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Evaluating The Perceptions of Employee Salary Reductions Between Baby Boomers and Generation X

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Abstract

This research revisits the work of Demps and Baker (2010), which analyzed the evaluation of perceptions of employee salary reductions. Their prior work explored two major questions: (a) would employees be willing to accept a reduction in salary in order to remain employed; and (b) how committed would employees remain to their organizations if their salaries were reduced and organizational leaders' salaries were maintained or increased. Based on the results of the previous study, it was determined that more research was needed to obtain greater insight into this phenomenon. As a result, this current study was conducted to re-explore the same phenomenon while comparing the perceptions between Baby Boomers and Generation X. Additionally, the following variables that could contribute to the perceptions of the two groups were analyzed: a) age; b) gender; c) seniority; d) organizational role, and salary.

Background of the Study

Salary reduction has been a frequent practice for many years as a means of retaining employees while increasing profits for organizations in a struggling economy (Guest, 2005; Larson, 2002; & Peters, 2009). Many American workers who are asked to take a reduction in salary are unable to do so but make the necessary adjustments to their lifestyles in an effort to simply remain employed. Depending upon the environment, salary reductions could be voluntary or involuntary in nature.

Two groups that currently serve within the American work force are referred to as Baby Boomers and Generation Xers. According to Ivancevich (2010), Baby boomers are those individuals who are born between the years 1946 and 1965 and Generation Xers are born between the years 1966 and 1979. The approach and attitudes these two groups have toward work differs greatly. Sudheimer (2009) articulates what has commonly been observed regarding the personal values of the two generations:

> "Baby Boomers are considered to have a traditional work ethic, so they willingly work long and extra hours. They have such strong dedication that they frequently accept extra hours when called upon to work an extra shift because their unit is short-staffed. Generation Xers, however, have no problem declining the extra work hours; in fact, they see the situation much differently. In general, they believe that if management focused on meeting the needs of staff members and patients, management would be more concerned about adequate staffing and find a resolution." (p. 1)

Salary reductions have been known to foster a greater sense of solidarity in some organizations. Organizations that initiate salary reductions which start from the highest leadership levels often gain the respect of their employees. In other cases, employees are unwilling to accept a reduction in salary under any circumstances. Situations where employees are forced to accept a reduction in salary and organizational leaders refuse to do the same can create feelings of inequity. This creates a situation where some individuals seek other employment opportunities in an effort to meet their financial obligations or possibly become nonproductive workers.

Purpose of the Study

The purpose of this study is to determine the impact of age (Baby Boomer or Generation X) on a worker's willingness to accept a reduction in salary to maintain employment, after controlling all the other variables under consideration.

Statement of the Problem

Concerns exist among employees regarding salary reductions in the face of a weak economy and downsizing, which affects the willingness to work and employee commitment.

Implications

Salary reductions most notably create feelings of hostility and uncertainty from employees due to the nature of losing wages in an already underperforming economy. Additionally, those organizations whose leadership initiates salary reductions for their employees and either maintain or increase their personal salaries garner resentment from followers. This phenomenon could possibly create an environment of mistrust, which could lead to turnover among employees or cause a decrease in quality and productivity.

Review of Literature

Generational Differences

Outside of the general age demographic, there are several attributes that are unique to Baby Boomers and Generation Xers. Swearingen & Liberman (2004), cited that generational differences exist between Baby Boomers and Genration Xers as it relates to salary expectations and company loyalty:

> "Baby boomers will work for one company and strive to reach the top of the hierarchal scale, as this type of career path was encouraged when they entered the workforce. They were promised compensation for such loyalty, but feel it must be earned over time. Generation Xers, on the other hand, want higher pay rates earlier in their career and value variety. They do not want to be in the same

> position for 20 years. They do not value the hierarchal scale and will move easily from one job to another for higher pay and increased variety. (p. 54)

Jorgensen (2003), made general observations regarding Baby Boomers as well. The author stated that Baby boomers value the following: a) teamwork and group discussions; b) they view work from a process-orientated perspective; c) they believe that achievement comes after "paying dues"; d) they value company commitment and loyalty; e) they believe in sacrifice in order to achieve success; and e) they seek long-term employment. In contrast, Robbins & Coulter (2009) cited that Generation Xers found that salary, power, and prestige which motivated many Baby Boomers' careers, ranked nearly last in a list of desires that they expected from their jobs. Instead, they desired positive relationships, interesting work, and ongoing opportunities to learn.

