



EXCLUSIVE INTERVIEW:

Today I'm pleased to be talking to Liz Wright, Senior Consultant and Principal at McDowall Associates about salary increase forecasts for Canada in 2010/11.

Thanks for joining me today Liz.

Oh my pleasure. Thanks for this great opportunity.

Q. Salary survey data has been released by a number of large consulting firms over the last several weeks projecting 2010/2011 salary budget increases ranging from 2.5% to 3%. Is that consistent with your client research?

A. Yes. We do limited client research but certainly our perspective given what we know about the marketplace and our clients themselves is that 2.5% - 3% is not surprising.

Q. How accurate do these type of projections tend to be and what accounts for the differences from one survey to another?

A. Well, some of the differences can depend on the kind of participants that are included in the survey as well as the number of participants. Certain industries may be more prevalent than others depending on the survey source. But having said that, it is interesting how the market over the last few years has been fairly tight around that range; 2.5%- 3% is not a huge amount unless you have multi-billion dollar payrolls and then it becomes much more significant. And within those industries which are relatively few in Canada – I'm thinking of the large financials – they tend to exchange their own information and try not to sort of outdo themselves.

So 2.5% - 3% seems quite logical, even in the context of the cost of living as many employers do take that into consideration as well as general wage inflation.

Q. What exactly does an “average salary increase” mean in terms of what an individual employee can expect to receive?

A. An average salary increase depending on an organization’s compensation philosophy and policies can range anywhere from a straightforward cost of living adjustment or a general adjustment, as some employers may call it, to merit-based types of adjustment. It might also include promotional adjustments, so if you change jobs and get higher responsibility you also get a promotional increase. All of these things can very much be bundled into an average salary increase.

Q. But this is a salary pool, right? Just because I’m average or better than average doesn’t mean I’ll get 2.5%.

A. When the surveys say 2.5% - 3% essentially one has to view this as an aggregate. If you are one of the top performers in a certain organization of course you can get higher than 2.5% and generally from the survey sources that we have seen, a top performer can get salary increases of 5%-6%.

Q. In addition to base pay, many organizations pay bonuses or other forms of incentive pay. Do these amounts form part of the 2.5% to 3.0% salary increase pool, or are they layered on top?

A. They are layered on top by and large. Of course bonuses or incentive compensation have become very prevalent in the private sector and now are becoming more prevalent even in the public and not-for-profit sectors. That is primarily because for companies even in the public domain, the notion of performance or accountability is becoming even more critical. The question always becomes how do you distinguish performance and therefore appropriately reward that performance?

Q. I understand McDowall does a fair bit of work in the not-for-profit sector and you currently have a survey out to market regarding likely salary increases in that sector. Can you hazard a guess as to what the numbers will look like for not-for-profits?

A. Again a lot of the not-for-profits are struggling a little bit given the softening in the economy so I suspect they will be quite conservative. At the same time, they also need the best and brightest within their industry so I think they’ll come in closer to 3%. However, those in that industry who are more cautious will go with the minimum – the 2.5% projection.

Q. Again, in the not-for-profits, will that average salary pool include just salary increases or incentive compensation as well?

A. No, usually incentive compensation would be treated over and above that. I think not-for-profits have been fairly cautious around the notion of paying for performance but I've seen a lot of changes in the industry over the last couple of years and they are embracing this idea of performance, provided of course the performance is there.

Q. What about industry specific results? Why are we seeing the highest projected salary increases for oil and gas extraction – 4% in one survey I looked at?

A. I think it is back to supply and demand of labour and Alberta as you know, even prior to the 2008 recession has had trouble attracting all the resources they need fast enough to that province. Of course with the slow down, there have been a lot of changes within those industries, including shutdowns and consolidation etc. But now they are coming out of this and they find themselves a little more challenged in finding all of the right resources, so you see some pressure on compensation in the form of base salary adjustments.

Q. The data also appears to show that in spite of continuing economic uncertainty in many sectors, the number of companies with salary freezes is down. Can you explain this development?

A. Yes, absolutely. What's interesting is going back into the recession after 2008/09 companies having difficulties (i.e. in the automotive industry) were involved in a lot of restructuring and consolidation. Well guess what, base salary adjustments were last on the totem pole in terms of some of the priorities. But I think that situation has improved over time and employers generally are more optimistic than they were a year ago. That's why you are seeing those numbers.

Q. Recruitment appears to be more of a priority than workforce reduction, yet labour force costs are still a major concern for a significant number of respondents. What steps are employers taking to reconcile these seemingly conflicting objectives?

A. Given where we have been, many organizations are keeping their eyes on the expense line. It's absolutely critical, particularly in the private sector to make sure share holders are duly rewarded and get their returns. And even in the not-for-profits, all the stakeholders are actually looking for increased value.

Yet employers are realizing that attracting top talent and getting the right people doing the right things is very important for their sustainability. They may appear to have conflicting goals, but at the same time employers are strategically starting to understand that having to pay a little bit more, hopefully drives the return that they are looking for in people so again, "spend wisely" comes to mind.

Thanks very much for talking to me today Liz.

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