How to better align **pay, performance, and profit**

Implementing a data backed approach to remuneration

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How can you start to reimagine and modernise your approach to pay? We look at our recent **Employee Sentiment Index** and chat with ELMO Software's Chief Financial Officer and Chief Operating Officer, James Haslam, and Chief People Officer, Kate Wilkinson, to get to the bottom of performance based remuneration.

Despite excellent intentions, many Australian and New Zealand organisations are falling short of implementing a remuneration structure based on merit and performance.

While incremental pay increases are occurring, and KPIs are deployed, there seems to be a shortfall when directly linking specific individual contributions with commensurate reward.

Against a backdrop of economic uncertainty and rising employee expectations, there's a better way to remunerate employees based on performance - a method that can not only drive employee motivation, but also business profitability.

To move beyond traditional pay decisions, HR leaders should look to implement a cultural and structural remuneration shift. This will be a change of direction that will require transparency and a commitment to fairness grounded in data.

As ELMO CFO/COO James Haslam articulates,

> *"Plugging performance pay gaps is actually a big opportunity for many businesses to unlock profitability."*

Why does your approach to remuneration deserve a rethink?

Before we dive in, it's worth setting the scene as to why performance based reward is important in 2025. There are several salient reasons.

1. Schism between employee perception and reality

Employees believe individual performance should be the main factor in determining monetary rewards, but many believe their organisation places more weight on profitability and business outcomes.

2. Increasing profitability

Aligning pay with success can certainly unlock profitability. Performance based pay presents a notable opportunity for businesses to grow.

3. Lack of clarity

Many employees are unaware of how pay decisions are made. Linking pay to performance with clear metrics and processes will improve transparency and trust.

4. Rethinking routine rewards

Reliance on historical norms or negotiation skills for pay decisions can lead to artificially inflated remuneration that's not aligned with actual performance.

5. Major strategic imperative

Pay equity linked to performance becomes a strategic imperative, ensuring top talent is rewarded. It also better aligns HR functions with the C-suite and Finance, leading to improved business outcomes across the board.

6. Improving motivation and productivity

Linking pay to performance can be a powerful driver of positive behaviour and can increase focus on business priorities. This can increase overall motivation and productivity.

By shifting to a performance based approach, and relying on data and modern tools, organisations can create a more engaged, motivated, and productive workforce, which in turn fuels profitability and growth.

Making performance matter

The true value of remuneration lies in its ability to drive positive behaviour and sharpen business priorities. But this only happens when employees believe the system is fair, and when performance outcomes influence real decisions, including their pay. If not, why would employees strive for elevated achievement?

James Haslam offers a telling insight,

> *"Every business is likely to have people who are paid highly who might not be performing well and, conversely, people who are paid below benchmarks yet are strong performers. That can lead to a position where you're artificially increasing someone's rem based on historical norms and confident negotiation, not on fundamental performance."*

Pay equity, in this broader sense, becomes a strategic imperative that helps organisations ensure they are not undervaluing high-impact roles, or failing to reward top talent.

Aligning HR and Finance departments on pay and profitability

When it comes to budgets and investing in pay increases, bonuses, or rewards, there can often be a perceived conflict between HR and Finance. Finance may see it as a necessary expenditure, HR may view it as an investment in people.

Conquering this apparent divide will be central to reimagining remuneration structures and ensuring profitability and pay are working in sync. Yet it's not necessarily as incongruous as it seems.

As James says,

> *"For many businesses, the relationship between HR and Finance is complicated," says James. "Both HR and finance have the same ultimate goal – growing a profitable business – however it can often feel like the two sides are at odds.*
>
> *"Finance leaders are often seen to be pushing costs down while trying to drive performance, whereas HR can be perceived as driving costs up to keep the workforce happy. But to really be effective as a finance or HR leader, this perception needs to change."*

One way to have this conversation is to develop a closer relationship between the HR team and Finance to create unison in the approach toward the ultimate goals - a thriving business for all involved.

