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Compensating Salaried Employees During Inflation: General vs. Merit Increases

Report No. 796

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Compensating Salaried Employees During Inflation: General vs. Merit Increases

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A Research Report from The Conference Board

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About This Report

THE PERIOD OF 1977-1979 was a difficult time for executives responsible for corporate salary administration. It was a time characterized by economic conditions of simultaneous high inflation and slow growth, and by Federal Government constraints on salary increases in the form of voluntary pay standards. The efforts of corporations to deal with these and other factors in their salary administration policies and practices are the subject of the present report. Among its principal findings are:

• In spite of high inflation, there were no indications that companies were abandoning individual, performance-related merit increases as the preferred method for raising the pay of salaried employees.

• In dollar terms, however, merit increases granted during the period of 1977 through 1979 did not keep pace with increases in the rate of inflation, as measured by the Consumer Price Index (CPI), for the same period.

• There was a marked rise in the number of across-the-board, general increases granted to salaried personnel in 1979 over 1977 and 1978, as a number of companies found the customary merit increases inadequate in the face of high inflation. However, these general increases were in addition to merit increases and not replacements for them.

• In spite of the extensive publicity about cost-of-living clauses in union contracts, which would seem to cause hourly pay to rise at a faster rate than salaried pay, the study found little evidence of compression in the compensation differential between hourly and exempt salaried employees.

• When managers were asked for their perceptions of the role performance played in determining the size of merit increases, they rated it of major importance far more frequently than any other factor. This leads to the conclusion that, in spite of inflation, the concept of pay for performance continued to be strong in the minds of managers.

The Study Participants

The data for the study were obtained by means of a long and detailed questionnaire. In certain instances additional information was obtained by telephone. The questionnaire was mailed to the compensation executives of the 1,000 largest manufacturing companies in the United States, as ranked by *Fortune* magazine for 1979. Usable responses were received from 208 companies. The major characteristics of the participating companies were:

1979 median sales volume of 208 companies: $664.6 million[1]
Extent of unionization: 159 companies, or 76 percent

Median numbers of employees:

Union hourly:	2,800
Nonunion hourly:	1,400
Nonexempt salaried:	1,100
Exempt salaried:	1,461
Top management:	40

[1]Not an actual company sales volume.

Foreword

PROVIDING EQUITABLE, realistic pay increases for salaried employees has always been a corporate objective. A sound salary administration program includes consideration of such factors as standards of individual performance, company profitability, the economic environment, the labor market, and the influence of collectively bargained settlements, as well as many others.

Salary administration policies, particularly for salaried employees below the top management level, have become an object of special concern to corporate management due to the economic and regulatory climate. The Conference Board previously studied employee compensation in its 1976 report, *Compensating Employees: Lessons of the 1970's.* But in the intervening time, inflation has continued to increase rapidly, and in an effort to curb spiraling costs, in 1978 the Federal Government initiated voluntary wage and price standards. The present study was conducted to assess the effect of these and other factors on corporate salary administration policies and practices.

This report should prove useful to compensation administrators and senior human resource executives, as well as to other human resource personnel who interface with the salary administration function. In general, managers and supervisors who are responsible for recommending salary increases for their subordinates will also find this report of benefit.

The Conference Board is indebted to the executives who responded in detail to the questionnaire, as well as to the several company compensation specialists who gave their time and knowledge so generously during the development of the questionnaire. The study was conducted and the report prepared in the Organization Development Research Department, Walter S. Wikstrom, Director. This is a unit of the Management Research Division, Harold Stieglitz, Vice President.

KENNETH A. RANDALL
President

Chapter 1
Introduction

COMPANIES INCREASE EMPLOYEE SALARIES in response to a number of external and internal pressures. Among others, these often include individual performance, rates paid by other companies, change in the cost-of-living, changes in job duties, and the length of time an employee has been in a position. In private industry today, the most frequently used method of raising the pay of salaried employees is the merit increase.

A merit increase is, literally, a pay raise earned by an employee through job performance. It reflects the "pay for performance" philosophy—the concept that differences in performance can be discerned and superior performance can be encouraged by pay raises. This concept is the cornerstone of present-day corporate salary administration, and it has been an integral part of company pay philosophy for a long time.

However, pay based on performance has never, or at least very rarely, been immune from the influence of other factors both intrinsic and extrinsic. The three-year period, 1977-1979, saw two major external forces impinge on companies' traditional belief in pay for performance and, in fact, on the entire area of salary policies and practices. These factors were the high inflation-slow growth economy and the Carter Administration's reaction to inflation in the form of the voluntary pay and price standards. The latter limited the size of pay increases while the former eroded their value.

Economic Influences

On the economic front, the three-year period exhibited some of the characteristics of a simultaneous inflation and recession—or "stagflation." The increases in the Consumer Price Index (CPI), the most commonly used measure of inflation, over the three years were:

1977	*1978*	*1979*[1]
6.8%	9.0%	13.3%

There were many predictions that a full-scale recession would occur in 1979. Although economic growth continued to slow during that year, all the characteristics of a cumulating recession were not in evidence at year-end, and it did not occur until the beginning of 1980.

The high rate of inflation did not appear to cause a shift in company practice away from reliance on the individual, performance-related merit increase to compensate salaried personnel, or to alter the belief in the validity of the pay-for-performance concept. However, in dollar terms merit increases did not keep pace with the rate of inflation as measured by the CPI. This resulted in a number of companies supplementing their merit raises with general, across-the-board increases. Companies that did not give general pay raises and adhered strictly to the merit increase concept were put into an almost schizoid position, illustrated by this comment by a transportation equipment manufacturer:

> "Our merit pay increases really contain an element of general increases. Nearly everybody gets something. About 5 of the 8.5 percent budgeted could be called 'general increases,' although we do not do so."

In spite of all the publicity about the level of increases for unionized hourly employees, especially those who have cost-of-living (COLA) provisions in their contracts, and the corresponding plight of salaried employees, there was little evidence of "compression." This is a salary administration problem manifested when the pay differences between successive levels become smaller. Nor, for that matter, was such compression apparent between the different levels of salaried employees.

Companies adhered to pay for performance in theory and tried to provide it through the medium of the merit increase. Their view of the economy seemed to be that the inflationary period was temporary and that there was no need to abandon or drastically revise existing pay policies for salaried employees.

