

Remuneration Review

Australian Edition, Issue 27, Summer 2008



Should Executives Pay Back Earnings? With CSI MD, Jairus Ashworth

Smart Shopping Tips

Subprime Means Bonus Time!



The biggest economic story of recent months is the meltdown in high risk mortgage securities leading to a global credit crunch and fears of recession.

Subprime lending is the practice of making loans to borrowers who do not qualify for the best market interest rates because of their poor credit history. It is effectively high-risk lending, that comes with a higher than normal rate of interest. All in all, a standard part of the financial system, but one that has acted as a financial contagion because of the packaging and sale of bundles of these loans all over the world, to buyers who do not appear to have been fully aware of the risks.

U.S financial institutions have now recorded provisions in excess of \$170 billion for losses on

these products (according to Advisen). To put that in perspective, it's double the GDP of New Zealand. It truly is one of the all time great financial disasters.

In the rewards arena we have already seen stories and analysis emerge of what this means (or should mean) for the remuneration of the senior executives and boards who ultimately approved these very high levels of risk. Decisions which in hindsight were very poor. As a consequence the CEOs of Citigroup and Merrill Lynch have both lost their jobs without severance pay, but there is still outcry claiming they should "pay back" last year's bonuses and any gains made on stock awards during their tenure.

Let's analyse the legitimacy of these claims in light of the typical components of an executive package:

Base Salary - Once it is earned, it is earned. Even gross or criminal misconduct does not generally lead to a claim over base salary.

Short Term Incentive (STI) - A basic principal of reward is that you must decide when a payment is 'earned'. In the case of an STI, this is typically on an annual basis and if the key financial metrics and performance indicators have been met for that period then the bonus can be said to have been earned. The only clawback scenario would be in the case of deliberate fraud to falsify results. Reckless risk-taking and following the herd do not count as fraud.

Long Term Incentive - The damage done to these companies by their substantial mispricing of risk is tremendous, and is reflected in falling share prices. A well-designed long term incentive plan contains both absolute and relative measures – that is, the company must not only meet earnings or share price appreciation targets in absolute terms, but it must also perform well relative to its peers. Share Options post the dot.com and Enron days received a bad reputation but in this circumstance those with options are likely to receive little or nothing following the sub-prime meltdown. Those granted free shares may have taken substantial reward in the form of dividends in the past but are now left with a greatly diminished asset.

Demands for "pay-back" in addition to termination of employment are somewhat emotional and knee-jerk responses. While some boards and reward professionals have a number of 'black marks' against them when it comes to poor executive remuneration decisions, on reflection these do not appear to fall into that category.

New CSI Survey - Impact of legislative changes to superannuation taking effect 1st July 2008

This study looks at the financial and administrative effects the new laws will have on organisations, as well as the structuring of any increased superannuation payments and communication of these to employees.

A free copy of the results will be available to subscribers to Remuneration Review in mid-March. Please contact Christine Rulli on (02) 8440 6500 or crulli@csirem.com.au to request your copy.

How Software Can Automate & Enhance Your Salary Review

This is the fourth article in a five part series providing tips on what to look for when you're shopping around for the perfect salary review software solution for your organisation.

There are a number of design features within quality salary review software solutions that HR practitioners should demand when making their purchase.

The first of these features is a consistent organisation or department-wide methodology for making salary review decisions. The second, is control mechanisms for HR practitioners to automatically monitor and guide the progress of the salary review. This feature was discussed in the last edition of this newsletter.

