

# REMUNERATION AND REWARDS IN 2010

Organisations are still grappling with cost constraints, so what is the year ahead likely to bring on the remuneration front? Susan Doughty examines the trends for 2010 and predicts a wild ride.



**CONFUSED ABOUT WHAT THE** real picture of remuneration and reward trends is for 2010? You're not alone. At DSD, we're frequently fielding questions about the 'real state of the market'. We have picked some of the top trends and provided our insights into where the market is heading in 2010.

**Are pay freezes really a thing of the past?**

There is no doubt that the freeze is thawing and in some cases has melted altogether. While pay freezes were almost de rigueur in 2009 (particularly for executives), organisations have been quick to realise that this practice won't be appropriate for two years running.

Our pick is that employees expect salary increases in 2010. In addition organisations that did freeze pay in 2009 may find themselves playing 'catch up' this year and should develop salary increase budgets carefully.

Market intelligence, through both survey data and a careful review of forecast increases, will be absolutely vital for budget planning in 2010.

**My CEO is interested in forecast salary increases. What is your take on the market in 2010?**

Salary increase budgets are rising almost as fast as they fell last year. The statistics in 2009 painted an interesting picture, with median increase data falling quickly

from 3 percent in Quarter 1 2009 to 1 percent by Quarter 4. These figures were greatly affected by the large number of nil increases that steadily increased over the year.

We've already seen a bounce-back in the market with DSD Consulting's first quarter research indicating a median forecast of 2.3 percent. Based on the level of activity we have seen so far, this may be a relatively conservative result.

It is anticipated that this will continue to fluctuate (and rise) as more organisations commence their planning for the new financial year.

We believe, therefore, that organisations which are planning reviews in the third and fourth quarters of 2010 should be considering budgets in the range of 3 percent to 3.5 percent—and potentially higher for senior managers and CEOs.

**What effect will collective agreements and wage bargaining have on salaries in 2010?**

There is no doubt that, like salaries, there was suppressed activity in wage bargaining during 2009. There was a range of nil wage increases and reduced claims, as well as shorter terms for agreements.

Experience of the market and the trends on bargaining following other recessions indicates that unions will be seeking 'catch up' for their members. This loosely

translates to higher than average negotiated increases.

This potentially has a significant impact on salaries within organisations as higher increases for wages relative to salaries can result in compressed pay rates across the organisation, disgruntled salaried co-workers and a ratcheting up of salaries over time.

**Are market pay premiums making a come back?**

The reality is that market premiums and some skill shortages never went away

Our pick is that as the job market continues to improve, good staff will become mobile. This will result in organisations taking proactive action to retain key talent.

Expect, therefore, that there will be an increasing trend towards organisations operating more granular pay structures to cope with job family market differences. Clever organisations will also invest heavily in developing their employee value proposition to cement their point of difference in the market.

**What are the trends for executive remuneration in 2010?**

Executive bonuses are a hot topic right now. Early in 2009, incentive schemes for this group were vilified as one of the key causes of economic failure. The reality is that executive incentive schemes in New Zealand

and Australia have actually weathered the last year quite well with most payments in line with 2008 levels.

We expect that medium to large organisations will increasingly align executive remuneration practices to the guidelines produced by APRA and the Productivity Commission of Australia. Expect, therefore, that there will be a lot of activity in 2010/2011 around the structure of executive remuneration, specifically the consideration of risk in the design and implementation of, short and long-term incentive schemes.

**The final word**

Expect 2010 to be a wild ride! On one hand, organisations are grappling with cost constraints while, at the same time, they are having to find clever solutions to an increasingly mobile workforce.

Employees expect that the economic recovery will flow directly into their pockets and there is no doubt that the activity in the waged workforce will further inflame the issue.

**Ask the expert**

*If you have a remuneration question you would like Susan to answer, contact [info@dsd.co.nz](mailto:info@dsd.co.nz)*



*Susan Doughty is a director of DSD Consulting Ltd, specialists in remuneration and rewards management.*