

Remuneration Review

New Zealand Edition, Issue 11, Summer 2008



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

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 subprime 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.

Remuneration Dictionary

Job Evaluation

"The process of assessing the relative size of jobs within an organisation. Size is used to indicate the relative significance or importance of a job to an organisation."

From "Reward Management" by Michael Armstrong & Helen Murlis

New Salary Surveys in 2008

In response to overwhelming client demand, CSI is excited to announce the launch of brand new surveys to the New Zealand market. With the continued tight employment market conditions, the focus for New Zealand organisations remains on attraction and retention of employees. Market competitive remuneration is an essential foundation for an organisation's total rewards package.

New Zealand Media Industry Survey To Be Released In May

The inaugural edition of the New Zealand Media Industry Remuneration Report will be launched in May 2008.

The report is designed specifically for organisations operating within the New Zealand media industry, including those organisations involved in television/broadcasting, advertising, print, electronic and outdoor media.

New Zealand Publishing Industry Survey To Be Released In June

The New Zealand Publishing Industry Remuneration Report will be launched in June and published annually.

This survey is being launched due to the limited remuneration data presently available for the New Zealand Publishing industry.

The report will cover market-related remuneration information for key positions in the trade, tertiary and school sectors of the publishing industry.

Both of these reports will include:

- Detailed position descriptions and remuneration data for all surveyed roles
- Data by career level for each surveyed job family
- A survey highlights section that provides staff attrition/turnover reporting; analysis of same incumbent increases and survey-on-survey movement and salary budget forecasts
- An economic commentary
- A comprehensive HR policy & practice report
- Access to CSI's Data Centre

For further information on either of these reports or to participate phone Rachael Finnemore on (09) 579 9738 or email rfinnemore@csirem.co.nz.

More new survey information overleaf...

NZ Insurance Industry Remuneration Report

CSi is pleased to announce the launch of this bi-annual report which will be available in April and September each year. The first report is targeted for publication in September 2008.

Delivering comprehensive market-related remuneration information for key positions, the report will cover over 150 roles in the general insurance, health insurance, life insurance and insurance brokerage sectors in New Zealand.

CSi's Insurance Industry Remuneration Report will ensure organisations in this sector are able to accurately benchmark salary and benefit data amongst key competitors both in New Zealand and across the Tasman, which is critical in this current labour market.

NZ Call Centre Survey

Released for the first time in February 2007, the New Zealand Call Centre Remuneration Report is available to participating organisations.

The results include:

- A customised report detailing typical call centre metrics to assist you with benchmarking your call centre's performance
- A comprehensive report providing up to the minute policy and practice information within the call centre industry
- Market remuneration and salary packaging information for all surveyed call centre roles
- Staff attrition trends, salary budget forecasts and economic commentary

Further information is available at www.csirem.co.nz or phone Rachael Finnemore on (09) 579 9738 or email rfinnemore@csirem.co.nz.



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

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 to facilitate enhanced communication with, and empowerment of, reviewing managers.

Should you require this information before the next edition of our newsletter, please contact:

Rachael Finnemore
(09) 579 9738
rfinnemore@csirem.co.nz

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.co.nz/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 to your particular needs 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 statement 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 requirements.

For further information or for a demonstration of how the software can help you, contact Paul Wright on +61 2 8440 6500 or pwright@csirem.com.au.

Get More Out of Your Survey Subscription



Did you know that as a CSI client you can access detailed survey data online using CSI Data Centre?

This web-based tool is designed to provide you with access to the survey data you need at anytime, anywhere and in the format you require.

What data can you view and download in Data Centre?

Data Centre gives you easy access in one place to the remuneration data for all surveys to which your organisation subscribes.

Data Centre allows you to view and download remuneration survey data at varied market percentiles and in a number of different report formats.

Within each survey, you are provided with the facility to view or download the data according to the standard 'cuts' that are presented in your survey report.

For example, within the New Zealand General Industry Remuneration Report, average pay rates are reported by industry grouping, organisation size and region.