Regulatory Influences

In an effort to curb the continuing high rate of inflation, the Federal Government put voluntary pay and price standards into effect on October 1, 1978. These standards were administered by the Council on Wage and Price Stability, with guidance on compensation aspects from the Pay Advisory Committee, a tripartite group composed of representatives from the

[1]Bureau of Labor Statistics, U.S. Department of Labor.

labor, management and public sectors. The pay standards limited increases during the first program year (October 1, 1978 through September 30, 1979) to not more than 7 percent over the average pay for the quarter ended September 30, 1978. During the second program year, beginning October 1, 1979, pay increases could range from 7.5 to 9.5 percent.

Notably excluded from the standards were pay increases resulting from collectively bargained wage contracts agreed upon prior to October 25, 1978; both contractual wage increases and cost-of-living adjustments (COLA's) resulting from such agreements were exempt. COLA clauses negotiated during the initial program year were based on the assumption of a 6 percent inflation rate. Increases resulting from inflation in excess of 6 percent were not charged against the standards. These exceptions appeared to put some hourly employee units in a more favorable position with respect to pay increases than salaried employees.

The cardinal feature of the standards was that they were voluntary. The Carter Administration requested compliance but, unlike the pay controls imposed by the Nixon Administration, adherence could not be legally compelled. However, there were teeth in the standards insofar as companies that did not comply could be denied federal contracts. This had the somewhat uneven effect of making compliance a much more important issue for those companies with substantial Federal Government contracts than for those without them.

Scope of the Study

The intent of this study was to investigate corporate salary increase policies and practices in the climate of high inflation, slow growth, and government pay standards characterizing the three-year period, 1977 through 1979. The focus was on identifying any shifts or trends in policies and practices over that time period. Of particular interest were the pressures exerted during the period on the pay-for-performance principle as manifested in company merit increase policies. In order to draw comparisons and contrasts with the remainder of the work force, and to place salary increases within the larger context of total pay increases, information was also examined on pay adjustments for the union and nonunion hourly wage groups, as well as on the role supplementary compensation, benefits and perquisites played in the pay of salaried employees during the three years.

For the purpose of the report, salaried employees have been grouped into three classes: *nonexempt,* those employees, primarily clerical, who are covered by the provisions of the federal wage and hour laws; *exempt,* including technical, professional, administrative, sales, supervisory and middle-management employees who are not covered by the wage and hour laws; and *top management,* exempt employees who are officers and/or heads of major functions or operations.

Chapter 2
Establishing Salary Increase Policies

TO GAIN INSIGHT into the relative importance of the various elements considered in salary increase budgeting, the participating companies were asked to rate different considerations as "important," of "some importance," or of "no importance" in determining their salary increase budgets for 1979 for the three classes of salaried personnel: nonexempt, exempt and top management. Table 1 shows the number of companies rating each item "important" for each level of employee.

The single influence most frequently rated "important" in determining 1979 salary budgets for nonexempt and exempt employees was the pay rates of other companies as revealed by area and national salary surveys. In the case of top management personnel, although salary surveys were second in frequency of rating as "important," they were still regarded as a major consideration by a substantial number of companies.

Federal voluntary pay standards, which began in October, 1978, were second in frequency of mention as "important" with respect to nonexempt and exempt employees and were third in frequency for top management. This would indicate that companies were making a conscientious effort at the time to comply with the Federal Government's request.

For a considerable length of time there has been a belief, or perhaps a myth, that the top management group is at a compensation level where cost-of-living changes are not a significant factor in compensation planning for them. It was a point of interest, therefore, to try to determine if this belief survived during a time of high inflation. The results of the present study indicate that it has. Cost-of-living changes decrease in frequency of mention as "important" as the corporate hierarchy is ascended. Cost-of-living changes rated third in frequency of mention for nonexempt employees, slipped to fifth place for exempt employees, and were ninth—next to last—for top management.

Table 1: Factors Influencing 1979 Salary Increase Budgets

	Companies Rating Factor "Important"								
	Nonexempt Salaried Employees			Exempt Salaried Employees			Top Management		
Factor	Number	Percent*	Rank of Factor	Number	Percent*	Rank of Factor	Number	Percent*	Rank of Factor
National and area salary surveys	105	60%	1	115	63%	1	106	61%	2
Increases of industry leaders	46	27	10	58	32	9	66	39	5
Federal voluntary pay standards	97	54	2	101	55	2	90	51	3
Cost-of-living changes	81	46	3	66	36	5	44	25	9
Ability to hire	61	35	7	80	44	4	52	30	7
Bargained settlements	63	38	5	39	23	10	19	11	10
Company financial results	69	39	4	83	46	3	113	65	1
Company financial prospects	48	28	9	60	34	8	85	49	4
Employee productivity	51	30	8	62	35	7	61	36	6
Internal relationships among groups	63	37	6	63	35	6	47	28	8

*Percents do not add to 100 because a company may have rated more than one factor "important."

The influence of wage settlements with bargaining units on pay budgets for salaried personnel also decreases as the level of organization increases. It falls approximately in the middle (fifth in a list of ten) in the nonexempt category and drops to last place for exempt and top management.

Conversely, financial results for the preceding year increase in frequency of mention as "important" in salary budgeting for higher levels of the organization. It was number one in frequency for the top-management group, number three for exempt salaried, and in fourth place for nonexempt salaried employees.

In general, extrinsic factors such as the salaries paid by other companies and federal voluntary pay standards were more frequently mentioned for nonexempt and exempt employees than such intrinsic factors as ability to hire, internal relationships among groups, and employee productivity. In the case of top management, however, an intrinsic factor—company financial results—was most frequently rated "important."

The surveyed companies were asked to comment on any changes in the relative importance of the factors over the three years, 1977, 1978, and 1979. Aside from voluntary federal pay standards, which did not exist until late 1978, the factor most often cited as shifting in importance was cost-of-living changes. This became of increasing concern to company salary administrators as time progressed, particularly with respect to nonexempt salaried employees. This is consistent with the escalation in the rate of inflation over the period, and indicates a belief by companies that nonexempt employees are the salaried group most vulnerable to the effects of high inflation.

Several companies also regarded the influence of bargained settlements as of increasing importance over the time span, again especially in respect to nonexempt salaried employees. Perhaps this could be viewed as an aspect of the impact of inflation on nonexempt salaries, since bargained settlements are frequently influenced by cost-of-living increases and nonexempt employees are the salaried class most closely linked to hourly workers.

