

Remuneration Review

Australian Edition, Issue 30, Spring 2008



Strategic Remuneration Management, by Hewitt CSI Reward Practice Leader Jairus Ashworth

Last Issue of Remuneration Review

Some Thoughts on the Value of Salary Survey Information During Tough Times

Successful reward strategy is all about alignment to business strategy. A massive change in the external environment often brings about the need to realign an organisation's business strategy. Your reward programs should align with and reinforce your business strategy.

Whether or not overall reward budgets decline from those forecast, there is no doubt that significant changes will occur to reward offerings in firms across Australasia.

During tough times the need for wise decision making backed by reliable data and insight is greater than ever. Here are some examples of areas of reward strategy that may require review given the changes occurring:

- Reconsidering your peer group of labour market competitors
- Reworking incentive plans in terms of:
 - a) Key performance indicators
 - b) Split between fixed and variable pay
 - c) Payout curves (lower or higher thresholds)
 - d) Funding mechanism
- Targeted analysis of where spend is greater than market and justification for such spend

Launch of "Hewitt Review" in February 2009

This is our last issue of *Remuneration Review*. In February 2009 we will launch *Hewitt Review*.

This new publication will continue to provide useful and interesting information for HR professionals but as well as covering remuneration, the scope of the newsletter will broaden to include areas such as talent management, leadership, employee engagement, retirement and financial management.



Inside this issue

- Realities of Executive Pay in Australia**
New Remuneration Report: Australian Call Centre
New Zealand technology company engineers its people practices
Should Best Executives in Australia and New Zealand announced in Sydney
How the new remuneration laws will affect Australian companies
Wellington City Council Human Resources Manager reveals what drives the city's salaries
REM212: looking to be held around Australia in March 2009
- Realities of Executive Pay in Australia**
We have all heard about the great success of executive pay, the huge bonuses and the spiralling executive wage bill. So, let's take a look at one of the major trends relating to executive remuneration in Australia, and try to identify the myth versus the reality and identify what the real challenge is.
Observation: Remuneration costs are spiralling upwards. How much does executive pay need to be increased and how can I stay ahead of the pack?
Solution: Organisations understandably want to attract the best executive and pay them in a more competitive manner than others. This is established in the organisation, the pressure is there to continue to pay above average to remain in this executive group - the philosophy being to stay ahead of the competition at any cost.
Spurred on by the significantly increased transparency of executive remuneration and a fairly tight labour market, we are seeing the executive remuneration landscape become flatter, more average and less exciting. Not only are remuneration committees being exposed to heightened scrutiny of competitive executive pay practices, the executives themselves are wanting to make sure their own personal remuneration relationships are maintained in their rightful position.
- Solution**
The "valued effort" is a commonly observed phenomenon, characterised by a series of assessments that cannot be reversed once commenced. With regard to executive remuneration, salaries are being pitched at the 92.5th or even 75th percentile which by definition will then become the new 50th percentile. The result - upward spiralling remuneration costs!
To illustrate the elements of executive fixed remuneration, the below graph compares the executive remuneration adjustment to that of the major solution statistic, the Consumer Price Index (CPI), over the period 1990 to 2007. Growth in executive pay has outperformed growth in CPI.
- Solution**
The Hewitt organisations continue to push their executive pay levels well beyond that of traditional market movements... particularly their CEO's.
The Challenge - In the current environment of risk-sharing executive compensation, it seems almost time that organisations started focusing less on aggressively paying their CEO's "top" remuneration levels at or around the upper quartile and focus more on ensuring that the most aggressive pay outcomes are only triggered by aggressive performance levels. Target the median of the market and only pay only top performers at the 75th percentile through the use of variable performance based pay.



So while we might see total spend on salary changes slow or flatten overall, many companies may seek to effect change within the constrained budgets they are working to.

