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Navigating the Future of Work

REMUNERATION PLANNING FOR 2025

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Why would remuneration planning for 2025 be any different from 2024?

After an inflationary spiral that saw CPI movements of 4.02% in Q1 2024, the Reserve Bank's efforts to reduce inflation have led to what is now (September 2024) a CPI movement of just 2.15%. The effect of this on the remuneration market has been to slow down salary movements and forecasts, with forecasts from our clients tracking down from an average of 4% in June to a September forecast of 3.1%.

The 2023 year was one of skill shortages, where we saw remuneration levels being driven ever higher, as organisations struggled to fill essential positions. However, in 2024 we have seen a situation where the employer has regained the upper hand, with jobs becoming much easier to fill and there being reduced pressure on remuneration levels.

To some extent this has been counteracted by the impact that both minimum wage increases and living wage adjustments have had at the lower levels. These two factors led to much higher movements at these staff levels, with the result being that this had to be balanced out by lower movements at the higher staff levels of organisations.

The latest NZIER Consensus Forecasts show a further downward revision to the growth outlook for the years ending March 2025 through to March 2027. Forecasts of annual average GDP growth point to zero percent growth in the year to March 2025 before picking up to 2.2 percent in 2026. These revisions reflect expectations for sluggish economic growth over the coming year. Recent data, such as NZIER's Quarterly Survey of Business Opinion measures of business confidence and firms' own trading activity also suggest a deteriorating growth outlook for the coming year. Beyond 2025, lower interest rates are expected to support a recovery in economic activity. (Source: NZIER Consensus Forecasts, September 2024).

With this economic forecast it would seem inevitable that the downward trend in remuneration market forecast movements would become a reality. Budgets are likely to be more tightly managed, with remuneration practices being more controlled due to it being one area that has a significant impact on any organisation's financial management and budgeting.

Given this impact, what approach can managers take to achieve two disparate goals – those goals being:

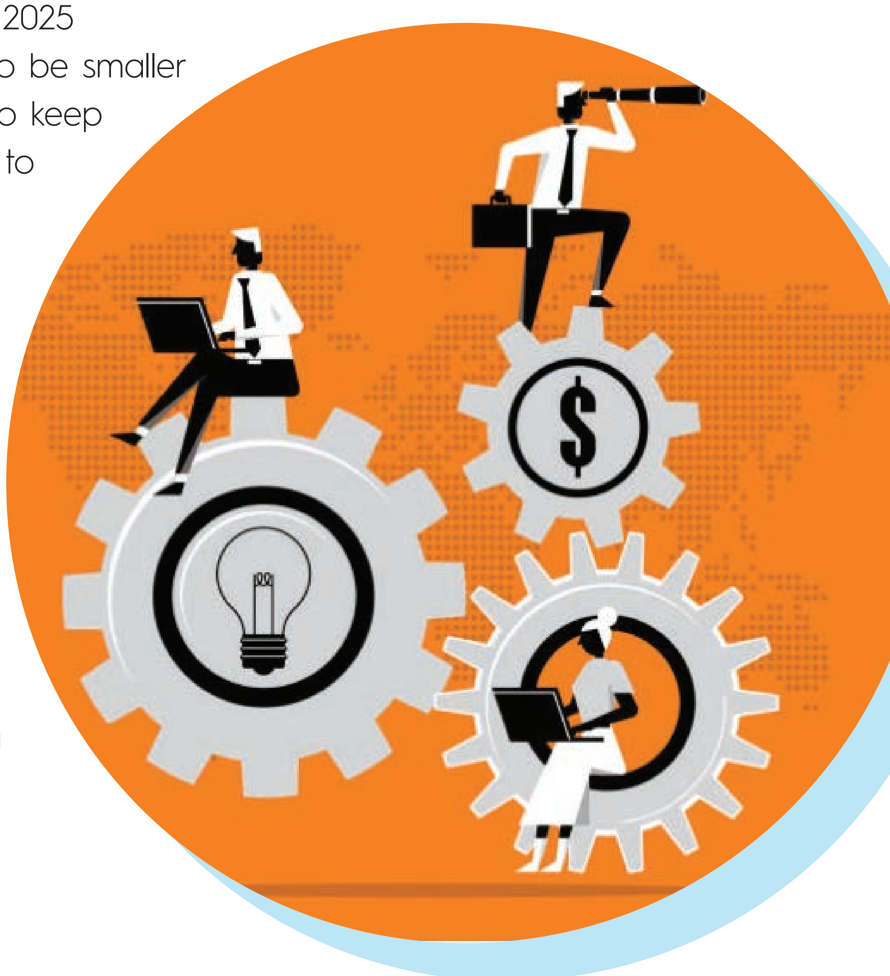
a. to manage budgets in order to maintain an organisation's viability, and
b. to address employees' wage/salary expectations in a way that is perceived as fair and equitable?

