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As the economy hits the most significant downward cycle in 50 years Finance Directors need to take



Aggregate payroll under scrutiny



Written by Niall Fleming at Carrowdale Ltd

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Finance Directors must recognise that this is one of the biggest regular costs for companies.

Recent announcements by GKN of plans to remove all temporary labour from their automotive division, by Ford to take out production time so saving on shift payments and bonuses, and other large firms are symptomatic of the decisions being taken across industry and commerce today.

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I have seen smaller entities accelerating rationalisation plans, merging sites, streamlining business activities, with a view to making savings, the major element of which is payroll.

Smaller businesses using payroll funding schemes are seeing these products being withdrawn from the market, indeed one of the major payroll funding companies itself went into administration last month.

There are pitfalls to this. Most enterprises are not carrying large numbers of excess staff.

Even selective redundancy programmes can have a devastating effect on company morale, which ultimately will also impact on the bottom line.

Expectations have to be managed, for many at the lower end of the pay scales inflation is not the headline 4%, when real costs are factored in many "feel" that the real rate recently has been much higher.

So the first role of the finance director is of course, as it always has been, to ensure that the business isn't carrying excess.

In smaller enterprises, especially those with institutional backing that usually means starting at the top and working down. A company that I was involved with recently was looking to reduce costs, payroll represented more than two thirds of the overhead, and six salaries accounted for 50% of that payroll cost.

Good advice is to look at getting directors to take partial holidays on their basic pay, negotiating with non-executives not to be paid at all for a period, and looking to see if the number of senior staff can be justified against the business forecast.

I know of a German PLC which recently implemented a cost reduction programme by reducing its operating board from nine members to three, using the savings to retain technical staff whose positions would otherwise have been at risk.

The second role is to communicate, not always the finance director's strength. Expectations have to be managed and one of the obvious targets is the annual pay increase. Quite simply this message has to be, protect your job and live without a pay increase.

The third role is to ensure that the pay freeze is matched by a generous incentive scheme for above plan performance. Sales people need additional incentives to not only find additional business but also to find good paying business. Design, technical and production staff need the incentives to turn prospects into orders and into delivery of products or services.

The final role is active sponsorship and reward for cost reduction. Staff often know ways to save money or to work more productively. If they are rewarded they will bring those ideas forward.

This process should also be a long term one, reducing the fixed element of pay and replacing that with the potential to earn more if the company is successful. In an exercise I have just been involved in for a client, we have got a business to break even by taking out sales people who were not delivering, switched the general manager to a sales role paid largely by results. Not only is a loss making business now at breakeven, sales have gone up. The remaining staff have put ideas on the table to sell off excess stock in hand and reduce non payroll overhead. The business is now in danger of making a profit!

Don't ask staff to make sacrifices that you are prepared to make yourself. Make sure that all wasteful expenditure has been comprehensively curtailed before asking staff to make their contribution.

Don't go for false economies. Some years ago a lighting business I knew cancelled its cleaning contracts as a cost saving measure. The place was filthy, unpleasant to work in, staff were understandably unmotivated by dirty washrooms, customers started to get nervous that the business was going down and at least one contract was lost after a customer's purchasing manager made the mistake of visiting one of the factory toilets. It is essential to maintain a professional working environment, just cancel the tropical fish.

Businesses are about people. While it is questionable to spend money on recruitment in difficult times, leaving yourself short of an essential skill is another false economy. By all means tackle the recruitment company on their fee, adjust the package to make a bigger proportion results orientated, also an obvious method of reducing the recruitment fee but if the recruitment will deliver results, do it.

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