Chapter 3
Providing Pay Adjustments

INFORMATION WAS GATHERED on the *types* and *sizes* of pay increases granted to the three classes of salaried personnel during 1977, 1978, and 1979. The purpose was to try to detect any shifts or trends in the types of increases and in their actual amounts. To put salaried employees in the context of the total employee population, information was also compiled on types and amounts of increases granted to union and nonunion hourly workers.

Types of Pay Increases

Four types of pay increases were studied: the merit increase, defined as an individual, performance-related pay raise; the general increase, a uniform increase granted simultaneously to all employees or to entire classes of employees; the cost-of-living adjustment (COLA), which is a pay raise related to changes in a cost-of-living index; and the longevity, or step, increase, which is based on a preset progression program. Table 2 shows the prevalence of each type of increase granted in 1979 to five categories of employees.

Merit Increases

As shown in Table 2, merit increases are very widely used for the salaried employee groups. In contrast, these increases are very seldom granted to the union hourly work force, with only 7 percent of the unionized companies reporting them in 1979. Among the very few companies granting merit increases to unionized employees, it was the usual practice to combine the merit increase with another type of pay raise—most often a general increase. Of the eleven companies that gave merit increases to unionized employees in 1979, eight also provided a general increase.

Merit increases were granted to nonunion hourly employees by 39 percent of the companies reporting on this group; 45 percent of these companies granting merit increases also granted a general increase to their nonunion hourly employees. Although more frequently used than in the case of unionized employees, it is nonetheless apparent that the merit increase is not the usual method of raising nonunion hourly pay.

In terms of shifts or trends in merit increase practices over the three-year period, the year-to-year variation was less than 2 percent among all groups of employees—too slight a variation to warrant further comment.

General Increases

General increases are the primary method of raising the pay of unionized employees. Over 90 percent of the unionized companies responding granted general increases to these employees in 1979. The proportion was virtually the same in 1977 and 1978. The general increase was also used in a majority of cases for nonunion hourly employees. Almost 75 percent received general increases in 1979; for 1977 and 1978 the percentages were approximately 70 percent and 72 percent, respectively.

With regard to salaried employees, there had been a long-standing tradition of using the merit increase almost exclusively and eschewing the general increase. This was undoubtedly indicative of a corporate commitment to the pay-for-performance concept with respect to salaried employees. This tradition was broken abruptly in 1974 with the lifting of the federally mandated wage and price controls. At that time, many companies made "catch up" lump-sum salary adjustments in the form of general increases, contrary to their past practice and pay philosophy. This flurry of general increases proved to be a one-time occurrence in the majority of cases, however, and did not represent a shift away from the commitment to pay for performance. The majority of companies quickly reverted to granting only merit increases. Then, in 1979, there was a noticeable rise in the number of general increases granted to salaried personnel, as shown in Table 3.

The rise was most dramatic in the case of nonexempt salaried employees, but was also striking among both the exempt and top-management groups. There were also a number of instances reported in the survey of companies making "special payments" to all or certain groups of salaried employees. These payments were not called general increases, but instead were given such names as: "adjustments to going rates"; "adjustments to relieve compression"; "economic adjustments"; "catch-up adjustments"; "special equity adjustments"; and the like. Regardless of the names given to them, however, they obviously fulfilled the same purpose as the much-avoided general increase.

A number of companies reported making a one-time only payment—not incorporated into base salary—to all, or certain classes of, salaried employees. Two examples of this type of payment are:

Table 2: Types of Pay Increases Granted in 1979

Employee Group	Number of Companies Responding[1]	*Type of Increase*							
		Merit		General		COLA		Longevity	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
Union hourly	159	11	7%	147	93%	79	50%	49	31%
Nonunion hourly	173	67	39	128	74	30	17	44	25
Nonexempt salaried	198	189	96	57	29	24	12	16	8
Exempt salaried	208	205	99	40	19	21	10	3	1
Top management	207	202	98	22	11	6	3	1	1

[1]Of total of 208 respondents to survey.

Table 3: Prevalence of General Increases for Salaried Employees, 1977-1979

Employee Group	*1977*		*1978*		*1979*	
	Number of Companies	Percent	Number of Companies	Percent	Number of Companies	Percent
Nonexempt salaried. . .	37	19%	37	19%	57	29%
Exempt salaried. . .	25	12	26	13	40	19
Top management	14	7	10	5	22	11

- One-half month's pay to all salaried employees, excluding top management.
- "One time" payments of $300 in 1977 and 1978 and $375 in 1979 to all employees.

The reason one company gave for making such a payment was to demonstrate to employees the company's awareness of, and concern with, the rate of inflation by giving them an immediate, highly visible amount of cash in hand. Statements like this provide the clue to the rise in general increases for salaried employees in 1979. It seems that the chief reason for the resurgence of general increases was the concern of companies with the continued high rate of inflation, and their realization that the traditional administration of merit-increase programs did not keep ahead of, or even parallel with, cost-of-living increases.

Two other factors might have influenced this shift to general increases. The first was the prevalence of the much-publicized settlements between management and certain unions involving COLA clauses, where wages are automatically increased in a predetermined relationship to changes in a cost-of-living index. By granting general increases to salaried employees, companies could compensate for their less favorable position with regard to cost-of-living increases. This is, in the final analysis, a response to inflation, since cost-of-living increases are the motivation for COLA agreements.

The other possible reason was the belief expressed by a number of companies that the present voluntary pay standards would give way to mandatory controls. Therefore, it was thought advisable to grant increases while they could still be given, and the general increase is a quick way to raise the pay of large numbers of employees.

The primary reason for this spurt of general increases seems to have been an ad hoc reaction to the high rate of inflation rather than an abandonment of the merit-increase concept. In the majority of cases, the general increase granted to salaried employees in 1979 was in addition to another type of increase—usually the merit raise—as shown in Table 4.

How companies use the general increase as a reaction to inflation and as a supplement to, rather than a replacement for, the merit increase can be illustrated by the recent action of Eastman Kodak, as reported in the general press. Kodak announced a 3 percent general increase for all United States-based employees, subject to a $1,200 limit. This general increase was apart from the regular merit increases. It was the first general increase granted since a 5 percent adjustment given at the time pay controls expired in 1974. Kodak explained that the decision to grant the increase was made after study of the pressures of the current economic climate on the company and its employees.

