SNAP SURVEY

REMUNERATION & REWARD

Compiled by:

Mike Honnet Consulting (Pty) Limited

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1. INTRODUCTION

There has, in recent times, been a remarkable convergence of events of strategic significance for the Human Resource Management profession and, more particularly, for remuneration and reward.

The resulting turbulence has caused significant changes in the circumstances of our organisations, having an impact on statutory, taxation and shareholder requirements as well as the perceptions of employees, their representatives and members of the public. We at Mike Honnet Consulting (Pty) Limited therefore considered this to be an appropriate time to conduct a survey of remuneration and reward policies and programmes. We were hoping to gain insights into the methods organisations are using, in the face of radical change, to unlock value and competitive advantage from their human capital. We are all aware that remuneration and reward are not the final panacea in terms of employee motivation and commitment; but equally, we are all aware that the design of remuneration and reward programmes has a major determining influence on motivation and commitment – and therefore also on corporate "bottom line".

The data base of organisations that responded to the survey is as follows:-

- 67% of participants to date are private companies;
- 20% are parastatals/public entities; and
- 13% are public (listed) companies.

The size of participants' organisations ranges as follows: -

	Smallest	**Median**	**Largest**
▪ Number of employees:	6	180	64 000
▪ Annual sales revenue:	R1,0 mill	R281,0 mill	R17,0 bn

80% of the organisations surveyed so far are South African and 20% are located in Swaziland.

2. DISCUSSION OF RESULTS

2.1 Review of Pay Policy

A resounding 80% of all companies surveyed last reviewed their pay plans/policy between 6 months and 3 years ago. Only 7% have reviewed more recently than 6 months ago; and a surprisingly high 14% have not reviewed at all in the last 5 years.

This compares favourably with the responses to this question in a similar Aon Consulting survey conducted in the USA in early 2004: In that survey 40% of companies had not reviewed their pay plans in the preceding 5 years%

Our results, especially in the light of the tempo of change in Southern Africa, do however highlight a need for focused and comprehensive reassessment of

remuneration and reward policies and programmes as well as a need for more frequent review and updating. The only way to continue improving the effectiveness of HR and remuneration is to innovate; and our survey statistics do not indicate innovation.

2.2 Employee Acceptance

60% of respondents indicated only moderate acceptance by employees of their companies' remuneration and reward policies. At the same time, 47% indicated that they communicate their remuneration and reward policies to their employees only to a moderate extent. A further 40% indicated that they communicate to a great extent.

The indication is that there is insufficient communication; and the communication that does take place is ineffective in securing the understanding and acceptance of employees.

This confirms the result of the Aon Consulting SA @Work Survey (2004/05), which highlighted inadequate communication about pay as a major hindrance (in the perception of employees) to workplace commitment: Some 20% of the approximately 1 200 employees interviewed gave negative ratings to their employers' efforts to communicate with them about pay.

2.3 Alignment with Organisational Goals

An overwhelming majority (94%) of respondents gave favourable ratings to the extent to which their remuneration and reward programmes are (currently) aligned with corporate / business goals and objectives, ranging from *"aligned to some extent"* (20%) to *"aligned to a great extent"* (47%) and "*aligned to a very great extent*" (27%).

The perception that existing programmes are aligned to organisational goals may help to explain the relative lack of innovation in this field (as reflected in relatively infrequent review of pay policies and plans): Reviewing remuneration or reward practices could disturb the existing alignment with organisational goals.

It also reveals a perceived tendency of HR or Reward practitioners to put the needs of the organisation above those of employees in the design of pay programmes. Needless to say, this perception can adversely affect HR credibility.

2.4 Goals of Remuneration and Reward Programmes

The most frequently indicated goals were:

- Competitive pay: 28% of all responses
- Pay for performance: 31% of all responses
- Fair pay: 21% of all responses

It seems that Remuneration and Reward policies are focusing on the "right" issues: The Aon Consulting SA @Work Survey (2004/05) revealed strongly negative employee perceptions of their organisations' efforts in respect of these items, as indicated in the following table:

- Pay is competitive, compared to similar jobs in other organisations : 27% neg
- Pay is objectively and reliably related to performance : 30% neg
- Pay is fair, compared to similar jobs in same organisation : 31% neg

In addition, the three most frequently reported pay goals in Aon Consulting's 2004 USA pay policy survey were exactly the same – Competitiveness, fairness and "performance related-ness".