This goal is indeed aligned with performance based remuneration. As ELMO's Chief People Officer, Kate Wilkinson adds

> *"In reality, HR leaders of today are actually far more commercial and strategic," she says. "It's part of the reason that business partnering has been added to the title within many HR departments".*
>
> *"A great HR professional is concerned about limiting risk, retaining talent and increasing productivity. They love to lean on data and technology to identify workforce patterns, helping to unlock greater value and maximise profitability for their organisation"*

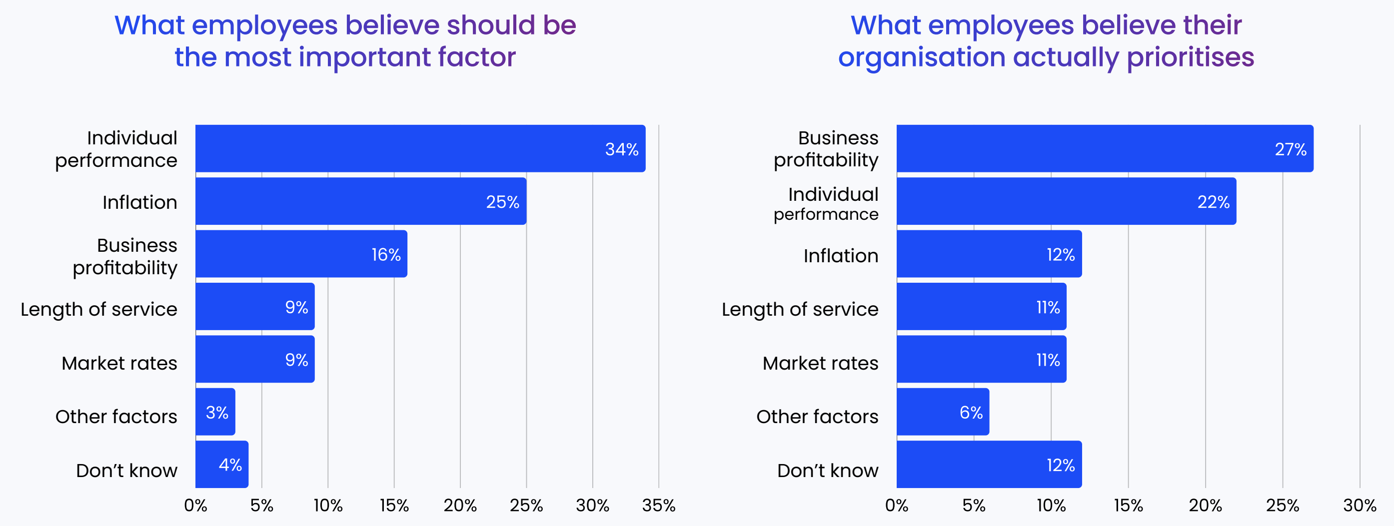
What's driving the disconnect between employer and employee on pay decisions?

ELMO's latest Employee Sentiment Index (ESI) reveals a tension beneath the surface of this relationship. While 72% of ANZ employees have received or will receive a raise this year, many are in the dark as to how the numbers are determined.