Table 4: General Increases in Combination with Other Increases, 1979

	Percent of Companies Granting General Increases Plus:					
	Merit		COLA		Longevity	
Employee Group	Number	Percent	Number	Percent	Number	Percent
Nonexempt salaried . .	48	84%	10	18%	11	19%
Exempt salaried.	37	93	7	18	2	5
Top management.	17	77	2	9	None Reported	

COLA and Longevity Increases

It comes as no surprise that formal cost-of-living adjustments were most common in unionized companies, with almost half reporting them. In the period covered by this study, the incidence of payments through COLA provisions to unionized employees has shown a small but steady year-to-year increase (see Table 5).

COLA payments to other employee groups were not frequent, tending to decline as the organizational level increased. For the other groups, they ranged in frequency from a high of 17 percent among nonunion hourly to a low of 3 percent among the top-management group. There was no noticeable year-to-year variation for these employee groups among the surveyed companies.

Although longevity increases have some prevalence among both union and nonunion hourly employees, they are used so infrequently for salaried personnel that they are of little significance in the present study.

Sizes of Increases

For each year covered by the study, Table 6 shows the total of all types of pay increases received by the five employee groups, expressed as a percentage of their pay at the times of increase. Table 7 shows the average size of general increases (including COLA adjustments) granted during the period. Longevity increases were not tabulated separately because of their infrequent use among salaried employees. Merit increases will be dealt with in Chapter 4.

When the total increases for the five groups of employees are compared with one another within the confines of each year, there does not appear to

Table 5: Prevalence of COLA Increases for Union Hourly Employees, 1977-1979

	Companies Granting COLA Increases	
Year	Number	Percent
1977.	72	46%
1978.	75	48
1979.	79	50

be much evidence of compression of the compensation differential between employee groups. In terms of year-to-year changes for each group, there was a slight increase in 1978 over 1977 for all groups except the union hourly, which remained level throughout. The three salaried groups showed no changes between 1978 and 1979. There was a slight, progressive increase over the three years for the nonunion hourly workers.

In examining the sizes of the increases, one fact stands out. The total increase for each group of employees was less than the rate of inflation as measured by the changes in the CPI over the three years. The year-to-year changes in the CPI previously cited for 1977, 1978, and 1979 were 6.8, 9.0 and 13.3 percent, respectively. Thus the pay increases reported in Table 6 were somewhat ahead of the CPI in 1977, dropped behind in 1978, and fell still further behind in 1979.

Sizes of General Increases

In Table 7, the sizes of the general increases granted to union hourly employees over the three-year period indicate that they accounted for the bulk of the increased amounts for these workers. The same applies to nonunion hourly personnel. Although the information on types of increases shows that a greater variety of pay raises are used for this group, the largest segment of the raise is still the general increase.

In the case of salaried personnel, the size of the typical general increase is noticeably less than the typical total increase. This goes hand in hand with the earlier conclusion that general increases are not the sole means of providing salary raises for these employees, but were used in conjunction with other forms of pay raises, particularly the merit. There appears to be a distinction between the size of nonexempt general increases on the one hand, and exempt and top-management increases on the other. Nonexempt general increases, on the average, seem to be proportionately larger than the general increases granted to the other salaried groups.

It should be noted that while the number of companies granting general increases to salaried employees rose noticeably in 1979, the size of the median increases for exempt and top-management personnel decreased somewhat. An examination of the low point of the middle 50 percent range for 1979 in Table 7 would seem to indicate that this decrease is due to a larger number of companies granting an amount below the typical prior practice.

Table 6: Total Annual Increases, 1977-1979 (as percentage of pay at time of increase)

	1977 Percent Increase				*1978 Percent Increase*				*1979 Percent Increase*			
	Number of		Mid 50%		Number of		Mid 50%		Number of		Mid 50%	
Employee Group	Companies	Median	Low	High	Companies	Median	Low	High	Companies	Median	Low	High
Union hourly	122	8.5%	7.5%	9.6%	130	8.5%	7.5%	9.4%	131	8.5%	7.6%	10.0%
Nonunion hourly	131	8.0	7.5	9.0	134	8.2	7.7	9.0	139	8.5	7.5	10.0
Nonexempt salaried	165	8.0	7.5	9.2	173	8.5	7.6	9.5	177	8.5	7.5	10.1
Exempt salaried.	175	8.2	7.5	9.2	185	8.5	7.7	9.2	188	8.5	7.3	9.9
Top management	155	8.1	7.5	9.8	166	8.5	7.5	9.5	169	8.5	7.1	9.8

Table 7: General Increases, 1977-1979 (as percentage of pay at time of increase)

	1977 General Increase Percent				*1978 General Increase Percent*				*1979 General Increase Percent*			
	Number of		Mid 50%		Number of		Mid 50%		Number of		Mid 50%	
Employee Group	Companies	Median	Low	High	Companies	Median	Low	High	Companies	Median	Low	High
Union hourly	86	8.1%	6.5%	9.5%	91	8.0%	6.6%	9.0%	90	8.5%	7.0%	11.2%
Nonunion hourly	69	8.0	7.0	9.0	71	8.0	7.5	9.0	77	8.2	7.0	10.0
Nonexempt salaried	41	7.0	6.0	8.0	43	7.0	5.3	8.5	57	7.2	5.0	10.0
Exempt salaried.	33	6.0	4.0	7.5	32	6.1	4.2	7.5	47	5.0	3.5	8.0
Top management	13	6.9	6.0	8.0	14	6.1	5.0	8.0	20	5.0	3.0	8.2

Chapter 4
Pay for Performance

DATA ALREADY PRESENTED have shown how widely the merit increase is used in salary administration. It has traditionally been the favorite method for raising salaries. Table 2 showed that 96 percent of nonexempt salaried employees, 99 percent of exempt salaried employees and 98 percent of top management received merit increases during 1979. The use of other types of increases, such as the general increase, seemed to be an expression of corporate concern with the rising rate of inflation, and not a shift away from the belief in merit pay.

The soundness of the merit-increase concept has been challenged by individuals such as N. B. Winstanley,[1] who questions the accuracy of performance measurement, and Herbert H. Meyer,[2] who sees merit-pay programs as threatening employee self-esteem. These criticisms, however, have not produced any noticeable decrease in the prevalence of merit pay.

It is important to recognize that while merit increases are related to performance level, they do not reflect performance exclusively. If this were the case, salary increases would always be granted when performance improved. In practical terms, most companies have established a position's maximum dollar value that generally cannot be exceeded—regardless of performance improvement. Conversely, if performance is the sole criterion, when an employee's performance declines his or her pay should be reduced. In actual practice, however, this is rarely done; dismissal usually comes before a pay cut. A number of factors other than performance can be identified that influence merit increases, including:

- Position in salary range;
- Time since last increase;
- Size of last increase;

[1] N. B. Winstanley, "How Accurate Are Performance Appraisals?" *Personnel Administrator,* August, 1980.

