

# REMUNERATION REVIEW

NUMBER 1 WINTER 2001

## THIS ISSUE

Executive pay the American way

Salary movement forecast

Pay trends 1980 – 2001

Global economic slowdown affects salary growth

Domestic employment

WorldatWork conference

Salary packaging post-Fringe Benefits Tax

CSi Web Watch

Client Services and Professional Services Team Updates

CSi welcomes...

Surveys for release and feedback sessions

Attend the Strategic Performance Management conference on CSi

## HOT TOPICS

Salary packaging – cash over benefits

'At risk' executive pay

## A REVIEW OF CURRENT REMUNERATION PRACTICES



L to R: CSi 'Old Timers', Jairus Ashworth, Kylee Small, Ian Bennington, Denis Dwyer and Peter Barton.

## EDITOR'S MESSAGE

**Attracting, retaining and motivating your staff is our business.**

CSi is proud to introduce 'Remuneration Review', our new quarterly newsletter.

In producing Remuneration Review, CSi aims to provide clients with up-to-date information on

current remuneration practices in Australia and around the world.

Each issue will feature articles about; remuneration trends, business, the domestic and global economy, survey results and analysis and CSi company news, all presented in an accessible and time-efficient 'grab-and-go' style.

With a company history dating back to 1985, CSi is a leader in the field of remuneration and salary and benefits surveys. Remuneration Review will draw on this experience, as well as an enthusiastic and growing staff base, to bring you quality information in a timely manner.

We hope you find the information useful and welcome your comments.

Erica Holburn, CSi Marketing and Communications

## STAT WRAP

The latest statistics indicate that the Australian economy is recovering from the fall in the December quarter, but unemployment, a lagging indicator of economic health, is still on the rise. Here are some current statistics:

- Unemployment for June 6.9 per cent (6.8 per cent in May)
- ANZ job ads figure fall of 1.7 per cent in June
- Consumer Price Index 6 per cent (annualised to June quarter 2001)
- Hourly rate of pay increase 3.7 per cent (March quarter 2000-01)
- General salary increase across all industries 6.1 per cent (annualised to June 2001)

Source: Australian Bureau of Statistics and CSi's General Combined Industries database.

## IT SPOT

According to the EL Executive Demand Index, demand for IT executives rose in June. However, the Australian Computer Society has suggested corporations will tighten up on salary increases\*.

"Should a major downturn occur in the US economy, the IT sector may well be an early and significant victim of decreasing world demand. Such conditions provide a difficult climate for both employment and salary levels," the ACS said\*.

CSi's Australian Information Industry Survey showed companies had anticipated an average increase of 6.2 per cent in salaries for 2001. CSi expects there will be a comprehensive review of 2001-02 increases, in light of the global IT industry slowdown.

The latest edition of the AIIA Survey is available in August.

\*Source: Connors, The Australian Financial Review, 16 July 2001.



RR

## TALENT PRIORITY FOR AUSTRALIAN BUSINESSES

According to an Australian Financial Review Boss survey, attracting and retaining key talent is a top concern for Australian businesses.

Attracting and retaining key staff was rated as important by 77 per cent of respondents and the most important by 9 per cent.

Employee happiness was an important issue for 75 per cent of respondents, as was motivating staff to better performance (74 per cent.)

Source: Australian Financial Review Boss Magazine, July 2001.

## WIN! ATTEND THE STRATEGIC PERFORMANCE MANAGEMENT CONFERENCE ON CSI

To attend the conference simply type an email with 'Strategic Conference' in the subject line with your name, company and contact number and in 25 words or less tell us what remuneration trends we can look forward to in 2002 and beyond (see page 4, for trends 1980-2001).

Send emails to:

[info@classalinfo.com.au](mailto:info@classalinfo.com.au)

You will be notified by phone and email if your application is successful.



## EXECUTIVE PAY THE ALL AMERICAN WAY— OR NOT?

The Australian Top Executive Remuneration Report, produced by CSi, has found that more Australian companies are choosing to incorporate 'at risk' or 'incentive' elements in their executive pay packages, aligning themselves with US practice.