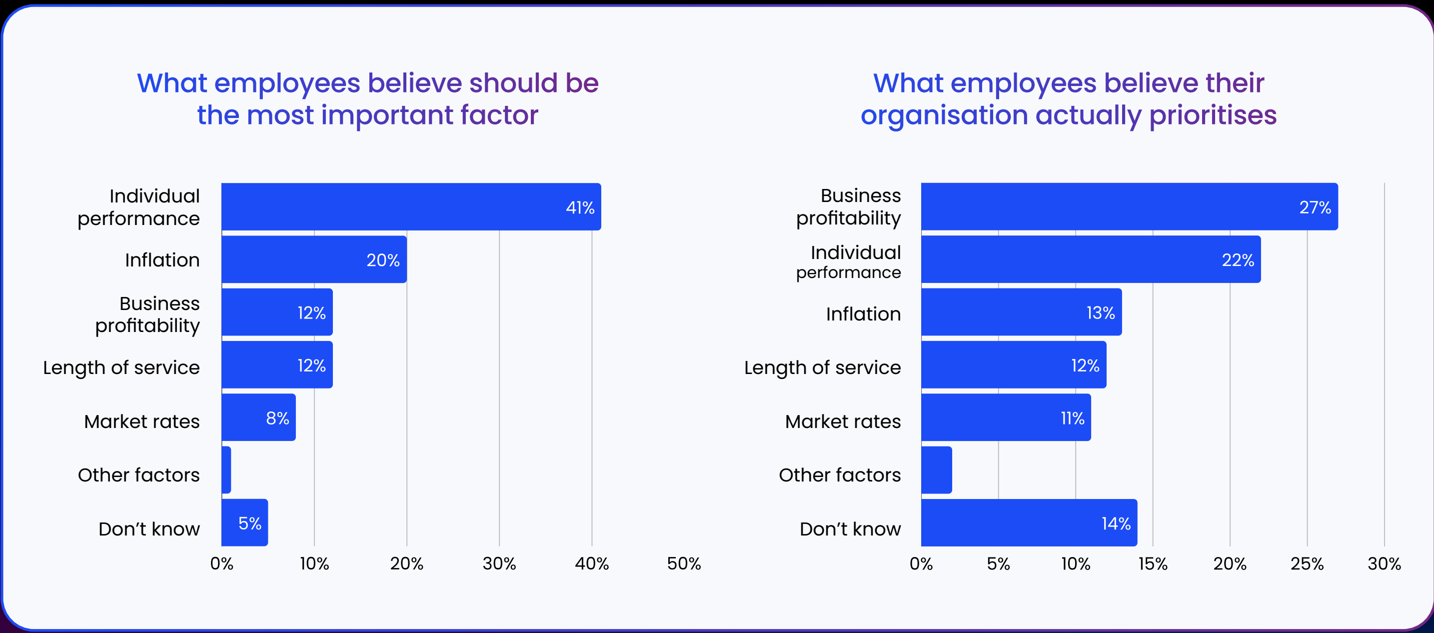
What employees think should decide pay rates is clearly misaligned with how they believe their employers remunerate. Let's look at the differences in opinion when it comes to pay rises.

As you can see below, employees from both countries strongly believe pay should be aligned with individual performance, but tend to feel that their employers prioritise business profitability.

In Australia:



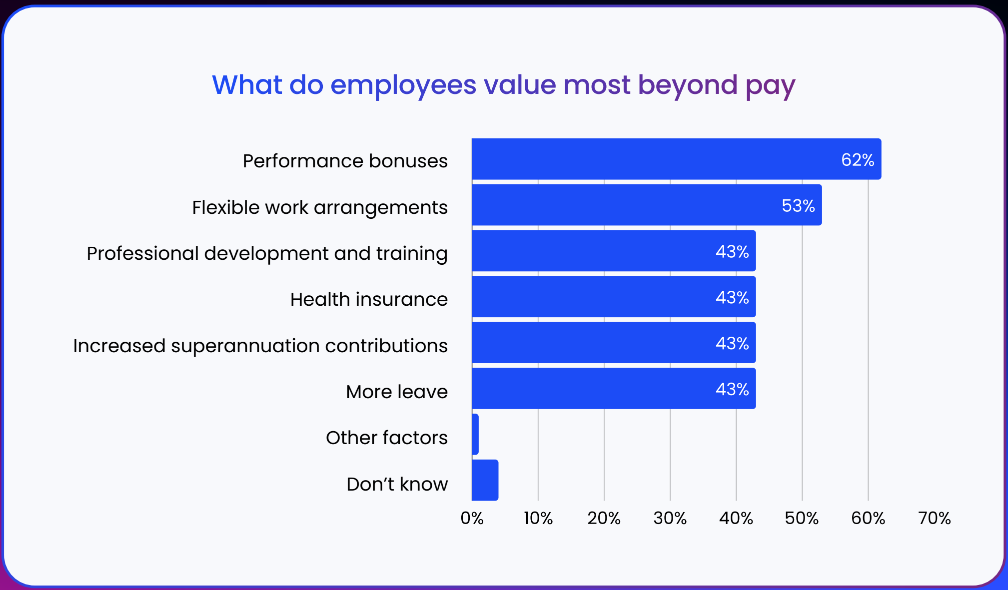
For New Zealand:



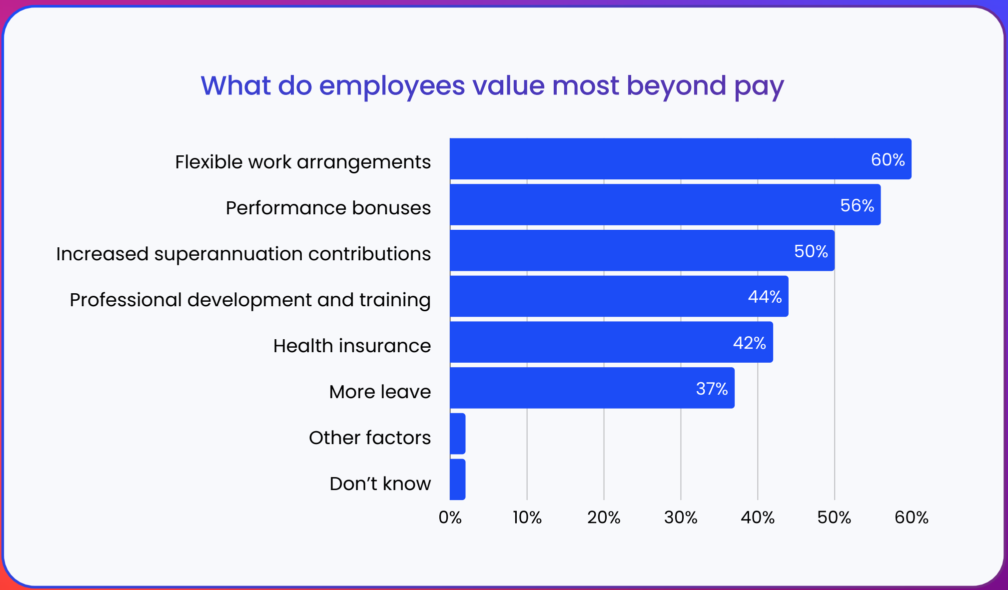
This mismatch points to a larger perception issue here that may need better communication to solve. There's a perception misalignment here that needs work to ensure better employee retention and job satisfaction.

Short term bonuses instead of pay rises

Remuneration doesn't just mean a pay rise. Conditional and short term bonuses, and other performance based rewards, are an excellent and much sought after option. As we discovered in our ESI Report, the most highly valued benefit in New Zealand, outside of pay, was 'performance bonuses'. This beat out aspects like flexibility, healthcare, and training, which tells us a lot about employee priorities.



For Australia, 'performance bonuses' ranked a close second, just behind 'flexible work arrangements', which is also rather indicative of what employees really value.



How to practically link pay to performance

Right, so how can you approach this in a more grounded sense? What's the way forward?

Too often, pay decisions happen in a vacuum. Review conversations focus on past performance, while remuneration processes consider budgets, KPIs, and tenure. What's missing is realism, communication, and context.

To change this, organisations should:

1. Break down silos between performance and reward cycles

These two processes should not operate independently. When performance ratings feed directly into pay calibration, they become a meaningful lever for motivation.

