

## Redundancy and Your Next Remuneration Package

*This article was published in NZ Management Magazine, April 2009*

If redundancy is looming in your vicinity, you may be forgiven for thinking that the salary package for your *next* job is the last thing you should be considering right now. Your focus will be on negotiating an exit package, if and when you are compelled to do so. Economic downturn forces everyone to take stock, to review both their current situation and future plans. You may be doing exactly that sort of re-assessment for your company. Now is also a good time to do it for yourself.

If you have been made redundant, this is potentially an opportunity to re-orient your career. At the very least you need to be prepared to face the usual round of recruitment agencies and interviews. But even if your own position is fairly secure with your current employer, you may well be called upon to take up new responsibilities or re-focus your role. It will do no harm to think ahead, beyond the next year or so, and the key element in preparing your negotiation stance is basic research. Here is a checklist to start you off:

### Getting the Facts

Your first reaction to an impending change will be to scan the newspaper ads and browse the internet in order to get an idea of what jobs are out there and how much they might pay. My advice is to postpone that sort of research until you have an accurate idea of your current situation.

The initial question is the most obvious, but one you will probably not be able to answer straight away: what is the *value* of your most recent remuneration deal? No, not what you are *paid*, but the total cost to your employer of the whole package?

Unless you are paid totally in cash, you need to know the full value of the benefits and "perks" you have received. Your employer may provide a Total Remuneration Statement, but check how the items have been calculated. Does it reflect the actual cost to the employer of the benefit - including a hefty discount on the retail price which you may not be able to negotiate as an individual customer? For instance, how much will it cost you keep up your health insurance, or your car? Remember also that you have to allow for the income tax you will pay if the FBT component has not been computed.

Secondly, examine your remuneration history over the last few years:

- How did your salary progress, and what benefits did you add during that period? What percentage of the increment was related to cost-of-living adjustments, and what amount was attributable to changes in your job or increases in your personal accountability (budgets, staff etc)?
- How much did you receive in variable pay, both short-term and long-term:

# RewardManagement.co.nz

- What was your average annual bonus or incentive payment over the last few years, and on what basis was it calculated? Do you know how much, for instance, was related to the company's overall profitability and how much to your individual performance rating (or your target earnings if you were in sales)? How much variation was there, year on year?
- What long-term incentive schemes were in place? What was the annualized value to you, and the average payout after however many years? Did the scheme involve share ownership – either a distribution of shares or share options? What was the risk involved? – that includes not only within the scheme itself (e.g. options being much more risky than a distribution of actual shares) but also the environment in your industry. In other words, were long-term incentive payments realistically achievable on a fairly consistent basis, or was the distribution likely to be irregular as a result of volatile profitability?
- Is it likely that your total remuneration package was higher than the market median (your company's policy, or you have been with the same employer for a long time)? If so, do you need to revise your expectations regarding what is achievable in the current market?

## Analysing Your Situation

Once you have gone through these questions, you can establish your own "value statement" with both the Fixed and Variable Remuneration components:

- Fixed remuneration covers not only the salary-in-the-bank but the cost of the benefits you need to continue your lifestyle (car, health insurance etc). It also covers any amount of "bonus" pay which you received consistently over time. In other words, if you got a certain percentage of your salary regularly each year as a "bonus", that amount was effectively deferred salary.
- Variable pay is whatever was truly "at risk", both short-term and long-term. The variable pay may have been a major component of your earnings averaged over the last 5 years, but you have to ask yourself if that is likely to continue in the current economic climate, and adjust your expectations accordingly.

Now that you have done all this analysis, you are in a much better position to:

- Make a reasonable, realistic assessment of your "bottom line" requirements and expectations, the amount you need to maintain a certain lifestyle
- Assess how your current package was positioned against the market
- Compare accurately your previous package with the one on offer, and negotiate any new remuneration deal in detail.

Now it is time to see what you can glean from the market.

# RewardManagement.co.nz

## Getting Market Information

It is sometimes quite difficult to know what your own remuneration level should be. Many employers do not divulge relevant market information to executives themselves, only that which relates to their subordinates, which is not necessarily a good guide to the manager's pay.

Obviously, published sources are useful, especially if you are in senior management and targeting listed companies. The total remuneration of top executives now has to be disclosed in annual reports, both here and in Australia. Companies are required to list the number of executives who are paid over \$100,000, disclosed in brackets of \$10,000. Even though this information is not specific, it does give you an indication of the total remuneration levels at the top of the organisation, and it may not be too difficult to work out where approximately on that list the position you are targeting will fall. Just be aware that variable pay can sometimes skew the data (especially when a lucrative long-term incentive programme has come to an end, paying out in one year the proceeds earned over several years). If you suspect that has happened, look at the company's Annual Reports over several years, rather than just the latest one.