Of the 571 companies participating in the CSi survey, 66 per cent reported they have long-term incentive plans in place, with share options the most common form of incentive, while the figure was 45 per cent in 2000. In the US, 98 per cent of the top 250 American companies by market capitalisation offer share plans.

"As executives become more and more responsible for company profits and performance, so to have remuneration committees attempted to align their reward structures to demonstrate a viable link to the achievement of these objectives," says CSi Associate Professional Services Consultant, Andrew White.

"Stock options align executive remuneration with the wealth they generate for shareholders. If the shareholder makes nothing, the executive should gain nothing on top of their base salary", said CSi Professional Services Manager, Jairus Ashworth.

Despite the increasing prevalence of incentive plans for Australian top executives, the CSi survey also found that as a proportion of the total remuneration cost, long-term incentives in the form of share options are decreasing, in contrast to the US trend.

In 2000, long-term incentives made up 24 per cent of CEO pay and 17 per cent of senior executive pay. In 2001, these figures decreased to 17 per cent and 14 per cent respectively. While in the US 49 per cent of total executive compensation is based on long-term incentives, 22 per cent on short-term incentives and 22 on base salary (source: Watson Wyatt).

### KEY POINTS

- Executive pay up by 6.9% at TRC
- 66% of companies using incentive plans
- 87% of companies say aligning pay with the market is most important
- Average CEO total remuneration cost \$503, 417
- Forecast salary movement, 6 per cent (2001-02)

CSi attributes this trend to the volatility of stock options as a remuneration tool, highlighted by the 'dotcom crash' in 2000; the conservatism of companies which have recently introduced long-term incentive plans and smaller awards paid out due to the economic downturn.

"The dotcom crash has highlighted the volatility of stock options as a remuneration tool. People are now more cautious about receiving large components of their pay in this manner," says Mr Nick Woodward, CSi Remuneration and Benefits Client Specialist.

CSi has also identified that the Australian marketplace can no longer afford to align the pay of non-multinational executives with global rates, given that global rates most often mean US rates.

Some 87 per cent of survey contributors regarded aligning pay with the local market as the most important issue in determining senior executive and CEO pay, followed by performance management and incentives.

"Rather than taking a broad spectrum of pay rates across international markets, Australian companies were looking to the US and the multinationals. This had the effect of inflating executive remuneration. Now we're seeing a trend where local companies are endeavouring to relate their executive award practices to the Australian market," said CSi Managing Director, Mr Peter Barton.

The Top Executive report is available now.

## PROFESSIONAL SERVICES TEAM



Jairus Ashworth

The CSi Professional Services team, headed by Jairus Ashworth, provides top level consulting support to clients. Some of their recent consulting projects include;

- Making recommendations to a professional services firm about how to remunerate senior executives when the business is spun off into a corporate entity
- Assisting a start-up technology company in establishing market-related and professional remuneration strategies

- Directing a corporate aircraft sales organisation on market-competitive remuneration levels and commission plan structuring
- Helping a company in the tourism industry address compensation and benefits issues associated with a merger

### Professional Services Presentations;

- The Salary Packaging and Rewards Conference – The Park Royal, Sydney, 30th July to 1st August.
- Strategic Performance Management Conference at the Merchant Court Hotel, Sydney, 14th & 15th August.

## GLOBAL ECONOMIC SLOWDOWN TO SLOW SALARY GROWTH

Low levels of inflation, increasing consumer and business confidence, and a booming Australian export sector have been undermined by continuing downward trends experienced in international markets, particularly North and South America and Japan.

The extent to which the ailing global economy will impact on future growth in the Australian marketplace remains the biggest economic uncertainty.

A fall in job vacancies highlights weakness in the domestic labour market stemming from the global slowdown and the effects of negative economic sentiment on employers. Some jobs have also been lost due to global cost cutting initiatives. This slower labour market is in turn easing wage pressures and keeping inflation at 6 per cent.

