

Re-building Strategic Remuneration

The last twelve months has seen an unprecedented change in the way remuneration is managed and how organisations have reacted to a changing economic environment. Preceding years were characterised by ever-growing executive salaries to satisfy demand for people – creative attraction and retention payment schemes, long term incentives, and share option plans that were driving significant potential individual wealth on the back of a bull market. The threat of an economic crisis changed the remuneration landscape considerably. **So what actually changed?**

The most immediate impact has been a tightening of the annual salary review process. Our research across a large range of sectors has shown that a large number of organisations deferred their salary review for last year, many announced a salary freeze or have reduced remuneration for some higher paid executives. Remuneration policies have changed – where many organisations would provide the same increase to non award staff as they did to staff covered by Enterprise Agreements, many have taken the opportunity to de-couple the two groups. While this provided some short term savings the bigger issue will be how to manage this in 2010 and beyond.

Short term incentive schemes based around financial targets have delivered very little or no payments to key staff. This has been in contrast to previous years where schemes have delivered solid outcomes and have become part of the “expected” remuneration for participants. While the loss of this income has been expected by those involved, organisations will need to refocus the incentive plans for the next few years. Executives will be looking for a scheme that provides outcomes that are aligned to the current business results. Where growth is expected, executives will want to share in that growth.

Share option plans that were built around a growing share price have lost their appeal. The issue is more critical for those executives recruited toward the end of the share price boom. They have seen the value of their options reduce to nothing and will be looking for an alternative that works.

Supply and demand for people over recent years has also driven up remuneration. Many organisations are now looking at some of the internal relativity issues caused during a hiring frenzy and need a solution to restore some equality.

How should these issues be addressed?

- Organisations need to start now to develop their policy for salary reviews in 2010. This needs to consider the impact of a zero increase or below average increases in 2009 and how this fits with the market. Organisations may now find they will be less than competitive with the market in 2010 and beyond.

- The remuneration strategy must be aligned with the business needs and must have a performance focus. Reward needs to align with performance and this must have clarity and provide the ability for high performing staff to receive higher increases. It is time to differentiate salary increases and reward high performers but send the right message to under performers.
- Incentive schemes must also be re-visited to align them with the business needs. Longer term incentives can be used to substitute for option schemes that have little or no value. Develop a scheme that provides for payments as the business value re-grows and directly relate this to individual executive's performance and contribution.
- It is also time to benchmark with the market. A lot has changed so it is critical to understand what the market is doing and how other organisations have reacted. Be sure your remuneration remains competitive as the demand for excellent people continues to be strong.
- Remuneration policy in 2009 could seriously impact retention in 2010. People who were disenchanted with the approach taken last year could be the first to look for new opportunities this year as the market rebounds. There are early signs of recruitment activity and organisations need to ensure the retention of key staff. Focus on identifying and retaining high performers.

Morton Philips has specific programs to identify high potential people within organisations and can develop specific retention strategies. This will include a review of remuneration strategies for 2010 to ensure they meet current market demand and are aligned with the organisations need and are effectively communicated to staff. It is critical to undertake reviews of this kind now and don't wait until key staff start to leave your business!

- Richard Altman



Richard Altman has held senior human resources roles in retailing, merchant banking, manufacturing and construction for the last 25 years, and has considerable experience within Australia and the Asia Pacific region.

Richard's experience has been across all aspects of human resource management including:

- *Recruitment and selection*
- *Industrial Relations*
- *OH&S*
- *Remuneration strategy and planning*
- *Performance management and policy development*