Magazines or websites, particularly those specialising in a professional discipline or function such as IT, can provide information. Some industry or professional associations actually run their own surveys. However, the quality of the data can vary enormously, so do not rely on them unless you are confident of the accuracy. A key element is sample size, but even large samples do not necessarily provide worthwhile information if there is little definition of the role except a job title. Additionally, survey participants are usually self-selected, so there may be inconsistencies in the sample year-on-year, as not everyone will participate in every survey. A quick sense-check will indicate how much credibility to ascribe to the data:

- Are very wide ranges cited (such as "\$55,000 to \$120,000")? They are effectively too broad to be of any help at all
- Is there a significant disparity between results year-on-year (e.g. "the average salary has gone up 23% since last year")?

## Looking Externally

So what can you do? If you are actively searching for another job, do as much desk research as you can, but also seek guidance from recruitment consultants. They will ask initially what your expectations are, and should be able to tell you whether that is in the ballpark as far as a particular job is concerned. In some cases, especially if the job is a newly created one, the client may simply not know how much to pay. Later in the recruitment process you should get an indication of the exact terms and conditions. Keep a log of your findings, and the particulars of the pay package on offer so as to be able to compare it in detail with your own.

# RewardManagement.co.nz

## Staying On

Now is probably not the right time to broach the subject of a pay rise with your employer, even if you have taken up more responsibilities recently. Alternatively, your manager may have suggested that your current pay is already “over market rates”, with the likelihood that you are facing small or no pay increments from now on.

In this situation the first question to ask yourself is: do you see relative “stagnation” in remuneration as a problem? Until fairly recently, it was considered a “failure” if you did not achieve regular promotions and increments. Nowadays organisational structures are flatter, promotional opportunities are rarer, and we can expect belt-tightening. At the same time, work and lifestyle balance has become more important. Provided that you enjoy the job and your work environment, you can stay committed and motivated, and your “bottom line” needs are covered, there should be no negatives if your pay level remains the same or slightly lower over the long term.

If you decide to stay on rather than seek new employment, then the next step is to find out exactly how a relatively stationary remuneration level is likely to affect you. Will your salary be subject to cost-of-living adjustments? Will your benefits be frozen at the current levels? The cost of medical insurance in particular has far outstripped inflation over the last few years, so will your employer keep up the same level of coverage, or merely contribute the same dollars in future? Will you be eligible for variable pay, at least partially? On what basis will that be calculated?

In the longer term, if you still feel you are underpaid for your level of responsibility, then ask your employer what survey data they are using to benchmark your job. If there is no data, then suggest they get some. When consultants are asked to provide a salary recommendation for a particular role, it is appropriate for them to interview the incumbent as well as his or her manager, and show the report to all parties. That way both stakeholders can feel that the decision has not been unduly influenced by the other side’s view of the role.

## Building Your Own Business

Finally, redundancy provides an opportunity for many people to set up their own business. In drafting your business plan, don’t forget to research thoroughly what level of remuneration it is reasonable to achieve once the business is fully established, and – crucially – how long it will take you to get to that point. As the owner-operator, you will probably have to sacrifice some of your earnings to support cash-flow and the development of the business in the short term, but as soon as the operation can sustain a reasonable regular monthly “salary”, you should take it. Your subsequent dividends or profits should be used in the first instance to repay the “loan” you made to the business by forgoing your earnings at start-up. From then on you should ideally look upon the dividends as your “bonus” or variable pay, a separate reward from your monthly salary as an “employee”. In that way you are differentiating the operational costs (including your own efforts) from the true profit made by the business.

# RewardManagement.co.nz

\* \* \*

Among the “R” words being utilized right now, “reassessment” should have a positive connotation. Situations involving major change are often the trigger for a complete personal review of career and lifestyle. This may be the opportunity to renegotiate your working conditions, to be able to take more personal time, to refocus your job. You might opt for a complete change of career direction. Whatever your final decision, a little time devoted now to some personal research may be invaluable later.

*To have a confidential discussion on the issues raised in this Article, how they affect your organisation and how I might help you, please contact me on +64 9 478 4684 or via email: [janet@rewardmanagement.co.nz](mailto:janet@rewardmanagement.co.nz).*

© Janet Ison 2009

Disclaimer: This Remuneration and Reward Checklist is provided by Reward Management Ltd as a free service for the general information of visitors to our Website, [www.RewardManagement.co.nz](http://www.RewardManagement.co.nz). Reward Management Ltd accepts no responsibility for any outcomes resulting from its ultimate use. Please contact us directly for specific advice. To see our Terms of Trade and Website Terms of Use, please refer to the relevant pages on our Website, [www.RewardManagement.co.nz](http://www.RewardManagement.co.nz).