The unemployment rate for June was 6.9 per cent, with economists predicting that that figure may increase to 7.3 per cent during the September quarter.

Despite easing pressures on pay, Australia's largest general salary survey, involving 403 key organisations, has found that the total remuneration cost across all Australian industries had increased on average by 6.1 per cent for the year to June 2001.

The general increase, reported by CSI's General/ Combined Industry Survey, is well above the 3.7 per cent hourly rate of pay increase for the March quarter 2000 to 2001\* and is marginally higher than the Consumer Price Index rise of 6 per cent for the same period. The figure also exceeds average earnings growth of 3.5 per cent predicted by the

### KEY POINTS

- Easing pressures on pay stemming from weaker labour market and global slowdown
- Average TRC increase 6.1 per cent across all industries

Federal Government for the 2000-2001 fiscal year.

Big spending industries for salary increases were Telecommunications, averaging 9.1 per cent, followed by IT on 8 per cent and Banking and Finance with 6.4 per cent.

People employed in the Research and Development, Marketing and Sales fields saw the largest rises in their salary figures, with increases well above 7 per cent. The average total remuneration cost for employees in Sales rose by 9.6 per cent for the year.

This upward trend in domestic wages growth, as reported by CSI, is occurring while international markets are experiencing a slowdown in economic activity. The increases in labour market costs may act to tighten Australian business profit margins, while concurrently driving unemployment figures higher.

Being a somewhat lagging indicator of real market activity, the growth in wages for the year to June, as shown in the survey, may be at the peak of salary increases for 2001. The current slowdown in the labour market should act to slow wages growth for the September and December quarters.

The General/ Combined Industries Survey contains almost 40,000 lines of data and is by far the largest general salary survey available in Australia. The survey is available now.

*\*Source: Australian Bureau of Statistics*

## GLOBAL UPDATE

### NEW ZEALAND

- The New Zealand Institute of Economic Research says both skilled and unskilled labour remain difficult to find
- Unemployment is currently at a low 5.7 per cent (June) and a tight labour market is expected to maintain upward pressures on pay

*Source: The Australian Financial Review, 18 July 2001.*

### ASIA

- Export-dependent Japan, Singapore and Taiwan are headed for recession

### USA

- The American economy remains weak and unemployment is forecast to rise to between 4.75 and 5 per cent.

*Source: The Australian Financial Review, 20 July 2001*

## CLIENT SERVICES TEAM



*Kylee Small*

The CSI Remuneration and Benefits Client Services Team, headed by Kylee Small, is focused on assisting clients with salary survey data and customised surveys.

Some of the team's recent projects include:

- Undertaking a specialist job for a large Australian organisation, within a call centre environment and analysing remuneration plans for team leader and team member positions
- Recommending remuneration and benefits plans for specific roles within a leading Australian IT&T company
- Production of the AIIA and Computer Specialists within Leading Sites surveys

RR

## SALARY PACKAGING

Since the introduction of the Fringe Benefits Tax in 1986, salary packaging in Australia has changed significantly.

Packages are more cash-focused, with rewards consisting of annual bonuses and long-term incentive schemes in lieu of tax-effective fringe benefits.

CSI Associate Professional Services Consultant, Andrew White, believes there are four basic salary package components in 2001;

- Fixed pay
- Benefits
- Variable pay
- Long-term incentives

## DOMESTIC EMPLOYMENT

Growth is expected to pick up in the September and December quarters, buoyed by the construction industry.

Concurrently, unemployment is expected to remain at around 7 per cent as local business confidence grows steadily and the global slowdown sees Australian employers hiring somewhat conservatively.

Australian Bureau of statistics data for June suggests employers are cutting back on hours rather than retrenching staff.

The data shows that while unemployment rose by 1.3 per cent in June (a decrease of 39,400 full-time jobs), part-time employment grew by 36,400 jobs.

Current labour-market weakness is a result of the December 2000 downturn.