[2] Herbert H. Meyer, "The Pay for Performance Dilemma." *Organizational Dynamics,* Winter, 1975.

- Pay relationships within the unit;
- Pay relationships with similar jobs in other units;
- Pay of similar jobs in other companies;
- Pay levels of newly hired employees;
- The budgetary limits on salary increases.

Some companies have stated that the merit increase is the "vehicle" for raising the pay of salaried personnel, recognizing that it is influenced by factors in addition to performance.

Merit Pay Administration

The administrators of merit pay programs were faced with a particularly trying set of circumstances during the three years covered by this study. The rate of inflation rose steadily, increasing the erosion of the dollar's purchasing power. Then, in an effort to combat inflation, in October, 1978, the Federal Government established the voluntary wage and price standards (see p. 2 above).

Merit Pay Guidelines

Established guidelines to assist managers in recommending merit increases for their subordinates were reported by 164 companies—82 percent of the 199 companies responding to this question. The guidelines usually define four or, more often, five categories of performance that are then related to ranges of merit-increase amounts. Exhibits 1 and 2 show examples of such performance categories.

The simpler guidelines consider only the two variables of performance level and range of allowable merit increases for each level. Exhibit 3 illustrates such guidelines.

In addition to performance level and range of merit increases, the more complex guidelines cover such additional variables as position in the salary range, time since last increase, and even provisions for borderline performance.

Guideline Flexibility

Latitude for the exercise of managerial judgment is built into most of the guidelines studied, insofar as the manager determines the performance level and then operates within the given amount and time ranges. Within this framework, the only absolute constraint on managers is usually the amount budgeted for increases in their departments. Exhibit 4 shows a typical merit increase guideline that allows the manager to select the appropriate performance level, and then allows for a choice within the increase and time ranges.

A number of companies allow managers to depart from the guidelines ranges in the event of special circumstances, usually to correct pay

Exhibit 1: Guidelines with Four Performance Levels

Distinguished	Clearly unique. Far above others at this position level.
Commendable	Substantially above required performance. This individual has achieved most of the performance goals and has surpassed some.
Competent	Achieves majority of the performance goals. This type of performance is that which would be expected from a fully qualified and experienced individual. Performance is generally judged to be "good."
Adequate	Performance is not up to the level which would be expected from an experienced individual. May achieve some objectives, but is lacking in performing all aspects of the job. Someone new to a position might perform at this level until a majority of the aspects of the position are mastered.

—a fabricated metals company

Exhibit 2: Guidelines with Five Performance Levels

1. *Outstanding*—Those employees having a sustained high level of contribution, or who have made an exceptional improvement in their performance to this level since the last review period.
2. *Above Standard*—Employees who regularly perform at a higher degree than normally expected, or have definitely improved their performance and contribution to this level. The degree of reliability and confidence that can be placed upon work accomplishments and results regularly exceeds the average requirement of the position.
3. *Standard*—Employees whose level of contribution, rate of improvement, and performance consistently meet expectations, with proper consideration given to the individual's over-all capacity and to the level of pay within the salary range.
4. *Below Standard*—Employees (a) who are relatively new to the position and have not had sufficient time to be adequately trained to achieve at least standard performance, or (b) whose level of performance definitely has not improved since the last review period.
5. *Substantially Below Standard*—Employees whose repeated poor performance indicates that the employee should be transferred to another job in line with capabilities or terminated as soon as possible.

—a tool manufacturing company

Exhibit 3: Performance Levels Related to Merit Increase Ranges

		Merit Increase Range (percentage)
Employee's Performance Is	Outstanding	10 to 12%
	Very satisfactory	7 1/2 to 10%
	Satisfactory	5 to 7 1/2%
	Marginally satisfactory	3 to 5%, not to exceed midpoint of range
	Unsatisfactory	None

—a glass products company

Exhibit 4: Merit Increase Guidelines with Built-in Flexibility

		WHEN SALARY (AS A % OF MIDPOINT) IS:				
PERFORMANCE LEVELS	Months Since Last Increase	80%-88%	88%-96%	96%-104%	104%-112%	112%-120%
Distinguished	6	8%-10%	8%-10%			
	9			8%-10%	7%-9%	
	12			10%-12%	8%-10%	6%-8%
Commendable	6	6%-8%	6%-8%			
	9	8%-10%	8%-10%	6%-8%		
	12			8%-10%	6%-8%	
Expected	6	5%-7%				
	9	7%-9%	6%-8%			
	12		7%-9%	6%-8%		
Fair	12	5%-7%				
	18	6%-8%	5%-7%			
	24		6%-8%			
Marginal						
	24	4%-6%				

Reprinted by courtesy of Hay Associates, New York City inequities. Exhibit 5 presents a number of statements by companies on situations where managers can go outside of the guidelines.

Changes in Guidelines

An analysis was made of the changes in merit-increase guidelines from 1977 to 1978 and from 1978 to 1979. Sixty, or 37 percent, of the 164 companies that reported having guidelines, made changes in 1978 affecting the time interval between increases, the maximum merit increase allowed, or both. In 1979, 83 (or 51 percent) of the companies made such changes. The reasons most often given for changing guidelines, and the frequency with which they were mentioned, are shown in Table 8.

Changes in time intervals and maximum increase amounts could result in either increasing or reducing the guideline merit raises. Table 9 shows the number of companies either increasing or decreasing guideline amounts in 1978 and 1979.

The majority of the 1978 changes increased the merit amount either by enlarging the maximum allowable increase, shortening the time interval between pay raises, or both. Since the voluntary federal pay standards did not come into effect until October, 1978—too late to have a significant impact in that year—the guideline increases in 1978 are attributable to the other factors listed. All these factors, with perhaps the exception of company financial situation, are in one way or another expressions of the increased cost of living. Concern with the salary rates of other companies, influence of bargained settlements, and retention of high-performance employees are all indirect expressions of the impact of inflation. The importance of the pressures exerted by cost-of-living increases on merit-pay guidelines was put this way by a diversified manufacturing company: "Our merit increases have pretty much become catch-up cost-of-living increases. Giving maximum guideline increases is not sufficient to hold top performers. They can increase their income 15 to 20 percent by making a change."

