Working harder for the money: In a slow economy, small businesses base raises on performance

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NEW YORK — Raises are no longer a sure thing at Warner Communications — staffers at the public relations firm who were virtually assured of an annual salary bump before the recession have to work a lot harder to get an increase.

“Everyone needs to make a difference. It was always said, but never enforced until right now,” says Carin Warner, owner of the company based in Manchester-by-the-Sea, Mass.

Yearly pay raises that workers at small businesses used to count on have become a casualty of the weak economy. They’re increasingly based on performance — not just an employee’s performance, but the entire company’s. Raises at many businesses are also smaller than they were before the recession began five years ago. And some employers are using rewards other than annual raises to compensate workers.

Warner expects all of her 15 employees — even the newest ones — to bring in new business in addition to doing an exemplary job taking care of current clients. Raises are also based on the company’s revenue and profit.

“You have to look at an individual and at the overall agency’s success. It’s a mathematical formula that we must do,” Warner says.

Warner is part of a growing trend of small businesses abandoning the idea that they must give their workers raises every year.

“The days of the traditional merit increases and cost of living increases seem, at least for now, to be behind us,” says Carrie Cherveny, vice president of employment practices for AlphaStaff, a Fort Lauderdale, Fla.-based company that provides companies with human resources services such as payroll, benefits administration and hiring assistance. “What we are seeing is compensation tied to corporate performance — you’ll get a raise or bonus if we do well.”

Whether they’ll do well is the big question for many small business owners. Jobs and incomes are growing, but not fast enough to make them more confident that a healthy economy will give their sales a boost. The most recent monthly jobs report showed that U.S. employers hired 155,000 people in December, less than the 175,000 or more that would get economists excited.

Managers at Ontraport, a company that makes marketing software for businesses, are willing to give big raises — 10 percent or more — but they’re not guaranteed.

"We don't have a process in place where we just give automatic raises to everyone every year," says Landon Ray, CEO of the company based in Santa Barbara, Calif.

The company did well and kept growing during the recession. But Ray says it still needs to be careful. The biggest raises at Ontraport are intended to attract and keep top talent in the competitive high-tech industry, Ray says. Employees whose work is disappointing will find themselves left out when raises are given at mid-year.

Raises at Mercury Labs depend on how well the St. Louis-based video production and marketing company does. Salaries were frozen for more than a year from 2008-09, and owner Angie Lawing isn't sure about raises for this year because revenue slid 25 percent in 2012.

But Lawing has given her employees a chance to win a bonus by finding new business leads. One staffer got a $3,000 bonus for a lead that turned into a $30,000 contract. Lawing created the bonuses during the 2008 salary freeze.

"It's a response to some employees who were very disappointed at not having the ability to have an official raise," Lawing says. "We asked ourselves, 'how do we keep them and give them other incentives?'"

Workers at Tasty Catering get a raise only if the Glenview, Ill., corporate caterer reaches its quarterly profit goals.

"This has become a team thing," CEO Tom Walter says. "It's not a discretionary thing were people cuddle up to the boss to see if they can get a raise."

Tasty Catering gave no raises in the second half of 2012 because the company missed its goals for both the third and fourth quarters. Employees got the news at quarterly meetings held to discuss the company's revenue and profits. On Monday, staffers heard that 2013 looks like it will be a difficult year for the business. Raises and some perks like paid gym memberships are on hold, Walter says.

The raises at Christine Perkett's public relations firm are about 2 percent lower than they were before the recession. She had stopped giving increases to workers at Boston-based Perkett PR in early 2009 and also laid off half her staff of 30. The company had suffered along with other public relations firms; clients' marketing budgets were one of the first expenses cut when the recession hit.

Perkett started giving raises again a year and a-half ago. But increases are smaller than in the past, and Perkett is also giving out fewer bonuses. Employees have to work harder to get a bonus. Before the recession they were rewarded for bringing in clients. Now they also have to show they're working hard to keep them.

"They're more performance based than 'thank you for doing your job" based,'" she says.

Perkett is also giving non-cash rewards like extra vacation days. She also has staffers vote each month for the company's most valuable player. The winner gets a small gift card.

“They’re tiny things, but they’re a thank you and an incentive,” she says.

Companies that provide payroll services say the average pay levels at small businesses show how cautious owners still are about raises.

According to an analysis done by the payroll company Paychex, the average monthly paycheck at small businesses in November was 1 percent larger than it was a year earlier. In April 2011, by contrast, the average paycheck was up 3 percent from April 2010. Paychex bases its numbers on pay at more than 500,000 companies.

Raises were likely higher in early 2011 because companies were compensating employees for pay that was frozen or cut during the recession, says Frank Fiorelle, the senior director of risk management at Paychex. The slowing trend now may be reflecting the weaker economy, he says.

Pay is down at the smallest companies, says Michael Alter, CEO of SurePayroll, another payroll processor. The company has 40,000 clients with an average of seven employees each, and the average paycheck was down 1.4 percent in 2012.

SurePayroll found in a survey of its clients that 61 percent were holding off on raises or yearend bonuses until they knew the outcome of negotiations in Congress on the fiscal cliff, the combination of tax increases and budget cuts scheduled to go into effect Jan. 1. But while most of SurePayroll’s clients weren’t hurt by the tax increases that Congress approved, they’re still being cautious, Alter says.

“They are acting in a similar fashion to 2012,” he says. “They expect low to moderate growth in their businesses, which they hope to be able to cover with productivity gains rather than needing to hire extra staff or having to pay a lot more to existing staff.”

VoIP Supply had been giving bigger raises than it did during the recession — in 2012, employees got increases between 4 percent and 6 percent, up from 2 percent to 4 percent. But the tax increase Congress passed for individuals earning at least $400,000 and households earning at least $450,000 may hurt raises at the Buffalo, N.Y., company, which sells telecommunications equipment.

CEO Ben Sayers expects the higher taxes to leave less money to put into the business. He’ll still give employees cost of living and merit raises, but he doesn’t know yet much the tax increase will affect them.

“The bucket’s going to be smaller than it would have been,” he says.