

HaRe Group newsletter: 18 May 2022

Subject: Nimble remuneration strategies

My continuing conversations with market leaders have confirmed:

- A genuine commitment to engaging talented people will always add to business success;
- Effective remuneration management is clearly a driver of talent attraction and retention;
- Overall employment costs will keep rising due to:
 - increasing inflation rates (CPI forecast above 6%)
 - falling unemployment rates (trending under 4%)
 - lack of skilled people in some professions (eg. IT, finance)
 - high turnover of professional employees, and finding their replacements
 - increases in the Superannuation Guarantee (up to 10.5% from 1 July).

While it's a lagging measure, the latest Wage Price Index (published today) = 2.4% pa (under half the current CPI rate). The increase a year ago was 1.5%.

Now that our business conditions are currently free from the lockdowns of 2020-21, many employers are capitalising on the revelations of operational agility and more effective employee communication. However, there are still serious challenges ahead – much more than just picking the right salary budget increase. With the ongoing disruptions to employment conditions, business leaders must do more than react – they must plan for a range of economic and industrial scenarios.

Last year, COVID-driven conditions promoted employment innovations in many companies. In this current post-lockdown period, with war in eastern Europe, continuing supply chain disruptions (eg. lack of semi-conductors), increasing inflation and volatile share prices, many employers need to re-evaluate the best method of rewarding their people. Without a well-informed remuneration strategy, many companies will suffer falls in employee engagement and lose their best people.

The drivers of a remuneration strategy generally include:

- Industry conditions, market opportunities and business maturity
- Benefits to customers (what they value most)
- Core capabilities – operational, financial, technical and people
- Governance, organisation and systems
- Shareholder return expectations
- Remuneration benchmarks for talented people

Given the employment challenges that lie ahead, every enterprise must be diligent in developing business and people strategies that will address the possible range of economic and industrial scenarios. A nimble remuneration strategy that caters for these scenarios will help engage employees with organisation goals, and focus them on what matters most for business and personal success.

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