For 1979, the 7 percent limit on pay increases imposed by the voluntary federal pay standards was in effect. The impact of this limitation is illustrated by the 42 percent of the companies that changed their guidelines in 1979 to decrease the merit amount by either lowering the maximum allowable increase, raising the time interval between increases, or both. The remaining 58 percent of the companies went in the opposite direction, however, and liberalized their merit increase guidelines. The result was an almost even distribution between the two changes in 1979.

Merit Increase Practices

There was no discernible shift away from the merit increase in either company practice or stated philosophy in the highly inflationary period, 1977 to 1979. Even though there was a rise in the number of general increases granted to salaried personnel in 1979, for the most part these were supplements to merit increases and not replacements for them. In terms of

Exhibit 5: Statements by Companies on Situations Allowing for Departures from Merit Increase Guidelines

"The guidelines are in fact what they say. A manager may vary from the guidelines if he or she feels it is warranted."

—an energy producing company

* * *

"The overriding concern is whether the employee is making adequate progress toward the midpoint of the salary range based on performance assessment. If a supervisor determines that progress is too slow, or too fast, he or she can operate outside of the guidelines on an exception basis." *—a motor vehicles parts company*

* * *

"Individual increases are permitted to depart from guidelines if average increases are within specified control totals."

—a pharmaceuticals company

* * *

"Managers may make out-of-guidelines adjustments for internal or external equity." *—a petroleum products company*

* * *

"Managers may depart from guidelines at their discretion but must stay within the department's budget." *—a furniture company*

* * *

"Managers may go outside of guidelines to respond to a special situation, for example, a new hire at a higher salary than that of a current employee in the same position."

—an oilfield equipment company

* * *

"A manager may grant an increase in excess of the guidelines to relieve supervisor-subordinate compression."

—an agricultural chemicals company

* * *

"A manager may go outside of the guidelines to retain an employee."

—a fabricated metals company

* * *

"A manager is given the latitude to depart from the guidelines to deal with performance, equal pay, compression, below minimum rates and similar problems." *—an electronics company*

dollar amounts, however, merit increases awarded during the three-year period were overtaken and then outstripped by the rate of inflation as measured by the Consumer Price Index.

Amounts of Merit Increases

Table 10 shows the median and middle 50 percent range of merit increases granted to each group of salaried employees in each of the three years. In

Table 8: Reasons for Guidelines Changes

Reason Given	Frequency of Mention: Number	Frequency of Mention: Percent[1]
National and area salary changes	48	27%
Cost-of-living changes	35	20
Comply with federal voluntary pay standards	31	18
Influence of bargained settlements	26	15
Retain high performers	20	11
Change in company financial prospects or results	17	10

[1]Percents do not add to 100 because of rounding.

comparison with the rate of increase of the Consumer Price Index, the approximately 8 percent 1977 merit increase for all salaried employees was ahead of the 6.8 percent CPI increase for 1977. When the CPI jumped by 9 percent the following year, however, merit increases failed to keep pace, and in 1979 the CPI increased by 13.3 percent leaving the typical merit increases for all levels of salaried employees substantially behind.

The data for 1979 show a slight drop from the preceding two years in the size of the median merit increase for the nonexempt and top-management groups. There are two possible explanations for this:

- The impact of the voluntary federal pay standards, with their limit on pay increases; and
- The wider prevalence of general increases in 1979, particularly in respect to the nonexempt category.

The Merit Concept in the Hierarchy

In a 1976 Conference Board report, *Compensating Employees: Lessons of the 1970's,* there were indications that the merit concept was being pushed up the responsibility hierarchy, and that the tendency was to give practically everyone at the nonexempt salaried level at least a "minimum" merit increase, which is practically a contradiction in terms.[3] The data in that earlier study indicated that the higher the position in manufacturing companies, the greater the probability that the incumbent received no merit increase during a particular year. Conversely, in many companies the proportion of nonexempt salaried workers who did not receive a merit increase in a particular year was 5 percent or less. The prior study also collected data on employees who received more than one merit increase in a year. These data revealed that nonexempt employees received two or three times as many multiple increases in a year as did the exempt and top-management groups.

[3]David A. Weeks, *Compensating Employees: Lessons of the 1970's,* The Conference Board, Report No. 707, 1976.

Table 9: Changes in Guidelines Amounts, 1978 and 1979

	Reduction of Merit Amount		*Increase of Merit Amount*	
Year	Number of Companies	Percent	Number of Companies	Percent
1978	14	23%	46	77%
1979	35	42	48	58

The present study also investigated the frequency of "no merit increase," and "more than one merit increase" in each year to determine if the practices identified in the earlier study were continuing. Table 11 shows the percentage of employees in each group who received no merit increase in each of the three years covered: A uniform 5 percent received no merit increase in each year. In terms of the average practice, there is no indication that the merit concept is more in evidence at the higher responsibility levels, and there has apparently been no continuation of the situation identified in the earlier study—that merit increases are related to hierarchical position.

Table 12 shows the employees in each group who received more than one increase in a year. Once again, the results of the earlier study do not seem to be confirmed here. There is a slight tendency for fewer multiple merit raises to be given at higher organizational levels. However, the difference is not sufficient to permit drawing any conclusions about the merit concept becoming inoperable at the nonexempt level. The slightly higher incidence among nonexempts could very probably be due to the policy many companies have of giving them a merit review with the possibility of a salary increase six months and one year after employment. This is in keeping with the belief that the performance of nonexempt workers can be evaluated within a shorter time span after hire than can exempt employees' performance. However, it should be noted that roughly twice as many companies report multiple merit increases at the two lower employee levels than they do for top management.

The reasons for this apparent change in practice from the earlier study are a matter of speculation. One possibility is that the continuing rate of high inflation has caused companies to give more frequent increases to the exempt and top-management groups. A second possibility could be the belief of companies at that time that mandatory federal wage and price controls were imminent. Therefore, it was advisable to grant increases while it was still possible to do so before the advent of controls.

An indication that the merit concept is operative at all salaried employee levels in at least some companies can be inferred, perhaps, by looking at Tables 11 and 12 together. The two tables show that an equal percentage of salaried employees—about 5 percent—received no merit increase and more than one merit increase in each year. This indicates a normal, or bell-shaped, curve among performance categories ranging from unsatisfactory (no increase) to outstanding (more than one increase). The conclusion is that in these companies, at least, merit increases are distributed on the basis of performance.

