HaRe Group newsletter: **16 April 2015**

Subject: **Remuneration returns**

Too many business executives look at their employment costs and shudder. What these “remuneration hawks” see is a drain on short-term profitability – they rebuff paying employees more for good performance so they can keep remuneration costs down.

The leaders of successful companies know better than the hawks – they know that:

- the employment market is competitive and talented people deserve (and receive) higher pay;
- even when their work is challenging and opportunities flourish, the best contributors usually feel unappreciated if their pay is no better than their less productive peers (not cool, but true);
- to keep talented people engaged, some degree of performance-based pay differentiation is essential, and
- there is a return to the organisation for strategic remuneration management.

In small organisations, the performance of most employees is clear and recognition of their achievements should be straightforward and fair. In larger companies, formal processes and systems are needed to capture and assess information about the contributions of employees.

While it is fashionable to disparage performance appraisal systems, any organisation will lose talented people if its managers: cannot consistently review their employees’ work; cannot consistently provide them with meaningful opportunities, and cannot consistently reward them for their respective contributions. In my experience, two managers making independent personal judgements on employee performance, without clear guidelines, would seldom reach the same conclusions, despite their best intentions.

Effective performance management includes a fair and objective process to set performance objectives and to assess the outcomes. Management training is usually needed to ensure that the process is uniformly applied and that the outcomes are judged on a consistent scale. While human behaviour will not guarantee a faultless process, larger companies should have formal procedures to score the performance of employees so that their remuneration levels can be properly aligned with their contributions to business success.

Of course, in any competitive industry, employment cost is a budgeting reality – in every organisation, the economics of distributing scarce resources (remuneration) is challenging. Therefore, careful decisions need to me made about the distribution of a remuneration budget – surely, employee engagement should not become the casualty of a poorly managed remuneration review.

In many cases, market leaders have:

- a performance management process that includes planning, review and employee development
- a talent program that stimulates the best performing and high potential employees
- a remuneration review system that individually aligns every employee’s pay to their performance
- high levels of employee engagement and negligible loss of talented people

The best return you could want from strategic remuneration management may be higher levels of employee engagement – however, in a complete talent strategy context, it is more likely that the best return will be preserving engagement because your remuneration system is sound and talented employees are properly rewarded for their performance.

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