Determine appropriate remuneration

Overview

Does your remuneration position come from a deliberate policy decision or from random chance? As the person responsible for remuneration should you be actively encouraging management to determine their desired market position? Would a formal policy position enable a basic framework against which to make your remuneration and benefits decisions? In making your final recommendations on a remuneration strategy consider how these may impact on the company’s ability to achieve its strategic plans - will they help or hinder the achievement of goals?

Key terms

Compa-ratio
A measure of the extent to which the average salaries in a grade deviate from the target salary.

Green circle jobs
Job salary points appearing below the lower limit of a grade in a scattergram.

Lag the market
Paying below market rates.

Lead the market
Paying above the market.

Match the market
Paying the market average, also called lead-lag.
Quartile
Points on a distribution which indicate where 25% (lower quartile), 50% (median) and 75% (upper quartile) of salaries fall below.

Red circle jobs
Job salary points appearing above the upper limit of a grade in a scattergram.

Salary packaging
A process of arranging pay, benefits, and services components to form an attractive reward package.

Salary structure
A systematic approach to the arrangements of salaries for employees in an organisation. Often organised into grades with defined upper and lower ranges.

What can happen in a poorly planned system?
Without proper planning and a strategic focus, there may be:

- a haphazard approach to reward for performance, no measures of performance or inappropriate measures
- lack of control over salary costs (ie lack of knowledge on salary movements leads to poor budgeting)
- employees being grossly overpaid or underpaid, giving rise to employee dissatisfaction because of lack of fairness
- disjointed internal relationships (eg junior positions being paid more highly than senior positions), typically where seniority rather than responsibility and performance is rewarded
- salary increases being granted on the ‘squeaky wheel’ principle, which in turn leads to further anomalies, dissatisfaction and de-motivation among employees
- lack of compliance with awards and laws.

By taking a deliberate and systematic approach to how you determine remuneration you will avoid these pitfalls.
What policy issues should I consider?

Your market position

When determining appropriate remuneration the organisation must define its attitude towards the labour market. You may already be familiar with the these three market postures:

*Lag the market*

This means paying below market rates. Wage structure is updated to current market rates. No provision is made for market changes throughout the year, so that at the end of the year the company will be behind the market rates.

Company’s that ‘lag’ the market place may do so because they simply don’t have the ability to pay any more. Sometimes these companies will work hard to reward staff in other, non-cash ways. Some pay poorly and do nothing about it, and still others pay poorly, but don’t even know it – and wonder why they can’t keep their people.

*Match the market*

Also called lead-lag, this means paying the market average. The organisation takes account of estimated market changes for the year but wishes to be on average with the market. Provided the market rate increases steadily over the year the organisation will be ahead of the market for the first half of the year and behind for the second half of the year.

Market ‘matchers’ are generally companies that want to be fair and know they’ll have problems if they don’t remain competitive. At the same time, they’re watching the dollars and don’t want to spend any more than they have to. This group are often big subscribers to salary surveys.

*Lead the market*

This means paying above the market. Companies with jobs that require out-of-hours work, a lot of time away from home or a heavy travel schedule often fall into this category.

Market leaders know they’re paying big money, and are proud of it. They may do so because they believe ‘you get what you pay for’ or because they know their work demands are high, or conditions poor, even dangerous.
Think

Is your organisation a lagger, a leader or a matcher? Is this part of a particular strategy, or is by accident, or is it based on the culture of the organisation?

Compa-ratio

Compa-ratio is a measure of the extent to which the average salaries in a grade deviate from the target salary (usually the mid point of the grade).

It is used to compare actual averages with the target salary to indicate the extent to which salary levels are high or low and thus suggest where action may be taken to limit increases or adopt a more generous policy.

The compa-ratio approach assumes that each organisational unit should have an overall average wage rate and that this rate should be in the mid point of the pay range. Units whose compa-ratio is lower than 100 would be allowed to give higher increases than those units who at present have a compa-ratio of greater than 100.

It is expressed by the formula:

\[
\frac{\text{Average of all salaries in the grade}}{\text{Midpoint in the range}} \times 100
\]

Red and green circle rates

Another important policy issue is the management of red and green circle rates.

Green circle rates

- These occur when a person is paid below the minimum of the rate range for his/her job.
- They usually occur when the wage structure is adjusted upwards.
• The underpaid employee should have his/her wage adjusted upwards to the minimum of the range. This can be done with a number of stepped increases.

• Should there be a prevalence of green circle jobs in an organisation, checks should be made as to whether the position has been under evaluated or racial or sexual discrimination exists.

**Red circle rates**

• These occur when a person is paid above the maximum rate for a certain job.

• This is a common problem in many organisations and is more difficult to deal with.

• Red circle rates are otherwise known as ‘ringed’, ‘flagged’, ‘personal rates’, ‘overrates’, or ‘out-of-line differentials’.

The most common solutions are:
1. Freeze pay until general increases catch up.
2. Red circle the job and not the person.
3. Eliminate the differential over a long period.

**Implementing the remuneration plan or strategy**

Assuming that a consultative process has been maintained throughout the investigation, development and recommendation stages of a change in remuneration strategy, the implementation stage has the potential to be relatively trouble free. The following diagram illustrates the major stages in the implementation process.

Here are the key stages in the implementation of a major change to remuneration and/or benefits in the organisation

1. Recommendations approved and policy statement agreed
2. Detailed procedures developed, trialled and modified
3. Development of communications strategy
4. Initial pilot group identified and briefed
5. Delivery of change announcement to management and staff - preferably by CEO. Implementation process and dates announced
6. Change material distributed prior to all stakeholders before training
7. Orientation of key stakeholders & those responsible for administration and training, including trial group
8. Implementation of process with trial group
9. Keep all stakeholders informed of progress throughout trial
10. Monitor progress, record feedback and opinion on acceptance
11. Make post-trial adjustments and modifications to process as required
12. Commence full-scale implementation process

This resource is adapted from McBride T. (2003) Teacher Guide for Manage Remuneration and Benefits 9795J, TAFE NSW Business and Public Administration Division; additional material by Deborah Evans; used with permission.