The question then arises, "Why, if we are focused on these goals, do we not seem to be able to address them to the satisfaction of all concerned?"

Is this the result of inadequate communication about pay? For example, do we discuss pay with our people, or involve them in the development and design of pay programmes?

Or is it because we really are more interested in alignment with corporate goals than satisfying employees' needs?

Perhaps this reflects a kind of pay complacency arising from the belief that "All employees always complain about pay, anyway"!

Whatever the underlying cause may be, it is worthy of further investigation. If we are settling the "right" goals but not achieving the "right" results, then surely we are wasting time and effort?

2.5 Pay Priorities

The highest-rated pay priority, right now and in the medium-term future, was identified as "*Developing / maintaining a truly effective Pay for Performance programme*" (60% and 40% of all responses, respectively).

The same result was reported in the Aon Consulting 2004 pay policy survey; and it also correlates with the Aon Consulting SA @Work Survey 2004/05, which reported a strongly negative employee perception of their organisations' successes in relating pay to performance, reliably and objectively.

The second highest-rated priority for right now (at 27% of all responses) was "*Differentiating pay between average and high performers*". Organisations experiencing difficulty with this are often failing to "observe the unities": Pay is for performance: It is **not** for loyalty and length of service, keeping up with inflation and/or the market, integrity and decent character, or the absolute immeasurable – future potential!

The second highest-rated priority for the medium term (at 20% of all responses) was "*Changing the remuneration and reward / HR role from administrative controller to strategic partner*". Some organisations may experience a hindrance in this

respect, because they give relatively low priority to "bottom line" concerns. This is illustrated in the following extract from the results, which shows the proportion of respondents giving priority to the items indicated, now and in the future:

	Present	**Future**
"*Using technology cost effectively*"	0%	0%
"*Developing performance metrics to establish the ROI of remuneration and reward designs / changes*"	0%	13%

The item "*Maintaining a well designed (pay) programme through communication and education*" was identified as a current priority by only 7% of all responses and as a future priority by no responses at all!

2.6 Communication

47% of respondents indicated that they communicate with employees about pay "*to some extent*" and 40% "*to a great extent*".

This result reinforces points made earlier and, in addition, raises questions about the effectiveness of communication, as opposed to the amount of it. Our communications are sometimes ineffective because we are only "telling"; whereas "communication" in this sense should be taken to include ongoing debate of pay and pay-related issues **and** participation in the development and design of pay systems and programmes by employees, as well as telling them about pay policies and plans.

2.7 Effectiveness

14% of respondents indicated that their remuneration and reward policies provide adequately for employees' needs to a "*very little extent*" or a "*little extent*". 40% more felt that their employees' needs are catered for only to "*some extent*".

If the effectiveness of pay policies is to be gauged, at least in part, by the extent to which they cater for employees' needs; then this must be regarded as a reality check on pay effectiveness.

The result also raises a question about the 46% who felt that their employees' needs are catered for to a "*great extent*": What evidence satisfies these managements (and their pay professionals) that their pay policies meet the needs of their employees? Based on other results in this survey and the employee perceptions reported in the Aon Consulting SA @Work Survey 2004/05, it could not have come from employee feedback.

3. CONCLUSIONS

Indications from this survey are the following: -

- As HR and remuneration and reward professionals, we need to ensure that our pay plans, policy and practices are (and are seen by employees to be) relevant and meaningful. This includes keeping them current by more frequent review in the light of future events of strategic significance.
- We need to gain the understanding, support and commitment ("buy in") of our employees at all levels to our pay plans, policies and practices. This includes proper explanation during structured induction / orientation immediately after employment; ongoing discussion to monitor perceptions of effectiveness (and trigger timely intervention if required); and active participation in the development and design of pay programmes by employees.
- In view of the ongoing “war for talent”, we need to innovate and come up with truly creative and attractive pay and reward designs --- which are also fully aligned with corporate goals and objectives.
- If pay professionals are to be regarded as strategic business partners rather than administrative controllers, they should behave as such by focusing, among other things, on the more cost effective and wider use of technology; developing metrics for evaluation of pay design ROI; and, most important of all, by accepting full accountability for this portion of the return on "people investment", or ROPI.

If we can get these things right, we will all be a lot closer to making work rewarding!