With this basic information regarding Baby Boomers and Generation Xers, coupled with the status of the current economy, one could assume that because Baby Boomers are older and closer to retirement age that they may be more loyal and willing to accept a reduction in salary in order to maintain their income. The opposite assumption could also be made regarding Generation Xers as these individuals are younger, potentially have more time to make career changes, and possess greater opportunities to climb the organizational ladder.

Employer and Employee Led Salary Reductions

In some cases, salary reductions are easier for employees to accept when leadership paves the way by taking reductions in salary along with their employees. Yamanouchi (2004) indicated that leaders within United Airlines reduced salaries by 10 percent for management, 12 percent for officers and 15 percent for the executive council. Fred Smith, Founder and CEO of FedEx Corporation took a 20 percent reduction in salary as a part of a cost reduction program in an effort to save the company $200 million in 2009 and $600 million in 2010 (Air Cargo World 2009). Business Wire (2009) described how GigOptix, Inc.'s CEO reduced his salary by 18 percent and the company's other executive officers salaries were reduced by 15 percent. Dr. Avi Katz, Gig Optix CEO, stated, "By preserving the personnel who are instrumental to our organization and asking everyone to take less, starting at the top, we can continue to focus on meeting our short and long-term financial goals."

The strategy and intent of the aforementioned organizations was to reduce costs without having to downsize their workforce. Leading from the top-down while implementing salary reductions could inspire loyalty during a time when the economy is struggling. Those organizations that do not believe in this philosophy could inspire disloyalty from subordinates resulting in lost productivity, increased feelings of inequity, and employee turnover.

At times, employees will voluntarily suggest that their salaries be reduced independently or through union negotiations. This behavior is exhibited in good faith when employees believe that all stakeholders are willing to make sacrifices. In the commercial airline industry during the post 911 attacks, air travel was exponentially decreased costing domestic air carriers billions of dollars. Airline union workers, which included pilots, mechanics, baggage handlers, reservations and gate agents, were forced to make a decision to either lose their jobs or initiate a voluntary reduction in salary. Davis (2002) cited how at least 30,000 of workers for US airways accepted more than $750 million in annual pay reductions in order to remain employed and keep the organization intact. In November 2004, pilots for Delta Airlines approved a 32.5 percent salary reduction meant to save the company $1 billion annually (Hirschman 2005). United Airlines' pilots, dispatchers and meteorologists approved a temporary salary reduction of up to 29 percent (Griffin 2003).

Hypotheses to be Tested

The main purpose of this study is to determine the factors affecting a worker's willingness to accept a pay reduction to maintain employment. Two factors, however, are of particular interest in this analysis. These two areas of concern give rise to the following sets of hypotheses:

Null Hypothesis 1: There is no relationship between the age classification of a worker (Generation X or Baby-Boomer) and his or her willingness to accept a salary reduction.

Alternate Hypothesis 1: There is a relationship between the age classification of a worker (Generation X or Baby-Boomer) and his or her willingness to accept a salary reduction.

Null Hypothesis 2: There is no relationship between the willingness of a worker to accept a salary reduction and whether that sacrifice is shared by upper management or not.

Alternate Hypothesis 2: There is a relationship between the willingness of a worker to accept a salary reduction and whether that sacrifice is shared by upper management or not.

Data

Fifty workers in Northeast Florida were administered a survey asking about their willingness to accept a salary reduction to maintain employment. All workers surveyed were either Baby-Boomers or members of Generation X. Additionally, they were asked questions about seniority, salary, and their position in their organization (manager or not). Finally, half the workers were told that upper management would be sharing the sacrifice of a salary reduction, while the other half were told that upper management would be either maintaining their salary or having a salary increase.

Information from the survey was utilized to construct seven variables for use in a statistical analysis. The primary variable of interest (REDUCTION) is the willingness of employees to accept a reduction in salary in order to maintain employment. REDUCTION is a Likert scale variable that can assume a value between 1 and 5. This variable is the worker's response to a question about his or her feelings about a salary reduction. Low values indicate reluctance to accept a salary reduction, while high values show an inclination accept a lower salary.

The remaining variables are all binary. AGE is set equal to 0 if the worker is a member of Generation X and 1 if the worker is a Baby-Boomer. GENDER is set equal to 0 if the worker is a female and 1 if the worker is a male. SENIORITY is set equal to 0 if the worker is low seniority (below the median seniority in the sample), and 1 if the worker is high seniority (above the median seniority in the sample). SALARY is set equal to 0 if the worker has a low salary (below the median salary in the sample), and 1 if the worker is high salary (above the median salary in the sample). MANAGER is set equal to 0 if the worker is not a manager and 1 if the worker is a manager. Finally, SHARED is set equal to 0 if upper management does not share the worker's sacrifice of a lower salary and 1 if the sacrifice is shared.

