

REMUNERATION REVIEW

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EXECUTIVE REWARD: DOLLARS AND SENSE



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As the media continues to headline perceived executive pay excesses, CSi's recently released 2004 edition of *The Top Executive Remuneration Report* shows the beginning of a trend towards a more transparent and measurable approach to executive pay being taken by Australian organisations.

The move towards measurability and transparency in executive pay can be seen in the following statistics drawn from the report:

Setting Executive Pay: In rating the importance of various factors in the determination of CEO pay, an overwhelming 89% of organisations indicated that company performance was 'very important', representing a 4% increase in the number of organisations indicating this response compared to the 2003 report.

In determining the basis upon which performance pay will be paid out to CEO's and Senior Executives, 'organisational performance' continues to be the most heavily weighted aspect of the performance factors.

"A company's financial performance is more defensible as a performance measure," said Jean Williams, CSi's Professional Services Consultant responsible for the report. "It is easily measured and highly visible."

Executive Salary Increases: Whilst base salary increases for the CEO and direct report roles were 4.2% on average, increases at Total Remuneration Cost were 6.3%. These figures are clear evidence that performance pay, 'pay at risk', has increased at an accelerated rate compared to guaranteed components of remuneration. Ms Williams commented,

"These figures indicate that those responsible for setting executive pay are taking notice of public and shareholder intolerance towards increases that are not linked to strong evidence of improved company performance."

Performance Pay Delivery Vehicle: Just over half the reported changes made to long term incentives (LTI) policy over the past twelve months were to change the method used for delivering LTI rewards. The majority of organisations that reported a change indicated a shift away from issuing stock options to CEO's and Senior Executives in favour of issuing shares.

"This is in response to changes made to reporting requirements that ensure organisations are more transparent, particularly with regard to the expensing of stock options," Ms Williams explained. "We expect long term incentives to continue to be evaluated and adjusted over the next three years."

CSi's July 2004 Top Executive Remuneration Report includes data from more than 2,300 executives within 370 organisations across Australia. For more information call Paul Wright on 61 2 8440 6500 or pwright@classalinfo.com.au.

CSi – Your Remuneration Specialists.

STAT WRAP

Forecasts depict an economy that will continue to grow strongly throughout the coming financial year, plus low unemployment and low inflation.

- CPI is 2.0% annualised to March 2004*;
- June's unemployment rate was 5.6%, with the forecast at 5.8% for July 2004*;
- Newspaper job ads rose by 0.5% in May 2004 following a 0.9% increase in April 2004 (ANZ Survey);
- "Overall, balanced economic growth will likely lead to continued job creation leaving unemployment around 5.75% through 2004." (ANZ Economic Snapshot, June Qtr 2004).

*Source: Australian Bureau of Statistics.

IT SPOT

IT staff received average Nominal Base Salary increases of 4.9% in the year to April 2004.*

- The number of IT & T jobs advertised rose by 3.6% in June 2004 according to the Olivier Internet Job Index, 80.72% more IT & T jobs have been on offer over the past 12 months;
- The DEWR ICT Vacancy Index increased by 4.5% over the four weeks to mid June;
- The Hudson Report shows 37.1% of IT employers expect to increase staffing levels for the September 2004 quarter.

*Source: CSi's Computer Specialist Salaries & Benefits Survey April 2004.





EDITOR'S MESSAGE

The commencement of the new financial year has brought fresh focus on remuneration for many of our clients. Executive pay is an area of interest at present following the release of our annual Executive report. CSi's services have been much utilised as a result.

This edition of Remuneration Review includes a comprehensive feature article from Peter Mills of Peoplescape Consulting regarding the measurement and improvement of workforce performance. A report on findings from CSi's recently released executive survey is also presented alongside our regular features.

Please email any feedback or suggestions to: natashae@classalinfo.com.au

Natasha Edwards
Rem & Benefits Specialist

SKILLED VACANCIES

The Department of Employment and Workplace Relations' Skilled Vacancies Index increased by 1.3% in June 2004 to 115.1.

Two of the three major occupational groups rose: Professionals by 0.5%, and Trades by 1.8%, Associate Professionals fell by 0.2%.

REMSYS

CSi's salary review software allows organisations to manage their salary reviews by automating all operational aspects of the salary review process.

Log on to: www.csirem.com.au for a demonstration.