The next critical feature is time saving and automation devices. You can assess whether the salary review software you are planning to buy includes this feature by ensuring it automatically provides the following functionality:

- Salary increase recommendations
- Alerts to salary decisions outside of policy
- An 'exceptions' business case process
- An approvals process for exceptions
- Dissemination of consistent, detailed information to managers
- A 'real-time' interface showing the progress of all parties involved in the process
- Assistance for HR managers and business managers with data checking prior to the salary review
- Production of multiple formats of salary review letters from one source, without the need for endless typing of templates
- Generation of comprehensive reports and summaries at the push of a button during the review and on the successful conclusion of the review

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NOW AVAILABLE IN BRISBANE AND PERTH

REM101 - An Introduction To Remuneration

Provides you with a broad introduction to remuneration and its role in Human Resources. You will achieve a working knowledge of the important elements of remuneration management, from the 'big picture' to the specifics of day-to-day practicalities. The course contains several hands-on components aimed at reinforcing the theoretical component. REM101 is designed to accommodate HR generalists wanting a refresher course in remuneration or junior to mid-level staff requiring a comprehensive introduction to this important part of the HR function.

Sydney - Wed, 13th February & Wed, 5th March

Melbourne - Wed, 13th February

Brisbane - Wed, 20th February

Perth - Wed, 27th February

How to Use Salary Surveys

Provides you with a broad overview of the art of data input and data output interpretation. The course will provide an interactive learning session (each participant will have access to a PC), broken down into a practical overview of CSI's data input tool, RapidRem, followed by a review of CSI's survey output including Data Centre.

This course is aimed at HR and Remuneration professionals working at the Analyst level. Attendance may extend to any role that requires a thorough knowledge of survey methodology and data interpretation skills. A number of practical exercises will help reinforce the subject matter.

Melbourne - Fri, 16th May

Sydney - Wed, 21st May

Brisbane - Fri, 23rd May

Perth - Wed, 28th May

Register

For further information or to register, visit www.csirem.com.au/Training/seminars.

Group bookings of three or more individuals to the same session from a single organisation attract a 10% discount.



How Software Can Automate & Enhance Your Salary Review

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By ensuring your salary review software provides these features, you will be assisting to streamline salary review processes and thereby increase your organisation's return on investment (ROI). You will also ensure the review process is perceived by all parties to be efficient, fair and equitable, and hence increase the credibility of your HR Function.

The next article within this series will discuss the fourth key design feature that HR practitioners should demand when making their purchase of a quality salary review software solution. This fourth feature is automated mechanisms which facilitate enhanced communication with, and empowerment of, reviewing managers. Should you require this information before the next edition of our newsletter, please contact:

Sydney: Paul Wright on

+61 2 8440 6500

Melbourne: Nigel Gray on

+61 3 9607 1361

Are you shopping for a salary review solution?

CSI's Remuneration Decision Assistant (RDA) is a sophisticated online remuneration solution that facilitates the entire pay review process.

"Using RDA for our remuneration review this year enabled us to take a giant leap forward in the way the whole process is managed. Apart from the obvious benefits in terms of security and accuracy of information, managers were able to become more involved without any increased time commitment. As a result, there was more ownership to the outcomes and the Human Resource team became facilitators and advisors rather than processors and policemen."

Suze Wilson

General Manager HR

New Zealand Post

RDA incorporates the design principles discussed in this series of articles. More information is available at: <http://www.csirem.com.au/Software/index.htm>

Automating The Process of Generating Letters Of Offer Saves Time and Reduces Errors

As a result of feedback from clients, CSI has developed an Excel-based software tool that simplifies the process of generating letters of offer.

The Letter Of Offer software is customised for each client and automates the process of producing your appointment letters.

Templates are created for the various types of letters you need in line with your organisation's formatting guidelines. Fields are created for data such as base salary, standard work hours, superannuation, and any extra benefits or inclusions.

These fields are placed where you need them to appear, either in the text of the letter or within a total remuneration table depending on your preference.

A data sheet is then created which collects all of the relevant information for each employee and allows you to select the type of letter each person should receive.

