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3 Perks That Work in Lieu of Raises

In a down economy, small-business owners will invariably feel the pinch. And, unfortunately, so will their employees. According to a study by Hewitt Associates, employees can expect another year of skimpy raises in 2009 as employers batten down the hatches to either correct or prepare for the damage caused by a potential recession.

But while pinching pennies is good for the wallet, it's not always good for employee morale. That's why many entrepreneurs are choosing to offer perks and benefits, in lieu of raises, that may not cost a lot of money but are worth more to employees than the standard 3.8 percent pay raise.

"Study after study has shown that what motivates employees is not money. Money can make employees unhappy if they're not sufficiently compensated, but it has not been shown to lead to motivation, satisfaction or performance," says Larina Kase, Ph.D., a business psychologist and author of *The Confident Leader*. "Fortunately, in a tight economy, what motivates employees most are free things, such as being praised and receiving care and compassion."

If employees are already compensated fairly, a lack of raises and bonuses shouldn't have a negative impact on their motivation to stay with a company, Kase says, as long as they're being rewarded in other ways. In fact, a whopping 92 percent of employees will stay at their job for less money if they can achieve such things as work-life balance and recognition, according to study done by Employee Hold'em study.

Here are three ideas for creative perks to keep your employees happy and motivated.

1. Give time off for good behavior. Employees consistently rank a flexible schedule as one of their favorite perks. Alicia Rockmore, co-founder and CEO of Buttoned Up Inc., an organizational company based in Ann Arbor, Mich., rewards her staff of seven employees with a flexible schedule that provides the work-life balance they desire. Depending on their job, some employees are allowed to work one day a week from home to save on gas money while others can choose between getting their work done in two days or spreading it out over the entire work week. "As long as everyone gets their work done, we're very flexible," says Rockmore, 43.

Implement a system that works best for the type of business you have. That may mean allowing your employees to work an extra hour a day for four days so they can leave at noon on Fridays, or allowing them to telecommute at least one day a week. Your employees will love the freedom a flexible schedule provides.

2. Recognize a job well done. "Recognition is a very powerful thing," says Paul Facella, author of *Everything I Know about Business I Learned at McDonald's*. As a former executive and 34-year veteran of McDonald's Corp., Facella has learned a thing or two about how to keep modestly paid employees happy. According to Facella, McDonald's boasts one of the highest corporate retention rates, thanks in large part to its tradition of recognizing hard-working employees.

"From having a little card that says, 'I caught you doing something well' to just going over and shaking someone's hand in front of everybody, there are tons of ways you can recognize your employees," he says. The key, he adds, is to do it publicly in front of other employees.

Steve Sarowitz, founder and CEO of Paylocity, an online provider of payroll and HR solutions based in Arlington Heights, Ill., has found more than one way to reward his employees. Sarowitz, 42, recently launched a monthly recognition program where employees can earn \$75 gas cards for stellar performance. Sarowitz also added a new employee game room, complete with a flat-screen TV, foosball table and state-of-the-art video games.

"We expect a lot from our people, and they deliver, so we thought it would be nice to give them a designated space to relax and have some fun," Sarowitz says.

Sarah Kugelman, founder of skyn ICELAND, a skin-care company based in New York City, naturally likes to take the pampering route with her hard-working staff of 14 employees. Kugelman, 41, gave one employee much-needed relief after she had put in some very long hours by rewarding her with a \$500 bonus to be used for a gym membership or yoga class. "I'm also buying everyone in the home office a very expensive ergonomic chair so that they'll be more comfortable—and stay at work longer," she says.

3. Provide unique, customized incentives. Reward your loyal employees with incentives that let them know you care about what's important to them. For Michael Tope, founder of Creative Business Resources, a Phoenix-based HR outsourcing firm, that means instituting an employee volunteer program that allows employees to receive additional paid time off to do a limited amount of volunteer work on their own time. Tope, 49, also provides a holiday savings program where employees can request to have a portion of their paychecks withheld throughout the year until October 31. CBR matches 25 percent of the first \$1,000 each employee saves.

No matter what type of perks and incentives you decide to give, it's important to tailor them to what your employees value most. When employees feel appreciated, they'll reward you back with their hard work and loyalty.