Remember also that salary levels can change substantially in markets that are not actively hiring as a result of turnover – attrition (either voluntary or involuntary) may be focused at the lower end of your pay ranges as newer or lower performing staff depart the company.

This can result in the average pay rates for some positions increasing at a rate far in excess of general market movements. What seemed like a competitive pay package can become market median before you know it.

The key point to remember is that managing a reward strategy is about more than just measuring overall market movements year on year. Uncertain times call for action and adaptation, not just following the pack. Use detailed market information in combination with your strategic review to ensure that reward strategies continue to reinforce and drive the achievement of your business strategy.

Hewitt CSI will be releasing a variety of special articles, surveys, new products and presentations in coming months to keep you up to date with information, insight and recommendations on how to deal with this significant change in outlook. We look forward to keeping you informed and supporting you through these tough times.

Each issue will begin with an article in brief from one of our senior consultants on a 'hot topic' in human resources management and we will continue to bring news of upcoming events, training and report releases from Hewitt CSI.

The inclusion of business environment and new hires statistics will continue and the popular 'HR Spotlight' which profiles an HR professional working in Australia will also remain a feature.

If you have any comments or suggestions for the publication we'd love to hear from you. Email your ideas to christine.rulli@hewitt.com.

Hewitt CSI Renames its Excel-based Salary Review Management Tool

Hewitt CSI's salary review management tool, RemSys has been renamed RemCentral.

This modular, Excel-based software allows organisations to manage, automate and streamline salary review processes.

It provides greater security for salary data and is designed to:

- Provide a consistent methodology for determining salary increases across the entire organisation
- Involve key decision makers in the salary review process
- Reduce the capacity for errors to occur
- Enhance the credibility and commercial focus of the HR team.

Leading Australian Law Firm Improves Salary Review With RemCentral

Corrs Chambers Westgarth ("Corrs") is one of the top ten legal firms in Australia and is widely recognised for its legal expertise and business acumen. Described by The Australian Financial Review as one of Australia's "powerhouse law firms", the firm represents a wide range of leading Australian and international corporations, as well as government clients. With 118 partners and 900 permanent staff comprising legal, business services and legal support, Corrs has offices in Sydney, Melbourne, Brisbane and Perth.

In 2006 the firm reviewed its remuneration strategy including the introduction of a short term incentive plan. Whilst the new strategy ensured close alignment of performance ratings with remuneration and incentives, it also resulted in a more complex salary review process.

Human Resources Manager Alexis Navie explains some of the challenges:

"The new remuneration strategy brings greater alignment for the business between remuneration and performance but we faced some process challenges during the implementation. We were using a manual process with spreadsheets and our main areas of concern were corruption of files, version control issues and security and confidentiality. Additionally we didn't have real-time reporting of salary increases and the manual processing of salary review letters through mail merging was an administrative headache."

After reviewing the available options for automating the salary

review process Alexis and her team chose to implement Hewitt CSI's RemCentral salary review management tool.

"We chose RemCentral for a number of reasons. Firstly, the software is Excel-based so we didn't need to introduce and train staff and partners on a new software program. Also, RemCentral can be centrally managed, provides an audit trail of changes and increases data security."

"The software gives us the ability to export password protected spreadsheets with locked fields that we can save on a secured shared drive for managers and partners to access, so we don't need to email files. The system then automates the process of importing the spreadsheet data back into the master file."

"RemCentral has been set-up so that managers and partners can view the relevant salary ranges for their staff and the system will generate salary increase recommendations to help them with salary decisions. It also shows overall percentage and dollar increase figures against budget to help avoid overspending."

"The system provides us with various real-time reports and also has a module that takes care of salary review letter generation, saving a lot of time on administration."

"The consultants at Hewitt CSI were extremely supportive and accommodating of changes through the implementation and the response from partners and managers to the new system has been very positive. They find the system easy to use and like the added data security. RemCentral has greatly improved our salary review process and we will definitely be using it again for our salary review next year."