Striking the balance: low increase budget vs employee expectations

The effective management of remuneration within an economic downturn typically requires a Business Centric approach. This balanced approach to rewards focuses on the needs of the organisation and its employees, whilst also taking the new cost restraints into consideration. The two main aims of this approach are to enhance employee engagement and retain the key contributors to organisation success.

Communicate the Economic Realities and the Need for Frugality

If, as seems likely, the budget for 2025 remuneration increases is going to be smaller than had been hoped, in order to keep the organisation viable, it's going to be essential that communication regarding the pay round is as open and honest as possible. The level of openness will depend very much on the nature of your organisation but, at the very least, we would expect employees to understand, prior to your pay round, that this year will be a tight one when it comes to expenditure of any kind, including remuneration.



Spend your Budget Wisely

Ideally, you will be able to look at several elements when deciding how to spend your remuneration increase budget. In a tight economy, employees need to know that wage or salary increases are applied fairly and equitably, considering their contribution to the organisation and where they are currently being paid relative to their colleagues (and yes, like it or not, employees do talk to each other, including about their pay).

There are many ways you can work to achieve a remuneration round that employees will see as fair and equitable, even if they do not get as big a pay increase as they hoped for. One way is to base your decisions on employees' contribution (or performance) relative to their current pay level.

For example:

1. If their contribution is high, but their pay is low relative to others, you can give them a slightly larger increase.
2. If their contribution is less than useful, consider whether they have really earned an increase at all – a zero increase is sometimes defensible.
3. If their contribution is at the upper end of expectations but they are already paid very well, consider paying them a one-off sum to recognise their value without adding to your ongoing wage bill.
4. If you have a good solid contributor who's paid pretty much where you'd expect, then maybe give them an increase of a percentage equal to your overall percentage figure – so if your budget is an overall 2%, then your good solid workers who consistently deliver, will get a 2% increase to acknowledge their contribution.

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Don't Fall into the Trap of Across-the-Board Increases

We know there is a temptation in an economy like this to decide to pay a flat, across-the-board pay increase, such as 2% for all employees. Please don't do this.

In paying everyone the same increase, what will happen is that this will not be perceived as fair, and applying a flat % to everyone will give the more highly paid, a greater dollar increase than your lower paid workers, who may well be those top contributors that you really want to keep. This is clearly an easier way to distribute your budget percentage, but if you want to pay fairly, which we know is what is wanted by your employees, this is not the way to do it.

Additional Actions You Can Take

- Focus on investing in the development of high performers / top talent.
- Develop and communicate a non-monetary reward program linked to employee achievements.
- Create a special budget pool that can be used by managers throughout the year for actions related to retention and employee development (e.g., spot bonuses).
- Maintain the connection with your employees to preserve (or, even better, enhance) employee engagement.
- Focus on equitable remuneration practices, like keeping an eye on the market, using job sizing and ensuring a link to market data.

With luck, the economic indicators will continue to show a recovery. In the meantime, remember, it is possible to both manage your tight budget and meet the fairness and equity needs of your employees.

At Strategic Pay our consultants spread throughout the country are continually discussing and debating these issues. Working alongside them is a team of expert analysts in our Market Information team that are renowned for generating actionable insights to add value to your business.

About Strategic Pay

We provide innovative solutions to help organisations meet their strategic remuneration, performance development and performance improvement goals. We help improve your overall performance by ensuring employee effort, remuneration and rewards are closely aligned with business objectives. We work alongside you to provide a compelling proposition that attracts retains and motivates the best people.

If you'd like more information about how we can help your organisation plan for the future, get in touch with our team of advisors today.

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