

HaRe Group newsletter: 29 September 2006

Subject: Remuneration planning

Too many employers agree that remuneration planning is a necessary evil. The cost of employment is now so great that it must not be neglected, but making tough decisions about pay reviews can be stressful for managers who need to keep their employees engaged.

The issues that tend to weigh heavily on managers usually include:

- The egalitarian relationships they often have with the employees they manage;
- Inadequate performance planning – eg. poor definition of business goals, or few meaningful objectives;
- Giving employees feedback on their work and assessing their contributions;
- Deciding individual pay increases that reflect each employee's overall performance;
- A limited budget for pay increases.

However, there are other strategic factors that also need to be considered by all employers before they make remuneration decisions. These factors include:

1. The importance that remuneration management should have in engaging talented people;
2. The extent to which corporate, team or individual incentives should dominate total remuneration;
3. External pay relativities and how the organisation should align its remuneration levels to market sector rates;
4. Internal pay relativities and how the organisation should delineate job families and work value in each family;
5. The degree to which remuneration levels should reflect variations in employee performance and experience.

A Reward Strategy should address all five factors. This Strategy should always be aligned to an organisation's Dominant Business Style and Preferred Organisation Culture. (Please see my March 2006 newsletter for more).

Execution of a Reward Strategy requires an approach that integrates all "base package" elements of the Strategy. Our Remuneration Planning System provides an integrated approach that will:

- Establish a Market Alignment Policy that defines remuneration targets for expected performance;
- Delineate benchmark positions that will fairly represent clusters of like jobs;
- Capture and analyse market sector pay rates that match the benchmark positions;
- Accommodate the performance of the least experienced (still developing) employees, up to the most capable (best performing) employees;
- Develop ranges around each pay target to reflect these performance differentials;
- Calculate individual pay increases based on performance and current pay position in the remuneration range.

Where employers have a robust and well communicated Reward Strategy and Remuneration Planning System (RPS), the stresses of remuneration reviews would be minimised and talent retention would generally improve.

Of course, performance management will always be a major priority for employers. While some managers may still be reluctant to judge employee performance within an egalitarian workforce, our RPS will promote greater confidence in making fair and objective pay decisions.

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