CSi APPOINTS CHIEF OPERATING OFFICER



CSi has great pleasure in announcing the appointment of Mr Jairus Ashworth to the position of Chief Operating Officer with effect from the 1st July 2004.

In his new role Jairus will be responsible for the various operating functions within CSi. Initially he will play a major role in the continuing development of the Melbourne office with new appointee Nigel Gray before assuming other operational activities progressively.

"Jairus will play an important role in the ongoing development of CSi," said Managing Director, Peter Barton. "Having progressed through a wide range of activities within the organisation, Jairus is well placed to continue to grow the business and ensure the high levels of customer service that CSi is renowned for".

Jairus brings a wealth of experience to this appointment. He has been involved in every aspect of CSi's operations at different stages of his career over the past ten years. He has also gained a detailed understanding of client requirements having partnered with major organisations in numerous sectors of the market to deliver a wide range of remuneration solutions.

For more information, please contact Jairus Ashworth on 61 2 8440 6500 or jashworth@classalinfo.com.au.

Newly appointed COO, Jairus Ashworth (L), welcomes Nigel Gray (R), Melbourne Practice Manager to CSi.

CSi APPOINTS NEW MELBOURNE PRACTICE MANAGER

Nigel Gray has been appointed to the position of Practice Manager of CSi's Melbourne Office.

"Nigel will be playing a major role in bringing CSi's brand of innovative remuneration solutions and accurate market data to the Victorian market," said Managing Director, Peter Barton, "He brings a wealth of experience and energy which we are sure both existing and potential clients will find contagious."

In his previous roles Nigel has focused on the development and implementation of major remuneration initiatives, marrying a solid understanding of the interplay between business results and rewards strategy with a strong focus on effective delivery. Nigel has held Compensation & Benefits Management positions at major local and international firms across a wide variety of industries, most recently with ANZ Bank, Ericsson and Kraft.

With this appointment comes a transition for Andrew White, CSi's Consultant currently located in Melbourne. Having successfully established the Melbourne practice over the past 12 months, Andrew will remain in Melbourne for a short period before returning to Sydney and using the valuable experience gained in Melbourne to develop further business opportunities in Sydney and beyond.

For more information on CSi's services or to arrange a meeting with Nigel Gray, please call 61 3 9607 1361.

CHANGES TO SUPERANNUATION

The Superannuation Co-Contribution Scheme:

The maximum benefit under the superannuation co-contribution scheme has increased to \$1,500 to match a \$1,000 personal contribution for individuals with an income below \$28,000 (previously \$27,500). The upper income threshold at which the co-contribution phases out will be increased from \$40,000 to \$58,000. Eligibility will now extend to employees who earn at least 10% of their income as an employee even in situations where the employer is not required to pay SGC.

Note: The superannuation co-contribution scheme is an incentive for low-income earners with surplus cash to save for their future.

Superannuation Surcharge: The Government will reduce the maximum surcharge rate to 12.5 per cent for 2004-05, 10.0 per cent for 2005-06 and 7.5 per cent for 2006-07 and subsequent years.

For more information on the federal budget 2004 contact Nick Milne on 61 2 8440 6500.

REMUNERATION SEMINARS

CSi commenced the new financial year with two successful remuneration seminars held in Sydney and Melbourne.

Key note speakers tackled issues affecting Remuneration/HR practitioners now and in the future. Guest presenter Ian Crichton of CRA Plan Managers discussed issues relating to Long Term Incentives. CSi speakers outlined the challenges related to dealing with our ageing workforce in Australia, the ramifications of the latest federal budget for HR Practitioners, and the key remuneration issues faced by US organisations as outlined at the WorldatWork conference in Boston.

Following the event, CSi's Training Manager - Kylee Small said, "We will continue to run these remuneration seminars each year to ensure that our clients are armed with knowledge of the remuneration and HR trends that will affect their organisations."

For more information contact Kylee Small on 61 2 8440 6500 or ksmall@classalinfo.com.au.

MEASURING AND IMPROVING WORKFORCE PERFORMANCE

The ability to improve employee performance and therefore company productivity is critical to bottom line success. People create and implement strategy; create the organisations products and services; generate income; are a large organisational expense; and build the organisation for now and the future. Peter Mills, Principal of Peoplescape Consulting examines the issues of measuring and improving workforce performance.

Why is Performance Measurement and Improvement a Problem?

