Building on the recently published document entitled “Probing Executive Remuneration”, we will now consider some of the basic principles of equitable remuneration systems in general. 

Remuneration is a tool that management uses for various purposes, including to attract and retain the best employees and thereby, hopefully, strengthening company functioning.

Remuneration and compensation structures include not only basic salary but also all forms of financial benefits, e.g. health and pension, which an employee becomes entitled to through employment by the organisation. We already touched on some benefits in a previous reflection on retrenchments.

It is important to note that, for many people, financial remuneration is not a primary motivator but that fair and equitable remuneration is expected. Research indicates that, for a large portion of the population, money is only a short-term motivator. Despite this, it is a core aspect during recruitment and has become a standard way of recognising job performance. Remuneration is also used in attempts to:

- Increase or maintain morale/job satisfaction.
- Reduce staff turnover – including the so called golden handcuffs where a person cannot leave due to their high salary -,
- Encourage company loyalty.

The reality is that organisations that are not competitive in terms of their remuneration processes will find it difficult to recruit top personnel. They might even experience increased turnover due to people leaving for more pay. Unfortunately, in some situations this has resulted in certain candidates literally job- and organisation-hopping for more pay. In our reflection on “Probing Executive Remuneration,” we briefly referred to the influence of shareholder capitalism and expectations of higher salaries.

Developing remuneration systems require attention to various components that all work together, with the ultimate objective of internal and external equity.

*The most general law in nature is equity the principle of balance and symmetry which guides the growth of forms along the lines of the greatest structural efficiency.*

*Herbert Read*
The following diagram broadly sets out the process of achieving an equitable system. The sections is discussed in more depth later, but as an introduction:

The historian Alfred Chandler proposed the idea that ‘Structure follows Strategy’. In the most basic terms, this means that organisations must be structured/re-structured in ways that will help them achieve their objectives. It is for this reason that the diagram flow starts with the green “Strategic Direction” block.

Once there is clarity about the strategic direction, there are three key factors to consider when structuring remuneration systems. These are the number of people needed, supply & demand, and financial constraints. These factors drive the thinking behind equitable remuneration. These factors do not operate in isolation but interact constantly. It with this in mind that all the arrows in the diagram are bi- or multi-directional.

A critical point is that the remuneration strategy must apply to all employees of an organisation – including the executive - equally. If any employee is - or is perceived to be - treated differently, the system will not be fair and/or equitable.

Finally, the total process works together and equity becomes a core part of organisational governance.

**The Position**

When considering the positions required for achieving the strategic objectives, three aspects need to be considered;

- Identifying the overarching reason/purpose of each position. By describing the purpose of every position, it is possible to create a broad structure and identify gaps. Simply put, the question is: **Why is this position required?**
- Identifying the deliverables expected from that position (in essence a Job Description). Simply put, the question is: **What will be expected from the person filling this position?**
  (As a side note, an aspect often forgotten or ignored is that, just as an employee expects fair and equitable remuneration and working environment, organisations expects the employee take “co-responsibility” for the future survival of the organisation [Employee engagement and commitment].)
- Review of the physical/mental/educational and experiential criteria to fill the position (Person specification). Simply put, the question is: **What characteristics describe the ideal employee?**

There is a need for a person-job fit and a person-organisation fit. Person specifications require careful considerations as some “requirements” may be classified as discriminatory. These specifications require a realistic understanding of the labour market. The recruiter must further consider these factors carefully as they often relate to the level of work satisfaction a candidate may experience.
The Patterson system is based on the key aspects of responsibility and impact. Three core considerations (see diagram) are:

- Decision making. What level of impact do decisions made by the position have on the organisation?
- Responsibility. What level of responsibility is inherent in the position?
- Judgement. To what degree does the position involve repetition or judgement?

The core factors determine the level of seniority of the position. Each band also has a number of sub-grades. Once the band has been identified, the position is reviewed in terms of five sub-factors, resulting in sub-grades.
Once all the positions are graded, an organogram is drawn. The overall structure is then reviewed to ensure consistency across all departments and functions.

Finally, positions are compared with market-based classifications and salary surveys.

**Remuneration process**

In the last step, results from the salary surveys and hierarchical levels are used as inputs for compiling a remuneration system. In general, the process of developing and maintaining a remuneration system follows along the eight steps broadly explained in this diagram:

- Develop Strategic Remuneration Philosophy
- Develop Remuneration Policy and Regulations (Remember benefits)
- Establish Salary Ranges (Consider Job grades and Market Survey data)
- Develop Pay structure (Differences between grades)
- Develop Maximum and minimum salary per grade.
- Develop Administration Policy
- Obtain Approval
- Implement & Monitor to maintain equitable ratio's

**Equity:**

As highlighted in the first diagram of this article (page 1), there are two levels of equity that should be maintained. These are internal and external equity.

With positions defined, grading done and the process reviewed internally, there should be a “balanced” breakdown of responsibilities and tasks that makes “logical sense”. There will also be a “defendable” basis for the positions and reporting lines. If this is in place, a partial internal equity has been achieved.

Should the organisation now also have a balanced remuneration system – linked to the hierarchy of responsibilities – internal equity has been achieved.

If one position is out of balance with the rest, be it in grade or remuneration, equity disappears. (Staff sharing information about what they earn is a complex issue and could be discussed in a future Reflection on internal transparency.

A second type of equity, namely external equity, refers to a balance between organisational systems and the market place. Job grading and remuneration should be in line with general market structures, hence the use of salary surveys. An organisation should however decide if they are going to position their remuneration packages at the top, average or at the bottom end of market related wages. All these positions have advantages and disadvantages. Of course, positioning at average rates is the easiest, if the organisation afford it.

Compensation will be perceived as fair if it maintains a balance in all the **system or components** developed to maintain internal and external equity.

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