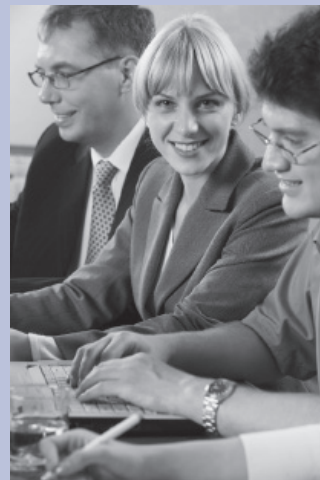
Letters can then be easily generated either on an individual basis or as a bulk run.

The Letter Of Offer software removes the manual work from the process of generating appointment letters which saves you time and reduces the likelihood of errors.

The CSI Letter Of Offer software gives you a robust system that can be tailored to your specific needs.

For further information or for a demonstration of how the software can help you, contact Paul Wright on (02) 8440 6500 or pwright@csirem.com.au.

Addressing Short-term Remuneration Skills Shortages



Remuneration is an integral part of the human resources function and in the current tight labour market, can be a key factor in improving an organisation's competitive advantage.

Experienced remuneration specialists are in short supply in Australia which means that many organisations are now turning to outsourcing as a way to address this critical function.

A recent article in Human Resources magazine noted

that in many companies almost 24 per cent of the executive budget goes towards outsourcing.

Outsourcing your remuneration projects eliminates the need for creating costly systems, processes and internal training within your organisation. It allows you to deliver fluctuating levels of remuneration services to meet the changing needs of your business and ensures that your human resources staff are free to focus on other critical projects and activities requiring their specific internal knowledge and expertise.

CSI's knowledgeable and experienced consultants are available to work onsite at your organisation during those temporary periods when an extra pair of highly skilled hands is required to complete remuneration projects.

A remuneration outsourcing arrangement with CSI optimises your remuneration function by drawing on CSI's in-depth experience, expertise and knowledge, systems, databases and technology.

To find out more about the remuneration outsourcing services available from CSI phone Paul Wright on (02) 8440 6500.

Hitting The Right Target



remuneration surveys and HR policy & practice reports.

The types of research that can be conducted on behalf of an organisation are many and varied. To give insight into the depth and breadth of topics and roles that can be surveyed, following is a snap shot of research CSi consultants have conducted for clients:

- Market remuneration rates for shared services roles that require translation skills.
- Market remuneration rates for particular roles within a specific geographical region, for example Perth, Western Australia or Brisbane, Queensland.
- The minimum thresholds (floors) and caps (ceilings) related to commission payments for a selected group of sales roles within organisations offering similar products and services to the organisation who commissioned the research.
- The 'soft' benefits (ie. benefits outside of the salary package) provided to certain job families of employees within a group of competitor organisations.

Results of customised market surveys are typically based on market data collected from a selected group of organisations. The format of the results is tailored to meet the needs of the organisation commissioning the research.

Benefits of Customised Market Surveys

Customised market surveys allow HR practitioners to gain the exact market intelligence they need to make market-related pay decisions and to develop competitive HR/remuneration policies. They can be beneficial in a variety of circumstances, as follows:

- Customised market surveys that present market rates for highly unique job roles can save HR practitioners from the inevitable guesswork that must take place to arrive at a decision when precise market data is not avail-

able. They can ensure that pay decisions are made in a fair, consistent and equitable manner for all roles within the organisation, not just the ones typically found in 'off-the-shelf' remuneration reports.

- Customised market surveys that present intelligence on specific areas of HR/remuneration policy and practice can assist with assessing the competitiveness of prevailing arrangements within an organisation. They provide crucial evidence required for formulating a case to shift policies and practice to a more market competitive position.

Format of Results

The results of a customised market survey can be tailored to suit the individual needs of an organisation. Typically, the results are presented as follows:

- Customised market surveys that report market remuneration data for requested roles will generally be provided in the standard survey format, unless an organisation requires a different format to suit a specific need. Where data samples permit, market remuneration rates are presented for the average and 25th, 50th, 62.5th and 75th percentiles for all elements of employees' salaries and benefits packages, including taxable base salary, superannuation, performance pay and various FBT-able and non FBT-able benefits.
- Customised market surveys that present market intelligence on areas of HR/remuneration policy and practice will typically be presented in a report format that shows the results of the research in easy-to-read graphs and charts with accompanying commentary.

