

Good Guides

TALKING ABOUT PAY IN A CHALLENGING MARKET

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We've all seen and felt the impacts of a contracting economy over the last few years and particularly the last couple of months. The news is full of stories about businesses and ordinary people working hard to stay afloat as domestic and international forces put pressure on our economy. On top of this, record low unemployment rates and a talent shortage mean that New Zealand employers are facing a number of challenges. The pressure on businesses to continue to pay employees in a way that motivates and retains them has never been greater. This article touches on the pressure that both business and employees are currently facing and shares some tips around how you can approach pay in your organisation and prepare for conversations with your people around this sometimes challenging topic.

Businesses Feeling the Pressure

Many New Zealand businesses have, and continue to, experience considerable pressure on their operations and commercial success due to the sustained COVID-19 pandemic which has included lockdowns, staff shortages, supply chain issues and other restrictions on normal operation. Closed borders have increased competition for talent and coupled with an unemployment rate of only 3.2%, employers are more challenged than ever when it comes to attracting and retaining great people. Employers are experiencing the same cost increases that the rest of New Zealand is around transport, cost of goods and labour as well as the minimum wage moving up 6% to \$21.20 in April.

Employees Feeling the Pressure

At the same time, many employees are finding themselves needing to stretch their pay further and further each week with petrol prices recently reaching \$3 per litre in some regions and food prices increasing by almost 8%. Overall, the current inflation rate is sitting at 6.9% which is the largest quarterly increase experienced since June 1990!

With all these pressures at play, New Zealanders are finding it harder to cover their basic costs. Some will be looking to their employers to help them through these times with a pay increase.

So How Do You Navigate Pay With Your Employees

If your business already has a regular pay review process / cycle – stick with it. Even if your business is unable to provide pay increases this year, it's important that you work through pay reviews at the same time as you have in previous years.

If your business doesn't have a regular pay review process / cycle, we would encourage you to consider what your stance is and how you might discuss the topic of pay with your people. If you don't front foot it with them, they will come asking and it's always better to be leading the conversation rather than reacting to it.

Some other considerations when approaching the conversation include:

1. Provide Context to Your Employees

Ideally ahead of any individual pay conversations, employees should have a good understanding of business and financial performance. Take some time to share this information with your people if you don't already do this – it will start to build awareness and set expectations about pay in your business this year. It will also enable you to refer back to this should you need to in your individual pay conversations.

2. Decide What Determines Your Pay Reviews

Determine the factors which are important for your business when making decisions about pay and consider how you communicate these with your people. It's critical that you are clear about how pay decisions are made – many employees believe that the processes used to make decisions about pay are unfair, opaque or flawed in some way which can lead to dissatisfaction with pay outcomes even if the actual dollar amount is fair.

Typically, the following factors can be useful when making pay decisions:

- a. Company performance
- b. Individual performance
- c. External pay relativity to market
- d. Internal pay relativity to peers
- e. Affordability
- f. Equity

More and more businesses are sharing their pay decision making factors with their people to provide comfort that their processes are robust and fair.

3. Work out what you can afford to pay

Consider what your business can afford to increase salaries by – look at both your cash position versus the potential consequences of any pay increases. For example, if an employee were to resign due to dissatisfaction with a pay review, what is the cost of replacing that employee in your business. Recent data from Elmo suggested that the average cost of recruiting a new hire is currently \$23,860. In a tight labour market, the tension between retaining your people and managing your costs cannot be overstated. If you are in a position where your business is unable to afford pay increases this year, start to plan how you are going to share that message with your people now.

4. Get creative and consider other alternatives

Remember that pay is not the only motivator for people. Review feedback received from exit and stay interviews about what keeps people in your business and consider other alternatives you could present to your people that might keep them engaged if you are not able to meet pay expectations. Examples could include additional leave, flexible working options or targeted training and development. Whilst these may also come at a cost to the business, you may be able to absorb any associated costs across the year, rather than as an ongoing, upfront cost.



Preparing for your pay conversations

Whatever the outcome of your pay review process, whether you are able to provide generous, smaller or no pay increases, you will need to prepare to discuss the outcomes with your people.

- Explain the value the employee has and provides to your business. Thank them for their contributions.
- Let them know what the specific outcome of their pay review is and how that decision has been reached – what factors were taken into account and discuss these together.
- Prepare to talk about the other aspects of working in your business which offer employees value e.g. flexible working, strong benefits such as additional parental leave, high quality tech devices, positive culture, career growth, learning opportunities.
- Be clear and unambiguous – pay conversations cannot be murky, you owe your employees clarity around this potentially sensitive topic.
- Let them know when they will have another opportunity to discuss remuneration, so they know the door isn't shut on future conversations.

Final Thoughts

Conversations about pay can sometimes be tricky to navigate. Every conversation will be different as people have different motivators and wants, which need to be balanced with the realities of the business. To manage these well and ensure a positive impact on the employee experience, make sure you are clear about your business's approach to pay, take time to prepare for these conversations and most importantly tailor your approach for each person in your team. In doing so you will be well set up when the time comes to talk about pay with your people in this challenging market.

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