Perceptions of Merit Increases

Survey respondents were asked for their perceptions of the degree of importance that various factors exerted on the size and frequency of merit increases for salaried employees in 1979. They were then asked to comment on any differences they perceived in the importance of the factors for 1977 and 1978. The intent of this question was to find out if the merit concept was still strong in the minds of managers, or if there had been a shift toward regarding other factors as equally or more important. The factors could be rated "important," of "some importance," or of "no importance." Table 13 (see p. 25) shows the frequency with which the various factors were rated "important" by the respondents for each group of salaried employees.

The concept for "pay for performance" was certainly alive and well in the minds of the great majority of managers surveyed. About 90 percent put individual performance in the highest category of importance for all three groups of salaried employees. Voluntary federal pay standards were a poor second for nonexempt and exempt, and third for top management. The second most frequent factor for top management was company profitability. Two of the variables often found in merit increase guidelines—position in salary range and time since last increase—rated next in frequency of mention for all three groups. Managers did not view cost-of-living changes as strongly affecting merit increases, although they did regard this factor as increasing in importance. The factor rated fifth and sixth for nonexempt and exempt employees, respectively. In the case of top management, cost-of-living considerations were last in frequency of mention.

Respondents were asked how these factors differed in importance in each of the three years. Aside from federal voluntary pay standards, which did not exist until late 1978, the most frequently mentioned factor was cost-of-living changes, which participants perceived as becoming more important in 1979 than previously. A few companies, interestingly enough, said that more emphasis was being placed on individual performance in 1979 than in prior years.

The concept of pay for performance continued to be strong in the minds of managers and, in a few cases, was given even more emphasis than previously. Concurrent with this emphasis on performance, however, was managements' growing awareness of the increasing importance of cost-of-living considerations. This was particularly true, as was stated several times by respondents, for salaried employees below the top-management level. Therefore, although performance considerations and several other factors were more frequently rated "important," managers seemed to be increasingly conscious of the rising rate of inflation and its effect on merit increases.

Table 10: Merit Increases, 1977-1979 (as percentage of pay at time of increase)

	1977				*1978*				*1979*			
	Number of		Mid 50%		Number of		Mid 50%		Number of		Mid 50%	
Employee Group	Companies	Median	Low	High	Companies	Median	Low	High	Companies	Median	Low	High
Nonexempt salaried	154	8.0%	7.0%	8.7%	161	8.0%	7.0%	9.0%	168	7.7%	7.0%	8.5%
Exempt salaried...............	166	8.0	7.0	8.9	176	8.0	7.2	9.0	182	8.0	7.0	8.8
Top management	145	8.1	7.5	9.0	157	8.2	7.5	9.5	163	8.0	7.0	9.0

Table 11: Salaried Employees Receiving No Merit Increase, 1977-1979

	1977				*1978*				*1979*			
		Percents of Employees				Percents of Employees				Percents of Employees		
	Number of		Mid 50%		Number of		Mid 50%		Number of		Mid 50%	
Employee Group	Companies	Median	Low	High	Companies	Median	Low	High	Companies	Median	Low	High
Nonexempt salaried	83	5%	2%	10%	90	5%	2%	10%	88	5%	2%	8%
Exempt salaried...............	110	5	3	10	114	5	2	10	116	5	2	10
Top management	74	5	2	18	80	5	2	12	78	5	2	18

Table 12: Salaried Employees Receiving More Than One Merit Increase, 1977-1979

	1977				*1978*				*1979*			
		Percents of Employees				Percents of Employees				Percents of Employees		
	Number of		Mid 50%		Number of		Mid 50%		Number of		Mid 50%	
Employee Group	Companies	Median	Low	High	Companies	Median	Low	High	Companies	Median	Low	High
Nonexempt salaried	50	6%	3%	15%	50	5%	2%	20%	54	5%	3%	14%
Exempt salaried...............	49	5	2	10	50	5	2	10	52	5	2	10
Top management	18	5	2	7	19	4	2	5	21	4	2	5

Chapter 5
Nonsalary Compensation

A STUDY WAS MADE of items in the employee compensation package other than base salary. These included bonus and incentive programs, employee benefits, and a variety of items often lumped together under the heading, "perquisites."

Nonsalary Pay for Performance

In addition to the merit increase, which recognizes individual performance, to some degree, there are other forms of compensation related to the performance of salaried employees. These other methods are the various types of bonus or incentive programs that pay additional compensation on the basis of either group or individual effort. These systems can be very formal, with the amounts of the awards mathematically tied to predetermined individual or group goals, or they may be highly discretionary—with the individual's award depending on subjective evaluation by a supervisor. These types of programs were surveyed in terms of their prevalence among the three groups of salaried employees, the numbers of salaried employees included in them, and the amount of compensation paid through them. Table 14 shows the number of companies that extend their plans to cover the different groups of salaried employees, and the median number of employees from each group who are eligible to participate.

The number of companies that include nonexempt salaried employees in these plans was small. The two types of plans that did include nonexempts were group productivity incentive plans and discretionary bonus plans. The median number of employees included in the two different types of plans was widely disparate, with 100 percent eligible for the discretionary bonus plans, and only 20 percent eligible for the group productivity incentive plans.

The plans including at least some exempt salaried employees were somewhat more prevalent than those including nonexempts. The percent of exempt employees eligible to participate was comparatively small, however, ranging from a low of 3 percent included in long-term management incentive plans to a high of 23 percent included in group productivity incentive plans.

Table 13: Factors Influencing Merit Increases in 1979

	Companies Rating Factor "Important"								
	Nonexempt Salaried Employees			Exempt Salaried Employees			Top Management		
Factor	Number	Percent*	Rank of Factor	Number	Percent*	Rank of Factor	Number	Percent*	Rank of Factor
Individual performance	166	88%	1	184	94%	1	172	93%	1
Federal voluntary pay standards	104	55	2	107	56	2	96	52	3
Company profitability	68	36	6	77	40	5	134	72	2
Position in salary range	95	51	3	104	53	3	83	45	4
Time since last increase	95	51	4	92	47	4	72	39	5
Cost-of-living changes	69	37	5	56	29	6	32	17	8
Level of job	19	10	7	33	17	7	51	28	6
Type of job	17	9	8	28	14	8	44	24	7

*Percents do not add to 100 because a company may have rated more than one factor "important."