Available in February: 2009 Australian Call Centre Report

The 2009 Australian Call Centre Remuneration Report will be released in February. This report will provide essential remuneration and call centre benchmarking data as well as call centre policy and practice information.

What Makes This Report Different?

The latest report contains data from more than 12,000 Australian call centre employees making it the most comprehensive survey of its type available to Australian organisations.

Other unique elements of the report are call centre metrics

and policy and practice market trends, presented in clear charts, graphs and tables, accompanied by expert commentary.

Report Features:

- Market remuneration data for almost 30 surveyed positions
- Presented in Hewitt CSI's easy-to-read survey format
- Data available online through Hewitt CSI's Data Centre
- Comprehensive call centre metrics and policy & practice information

For more information contact Paul Wright on (02) 8440 6500 or email paul.wright.2@hewitt.com.

Are You Getting the Most Out of Your Salary Survey Subscription?

The *How to Use Salary Surveys* training course will provide you with a comprehensive understanding of how to work with and interpret remuneration data. A number of practical exercises will help reinforce the subject matter and you will leave feeling comfortable and confident working with and gaining insights from the in-depth data you receive in salary surveys.

Course Outcomes

Attendees will walk away with a detailed working knowledge of the role of remuneration in corporate strategy; salary survey theory and how to apply it in practice; data input methodology and interpretation analysis; and key supporting survey principles.

The course is an interactive learning session (each participant will have access to a PC), including a practical overview of Hewitt CSI's data input tool, RapidRem, followed by a review of Hewitt CSI's various survey outputs including Data Centre.

Who Should attend?

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.

Duration

8.30am - 3.30pm

Cost

\$770 including GST and meals. Discounts apply for organisations registering 3 or more attendees.

Dates & Locations

Sydney - Wednesday, 4th February, 2009

Melbourne - Friday, 6th February, 2009

Perth - Friday, 13th February, 2009

Brisbane - Friday, 20th February, 2009

Registration & Information

For further information or to register visit www.csirem.com.au/Training (case sensitive) or contact Penelope Fox on (02) 8440 6500, email penelope.fox@hewitt.com.



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Will Salary Planning Be Impacted By Economic Instability and Uncertainty?



It's too soon to know for certain what's going to happen as a result of the instability caused by the current global economic and market changes. However many clients tell us they are braced for a flow-on effect to their business and expect a tightening of overall expenditure on reward. The extent of this, and the relative impact across sectors remains to be seen.

On October 14, Prime Minister Kevin Rudd announced a \$10.4 billion emergency economic rescue package to boost the local Australian economy in the face of a global financial crisis, citing "the global financial crisis has entered into a new, dangerous and damaging phase".

In times of economic downturn, drastic cost cutting measures we have seen previously include implementing salary freezes, cutting executive salaries, stretching out the timing of increases and reducing the number of promotions. The dramatic economic events of late have already impacted salary budgets and variable pay spending in the US.

A recent Pulse survey Hewitt conducted in the US revealed some very interesting trends in the way companies have responded and adapted their reward strategies. Hewitt is running the *Mini Survey of the Economic Impact* in Australia and New Zealand to assess what is happening locally and results will be available in late November.

According to the study in the US, 42% of survey respondents are revising their salary budget projections. The primary reason companies are revising their budgets is due to concerns about the

broader economy (67%) and that their organisation is undergoing cost reductions (68%).

Other cost reduction measures included implementing a hiring freeze, implementing layoffs, reduction on 2008 bonus spending and reducing 2009 bonus budgets.

Of companies revising their salary projections, merit budgets have been reduced by 0.5% on average. What has become evident in this US survey is that companies have been forced to become smarter in the use of a tighter budget.

66% of respondents are taking actions to reward and retain high performers. The cash reward-related strategies include reserving the portion of salary increase budget, creating a supplemental, discretionary incentive pool, and offering a retention bonus for a specified period of employment.

