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internal relativity – are we living in denial?

For some time now we have been living with the illusion that we can continue to keep hiring new staff at premium pay rates without addressing the consequences – the impact on our existing staff and their retention.

There is no doubt that the gap between current and new employees is getting wider, and will continue to do so as we compete head on for talent at the best price in this volatile market. Add to this the impact of other rising compliance costs such KiwiSaver and additional annual leave and we find ourselves with a dilemma. How do we fund everything and still run a profitable business?

Why is it such an issue now?

Let's face it, internal relativity has always been a 'thorn in the side' for HR professionals. We constantly need to be aware of the 'bigger picture' when valuing jobs relative to others, both within the organisation and externally. The issue has been exacerbated by the need to get new staff through the door at any price – making external relativity the primary driver over internal relativity. Of course we all want to be externally competitive – that's a given. And there will always be internal relativity differences because of tenure and performance but the imbalance is beginning to take its toll.

The 'noise' from the market suggests, and our research* supports, that:

- More employees are changing jobs for pay rises
- Managers are becoming increasingly 'creative' in order to justify pay rises for their employees
- How organisations manage KiwiSaver members (versus non-members) may highlight discrepancies

- The speed of pay progression for existing staff is not keeping pace with premium rates paid for new hires
- Annual salary budgets aren't enough to deal with internal and external equity issues
- Regular out of cycle reviews are becoming the norm in order to deal with inequities.

*dsd Conulting Ltd: REMonTAP National Salary Survey

How do I prevent KiwiSaver making things worse?

KiwiSaver will have an impact on 1 April 2008 with the introduction of the compulsory one percent employer contribution. Many organisations are still coming to terms with its implications, particularly from an internal relativity perspective with salaries, incentives and benefits. Some KiwiSaver strategies being considered are:

- Offsetting all future KiwiSaver employer contributions against annual salary increases. Regardless of whether you budget for KiwiSaver separately or as part of the annual remuneration budget, signal to your staff that KiwiSaver will ultimately be quantified as part of total remuneration. This ensures a level playing field going forwards. Communicate that all employees will receive the equivalent value of the KiwiSaver Employer contribution each annual review, however if non-KiwiSaver members subsequently join KiwiSaver, they will need to 'salary sacrifice' the Employer contribution value from their existing salary
- Provide all non-KiwiSaver members with a KiwiSaver allowance with effect from 1 April 2008 that can later be translated into a KiwiSaver employer contribution should the employee join KiwiSaver at a later date
- Offset (where possible) KiwiSaver Employer contributions against contributions to existing Company superannuation plans.

Bear in mind that employer contributions to KiwiSaver will be off-set to some degree by tax credits for the majority of employees in the first year. However by 2011 the differential in total cost of employment between KiwiSaver members and non-members is likely to be quite significant.

How do I know when I have an internal relativity issue?

Apart from the most obvious sign, of increasing pay gaps between new and existing staff salaries, there are more subtle signs that highlight an internal relativity issue. Take the quiz and see where your organisation rates.

If most of your answers were 'agree' or 'strongly agree', consider putting some strategies in place to address internal equity issues. Conversely, if most answers were 'disagree' or 'strongly disagree', breathe a sigh of relief – you are doing most things right. Either way, you may wish to focus on some value-added activities that support your company's employee value proposition (EVP) to cement your perceived position as a good employer.

Internal Relativity Guide

	Strongly Disagree	Disagree	Neither Agree/	Disagree	Agree	Strongly Agree
Current employees with 2-5 years tenure are paid less than new hires						
People are leaving to get pay rises						
Our turnover is on the increase but we haven't diagnosed the problem						
Salaries are out of step with the premiums we have to pay for new staff						
We are having to play 'catch up' with frequent out of cycle remuneration reviews						
Employees are challenging managers more frequently on pay rates						
The speed of annual pay progression is not closing the gaps						
We are making counter offers on a more frequent basis						
Managers are over specifying job descriptions to drive up job bands/ grades						
We have enough money in the salary budget to address all our pay issues						
Overall our salaries are falling behind market rates						
Our pay ranges are too restrictive and we can't hire new staff within the specified pay ranges						
We are uncertain how to manage KiwiSaver and its impact on total cost of employment						

We have a problem – so how do we deal with it?

Most employees trust that they are being fairly treated relative to their colleagues and that they are recognised for the job they do. There are no easy fixes when things get out of kilter, but there are some strategies that can be employed to help to alleviate the situation. Most involve additional cost, but there are other approaches that can be used that are both effective and relatively inexpensive.

- Send a "high-performance" message to the organisation – and back up communication with demonstrated higher remuneration for consistent, sustained performance
- Spend the budget wisely – give managers flexibility to focus on hot spots, key talent and critical roles
- Withhold some of the annual salary review budget to address major internal relativity issues
- Get serious about career management and implement plans to make it work
- Tailor your Employee Value Proposition to address the issues
- Review pay ranges and adjust salaries that fall below the range
- Regularly review market rates and benchmarks and ensure that pay ranges are realistic
- Consider implementing innovative practices that 'kick in' for existing staff after a period of time
- Develop a retention strategy that takes a holistic approach to managing key staff and critical roles
- Adopt a pro-active counter-offer strategy.

Managing internal relativities will always require consideration when dealing with pay. However keeping a close eye on salary creep, and putting in place a robust retention strategy will help to manage the issue and ensure consistent, defensible decisions. ■