
Developing a Remuneration Policy

Why do I need a Remuneration Policy?

Reward defines what an organisation is prepared to pay for to achieve strategic goals, and is therefore an important part of the management of people. From the employee's point of view, it gives them some assurance that their remuneration is fair, and that remuneration is managed consistently across the organisation. Employee attitude surveys often show that perceived fairness in reward is more important than the actual level of reward.

It therefore makes sense to ensure that reward is managed consistently, and to align strategic reward objectives with business objectives in the same way as other key business areas such as finance, operations, technology and IT. If strategic reward objectives are applied consistently across the organisation, reward (including fixed remuneration, incentives, recognition and the intangible elements) will support and reinforce the strategic direction of the business, driving individual and organisational performance.

Management academics and writers broadly agree that “the strategic aim of reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organisation's business goals”¹. The Reward Strategy will detail how remuneration, reward and recognition will contribute to the achievement of organisational objectives. The Remuneration Policy reinforces this by detailing policies and processes that will reward employees for their contribution to the organisation.

It is considered best practice in reward strategy, policy and practice to have:

- A strong relationship between reward strategy, human resource strategy and organisational strategy;
- A reward philosophy to provide a set of guiding principles for reward;
- A reward strategy that reinforces the human resources strategy and contributes to the overall performance of the organisation;
- A remuneration policy that details the processes and practices surrounding job evaluation, market analysis, grading and the remuneration structure.

Reward Philosophy

The Reward Philosophy is a “set of beliefs and guiding principles that are consistent with the values of the organisation”², providing a ‘touchstone’ to ensure that the way an organisation rewards people reflects the high-level principles of the organisation, in the same way as the Mission Statement helps guide the overall organisational strategy.

The Reward Philosophy is intended to guide, not prescribe, and should focus on brevity and meaningfulness (there is plenty of room in policy documents for rules and explanations). As these are high-level principles, it is envisaged that they will remain constant over several years, although it might be reviewed regularly just as the Mission Statement and Organisational Values are reviewed.

¹ Armstrong, Michael and Murlis, Helen (2004) *Reward Management: A Handbook of Remuneration Strategy and Practice 5th Edition*, 2004, Kogan Page

² *ibid*

Reward Strategy

The high-level aims of the Reward Strategy will remain consistent over several years, just as the overall organisational strategy will remain consistent over time. These would include the desired market positioning, the link between pay and performance, and the balance between salary, benefits and incentives.

However, aspects of the Reward Strategy will change year-by-year as areas of focus change. For example, when a reward strategy and remuneration policy is first implemented, it might take an organisation two years or more to align remuneration appropriately against the external market. They might then move on to formally linking performance and remuneration, a process that could easily take another year or two. There may also be external factors that influence remuneration and reward, and so force an organisation to focus on a specific employee group (e.g. IT), or legislative changes that mean an organisation has to focus on a particular employee benefit (e.g. KiwiSaver).

What should my Remuneration Policy include?

The Remuneration Policy provides processes and practices that operationalise the Reward Philosophy and the Reward Strategy – the ‘rules’ that managers must follow to ensure that reward is treated consistently across the organisation. The intention should be to provide a fair and transparent method of valuing work consistent with the Reward Philosophy and Reward Strategy.

In developing and implementing a remuneration policy, organisations seek a combination of internal relativity and external competitiveness in terms of the tangible elements of remuneration (base salary, benefits and variable remuneration such as bonus or incentive payments). It will also consider how to utilise the non-financial aspects of reward to retain and engage employees. A job evaluation methodology is often used to ensure appropriate internal relativities, while an external market remuneration comparison is used to ensure external competitiveness.

A Remuneration Policy will typically cover the following:

Internal relativity

- Job Evaluation method and processes;
- Grading.

Market positioning

- Survey database;
- Market comparison group (e.g. All Organisations vs. Industry vs. Sector, National vs. Regional);
- Elements of remuneration to compare (e.g. Base Salary vs. Fixed Package vs. Fixed Package less Superannuation vs. Total Package vs. Total Package at Target);
- Position against market (e.g. Lower Quartile vs. Median vs. Upper Quartile vs. Other);
- Salary review date and how salary increase budget is determined;
- Lead/lag philosophy, i.e. do you project the market remuneration data forward, and if so, to what date?

Administrative policies

- Grading;
- Design and review of pay ranges;
- Positioning within the pay range;
- Movement through the pay range;
- Link to performance management process;
- Salary increase matrix;
- Employee Benefits (e.g. motor vehicle, KiwiSaver, other benefits);
- Management of reward i.e. who undertakes remuneration reviews.

Incentive remuneration (optional)

- Applicable jobs and roles;
- Scheme design;
- Calculation.

Non-financial aspects of reward

- Organisation values;
- Work-life-balance;
- Job design and organisation structure;
- Opportunities for personal career development;
- Recognition.

The non-financial aspects of reward (such as working for an organisation that cares about the well-being of employees³) consistently out-rank the financial aspects of reward in employee surveys.

Performance Management

An effective performance management system can increase employee engagement and performance by setting clear objectives at the beginning of the performance period, and through providing regular feedback on performance (both positive and negative). However, “managers have a tendency to avoid the difficult conversations that accompany poor performance ratings”⁴, so this might be an area in which some training, coaching or mentoring could be offered. Note that the effective management of employee performance should be a Key Performance Indicator for all managers.

Communication

The reward strategy and policy need to be well communicated to line managers and employees. Line managers, in particular, need to have a solid understanding of the system, as they will often be explaining the system to their employees. If they do not understand or are mistrustful of certain aspects, this will be fed through to the employees. This is particularly important when changes are being implemented. Too much communication is better than too little.

For more information on how to develop a reward policy, contact Iola Goulton at Bay Reward Consulting, on 07 576 4762 or 021 802 041 or via email at igoulton@bayreward.co.nz.

³ http://www.worldatwork.org/waw/adimComment?id=53799&from=ww_editorial_2911, July 2011

⁴ Jensen, Doug, Tom McMullen and Mel Stark, The Manager's Guide to Rewards, 2007, Amacom, p 162-4