

Point of View

Remuneration Practices of High Performing Companies

Based on data from Hewitt's *Best Employers in Australia and New Zealand (ANZ)* study, this paper looks at what high performing companies do differently in remuneration that leads to higher engagement levels amongst their employees.

The Hewitt *Best Employers* study assesses employee Engagement levels and HR practices of organisations in our region.

This research shows that organisations that focus on the Engagement levels of their employees deliver business results. Globally, Hewitt *Best Employer* studies have found that employee Engagement scores are highly correlated to Total Shareholder Return (TSR), revenue and profit growth.

For example, Hewitt *Best Employers* in 2008 achieved a TSR of, on average, almost 30% above the market. But are the pay practices of Hewitt *Best Employers* different and what can be learned from them?

Study results indicate that, irrespective of actual quantitative levels of pay, there are clear differences in the way that Hewitt *Best Employers* (*The Best*) and other participating organisations ("Other Organisations") manage their remuneration practices.

The two key areas of difference are an organisation's understanding of remuneration practices and performance-based differentiation of rewards.

Understanding of Remuneration Practices and the Role of HR

There are two primary internal sources of information for employees when it comes to understanding remuneration: Human Resources and their direct managers.

An employee's understanding of how decisions are made about their pay can enhance their perception of the fairness of those processes. Devolving responsibility to managers for communicating remuneration and ensuring they have the capability to do so is clearly successful.

Almost 80% of employees at *The Best* report they have a good understanding of how their pay and rewards are determined, compared to less than half of employees at Other Organisations.

Manager Responses	<i>The Best</i>	Others	Gap
I am well equipped to explain our reward structure to our employees	83%	49%	34%
Answers to HR questions are easy to obtain	76%	46%	30%
HR delivers its products and services in an efficient manner	75%	42%	43%
I am rewarded for developing high performers	64%	31%	33%
Our review and rewards systems give me all the autonomy I need to recognise both solid performers and high performers	76%	39%	37%

Table 1 – Source: Hewitt *Best Employers* 2008

Performance-Based Differentiation of Rewards

Hewitt *Best Employers* have institutionalised the practice of pay-for-performance. Employees understand that their performance significantly impacts their pay, acknowledge that high performers receive higher remuneration, and managers are themselves rewarded for developing high performers.

Average fixed remuneration increases for top performers at *The Best* tend to be significantly higher than the average increases given to all employees – and that difference is far greater than the differentiation of rewards for top performers at Other Organisations. Furthermore, Hewitt *Best Employers* are also less likely to give salary increases to poor performers.

Employee Responses	<i>The Best</i>	Others	Gap
I have a good understanding of how my pay and rewards are determined	79%	49%	30%
I receive appropriate recognition (beyond my pay) for my contributions and accomplishments	72%	43%	29%
My performance has a significant impact on my pay	64%	39%	25%
We provide higher remuneration to high performers in our business	67%	33%	34%
Overall, the way we reward and recognise people in this organisation helps us produce the results we want	74%	36%	38%

Table 2 – Source: Hewitt *Best Employers* 2008

Summary

This article highlights just two attributes that set Hewitt *Best Employers* apart from the rest. Key learnings for managing remuneration practices and maintaining (or even improving) employee Engagement during an economic downturn include:

- Ensure HR and managers are well-equipped to explain remuneration structures and processes, with easy access to information and answers.** This is even more important when salary increase budgets may be reduced or removed. Employee perceptions and reactions can be managed by assisting them to understand how decisions about their remuneration are made, including decisions at the budgeting level. Communication about the process rather than just the outcome is likely to have a far more positive impact on their perceptions of fairness and overall engagement levels.

- **Pay individuals for performance and reward or recognise managers for developing performance.** During an economic downturn high performers are likely to be the people who help your business survive and thrive. Moreover, savvy employers are taking advantage of current labour market conditions to recruit that talent as they become more affordable. If you have a reduced budget for salary increases, think strategically about where that investment is best applied, the messages you will be giving to your top performers and where you are likely get the best return for that investment.

In short, it is not how much you spend on remuneration increases, but how you spend it and how well that process is understood across your organisation.

For further information on Hewitt *Best Employers*, visit www.hewitt.com/bestemployersanz or to discuss the contents of this paper with one of our reward or engagement specialists contact us:

Sydney: +61 2 9247 8066

Melbourne: +61 3 9614 6500

Auckland: +64 9 579 9733

About Hewitt Associates

For more than 65 years, Hewitt Associates (NYSE: HEW) has provided clients with best-in-class human resources consulting and outsourcing services. Hewitt consults with more than 3,000 large and midsize companies around the globe to develop and implement HR business strategies covering retirement, financial, and health management; compensation and total rewards; and performance, talent, and change management. As a market leader in benefits administration, Hewitt delivers health care and retirement programs to millions of participants and retirees on behalf of more than 300 organisations worldwide. Located in 33 countries, Hewitt employs approximately 23,000 associates. For more information, please visit www.hewitt.com.au.