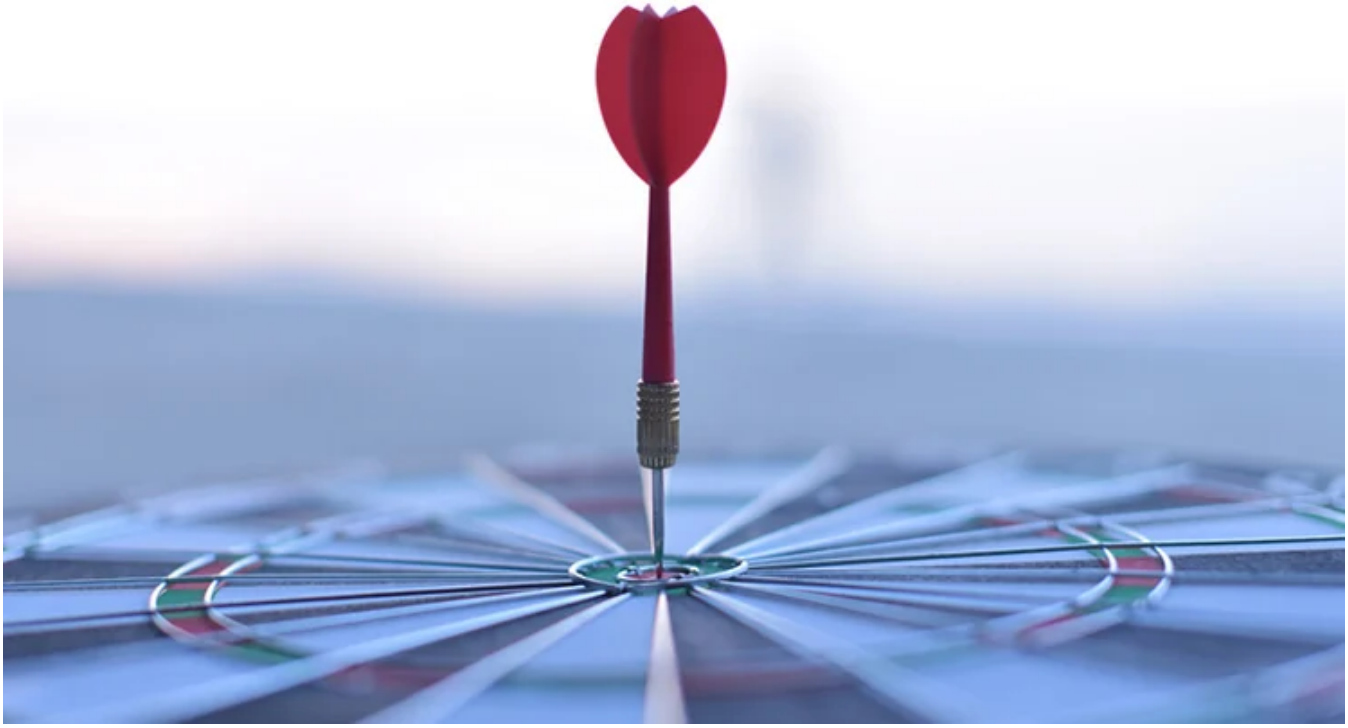
Why develop a remuneration strategy for your business

By Fordham

8 August 2018



An effectively designed remuneration strategy is not only capable of attracting, retaining and motivating employees, it can also help your business to achieve important strategic goals and objectives.

Private business owners have a variety of different motives for developing a remuneration strategy ... here are just a handful of reasons as to why you should too:

- Attract and retain talented employees to your business, and help reduce the risk of losing them to your competitors
- Promote and reward the right behaviours within your business, driving a high performance culture
- Motivate employees to increase productivity and continually improve their performance
- Ensure that remuneration is fair and equitable for employees across the business
- Control employee remuneration costs
- Comply with workplace laws and regulations

The challenge facing most private business owners when designing a remuneration strategy is striking the right balance between being able to attract and retain talented employees and incentivising them to perform at their best.

How employees are remunerated affects how they think, work and behave. If these behaviours and actions are aligned to achieve the strategic goals and objectives of your business, it stands to reason that your remuneration structures also need to be aligned to those goals and objectives.

A truly effective remuneration strategy is not just with paying employees, but is also concerned about rewarding employees! Rewards can be classified into three types:

- Base remuneration
- Short and long term incentives
- Non-monetary compensation

Base remuneration

This is usually a “fixed component” of a remuneration structure and is typically designed to build stability into an employee’s earnings. Depending on which industry your business operates in, the “fixed component” needs to be sufficient to attract the right talent to your organisation.

SHORT TERM INCENTIVES (STIS)

Remuneration over and above base remuneration.

Purpose of STI?

- Attract, retain, motivate and reward employees
- Align employee behaviour with shareholder expectations
- Change employee focus from process to outputs
- Drive business strategy and goals

Examples of STI's

- Profit share
- Commission
- Bonus scheme

Considerations

Regardless of how this payment is categorised, any payments made to an employee via payroll will also have associated on costs. These include superannuation, work cover, payroll tax and PAYG withholding.

LONG TERM INCENTIVES (LTIS)

Provides employees with a vested interest in increasing the value of a business – often achieved by rewarding performance with a stake or share in the business.

Purpose of LTI?

- Attract and retain top skills
- Align employee behaviour with shareholder expectations
- Provides necessary market related remuneration, particularly at executive levels

Examples of LTI's

- Share schemes of various types

Considerations

The amount of equity provided, the timing of the issue and the mechanism chosen in which to issue equity must be carefully considered when designing a remuneration strategy. Ultimate control, voting rights, capital rights and income rights are just some of the issues to consider before issuing equity.

NON-MONETARY COMPENSATION

These do not form a part of an employee's pay, and so are typically effective for employees who are comfortable with their salary or have been in the role for a long time.

Examples of non-monetary compensation

- Achievement rewards
- Team leadership opportunities
- Training and personal development opportunities
- Gift cards
- Motor vehicles
- Life, Total Permanent Disability or Income Protection Insurance

Ultimately, your particular remuneration strategy should align with your strategic business goals along with maximising employee attraction, retention and motivation. If you think your current remuneration structure isn't all it could be, or isn't producing desired results, then please contact your Fordham Partner to discuss which structure would best suit your particular business needs.

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