

Is your current remuneration strategy up to the task?

A perfect storm is brewing in some areas of the public sector concerning the setting of pay rates for staff covered by collective agreements. While the move to market rates, with its attendant annual movements in base pay, has been mutually acceptable to employers, employees and unions, the current recession poses a serious question about affordability.

Areas of the public sector, and local government in particular, have featured at the high end of wage and salary increases in the past year as measured by the Department of Statistics Labour Cost Index. Local Government wages and salaries increased 5.4% in the year to the September quarter, health and community services 5.7%, compared with 3.6% for the economy as a whole. Such increases feed on themselves, fuelling employee expectations of continued increases, one aspect of the 'entitle-itis' that bedevils the reward and remuneration systems in many public organisations, the 'everyone gets an increase' syndrome.

So we have the strongest wage spiral we have seen for two decades (Department of Statistics) and union expectations of salary increases at the level of inflation (currently around 5%) at a time of deepening pessimism about the economic outlook. 2009 is likely to see cuts in Government spending in certain areas to fund infrastructural growth, and the need for restraint by Councils in setting local government rates.

This prospect also highlights some features of current wage negotiation that place organisations at particular risk, in particular those collectives with pre-agreed pay increases a year or more from now. They assumed the market bubble would never burst. Even those agreements with 'guarantees' around paying at market 'median' may now need to be reviewed. Given the current volatility of the Consumer Price Index, its use as a wage-setting tool would seem sheer folly.

Hence our question – is your current remuneration strategy up to the task? Is it aligned with your business strategy and key drivers? Is it affordable in the current environment and looking ahead to 2009? Organisations currently setting their salary increase budgets for 2009 are in many cases facing the prospect of minimal increases. Market movement is no longer a given. This will call for more innovative strategies for attracting, retaining key talent, and for engaging employees at all levels.

The current situation reminds one of a Tui billboard that reads 'The market rules – OK?' For those organisations seeking a new strategy for 2009 the steps are clear – do have a salary increase budget, measure employee performance and reward accordingly, manage expectations by communicating with employees around what might happen in 2009. Above all, the public sector in particular needs to become performance-driven at all levels. That will call for new systems, new skills for managers, and stronger processes to ensure consistency and affordability.