

HaRe Group newsletter: 31 March 2009

Subject: Tough remuneration planning

In a tough business environment, what remuneration action should be taken by employers?

Research conducted by HaRe Group last month has revealed that many global companies have forced a salary freeze on all their employees. While the media has reported similar action in some high profile Australian companies, many local employers have realised that such a clumsy strategy could have serious consequences.

The research concluded that:

- Nearly all companies will retain their reward strategies & performance measures
- Most companies are refining their performance targets and budgets to match industry conditions
- Many will freeze the Base Pay (ie. fixed remuneration package) of their senior managers, but some will reduce management pay in tiers, with top executives carrying the greater percentage cut
- Most companies will halve their normal Base Pay increase budgets for their professional and non-award staff
- Only businesses that depend on high inflows of graduates will tend to bias their 2009 pay reviews in favour of their younger professional staff
- Positions in some high-demand functions may be given preferential treatment
- Most performance based incentive plans will continue – measures and targets may be more focused on recovery strategies; a greater part of the incentives earned may be converted to shares (eg. Macquarie Bank)

It is clear that many employers want to avoid the catastrophes of previous recessions when most companies slugged all employees with a pay freeze. When the economic recovery came, the “frozen” companies were among the first to lose their most talented, high potential employees.

Suggested action (subject to business performance)

- Retain your “pay for performance” reward strategy, including an emphasis on incentives for valuable work
- If you have to reduce staff numbers, cut once only – repeated cuts will shatter employee confidence
- If redundancies are inevitable, preserve core functions and nurture the people who will be needed for developing future growth
- Limit senior management Base Pay increases to outperformance & fixing market anomalies
- Develop non-executive pay increase budgets in consideration of:
 - Current and projected profitability (of course!)
 - Industry conditions and available talent pools
 - CPI forecasts (around 2%)
 - Employee performance and individual market pay relativities
- As incentive pay decreases (as you may expect), greater differentiation may be needed in Base Pay

If you have limited funds for any increases in Base Pay, it is essential that your budget distribution be meticulous. To help keep your most talented, high potential employees, your 2009 remuneration review needs to target their contributions. My [Remuneration Planning System](#) is ideally suited to this cost effective management of a remuneration review.

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