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America's growing managerial pay gap

More evidence has emerged to suggest that throwing money at workers may not be the best way to get the most out of them. Which is just as well – as the pay gap between managers and employees in the U.S widened sharply last year.

Research by consultancy Hay has concluded that employers on this year's Fortune's Most Admired Companies list paid an average of five per cent less in salaries than their peers.

At the same time, a separate study by the consultancy has suggested that the pay gap between managers and workers in the U.S is growing at the third fastest rate of any country in the world.

Overall, Hay's analysis of the Fortune list found the highest performing organisations, despite paying lower salaries, rewarded staff more effectively and were better at retaining staff, so saving on recruitment costs.

The best-performing firms used higher levels of bonuses and incentives, especially for more senior jobs, and in many cases were found to be twice as effective at rewarding top performers than their rivals.

Companies that made the Most Admired list had not just stumbled on the formula for making employee reward programmes work more effectively, stressed Hay Group associate director, Colin Evans.

"The key differentiator between higher and lesser performing companies is the implementation of successful employee reward strategies," he explained.

Such innovative thinking on salaries and performance is clearly needed, as a separate study by Hay has suggested the gap between the salaries of managers and clerical workers in the U.S increased by almost a fifth in the past year, making it the third fastest growing pay gap in the world.

The research, by Hay's compensation and benefits database PayNet, studied data on more than 12 million employees to determine the difference between the average pay of management level employees and clerical level employees across 61 countries, and how that gap had changed from 2006 to 2007. Countries were then ranked in order of greatest to smallest pay gap.

Overall, the pay gap in the U.S and Western Europe was relatively small compared with the rest of the world, with all of these more established, slower growth economies appearing in the bottom third of the pay gap rankings, said Hay.

Within Western European the gap was also relatively stable, changing by less than five per cent year-on-year.

However, the U.S. had moved sharply up the rankings from 50th in 2006 to 43rd place in 2007, an 18.4 per cent increase.

"The market for management talent in the U.S is as hot as in the rest of the world," said Tom McMullen of Hay Group U.S.

"Positions at this level are one step away from the executive suite, and companies are looking to fill them with high-calibre candidates who they can then progress into more senior roles.

"Typically these roles would be held by experienced and professionally qualified employees – and there just aren't enough of those candidates to meet demand," he added.

But he also sounded a cautionary note. If U.S recessionary fears did come true it was more than possible that the gap could stabilise or even decrease.

"Our experience is that it's this level that gets hardest hit in recessionary markets, as companies reduce staff and curtail hiring plans, reducing competition for these candidates," said McMullen.

"At the same time, clerical level roles tend to continue to increase at a steady rate, in line with cost of living," he added.

The report found that the gap between management and clerical employees was most pronounced in emerging economies, where the overwhelming demand for management talent was inflating senior salaries far beyond the local market for more junior roles.

The top third of the list was populated with the faster growing developing economies where the overwhelming demand for key talent is inflating senior salaries far beyond the local market for more junior roles.

Unsurprisingly, this trend was particularly true for the booming BRIC (Brazil, Russia, India and China) economies, with China topping the list with a gap of 11.8

followed by the other countries coming in at 10th (Russia), 14th (India) and 17th (Brazil).

Gavin Brown, of Hay Group UK, said: "The findings reflect the increasing globalisation of the market for senior specialist talent, which dictates that even companies in developing countries need to pay an 'international' rate to attract management-level top talent.

"Clerical level workers, however, are immune to the global talent market, are less likely to be internationally mobile, and tend to be paid more in line with the cost of living.

"Where the cost of living is especially low, as it is within emerging and developing economies, the difference between the cost of living and 'international' pay is large – reflected in an exaggerated pay gap," he added.