Workforce performance has traditionally been measured by outputs, whether it be performance appraisal results, sales per head or units produced. However, the outputs of employee performance (employee productivity) is often affected by factors beyond the control of individual employees such as the accuracy and variability of managers ratings on performance, the effect of the economy on sales, capital investments for production and availability of other resources within an organisation. Rather than rely on outputs perhaps a better method is to measure on the inputs or activities that improve performance. In this way we create a lead measure of performance, that is to say, we create a measure for the systems, activities and actions that create a high performance workforce.

Where do We Start?

To improve workforce performance we need to do two things:

First we need to identify which activities provide the most value-add in terms of individual and organisational performance improvement.

Second, having identified the most critical performance management investments, we must measure these activities to ensure that they are operating effectively within the organisation.

Identifying and measuring the activities that most affect individual performance gives us our starting place to improve performance and to create significant competitive advantage.

Identifying Value Add Performance Management Activities

In 2002 the Corporate Leadership Council study entitled "Building the High Performance Workforce", researched the effect of 102 different performance management activities on employee performance. The research identified 33 activities that affected employee performance by more than 10% (some of the activities increased performance by almost 40%).



Measuring Performance Management Activities

Having identified the most critical aspects of employee performance organisations can now assess the effectiveness of each performance driver and the existence of any performance inhibitors within the organisation. The best method to do this is via a staff survey as it is the perception of and therefore the effect on each individual employee that is important.

Once assessed, the presence of drivers/inhibitors in an organisation can be represented as a "Performance Indicator Index", that is, an index weighted by the effect each driver can have on employee performance. This can then be used to compare the performance of different divisions or locations in a company and the company's change in performance year on year.

A "Performance Gap" can also be calculated for each driver. The Performance Gap is the difference between the expected level of performance increase/decrease due to the existence of the driver/inhibitor and the probable performance increase/decrease as extrapolated from the survey.

Using this information companies can then identify activities that are driving workforce performance; identify areas of weakness and report barriers to employee performance; create action plans and allocate resources to areas that will improve current performance; provide managers with a framework for continuous improvement; ensure people management and performance management strategies are aligned; improve employee performance between 10% and 40%. Once these measures have been taken it is important that an infrastructure be put in place to improve organisational performance.

Conclusion

Improving workforce performance is a complex process due to the interaction of the organisational culture, structure and systems, individual manager performance and individual employee expectations as well as the outside environment. It is made easier if you understand "What" are the important issues; understand the inter-relationships of various HR activities and performance; Measure > Plan > Allocate Accountability Resources and Responsibility > Take Action > Link success to the reward systems > Monitor progress; remember - it is a continuous process.

This is an edited version of the original text. For a complete copy of this article contact Peter Mills on 0401 152 887 or via email at petermills@peoplescapeconsulting.com.au

www.peoplescapeconsulting.com.au

CSI SERVICES UPDATE

CSI's Remuneration Services Team has conducted several major projects recently, including:

- Job matching and job design for a medium sized IT Services organisation following a significant merger.
- Commission plan design for a major Australian telecommunications organisation.
- Recommending salary increases for roles in 23 countries within a major food ingredient company.

- Provision of remuneration rates for research roles within the health information sector of the not-for-profit industry.
- Provision of advice to an Australian defence company regarding the costs of employment within the Northern Territory.

To discuss how CSI's services team might meet your needs, phone Jairus Ashworth on 61 2 8440 6500 or email: consulting@classinfo.com.au.



NZ STATISTICS

- CPI in the March 2004 quarter increased by 0.4%.
- The unemployment rate for the March 2004 quarter was 4.3%.
- The March 2004 quarter labour force participation rate was 66.6%.
- ANZ Job Ads series recorded a 1.0% increase in May to 33,395 seasonally adjusted. Internet job advertisements increased by 3.3% over the same period. These increases amounted to a 1.6% increase in total job advertisements in May to 45,676 (seasonally adjusted).

EXECUTIVE DEMAND

According to E.L Consults Executive Demand Index, less appealing conditions were evident in the month to May for executives seeking new positions. These conditions were a result of an acute fall in government sector demand.

The May 2004 E.L Index reflected a fall of 16% from the previous month, with the government sector underperforming in comparison to the business sector in all five industry groups reported within the index.

In discussing the effect of the May 11 federal budget on executive demand, Grant Montgomery, Managing Director of the executive search firm E.L Consult said,

"Political uncertainty has had a very real effect on executive demand."



