

The New York Times

Thursday, February 25, 2010 Last Update: 7:55 AM ET

Raises or Rebuilding? A Business Owner's Dilemma

By THE ASSOCIATED PRESS

Filed at 5:40 p.m. ET

NEW YORK (AP) -- Business is starting to creep upward at some small companies. And employees who have gone without raises or had their salaries cut over the past two years are hoping that more money coming in will lead to a raise in the near future.

But owners who need to rebuild their businesses may not be able to give those raises. They may need to put the revenue toward equipment purchases they've had to put off. Or they may need to travel to more trade shows to prospect for new customers.

It's not an easy decision, especially in a company whose employees have sacrificed for the good of the company.

"It's a really tough call. You have to have a motivated work force," said Jill McBride, who owns a six-person public relations firm, JZMcBride & Associates, in Cincinnati. She's trying to decide whether to give raises or add staff as business improves.

Human resources consultants advised owners during the recession to be open with employees about business and the challenges that their companies face. It's no different now, when employees are hoping for raises that may not be forthcoming.

THE EMPLOYERS' DILEMMA

McBride said she needs to decide whether to give raises or put new income into efforts to build the business.

"We're still trying to figure it out," she said.

McBride said she gave bonuses rather than raises last year but didn't cut anyone's pay or the [401\(k\)](#) match. And, "we didn't let anyone go."

Now, she's asking, if the company is better off adding a new person who can bring in new business rather than giving out raises.

Amos Winbush III, CEO of New York-based CyberSynchs, said of not giving raises, "it's not a decision I take lightly." Not only are the company's 15 employees not getting pay increases, but two went without a salary during the company's first year in 2008, and CyberSynchs, which allows users to copy and store data from devices like cell phones, isn't ready to repay them. Now that the recession is over and money is coming in, the company needs to expand.

KEEP TALKING

HR professionals say owners need to be sensitive to the fact that employees who have gone without raises are likely to feel some resentment if they see money going toward equipment or a new hire. So before an owner invests thousands of dollars in, say, a new server, he or she needs to let the staff know that raises won't be forthcoming. And, an owner needs to explain to employees that they stand to ultimately benefit from the purchase.

"If they can tie getting the server to increased productivity or ability to serve customers that will result in a higher level of revenue," employees are likely to accept the boss' decision, said Rick Gibbs, a senior human resources specialist with [Administaff](#), a Houston-based company that provides HR outsourcing.

Likewise, a new employee who can bring in more business will help generate income that can fund those raises.

Gibbs also suggested telling staffers, "we need to get additional business before we loosen up the budget on salaries." In that way, the boss is letting workers know that raises are still a priority, and that as business continues to pick up, they'll be rewarded.

Don Mallo, a vice president at Extensis, a Woodbridge, N.J.-based company that provides HR outsourcing, recommends that owners also explain what other steps the company took before making the wage freeze. For example, what other expenses were cut.

Winbush held such a conversation with his staff, inviting everyone over to his house during the holidays.

"We talked about the growth of the company and where we needed to go and what steps we needed to take," he said. "They didn't take it lightly, but they understood that it was the responsible business thing to do."

TIMING IS EVERYTHING

Owners should try to give employees some lead time before announcing that there won't be any raises. So if you usually give raises in April, "don't do it in the second week in March," Mallo said, explaining that staffers need time, ideally two or three months, to prepare financially for a salary freeze.

And if your company has several locations, hold a conference call so everyone gets the news at once. The last thing you want is to cause hard feelings because some staffers didn't get the news directly from you first.

GIVING STAFFERS SOMETHING IN RETURN

You may not be able to give staffers more money right now, but there are other benefits that won't cost as much. And maybe they'll cost the company nothing.

Mallo noted that some staffers would rather have time than money. So creating a flex-time policy or allowing them to telecommute on some days is likely to be well received.

He also said that improving benefits like health insurance will also be appreciated. "It's another way of showing concern for the employees," he said.

About Extensis Group LLC.

Extensis Group LLC. is the tri-state regions leading Professional Employer Organization, providing outsourced HR, Benefits and Risk Management Services, including Payroll, Tax, Insurance, Human Resources and Regulatory Compliance. Extensis is a member of the National Association of Professional Employer Organizations (NAPEO) and is ESAC certified. For more information call Extensis at (888) 473-6398 or visit www.extensisgroup.com.

Contact:

For Extensis Group LLC.
John Powell, 888-473-6398

Source: Extensis Group LLC.

900 Route 9 North
P.O. Box 248
Woodbridge, NJ 07095
Tel: (888) 473-6398
Fax: (732) 634-3407