



# PAY ROLE DEVELOPMENT

HR pay specialists need to show they have what it takes if they are to get more involved in setting executive remuneration, writes a remuneration expert.

■ BY PETER BARTON

**N**ow is the time for many HR pay specialists to show their mettle. One of the hottest issues at the moment relates to top executive reward and the perceived excesses of pay at this level. When the next annual executive review is to be prepared for the company's compensation committee, they should be pushing for a strong role in its development.

To justify this, HR compensation and benefits specialists need to ensure they are highly skilled and qualified in the broader remuneration field. They should also realise

The one thing that is really global about CEO pay is the universal outcry...

that they are up against the need to dramatically improve the profile and credibility of their profession.

None of Australia's top 50 companies has appointed an HR director to its board, a recent study showed. Some may attend meetings, but they do not have regular mainstream involvement. HR compensation and benefits specialists are going to have to put this right.

To do so, they should start by working towards a strong correlation between rewards and company performance. Performance measurement is extremely challenging and currently it is not being done well. Just try to find a simple methodology that takes into account a range of relevant factors—beyond ROI or the share price. A share price index, which may be subject to the fluctuations on the share market over which company executives have no control, is not suitable as the sole measurement of success.

Along with the range of performance factors to be taken into account, specialists should encourage a change away from the focus on short-term delivery to include longer-term targets. The current short-term tenure averaged by CEOs could be detrimental to their companies.

While keeping this in mind, HR pay specialists should strive to see the golden parachutes of redundancy fall away. The

payment of large exit parachutes to CEOs is always controversial, especially if they are leaving under a cloud. The fact is, senior executives know the risks they are taking, and reward for non-performance sets a bad example for everyone. (The practice in the world's second-largest economy, Japan, of accepting responsibility for one's performance and suffering the consequences springs to mind on this point.)

**Another important issue** for pay specialists to deal with is the pressure to follow what are considered global rates when determining CEO rewards. This tends to be the highest rates—those of the US—rather than a selection of best-practice examples from a range of countries. The local CEO pay market has largely been overheated by following practices from overseas, particularly the US—while falling into the same traps. No HR practice should be applied without taking into account the impact of local market conditions.

Illustrating the importance of this is a recent study showing that expatriates find Australian cities highly desirable locations to live in, while US cities were well down the list of expatriate preferences.

There are also the many cultural differences between the two countries. As has been well publicised, high-profile US executives employed in Australia have not had a good track record.

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### ... expatriates find Australian cities highly desirable locations to live in ...

CEO pay is the universal outcry against its excess. It has been argued that executive search consultants may have used the argument of the global nature of CEO pay to their advantage. Their commissions are high and directly linked to executive compensation. A million-dollar package brings in a very large fee, and you would think a compensation committee would see the potential for conflict of interest in this system.

I believe board members have not sufficiently accessed advice from consultants with the training and experience to gauge local and external market conditions and

make recommendations on compensation. Such consultants can also provide the independent advice needed to appease vocal shareholders.

While a small number of influential consultants may have been considered to have unduly influenced executive remuneration levels, they are not representative of this niche area. They are certainly not so many as to require the Labor Party to consider regulating all as part of its election manifesto.

**There are clearly** opportunities for in-company HR compensation and benefits specialists to improve their profile and impact on their employers. To start, they can do a number of things to boost their skills and qualifications in the broader remuneration field.

They can become members of World at Work (formerly the American Compensation Association), attending its annual conferences and studying for its examinations.

They can familiarise themselves with shares/stocks (talking about Black-Scholes requires some practice). The development and management of stock plans has become something of a science in the US, made all the more complicated by the legislation that must be complied with. You should obtain some understanding of this for its relevance locally—and Australia does have a few specialists in this field.

Subscribing to local remuneration and benefits surveys of executive remuneration can help in becoming familiar with local pay trends for both local executives and those employed by international companies. You get only half the picture when buying compensation summaries compiled from selected annual reports.

Ultimately, delivering professional results to a compensation committee can only lead to you being better recognised as an effective specialist in your field. You can expect the directors and other managers to consult with you more in future. Many compensation committees comprise company directors with little specialised knowledge, and you have the advantage of being able to present pay for the company as a whole. Treating senior executives separately has been shown to be both impractical and inequitable.

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