Identify factors outside organisations that influence remunerations practice

Overview
Organisations are often slow to acknowledge the impact of external factors on how much – and how – they pay their employees. Such factors are generally beyond the organisation’s influence or control. The state of the economy, tax laws, employment legislation, the general industrial relations climate, market-place competition and community attitudes are typical examples. There are many more, as you will find when you go further into this topic.

Key terms

**Australian Workplace Agreements**
AWAs; individual agreements made between an employer and a single employee. An alternative to common rule Awards, able to tailor terms and conditions for workers to link them to productivity gains for the particular workplace or industry.

**Benefit**
A cash or non-cash supplement which is regarded as adding value to the employees total pay package. Taxable as a fringe benefit in Australia.

**Certified Workplace Agreements**
Collective agreements made directly between an employer and employees or between an employer and a union(s). An alternative to common rule Awards, able to tailor terms and conditions for workers to link them to productivity gains for the particular workplace or industry.

**Compensation**
A term used to describe reward mechanisms; as in ‘compensation and benefits packaging’.

**Industrial awards**
Also referred to as 'awards'; historically in Australia, the main mechanism for confirming minimum terms and conditions for workers in a particular occupational group or industry.
**Market rate**
The average salary being offered for a particular position in the labour market.

**Remuneration**
Payment for services rendered as an employee or contractor.

**Remuneration relativity**
Equity, fairness or balance in remunerations, measured according to *internal relativity* (between jobs in an organisation), *interpersonal relativity* (between people in an organisation) and *external relativity* (between jobs inside and outside the organisation).

**Salary packaging**
A process of arranging pay, benefits, and services components to form an attractive reward package.

**Salary structure**
A systematic approach to the arrangements of salaries for employees in an organisation. Often organised into grades with defined upper and lower ranges.

**The aims of remuneration management**
The task of regularly monitoring external pressures is a strategic HR activity. You must be aware not only of future external trends and their potential impact, but also what the organisation plans to do and how these actions might influence what people will be paid.

Remuneration management is concerned with deciding how much staff should be paid and how the remuneration should be structured.

Its aims are to:

- Serve the aims and purposes of the company as a whole.
- Ensure that a sufficient number of suitable people are attracted to join the company.
- Encourage suitable staff to remain in its employment.
- Provide appropriate rewards for good performance and incentives for further improvements in performance.
- Achieve equity in the pay for similar jobs and consistency in the differentials that exist between different levels of jobs in accordance with their relative value.
- Provide not only for fairness in the operation of the salary system but also for staff to be convinced that the system is fair.
- Operate flexibly enough to accommodate changes in the relative market rates for different skills.
Achieve simplicity in operation as an aid to staff understanding and to minimise administrative effort.

Ensure that the salary policies are consistent with the requirements of government and the public interest.

Achieve all of the above aims at least cost to the company.

The problem of salary administration is that many of these aims are in conflict with one another. Somehow they must be reconciled. The key step in this process is to review and define salary policies.

Remuneration relativities (or equities)

Remuneration relativity (or equity) refers to an organisation achieving three types of remuneration relativities. For an organisation, achieving these relativities is critical for a fair and equitable remuneration to be able to operate. These relativities are:

- **internal relativity** - the process of establishing the worth of a position compared with other positions in the organisation. Internal relativity attempts to ensure jobs are properly graded and valued in relation to one another. This process is achieved through job evaluation.

- **interpersonal relativity** - achieved through salary ranges based upon merit or seniority to distinguish between different levels of performance. This is achieved through an appraisal system.

- **external relativity** - the worth of jobs in relation to the marketplace. This is achieved through surveys. Survey results will indicate whether the organisation is overpaying or underpaying for the position, or is competitive and comparable. Thus, external relativity attempts to verify that an organisation is comparable and not paying out of line with the community at large.

External factors

Typical factors that may impact upon remuneration management plans include:

- Industrial Awards
- Workplace Agreements
- legislation
- local regulatory expectations (eg taxation penalties and allowances), particularly when dealing with expatriate personnel
- the state of the economy
- the state of the industry, demand for product locally and internationally and trends
- the industrial climate, including pressure from employee bodies to increase pay, benefits and working conditions
• market share
• competition in the labour market
• social and community attitudes toward the industry and organisation
• the demography of the labour market/catchment area.