With cash restrictions, companies are also relying on non-cash reward, including granting discretionary restricted stock and/or options to high performers, as well as providing additional learning and development opportunities.

At Hewitt CSI, we are closely observing how organisations in Australia and New Zealand are responding to times of greater economic uncertainty after more than 15 years of sustained, uninterrupted growth.

We look forward to sharing some of our insights with you in our first issue of *Hewitt Review* which is replacing *Remuneration Review* in 2009 (see page one for more information).

How Hewitt Can Help You Make Informed Decisions

How have organisations in Australia and New Zealand responded to increased economic uncertainty? What impact will this have on reward strategies? How are organisations planning to keep and motivate their top performers? Where can I find the latest benchmark on salary budgets for 2008 and 2009?

Hewitt's 2008-2009 Asia-Pacific Salary Increase Survey

New results are just in from Hewitt's Australia and New Zealand Salary Increase Survey 2008-2009. Results of the survey provide an analysis of salary movements for the current year and projections for the upcoming year, salary structure, and other topics in salary planning for five specific employee categories. Individual market reports also provide information by industry along with other broad trends in remuneration. These results are now available for purchase from Hewitt CSI.

Mini Survey of The Economic Impact

As mentioned above, Hewitt has launched a *Mini Survey of The Economic Impact* to assess changes in reward practices across Australia, New Zealand and Asia in light of recent macro economic developments, with results available in late November.

To purchase a copy of the *2008-2009 Asia-Pacific Salary Increase Survey* or to register your interest in the *Mini Survey of the Economic Impact*, please contact Paul Wright on (02) 8440 6500 or at paul.wright.2@hewitt.com.

Hewitt CSI Welcomes New Survey Clients

- BBC
- Bucyrus
- eBay Australia & New Zealand Pty Limited
- Given Imaging Pty Ltd
- ISIS Projects Pty Ltd
- LeasePlan Australia
- Lion Nathan Limited
- Macarthur Credit Union
- Myla
- Presence of IT
- Quipoz
- Scotts Australia
- Stockland
- Walter & Eliza Hall Institute of Medical Research
- Warner Bros.
- Western Union Financial Services
- Wyndham Worldwide

We look forward to working with you!

A Little Chuckle....

The CEO was scheduled to speak at an important convention, so he asked one of his employees to write him a punchy, 20-minute speech. When the CEO returned from the big event, he was furious.

"What's the idea of writing me an hour-long speech?" he demanded to know. "Half the audience walked out before I finished."

The employee was baffled. "I wrote you a 20-minute speech," he replied. "I also gave you the two extra copies you asked for."

Two friends, who had lost contact for many years, were catching up with each other. One asked, "So, you've got your own company, huh? How lucky!" The other replied, "Just a small one, nothing to be proud of."

Disbelieving, the first queried, "Small? How many people work in your company?"

The other sadly answered, "About half of them."

<http://jokes4all.net/jokes/job/jokes.html>

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Pressures in the Recruitment Market

Employment Expectations

The Hudson Survey of permanent hiring expectations (www.hudson.com) for the October to December quarter, reveals that employer sentiment has slowed for the third consecutive quarter.

A net positive 25.3% of the 7,200 employers surveyed indicated an intention to increase their permanent staff levels over the coming three months.

The level of employer optimism has been varied throughout the country with NSW reporting a 12.1pp decline to record the lowest sentiment nationally of 20.7%. This is in contrast to WA and QLD where employer optimism fell 11.2pp to 41.6% and 9.2pp to 33%, respectively.

Executive Demand

The E.L Consult Executive Demand Index (www.elconsult.com.au), an indicator of executive employment trends, has fallen 6% in August, bringing the index down 20% in the past year. According to Mr Grant Montgomery, Managing Director of E.L Consult, "Because hiring and firing of executives occurs first, trends in the E.L Index show a picture of the general employment market about 6 months away."