In the Data Centre, you can filter the data by these categories and view and download the filtered data

at the various market percentiles you need.

What reports can you view and download in Data Centre?

Data Centre lets you view the survey data in a number of report formats. Within CSI's hard copy survey reports, there is a standard reporting format, the remuneration table. As well as the standard remuneration tables, Data Centre allows you to view and download compa-ratios, and 'data dump' Excel reports.

Compa-ratio Report

The Compa-ratio Report shows employees' remuneration data alongside market remuneration rates for their role and the difference between the two. This report quickly highlights employees' remuneration that is outside of the market for their role (eg. more than 30% above or below the market).

Data Dump Excel Report

The 'Data Dump' Microsoft Excel report shows market remuneration rates for every role surveyed within a CSI survey report. ie. If you hold a subscription to the 'New Zealand General Industry Remuneration Report' then you will see a row on the 'Data Dump' Microsoft Excel Report for every role published in the survey.

How does Data Centre give you more market intelligence than the standard survey report?

1. Within a standard CSI survey report it is possible to view market data at the average and the 25th, 50th, 62.5th and 75th percentiles.

In Data Centre, you can view and download percentiles in aggregates of five, between the 5th and 95th (provided there are sufficient data samples).

2. On the lower half of remuneration data tables within standard CSI survey reports, average rates for 'select cuts of data' or 'filters' are presented in terms of Nominal Base Salary (NBS), Total Fixed Remuneration (TFR) and Total Remuneration Cost (TRC).

Data Centre allows you to view and download 'select cuts' of this data at varied percentiles for all salary and benefit items.

What are the benefits of using CSI Data Centre?

- The reports generated within the Data Centre make your data reporting, analysis and presentation processes more streamlined, efficient and cost effective.
- Data Centre gives you access to more detailed survey data and lets you view or download it in the exact format you require.
- You can access the Data Centre 24 hours a day, seven days a week from any secure location with an internet connection.

How do I gain access to Data Centre?

Data Centre is available to CSI survey subscribers and can be accessed in the secure area of the CSI website.

The majority of CSI's survey subscribers receive automatic access to the Data Centre as part of their survey subscription. In a small number of cases, survey subscribers need to take up an additional subscription specifically to the Data Centre.

For more information or help accessing Data Centre, contact Abbe McCauley at CSI on (09) 9579 9730 or amccauley@csirem.co.nz.

CSI Welcomes New Clients

- Electronic Transaction Services Limited
- Fire & Rescue Services ITO
- Land Transport NZ
- Mercury Energy
- Ministry of Social Development
- Pharos Systems
- Sky Network Television Ltd
- Waitakere City Council

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

Impact of KiwiSaver

To help our clients stay up-to-date on market trends and changes in remuneration policy CSI will be assessing the impact of KiwiSaver on New Zealand organisations.

We will be tracking company contribution rates to KiwiSaver as well as other Superannuation schemes and will therefore be able to provide valuable insight into market practice in this area.

This will be rolled out across all remuneration surveys.



Stat Wrap

| | |
|---|------|
| GDP (annualised September 07) | 2.7% |
| CPI (annualised December 07) | 3.2% |
| Unemployment (annualised September 07) | 3.5% |
| Wages Growth (annualised September 07) | 3.1% |

IT Spot

According to CSI's New Zealand IT Specialists Survey, employers of IT staff are predicting an average 4.1% salary increase for the 07/08 financial year.

The average salary increase at Total Remuneration Cost for incumbent employees between September 06-07 was 5.8%.

The voluntary staff attrition / turnover rate related to IT specialists is 18.5% (weighted average).

The New Hires Market

Employment Expectations According To The Hudson Report

The Hudson survey of permanent hiring expectations (www.hudson.com) for the six months to December 2007 recorded positive sentiment. The survey of 1,567 clients showed a positive net effect of 39%. Positive net effects have been recorded across all industries and regions. The results represent an increase of 5 percentage points on the previous survey (January - June 2007). This is the highest level recorded since the survey of July 2005.