Case study: Cottontree Enterprises Pty. Ltd.

Cottontree Enterprises is a niche-market business, manufacturing and distributing good quality reasonably priced children’s wear. Much of its business is derived from the primary school market in the country areas of NSW and Queensland. While they do not custom-manufacture uniforms for particular schools, they have a popular range of school shirts, blouses, shorts, tunics, pants and tracksuits in standard colours of white, navy, grey and green.

Based in a large NSW country town, Cottontree is a major employer, with over 60 locals working full-time and a further 50 working as casuals during peak periods. Established in 1959, Cottontree boasts some third-generation employees and over half of the workforce have more than twenty years service.

Cottontree uses the traditional 'travelling representative' system to gather orders, which are communicated back to the factory and delivered approximately six weeks later via a local courier. Sales last year exceeded $AUD16 million, with an after-tax profit of just over $AUD1 million.

Cottontree staff are very loyal and committed, evidenced by exceptionally low absenteeism rates and an almost unblemished industrial relations record. While almost every staff member belongs to a union, the company’s general manager boasts that the only strikes that have ever occurred have been national ones.

About three years ago, staff at Cottontree entered into an Enterprise Agreement, which included provisions for salary increases and a team-based bonus system dependant on productivity. So far the arrangement has proven most satisfactory to both parties, the general feeling of staff being that they are far better off under the new arrangements than they were under the old Award. While the company’s materials are all manufactured overseas, they are purchased locally through textiles suppliers in Sydney and Melbourne.

Source: Terry McBride (2001) Managing for Performance program; used with permission

Think

• What kinds of external pressures might impact upon the performance of a business like Cottontree?
• How might Cottontree’s management go about anticipating some of these pressures and planning accordingly?
• What might be some of the remuneration implications of a corporate response to external pressures?
Current remuneration policy and practice

While a large portion of the Australian working population still work under pay systems based upon grades and ranges, the methods by which employees progress, the rates that can be paid, the number of grades and the size of the ranges are very flexible.

Contrary to common belief, it is not only the public sector that has stuck to the traditional systems. Large private bureaucracies (retail companies, banks, insurance companies and some manufacturing and distribution industries), shipping, the metal trades and the petroleum industry generally have traditional remuneration systems. Most employees of these industries work within a remuneration environment that is determined by Awards, Certified Agreements or Australian Workplace Agreements (AWAs).

An equally large portion of the market now works outside such structures in the arena of labour market-driven pay rates, which may have little or no relationship to traditional award rates. These remuneration systems (either formal or informal) are usually based upon what the organisation believes is a reasonable rate (or range) payable for a particular job and what is affordable. This may be determined by surveying comparable jobs in the same or similar industries and by watching publicised market rates.

State of the economy

The state of the international, national, state and local economy can have direct and indirect impact on remuneration issues.

When economies are in a healthy condition associated with growth and positive expectations, businesses and governments will have the confidence to invest, expand, venture into new areas, etc. These decisions may have a direct impact on the number and skills mix of employees required by the organisation and the remuneration and benefits offered to attract new employees.

In healthy economies, employers will also feel more secure in their financial outcomes and be more confident that they can afford to offer remuneration increases to their employees. Likewise, employees and unions may be in a better bargaining position to gain pay increases whilst those the organisation is trying to attract may feel more confident in negotiating more flexible salary packages than possible in an environment of economic uncertainty.

When economies are not in a healthy condition, confidence in all these areas is reduced. Businesses sales and revenues may be reduced or remain static. Plans for expansion may be deferred. Employers may be less willing or financially able to offer generous remuneration increases to employees. Likewise, if economic growth is stagnant the number of new job positions may also be stagnant, whilst the pool of job seekers may increase. This can result in a situation where employee bargaining power is reduced and salary packages offered by employers are not as attractive as they may be in more buoyant times.

Remuneration policy makers must be aware of these issues and likely changes to the state of the economies they are influenced by in order to provide and adjust their
remuneration and benefits practices to maximise their overall benefit to the business and its employees.

Think

How can businesses keep informed about economic forecasts and their likely impact on remuneration and benefits issues?

