

Should Remuneration be based on Performance?



Performance-based pay is about rewarding employees with remuneration packages that reflect their successful achievement of the requirements of their role. Performance-related pay can work well if properly structured with clear guidelines for assessment. Without tangible goals and targets it's difficult to justify. Implementing a fair system requires solid systems and procedures as well as regular opportunities for employees to demonstrate their achievements.

Is it fair to base remuneration on performance?

With remuneration and performance, it's not only what you do but how you do it. Making a decision about your pay and reward structure is one thing, how you implement it and make it fair for all of your employees is another.

If you do decide to link your remuneration with performance, one of your first steps is to work out what counts as success and how you will evaluate it. You must set clear goals from day one that are consistent across your organisation's departments, teams or employee network.

In order to reward fairly, the criteria you set must be easily measurable. It's much easier to assess sales targets for example, than something less quantifiable such as being co-operative with colleagues. When employees can prove they've achieved over and above others, you can prove you have fairly awarded pay.

Where there are distinct levels of responsibility within one job role, it's helpful to ensure that each level of the role is placed in a different

pay band. This gives new employees an opportunity to work towards achievable goals and progress through the relevant pay scale, while still allowing those who excel to be remunerated accordingly.

By giving each employee goals they can reach, you encourage the whole team to work hard. If your expectations are too high and goals are unfair, employees may feel there is no point in trying to improve at all. Unrealistic goals can result in lower overall productivity.

If you do have different levels of achievement within the same role, make sure that the job descriptions are appropriate at all levels, and that everyone is clear about what their individual responsibilities are. Rewarding employees on the basis of their performance and their contribution to the organisation, as long as this is done fairly and objectively, sends a clear message that performance is valued and will be rewarded by the organisation.

How to make sure it is fairly implemented

REVIEW OPPORTUNITIES

It's important that there are a number of opportunities for review over the course of the year. If performance is only assessed annually, there is the possibility that your employees will only start pulling their weight when they know a pay increase is on the horizon and be unfairly rewarded in comparison to someone who works hard all year round.

CLEAR EXPECTATIONS

In most organisations, roles evolve over time, in line with new strategies or organisational structure. It is therefore important that job descriptions and expectations are reviewed regularly too, so that targets remain in line with what employees are being asked to do every day.

REVIEW PROCESS

When it comes to the review process itself, organisational leaders should undertake performance management training as a team, so that they each assess targets in the same way. This ensures that employees with different managers are not treated differently. It's also good practice to talk to employees about their assessment, so they have an opportunity to voice any differences in opinion as early as possible.

Both remuneration and performance management are tricky issues at the best of times, but especially so when put together. We can help you plan an effective remuneration policy that links to performance appropriately, and coach your leaders in having important but necessary conversations.

If you are considering making changes in how your organisation deals with remuneration and performance management, get in touch with the team at Strategic Pay.

This is where Strategic Pay can help

Contact us today to get a **FREE** Checklist for reviewing an incentive plan as a form of performance based pay.

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