2. Equip managers with the tools to assess impact

Performance assessment should go beyond generic KPIs. Structured rubrics, 360-degree feedback, and capability assessments can enable fairer, data informed conversations.

3. Empower transparency with strategic clarity

Organisations don't need to share salary data, but they can be more transparent in articulating how pay decisions are made. What's the weighting of performance vs market rates? How is the budget allocated? Does tenure outstrip contribution? Greater clarity reduces speculation and builds trust.

4. Use data to correct blind spots

Outliers, compression, and systemic bias are often invisible without the right tools. Use pay gap analytics and performance modelling to ensure the system works as intended.

Remuneration tools are a step in the right direction

Payroll software and human oversight are not always enough to properly equate remuneration with role success. Consider implementing a specific remuneration tools that streamline and automate your organisation's salary process. These can add weight and data to discussions while removing unconscious bias and automating data processes. Rem tools can:

- Manage complex pay, including bonuses and incentives
- Spot process hold-ups
- Automate rules to reduce bias
- Align decision makers with incentives
- Do the math for you, using strategic matrix modelling to determine pay increases based on rules you set up
- Analyse the gender pay gap across your organisation.

These tools exist for a specific reason - to better structure remuneration and fuel superior business and employee outcomes.

As James Haslam explains about ELMO's internal process,

> *"Using our own tool, we mapped performance data against benchmarks, revealing clear insights. This surgical approach – matching pay to performance quartiles – not only boosts profitability but also makes sure you're promoting and increasing the remuneration of people who are performing, while highlighting outliers who are overpaid and not performing, improving pay equity."*

Such remuneration tools can also buttress discussions and budget approvals between HR the C-suite or Finance, as they hinge on a data driven approach, not just 'gut feel'.

As Kate Wilkinson adds,

> *"Data and analytics has served me well to get that seat at the table and be heard by the business. But it's also helped to build the financial acumen of my HR team."*

As AI permeates the software realm with rapid pace, you'll also start to see the emergence of far more accessible, intuitive, and advanced remuneration tools, making them even more attractive.

Leading better pay conversations

Software and other technical systems are excellent tools, but you can't rely on them to bridge the trust gap alone. Conversations will always matter, and HR are in the driver's seat when broaching these subjects.

1. Start earlier

Waiting for annual reviews to talk about pay can create anxiety. Embedding informal conversations into onboarding, check-ins, and development planning helps pre-empt formal remuneration discussions.

2. Define roles by impact

Salary bands should reflect more than mere responsibilities. Understand and communicate how people's roles contribute to business outcomes, risk, or innovation.

3. Contextualise remuneration structures

Explaining the "why" behind increases (market shifts, company performance, role scarcity) will strengthen understanding and support fairness..

4. Share your pay philosophy

Employees respond more warmly to structured, values-based pay strategies than to vague promises of fairness. Make your organisation's priorities abundantly clear.

5. Celebrate merit not just tenure

It's easy to fall into the trap of simply rewarding long tenure. Sometimes your newest members are the highest contributors. Ensure exceptional contributors are visible and communicate how employees can grow their rewards, not just their responsibilities.

A more intentional approach to reward

Linking performance and pay is a task for leaders. It should be part of a broader tapestry of interdepartmental cooperation toward mutual goals.

It's not a budget strain or a giveaway to employees - it should be geared toward growth and profits in a manner which is a true 'win/win' for both employers and employees.

When done well, remuneration motivates excellence, retains top talent, and drives sustainable profitability. But it takes courage to move beyond tradition and towards transparency.

James captures the opportunity succinctly:

> *"The more we understand our workforce, their capability, their aspirations, and their contribution, the more strategically we can plan for growth and profitability."*

In a time of economic pressure and rising expectations, this kind of alignment between HR and Finance, as well as pay and performance, is not a luxury, it's a necessity. To further explore how a data driven approach to remuneration can benefit your organisation, learn more about ELMO's Remuneration product.

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