OPTIMISTIC HIRING INTENTIONS

Of 7,583 employers surveyed by Hudson, 28.4% have indicated they are anticipating an increase in current staffing levels over the coming three months (July– September 2004).

Sector	% employers creating new jobs
Professional Services	40.5%
Construction/Property/Engineering	38.4%
Telecommunications	42.2%
Information Technology	37.1%
Retail	35.2%
Financial Services/Insurance	30.1%
Advertising/Marketing/Media	30.1%

CONSULTING ENGINEERING INDUSTRY



Clients from leading Consulting Engineering firms met at Arup head office for the ACEA Survey Feedback Session.

HR representatives from Beca, Coffey Geosciences, Connell Wagner, GHD, Maunsell Australia, MPA Williams and Ove Arup attended the ACEA Survey Feedback Session in May, hosted by Csi/Arup.

Csi's presentation of 2004 survey results showed evidence of pressure on salaries within this sector, particularly in the area of project management. Salary increases over the past twelve months were above those in other industry sectors.

A presentation by Arup's HR Advisor, Melanie DeGuara, provided insight into the challenges faced by organisations implementing a robust remuneration system that addresses the strategic goals of the business.

Csi would like to thank all clients that attended the session.

CSI WELCOMES NEW CLIENTS

Csi would like to formally welcome the clients that have joined our salaries and benefits surveys or utilised our remuneration services since June, including:

- Smorgon Steel Group Limited
- Australian Insurance Holdings
- Catholic Church Insurances Ltd
- Smith & Nephew Surgical Pty Ltd
- Centrelink
- Bionomics Limited
- THL Australia Pty Limited
- SoftBrands Inc.
- AT&T Global Network Services Australia
- Michael Ell Consulting Engineers Pty Limited
- Australian Pensioner Insurance Agency

SURVEYS FOR RELEASE

AUGUST

- AIIA
- ITIS
- Telecommunications Industry
- New Zealand IT & T

SEPTEMBER

- Business Equipment Industry
- IT Contractor & Consultant Rates Survey
- Insurance Remuneration Group
- New Zealand Sites

OCTOBER

- Banking & Finance Industry
- Medical Industries

SURVEY FEEDBACK SESSIONS

AUGUST

AIIA

SEPTEMBER

New Zealand Surveys

REMUNERATION TRAINING SESSIONS

REMUNERATION APPLICATIONS

Sydney 18th August

HOW TO USE SALARY SURVEYS

Sydney 20th September

In-house training sessions upon request!

HR SPOTLIGHT

Melanie DeGuara
Human Resources Advisor
Arup Pty Ltd



Melanie DeGuara, HR Advisor for Arup Australasia, 'yoga nut', and food connoisseur talked to us about working for a global consulting engineering company and life outside of work.

What inspires you about working for a consulting engineering company?

At Arup our work is about caring for the client to produce something that is often beautiful, technically innovative and always functional. Projects like the Webb Bridge in Melbourne, the National Museum in Canberra and the Beijing Swim Centre make me very proud to work at Arup.

What are you responsible for at Arup?

Strategically, I work with the HR Manager for Arup Australasia and the Australasia Board to develop and implement policies and practices for our region that enhance and supports the strategic direction for HR globally. An example of this would be the design of our remuneration and benefits strategy for Australia, Singapore and PNG. I also travel regularly to the Perth and Singapore offices to work with staff and leaders on local HR issues.

Describe a recent career highlight.

Working with a global company has increased my exposure to situations that exist beyond Australia's shores. In Singapore, I recently worked with the management team to develop their strategic direction using a balanced scorecard approach. I was so proud to see them work together to align the strategy for Singapore with the overall strategy that drives the Australiasia region.

How do you spend your time out of work?

My husband and I love food so we spend a lot of time eating and cooking with friends and family. We also have two new kittens that keep us very busy. I snatch coffee and a sprint around the Botanical Gardens with my girlfriends whenever I can and try to make it to at least two yoga classes per week. I'm a 'book-worm' so I've usually got two books on the go.

What is your work/life philosophy?

Reward for impact (as opposed to effort).

How has Csi assisted you in the past 12 months?

Csi assisted Arup to conduct an in-depth market analysis of the survey information so that we can make accurate remuneration budget recommendations. Additionally, we utilise Csi's services for specific benchmarking and job sizing requirements.

Melanie is tertiary qualified with a Bachelor of Arts (English & Mass Communication) and a Graduate Diploma (HR).

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