Table 14: Performance-Related Compensation Programs for Salaried Employees, 1977-1979

	Nonexempt Salaried			*Exempt Salaried*			*Top Management*		
Compensation Program	Number of Companies	Percent	Median Percent of Employees Eligible	Number of Companies	Percent	Median Percent of Employees Eligible	Number of Companies	Percent	Median Percent of Employees Eligible
Group productivity incentive	5	2%	20%	12	6%	23%	4	2%	100%
Discretionary bonus	11	5	100	30	14	19	22	11	100
Annual management incentive	Not Applicable			70	34	7	123	59	100
Long-term management incentive	Not Applicable			4	2	3	56	27	100

In the case of top management, the prevalence of these plans rose sharply. This is due to the high incidence of annual management incentive plans, with approximately 60 percent of the 208 companies responding to the survey reporting them. The long-term management incentive plans, though not as prevalent as the annual plans, were found in over one-quarter of the companies. The extent of these plans illustrated the widely held belief that the top-management group is the one employee class that is in a position to directly influence the short- and long-term profitability of the company.[1] Therefore, many companies believe that it is in their best interest to tie part of top-management compensation to the achievement of short- and long-term corporate goals as specified in these incentive compensation arrangements.

Table 15 shows the total payment from all types of performance-related plans as a percent of the recipients' salaries in each of the three years. It should be noted that not all of the companies reporting plans in Table 14 made payments from them.

For nonexempt employees, neither the number of companies making payments nor the size of payments was great. Over the three years, the number of companies making payments ranged between approximately 6 and 7 percent of the total sample. The median payments ranged from about 9 to 11 percent of base salary. Companies making payments to exempt employees were somewhat more numerous. The range over the three years was from a low of about 30 percent of the companies in 1977 to a high of a little more than 35 percent in 1979. The size of payments ranged from about 14 to 15 percent of base salary over the three years. In the case of top management, the number of companies making payments ranged from about 45 percent of the sample in 1977 to about 55 percent in 1979. The size of the payments ranged from 25 percent of salary in 1977 to 30 percent in 1979.

It is generally believed in compensation circles that a bonus or incentive award, to be an effective motivator, should be at least 10 percent of base salary. For the exempt salaried group, the 14 to 15 percent payout over the three years was above this motivational threshold, but the proportion of plans including this level of personnel and the number of employees included were not great. This leads to the conclusion that, among the sample as a whole, these types of supplementary compensation arrangements did not play a significant role in the compensation of either the nonexempt or exempt salaried groups. It was only in the case of top management that the prevalence of these plans, the numbers of employees included, and the payouts given reached significant levels.

[1]Harland Fox, *Top Executive Compensation, 1980 Edition*. The Conference Board, Report No. 793, 1980.

Table 15: Total Awards from Performance-Related Compensation Programs, 1977-1979 (as a percentage of pay at time of award)

	1977				*1978*				*1979*			
	Number of		Mid 50%		Number of		Mid 50%		Number of		Mid 50%	
Employee Group	Companies	Median	Low	High	Companies	Median	Low	High	Companies	Median	Low	High
Nonexempt salaried	12	9.4%	3.8%	12.2%	12	11.0%	4.8%	14.5%	14	8.6%	2.5%	15.0%
Exempt salaried	62	14.2	10.0	20.0	71	14.9	10.0	20.0	73	15.0	10.0	23.0
Top management	94	25.0	18.1	38.0	107	28.0	18.0	40.0	114	30.0	18.0	40.0

Table 16: Salaried Employee Benefit Costs, 1977-1979

	Median Costs as Percent of Salaried Payroll					
Benefit	Number of Companies	1977	Number of Companies	1978	Number of Companies	1979
Paid time off	45	10.0%	53	10.0%	58	10.0%
Group insurance	49	6.0	57	6.0	65	6.1
Retirement	49	8.0	61	8.5	69	8.6

Table 17: Benefits-Perquisites Adopted, 1977-1979

Program Adopted	Number of Companies	Percent
Employee stock ownership (ESOP)	32	15%
Thrift and savings	21	10
Dental insurance	14	7
Long-term disability	13	6

Table 18: Benefits-Perquisites Liberalized, 1977-1979[1]

Program	Number of Companies	Percent[2]
Group health insurance	112	54%
Pension	85	41
Group life insurance	76	37
Vacation	69	33
Holidays	62	30
Long-term disability	51	25
Accidental death & dismemberment	35	17
Tuition reimbursement	31	15
Travel accident	30	14
Thrift and savings	27	13

[1]Other programs surveyed but not included in the table because little change occurred:

Employee stock purchase	Executive bonus/incentive
Employee stock ownership (ESOP)	Executive stock option
Current profit sharing	Long-term executive incentive
Deferred profit sharing	Salary continuation
All employee bonus	Expense account
All employee incentive	Severance pay

[2]Percents may not add to 100 because of multiple responses.

Benefits and Perquisites

Information was gathered on the costs of providing the three major types of employee benefits to the salaried group: paid time off, group insurance, and retirement. The intent was to identify any shifts in benefit costs over the three-year period either as a result of changes in costs due to external factors such as inflation, or from a decision on the part of companies to improve the benefits offered to their salaried employees.

Table 16 shows the cost of providing benefits over the three years as percents of salaried payroll. The data indicate practically no change in the costs of paid time off and group insurance. Costs for retirement programs increased 0.5 percent in 1978 over 1977, and then fractionally in 1979 and 1978. Overall, no significant changes in the cost of providing benefits were revealed.

Changes in Benefits and Perquisites

A number of different benefit and perquisite programs and policies were investigated in an attempt to determine if any major activity had occurred in this area. For instance, was there an effort by companies to provide something extra in noncash compensation to employees in an inflationary economy? Or, conversely, was there any evidence of cutbacks in these areas? Accordingly, companies were asked if they canceled, adopted, liberalized or restricted any of approximately 25 different programs during 1977, 1978, and 1979.

As far as cancellation is concerned, nothing noteworthy occurred. In terms of new programs, Table 17 shows the number and percent of companies adopting the more frequently mentioned programs during the three-year period.

There was a significant degree of company activity in liberalizing their programs, particularly in the three main areas of paid time off, group insurance, and retirement (see Table 18). It should be noted that although a number of companies liberalized these programs, the improvements did not cause fluctuations in the year-to-year costs reported in Table 16. This is probably due to the improvements being evenly distributed over the three years so year-to-year cost variations did not appear. Conversely, when asked about restrictions imposed on these programs, company responses indicated very little activity in this area.

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