CSi regularly conducts customised market surveys on behalf of clients to ensure that they are hitting the right target with the HR and remuneration recommendations and decisions they are making.

For more information or to discuss a specific organisational requirement, please contact Paul Wright on (02) 8440 6500 or pwright@csirem.com.au.

CSI Welcomes New Clients

- 1st Executive
- ACT Teleconferencing
- AIPEX Pty Ltd
- Ansearch Limited
- Australian Business Volunteers
- Australian Central Credit Union
- Australian Stem Cell Centre
- Bank of New York Trust
- Calliden Group
- Capral Aluminium
- Catholic Healthcare
- City Pacific Limited
- CommVault
- Cook Australia
- CPS Group
- Defence Maritime Services
- DoubleClick International
- Ecolab Pty Ltd
- Extend Technologies
- General Reinsurance
- Genetic Technologies Limited
- GMAC-RFC
- IBA Health
- IDEXX Laboratories
- Incitec Pivot Ltd
- John Holland Group
- Lippincott Williams & Wilkins
- Lockheed Martin Australia
- Nanosonics Ltd
- OneRail Pty Ltd
- Panbio Limited
- PMI Mortgage Insurance Ltd
- Queensland Health
- Rural Finance
- Sandstone Technology
- Seeker Wireless
- SEMA Group Pty Ltd
- Skilled Group
- Skillsoft Asia Pacific Pty Ltd
- Translogix Systems
- Volkswagon Financial Services

We look forward to working with you!

A Little Chuckle About Pay

"I'd give a thousand dollars to the man who would worry for me!"

"You're on. Now, where are those thousand dollars?"

"That is your first worry!"

As published on:

www.workjoke.com

In the current tight employment market, the quality of the market data upon which HR and remuneration recommendations and decisions are made can be a critical factor in successfully attracting or retaining an employee.

For this reason, it is crucial for HR practitioners to clearly define the 'target' or the benchmark against which a recommendation or decision is made *before* sourcing the detailed and specific market intelligence they need to facilitate informed decisions across the business.

When an HR or remuneration recommendation or decision is highly contentious or business-critical it is often the case that more detailed market data and analysis is required than that which can be found in standard market data reports.

For this reason, HR and remuneration consultancies often provide an additional service whereby they will survey the market for specific information and conduct particular analyses on behalf of an organisation. We at CSi refer to this service as 'Customised Market Surveys'.

Following is an overview of what customised market surveys are and how they can enhance the recommendations and decisions HR and remuneration practitioners make.

What Are Customised Market Surveys?

Customised market surveys are reports containing market intelligence on unique roles or highly specific HR/remuneration policy and practice information currently not available within 'off-the-shelf'



Pressures In The Recruitment Market

Employment Expectations

The Hudson survey of permanent hiring expectations (www.hudson.com) for the three months to March 2008 reveals that employer optimism continues to rise with national employer sentiment at its highest level on record.

A net positive 42.8% of the 7,519 employers surveyed indicated an intention to increase permanent employment levels over the next quarter, representing an increase of 3.9 percentage points from last quarter.

In Western Australia and Queensland, over half the employers surveyed plan to increase their headcount, returning the nation's highest levels of employer sentiment with net effects of +60.1% and +50.2% respectively.

Current 'net effect' is arrived at by subtracting the expected decrease in employee numbers from the expected increase in staff levels.

Executive Demand

The E.L. Consult Executive Demand Index (www.elconsult.com), an indicator of executive employment trends, fell for the fourth consecutive month in December to register its largest run of losses since mid-2005. The Index fell one percent in December compared with the previous month to create an overall loss of nine percent in the last four months of 2007.

