consider when cutting wages is whether this will turn an exempt employee -- meaning one who is not eligible for overtime -- into a non-exempt worker. "Which can create horrible complications," he said, that in the most extreme case might mean owing the employee overtime retroactive to their taking the position.

Employers also need to be careful in how they structure furloughs, pay cuts and layoffs, he said. A company that puts 95 percent of African-American workers on furlough, but only 2 percent of caucasian workers, for example, is opening itself up to legal attack. And employment and union contracts can limit an employer's options, he said.

Pay cuts are probably the most demoralizing of the choices out there, with the exception of layoffs, Green said. But they are a way for companies to save money now and in the future, because they won't need to rehire and retrain workers.

Lewis said they also are likely to see cost savings from salary cuts continue, because it's unlikely those companies will raise pay rates once the economy improves. And companies will pay replacement workers less than their predecessors. "Whatever those new salaries are, they're going to stay there," Lewis said.

The companies that make these cuts also are likely to see a disproportionate number of workers leave once the job market improves, Lewis said. But for healthy businesses, the talent pool will be deep.

"The community banks are thriving right now when it comes to hiring," Lewis said. Thanks to the implosion among their bigger brethren, "They're able to pull talent they've never been able to touch before."

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