**WORLD AT WORK 2001 ANNUAL CONFERENCE**



Mr Peter Barton

Amongst the 2,000 attendees at the 2001 WorldatWork Conference at the Opryland Hotel in Nashville, Tennessee, was CSI's Peter Barton. Some of his findings are listed below;

- The Chairperson of WorldatWork, the Executive Director and first keynote speaker were all high impact women.
- The dotcom phenomenon is over and will be replaced by the 'dot. corp.' Established, traditional 'bricks and mortar' organisations will use the internet to conduct more of their business, becoming 'clicks and mortar' companies.
- A growing trend to "think global but act local."
- Stock is being revalued in some schemes, but not always for the CEO and executive directors.
- The 'Stock' or 'S' generation is a new generation of workers whose position depends on fluctuating stock prices. There are winners and losers depending on when employees got into the schemes.

The 2002 WorldatWork event is scheduled for 12-15 May 2002, in Florida.

**CSI WELCOMES...**

**Caroline Hill** to the position of Remuneration and Benefits Client Specialist Team Leader.

**COMPANY PROFILE**

CSI is a specialist remuneration organisation, which monitors pay practices through salary surveys & possesses one of the largest salaries and benefits databases in Australia.

CSI currently provides salary information to over 600 subscribers, enabling those companies to maintain market-competitive salary structures and concurrently attract, motivate & retain key staff.

CSI is a source of remuneration information for entire industries and individual organisations of all sizes.

**FAST FACT**

"Human resources has closed the gap on IT as the most common reason for engaging a consultant. In 1999-2000, 39 per cent of respondents engaged a consultant for HR purposes, against 60 per cent for IT; last year it was 50 per cent against 54 per cent; this year respondents expect it will be 44 per cent against 52 per cent."

Source: AFR Boss Magazine July 2001.

**SURVEYS FOR RELEASE**

**JULY**

- ACICG
- Contractors and consultant rates
- Computer Specialists within Leading sites

**AUGUST**

- Australian Information Industry (AIIA)
- New Zealand IT&T
- Telecommunications

**SEPTEMBER**

- New Zealand Sites
- Australian Business Equipment
- Insurance Remuneration Group

**CSI FEEDBACK SESSIONS**

**JULY**

- General Insurance Industry
- Business Equipment Industry Pre-survey meeting

**AUGUST**

- NZ IT&T
- NZ Telecommunications
- Australian IT (AIIA)

**CSI CONFERENCES**

- August- Peter Barton and Kylee Small will conduct an IT industry presentation for Singapore delegates
- August 30- CSI will hold a conference in Wellington, New Zealand, on the IT&T and NZ Computer Specialists within Leading Sites surveys. The first cross-survey feedback session.

**REMUNERATION 1980- 2002**

- 1980 Internal relativities and salary market competitiveness equally important  
Emphasis on Fringe Benefits
- 1986 Introduction of Fringe Benefits Tax sees remuneration become more cash-focused  
The new Schedule 7 of the Companies Regulations on the disclosure of directors', and senior executives' remuneration
- 1990 Salary market competitiveness foremost with less emphasis on internal relativity  
Focus on Total Remuneration Cost and "cashing out" salary packages
- 1994 Introduction of amended Fringe Benefits legislation sees further minimisation of FBT costs
- 1998 Company Law Review Bill on aligning executive pay with shareholder interests
- 2001 Focus on variable or 'at risk' pay  
Aligning pay with local market  
Movement away from aggressive option plans amongst start-ups, resulting from the 'dotcom' crash  
Fixed/ base pay small increases, while larger increases in variable pay
- 2002 Compulsory employer superannuation up to 9 per cent  
**See page 2 to have your predictions on future remuneration trends published**

**ON THE WEB**

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

- Products
- Services
- Support
- News Updates
- Soft copy newsletter



Classified Salary Information Services Pty Limited  
Chatswood Central  
Level 6, South Tower  
Railway Street  
CHATSWOOD NSW 2067

Tel: 61 2 9415 3455  
Fax: 61 2 9415 3347  
Web: [www.classalinfo.com.au](http://www.classalinfo.com.au)  
Email: [info@classalinfo.com.au](mailto:info@classalinfo.com.au)