Legislation

You can keep up-to-date with legislation by subscribing to updating services of an employer association or a union. They’re often a good place to start, because their information is aimed at ensuring that their own members’ rights and obligations are properly represented. You can also use the web, or a subscription service like CCH.

Take super as an example. As part of a move towards self-funded retirement, the Superannuation Guarantee (Administration) Act was passed in 1992. This Act introduced the Superannuation Guarantee Levy – employers contribute a percentage of gross pay towards each employee’s superannuation. It’s also called the ‘employer’s contribution’. You need to keep up-to-date on the amount of this levy – it’s likely to steadily increase until it reaches at least 15% of the employee’s gross weekly earnings.

Employment legislation and taxes

Australian taxation is collected through a number of different taxes. Those that impact upon a businesses remuneration and benefits management include:

- PAYE (Pay As You Earn) tax. This is the tax that is directly deducted from the salaries and wages of employees
- GST (Goods and Services Tax) This tax is levied at a standard 10% on goods and services used within Australia, with a small number of specified exemptions.
- FBT (Fringe Benefits Tax). The Australian Taxation Office (ATO) considers benefits included in employee salary packages as equivalent to direct cash income. Benefits are consequently taxed as income to ensure the ATO doesn’t lose taxation revenue and to ensure taxation equity across all levels of Australian society.

All Australian employers operate under a standard taxation regime that allows for the taxation collected from employees’ wages (PAYE) to be remitted to the Australian Taxation Office on a monthly or quarterly basis.
In recent years, the task for employers has become more complicated with the introduction of Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). All three taxes may be accounted for in a monthly or quarterly Business Activity Statement (BAS).

Recent trends indicate a continuing increase in the number of employers favouring contract and temporary staff over the employment of additional full-time staff employees. This places different pressures on employers, agencies and self-employed contractors, as they stay up-to-date with taxation requirements.

While it would appear that the task of providing for taxation payments on a monthly or quarterly basis should be relatively simple (particularly as the money should have been collected in advance), many organisations (large and small) continue to manage this aspect of their business very poorly. This may be due to the complexity of taxation and superannuation legislation and guidelines.

Planning for and managing the impact of taxation upon wages and benefits is particularly relevant to remuneration planners, because of the complex nature of rates, calculations and provisions. For example, Fringe Benefits Tax (a tax levied on most benefits and services provided to employees as part of their salary package) can be as high as 48.5 cents in the dollar – a burden that, in the ATO’s eyes, is the responsibility of the employer.

All three taxes impact upon the payroll and finance and accounting systems used within an organisation. Consequently, systems must be implemented and maintained to ensure the organisation meets its obligations/ requirements of the various taxation legislation. These obligations relate to the accurate and timely collecting, paying, recording and reporting of all taxation transactions. The provision of pay dockets and group certificates are two requirements most people will be directly familiar with.

Additionally, the GST and FBT can have significant impact on remuneration and benefits policies and practices in relation to the organisation’s financial capacity to offer benefits as part of salary packages. The FBT in particular must be carefully evaluated in offering benefits because it is the organisation and not the employee that pays the FBT. Whilst this is the attraction of benefits to employees, an organisation may significantly increase its own tax burden through indiscriminate offering of high cost benefits. Offering benefits may mean the organisation incurs an additional cost equivalent to nearly fifty percent of the cash equivalent value of the benefit.

Conversely, benefits are an important part of remuneration, particularly at senior executive levels. Not offering benefits as part of salary packages may significantly inhibit the ability to attract and retain quality employees. This is especially true when it is considered you are likely trying to attract a person/s already employed in another organisation in a market where competitors offer benefits in salary packages. Offering negotiable benefits is a means of attracting such employees. In this respect, most organisations have little choice but to offer benefits and accept the cost of the FBT as part of standard business practice.
Think

What kinds of taxation are you familiar with to minimise or share tax burdens?

Industrial relations

Read

Find out about the evolution of industrial relations and wage negotiation in Australia in:


Think

Under what contractual arrangements have you been employed?

This resource is adapted from McBride T. (2003) *Teacher Guide for Manage Remuneration and Benefits 9795J*, TAFE NSW Business and Public Administration Division; additional material by Deborah Evans; used with permission.