

## **INCENTIVE-PAY TREND:**

### **NO PRIZE FOR POOR PERFORMANCE**

**Tuesday 4<sup>th</sup> March, 2003:** Companies will be cutting employee performance bonuses this year, as they endeavour to minimise costs, and more senior executives will have their incentive pay tied to the bottom line, according to a new report.

The *Variable Pay for Non-Sales Employees in Australia 2003* report, produced by remuneration specialists Classified Salary Information Services (CSI), reveals a general trend towards the use of pre-determined, company-wide performance hurdles to determine whether employees will be awarded their incentive pay.

One hundred per cent of senior executives across the 129 surveyed organisations and 70 per cent of other non-sales staff eligible to participate in incentive schemes, now have their individual incentive pay linked to overall company performance.

"This is one of the most significant and pleasing findings of the report," says CSI professional services manager Jairus Ashworth. "There is a strong trend back towards establishing a minimum level of overall company performance below which individual incentives will not be paid."

"Even more important is that this now applies to 100 per cent of senior executive plans. With all the negative publicity senior executive pay has been getting, this shows that the majority of Australian companies are paying executives in a smart and sensible way."

The report also found that many organisations have been making changes to their incentive programs to make them adaptable to the uncertain global business environment and ensure their capacity to reward employees.

"In the runaway markets of the 90s, we saw an increase in individual incentives which did not take into account company performance at all. A central principle of incentive programs – the ability of companies to pay – was abandoned, creating a worrying trend which has now been reversed," says Mr Ashworth.

Twenty-six per cent of organisations reported they had changed performance measures 'generally' over the last 12 months, while 42 per cent had increased performance targets. Twenty-seven per cent of organisations will be making adjustments to performance measures over the next twelve months.

The CSI survey also found that ad-hoc bonus payments, operating in tandem with incentive schemes, are forecast to reduce significantly in 2003, particularly in the struggling IT Vendor sector.

More than 60 per cent of IT Vendors intend to 'significantly reduce' the amount of bonus payments paid to employees in 2003, reflecting the rationalisation process occurring in the sector.

And while IT Vendors are more likely to operate several different incentive schemes across their organisation (35 per cent operate four or more), companies in the Banking, Finance and Insurance industries are more likely to use a single incentive scheme across the organisation for all eligible non-sales employees (43 per cent operate just one incentive scheme).

"One-size-fits-all incentive plans, while administratively efficient, are unlikely to provide the boost to profitability and business performance that they aim to create," says Mr Ashworth.

"Incentive plans need to be highly flexible to adapt to a competitive external business environment. This can be achieved either through multiple plan design or through a single plan that has built-in flexibility to adapt to the needs of different job families, teams and business units."

Almost 80 per cent of the 129 organisations participating in the survey operate some form of incentive plan for their employees. An average of half of the non-sales employees within these companies were eligible to participate in an incentive scheme.

**ENDS**

**Note:** There is evidence of emerging challenges in relation to variable pay practices amongst the non-sales employees in our workforce. This has been fuelled by the softening of the economy and the associated increase in scrutiny of variable pay practices.

Organisations are now looking more closely at individual, team and company-wide drivers in incentive plans, with a greater focus on the measurability of both financial and non-financial incentive structures. The *Variable Pay for Non-Sales Employees 2003* survey was designed to capture both current practices, and possible future trends, in incentive pay for non-sales employees.

#### **Details:**

- 129 organisations responded to CSI's questionnaire outlining variable pay policy and practice in Australia.
- Organisations represent a range of industries within the broad categories of IT Vendors; Other Hi-Tech; Banking, Finance & Insurance; and Miscellaneous (including: Manufacturing; Transport & Shipping; Consulting Engineering; Travel).
- 39 per cent of organisations were Australian
- 61 per cent were the Australian subsidiaries of international organisations
- Company sizes: up to 100 employees (23 per cent); 101 to 500 employees (38 per cent); 501 to 1000 employees (9 per cent); 1001+ employees (30 per cent).

#### **Definitions:**

For the purposes of the report, variable pay is defined as being a combination of the following pay items:

- **Incentives:** *The annual at-risk cash component based upon the achievement of individual performance objectives. Key performance indicators are generally communicated to the employee and agreed upon at the beginning of a performance period.*
- **Bonuses:** *Refers to ad-hoc payments. The payments are generally not quantified in advance and are generally paid after the event. These include profit-sharing schemes but do not include commissions or incentives.*

*CSi are Australia's remuneration specialists. We conduct 20 industry-specific salary surveys in Australia and New Zealand and provide remuneration consulting services ranging from executive compensation advice to remuneration technology services.*

For further information please contact:

*Mr Peter Barton*

Managing Director on (02) 9415 3455

*Mr Jairus Ashworth*

Professional Services Manager on (02) 9415 3455 or 0414 893 621

*Ms Erica Holburn*

Marketing Communications Officer on (02) 9415 3455 or 0404 139 650

Or go to [www.classalinfo.com.au](http://www.classalinfo.com.au)