Methodology

A multiple regression model was constructed to determine the factors that influence a worker's feelings about taking a reduction in salary to keep his or her job. The dependent variable of the model is REDUCTION. The regression model has six independent variables, AGE, GENDER, SENIORITY, SALARY, MANAGER, and SHARED.

Results

The results of regressing REDUCTION on the six independent variables in the model are found in Table 1. The model has significant explanatory power (F = 2.63 with a corresponding p-value = 0.031), although 3 of the independent variables (GENDER, SENIORITY, and MANAGER) are not significant at the five percent level. After adjusting for the number of independent variables, this model explains 17.5% of the variation in the dependent variable.

Table 1: Multiple Regression Results, Full Model

Variable	Estimated Coefficient	T-Ratio	P-Value
Constant	2.2914	6.23	0.000
AGE	0.7873	2.26	0.029
GENDER	-0.2663	-0.78	0.437
SENIORITY	0.0435	0.13	0.900
SALARY	-0.7748	-1.86	0.070
MANAGER	-0.0320	-0.09	0.931
SHARED	0.7748	2.41	0.021
Adjusted R^2 = 17.5%	F = 2.63	P-Value = 0.031	

Using a backward stepwise procedure, three independent variables were removed from the model, resulting in a regression equation with 3 independent variables that have estimated coefficients with corresponding p-values of 0.05 or less. Table 2 shows which variables were removed in each step, along with the p-values associated with their estimated coefficients.

Table 2: Variables Removed From Model

Variable	Step	P-Value
Manager	1	0.931
Seniority	2	0.967
Gender	3	0.518

Table 3 shows the results of using the backwards stepwise procedure. The final regression equation has significant explanatory power (F = 5.25 with an associated p-value = 0.003). After adjusting for the number of independent variables in the model, it explains 21.3% of the variation in the dependent variable.

Table 3: Multiple Regression Results for the Final Model

Variable	Estimated Coefficient	T-Ratio	P-Value
Constant	2.2750	8.17	0.000
Age	0.7394	2.27	0.028
Salary	-0.8624	-2.58	0.013
Shared	0.7262	2.37	0.022
Adjusted R^2 = 21.3%	F = 5.25		P-Value = 0.003

Analysis

The evidence from the sample indicates that workers' feelings about salary reductions are unaffected by their seniority, managerial status, and gender. Based on the results of the multiple regression, the hypothesis that REDUCTION is not affected by AGE can be rejected. Baby-Boomers are more likely to accept a reduction in salary than members of Generation X. Similarly, the hypothesis that REDUCTION is not affected by SHARED is also rejected. Knowing that upper management is sharing the sacrifice makes workers more accepting of a salary reduction. Finally, the willingness of workers to accept a salary reduction to maintain employment is significantly related to their salary. Workers with salaries above the median of the sample are less likely to accept a salary reduction than those with low salaries.

Conclusions

The primary focus of this research is the role played by the age group of the worker (Generation X or Baby-Boomer) in determining his or her attitude towards a salary reduction. The results of this investigation reveal that a worker's stance on salary reductions is affected by age. Furthermore, the expected outcome that Baby-Boomers are more receptive to a salary reduction than members of Generation X is also corroborated. Additionally, previous research in this area showing that shared sacrifice results in greater acceptance of a salary reduction by workers (Demps and Baker, 2010) is reconfirmed by this study.

The impact of salary on REDUCTION may indicate that high salary workers believe they provide more value to the firm, and therefore this may further induce them to think that they are essential to firm operations. As a result, they may think that they wouldn't have to accept a salary cut to keep their jobs.

Given the underperformance of the U.S. economy, offering workers a trade-off between lower salaries or more layoffs is already quite common (Larson, 2002). Knowing the factors that play a role in workers' acceptance of salary reductions to maintain employment should give human resource professionals a tool they can use to determine the likelihood of success of implementing such a plan. The outcomes of this study indicate that the probability of successfully using this strategy is increased by having upper management share the sacrifice, and by having a workforce with a larger proportion of Baby-Boomers.

This study has limitations. The sample size (n = 50) is small, and geographically limited to North Florida. In addition, the proportion of the variation in the dependent variable that is explained by the regression model is only 21.3%. This leaves 78.7% of the variation in REDUCTION unexplained by the model. Potentially, the proportion of the variation in the dependent variable explained by the model could be increased by incorporating other variables into the model. These limitations give direction to further research in this area.

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