Positive demand in Queensland and Western Australia hid much more significant downturns in New South Wales and Victoria.

Recruitment Trends

The Olivier Internet Job Index (www.olivier.com.au) rose 9.1% in December 2007, which saw the seasonally adjusted index pass the 400 mark.

The actual number of jobs advertised on the major websites fell just 4% which is a minor decline in comparison to previous December periods.

All industry sectors experienced an increase for the month of December. The Building and Construction industry saw the most significant monthly increase of 22.7% which brought an annual increase of 98.3%.

On the back of the global credit crisis the Financial Services sector saw a modest monthly increase of just 2.1%.

Stat Wrap

GDP (annualised September 07 trend figure)	4.0%
CPI (annualised December 07 trend figure)	3.0%
Unemployment (annualised December 07 trend figure)	4.4%
Wages Growth (annualised August 07 trend figure)	4.3%

www.abs.gov.au

IT Spot

According to CSI's IT Specialists Survey, employers of IT staff are predicting an average 4.5% salary increase for the 07/08 financial year.

According to the Olivier Internet Job Index, there was an increase during December 2007 in the number of vacant jobs in the IT&T sector of 4.7%.

For January, however, the DEWR ICT Vacancy Index fell by 15.3% to 261.6 over the four weeks to late January 2008. This represents a 2.8% fall compared to the same period last year. The three Australian ICT online recruiting sites included in the ICT Vacancy Index averaged around 19,500 vacancies in the four weeks to mid January 2008.

Skilled Vacancies

The Skilled Vacancies Index (SVI) (www.workplace.gov.au) rose by 1.1% in January 2008 to 106.3 (November 1997=100). Vacancies rose for Professionals (up 3.9%) but fell for Associate Professionals (down 1.9%) and Trades (down 0.3%). In annual terms, the SVI is 0.5% lower than in January 2007.

Three states and the Northern Territory recorded increases in skilled vacancies in January 2008, with the strongest rise in Victoria (up by 5.3%), followed by Northern Territory (1.5%), South Australia (0.8%) and New South Wales (0.3%).

Over the same period, falls in skilled vacancies were recorded for Queensland (down by 0.9%), Tasmania (0.7%) and Western Australia (0.6%).

Over the year to January 2008, increases in skilled vacancies were recorded in the Northern Territory (up by 19.6%), Victoria (18.1%), South Australia (13.5%), and Tasmania (3.5%).



HR Spotlight

Therese Impey

**Manager, Human Resources
PMI Mortgage Insurance**

Therese Impey's role at PMI Mortgage Insurance is to lead the HR team in providing support to PMI managers and employees on HR issues, policies and procedures, employee relations, recruitment, remuneration and performance management. We spoke to Therese to find out more...

What is your career background? I have worked in generalist HR roles for the last 10 years across Security, FMCG and now the Financial Services Industry.

What is the most important element of remuneration management from your perspective? PMI's reward strategy aims to foster a high performance culture and promote an environment where individuals go the extra mile. The most important element of remuneration management is in ensuring that we align our philosophy and practices to this strategy, including robust performance management practices and culture.

How has remuneration management changed in your organisation or in your industry over the past 12 months? As many organisations are experiencing, the tight labour market is leading to challenges in relation to attraction and retention of employees. We have found that being up-to-date with current remuneration levels and trends at the individual position level has been critical.

What CSI services do you use? CSI is a great source of data for us to benchmark ourselves against the market. We have also found the "Policy and Practice reports" useful when reviewing our current practices.

What advice have you received from CSI to assist with remuneration management? CSI consultants have provided us with support in relation to remuneration considerations for a number of groups of our employees.

How would you rate CSI's service? CSI consultants always provide timely, open and honest service. From my first interaction with them, they have clearly outlined what support they can provide and have been effective in delivering that support.

Therese holds a Bachelor of Business (Major in Human Resources)



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