Positive net effects were recorded across all regions surveyed. The South Island has, for the first time since January 2004 recorded the most optimistic results of all regions. With a net positive effect of 47.3% of respondents expecting to increase permanent employment expectations over the coming six months representing a movement of 10.4% on the last survey. Net positive results have also been recorded in the Lower North Island (net positive 44.9%) and the Upper North Island (net positive 33.3%).

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

The New Hires Market Continued ...

Job Vacancies Levels According To The Job Vacancy Monitor

According to the Job Vacancy Monitor (JVM) (www.dol.govt.nz), there were 5,858 advertised job vacancies measured in December 2007 down 4% compared to twelve months ago.

The number of vacancies in December 2007 is down 1% compared to the same period in 2003.

The total number of highly skilled job vacancies increased by 10% in the year to December 2007, whereas skilled job vacancies decreased by 10%. Semi-skilled/ elementary vacancies decreased by 4% since December 2006.

Employment Outlook According To The Manpower Survey

The Manpower Employment Outlook Survey (www.manpower.co.nz) for the October - December quarter of 2007 was conducted by interviewing a representative sample of 910 employers in New Zealand.

All survey participants were asked, "How do you anticipate total employment at your location to change in the three months to the end of December 2007 as compared to the current quarter?"

Of the employers interviewed in New Zealand, 31% said they expect to hire more people during the fourth quarter of 2007. Only 5% anticipated that their workforce would decline, and 62% expect no change.

CSi - The Remuneration Specialists
now produce the

New Zealand General Industry Remuneration Report

and the

New Zealand Top Executive Remuneration Report

For more information,
visit CSi's website:

[http://www.csirem.co.nz/Surveys/
NewZealand/index.htm](http://www.csirem.co.nz/Surveys/NewZealand/index.htm)



HR Spotlight

Fiona Michel

Head of Human Resources
IAG New Zealand

As Head of Human Resources, IAG New Zealand (incorporating NZI and State Insurance), Fiona Michel is responsible for the provision of effective tactical and strategic people solutions that 'make the boat go faster'. We spoke with Fiona to find out more...

What are your career highlights? Developing and implementing a global leadership development programme using outsourced providers across three continents.

What is your work background? I joined IAG in March 2006 after a ten year career with Bank of New Zealand, holding roles ranging from leadership development and sales management to my last position as Head of Organisational Development. Prior to this I spent eight years in the IT sector specialising in training and change management.

What is the most important element of remuneration management from your perspective? With a primary background in Organisational Development, having responsibility for remuneration is fairly new to me. As an end user remuneration always appeared to be terribly complex - like some sort of secret that was only decipherable by remuneration experts. What I have learned is that the best approach to remuneration is to keep it simple. Demystify it by educating managers to understand that remuneration is more art than scary science.

How has remuneration management changed in your organisation or in your industry over the past 12 months? Effective incentive programmes are a hot topic again. Pay for performance is essential - but adequate reward for that performance is critical to maintain engagement and performance momentum.

Describe something wild or distinctive about yourself... I once had a job that saw me working in the Prime Minister's office in the Beehive at midnight - alone...

What do you use CSi for? We primarily use CSi to benchmark IT salaries and for the Remuneration Decision Assistant (RDA) system which has revolutionised the annual remuneration review in our organisation.

Fiona holds a Certificate in Business Studies from Massey University

CSi - The Remuneration Specialists Limited GST Number: 93-022-365

Head Office - Level 12, South Tower, 1-5 Railway Street, Chatswood NSW 2067, Australia, Ph: +61 2 8440 6500

Melbourne - Level 9, 440 Collins Street, Melbourne VIC 3000, Australia, Ph: +61 3 9607 1361

Auckland - Unit 13, 22a Kalmia Street, Ellerslie, Auckland, New Zealand, Ph: +64 9 579 9733

www.csirem.com.au or www.csirem.co.nz