Across the sectors, Finance positions recorded the largest loss, followed closely by Information Technology. Management registered a flat result which was better than all other sectors, continuing a relatively strong recent run.

General Recruitment Trends

The Olivier Internet Job Index (www.olivier.com.au) fell 1.17% (seasonally adjusted) in September, with fewer jobs advertised in 12 of the 16 sectors surveyed. Significantly, the Trend Index is now indicating four consecutive months of decline.

Australia's employment rate is still strong after many years of economic boom. However unemployment is expected to rise as the impact of the world financial crisis and contraction of the economy forces both large and small companies to increase redundancies. Expansion has been put on hold and the focus is now on cost control.

Stat Wrap

GDP	2.7%
<i>(annualised June 08 trend figure)</i>	
CPI	4.0%
<i>(annualised June 08 trend figure)</i>	
Unemployment	4.2%
<i>(annualised September 08 trend figure)</i>	
Wages Growth	2.8%
<i>(annualised May 08 trend figure)</i>	

www.abs.gov.au

IT Spot

According to Hewitt CSI's IT Specialists Survey, employers of IT staff are predicting an average 4.3% salary increase for the 08/09 financial year.

The DEEWR ICT Vacancy Index fell by 4.4% in September 2008 to 219.7, which puts the index 21.5% lower than in September 2007.

In September 2008, Victoria experienced the largest decline (down by 5.7%), followed by South Australia (down by 5.2%), and New South Wales and Western Australia (both down by 4.0%).

Skilled Vacancies

The Skilled Vacancies Index (SVI) (www.workplace.gov.au) decreased by 3.5% in September 2008 to 83.4. Vacancies fell for all three occupational groups: Trades (down by 3.7%), Associate Professionals (3.3%) and Professionals (3.1%). In annual terms, the SVI is 17.1% lower than in September 2007.

In September 2008, Tasmania was the only State to experience growth in skilled vacancies (up by 3.3%), while the strongest falls in skilled vacancies were recorded for Queensland (down by 5.6%), New South Wales (4.3%) and Victoria (2.7%).

Over the year to September 2008, decreases in skilled vacancies were recorded in six of the seven States and Territories. The largest decreases were recorded in Queensland (down by 35.2%), New South Wales (29.8%) and South Australia (11.7%). Vacancies in the Northern Territory increased by 6.0%.



HR Spotlight

Gail Dover
Human Resource Manager
CEA Technologies

Gail Dover is the Human Resource Manager for CEA Technologies, located in Canberra. Gail's main responsibility is the development and implementation of HR systems and programs. Her role includes the objective setting and overall management of the Performance and Development Review process for CEA. This covers all aspects of remuneration and external employment conditions and factors. Gail recommends and implements approved policies affecting employees and manages the Workplace Diversity and Occupational Health and Safety Programs. We spoke to Gail to find out more...

What are your career highlights?

I have had the opportunity to cover all aspects of HR management during my 30 year career, from highly strategic roles to the more hands on role I am currently undertaking.

What is the most important element of remuneration management from your perspective?

The most important element is ensuring that all employees have a good understanding of the process companies use to determine the outcomes. Thus, I believe that communication is the most critical component of remuneration management.

How has remuneration management changed in your organisation or in your industry over the past 12 months?

We introduced an individual performance bonus component to our system 12 months ago. The outcome is determined by an assessment of the individual's work performance against a set of key objectives. The important aspect of this system is that every employee is eligible to receive a performance bonus, which is quite different to previous systems I have worked with - whereby the bonus payments were generally reserved for senior employees.

What do you use Hewitt CSI for and how would you rate the service provided?

Hewitt CSI assists us with development of remuneration strategy, provision of remuneration data and a range of specific queries associated with remuneration. I have found the service provided to be very good. Our consultant, Andrew White, is responsive to our needs.

Gail holds a Bachelor of Arts from the Australian National University.