

Remuneration Review

New Zealand Edition, Issue 14, 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.



Headlines 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 such as signing awards, how much does executive pay need to be increased and how cost it for the pack?

Subhead: Organisations understandably want to attract the best executive and pay them in a more competitive manner than others. Once established in the organisation, the pressure is then to continue to pay above average increases to 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 fully right-skewed market, we are seeing the executive remuneration landscape become flatter, more average and more fixed. Not only are remuneration committees being engaged to highlight negative or competitive executive pay practices, the executive themselves are wanting to make sure their own personal remuneration objectives are maintained in their right position.

Subhead: The 'velvet affair' is a commonly observed phenomenon, characterised by a desire of executives that cannot be revealed until announced. With regard to executive remuneration, this is a common trend in the UK, US and even 50th percentile trends in compensation. Results are being pushed to the 50th or even 75th percentile.

To illustrate the movements of executive fixed remuneration, the below graph compares the executive remuneration adjustment to that of the major inflation statistic, the Consumer Price Index (CPI), over the period 1995 to 2007. Growth in executive pay has far outperformed growth in CPI.

Subhead: The quality organisations continue to push their executive pay levels well beyond that of traditional percentile benchmarks (50th, 75th, 90th).

The Challenge: In the current environment of cost-cutting, executive remuneration cuts, it comes about that most organisations started focusing less on aggressively pushing their "On Target" remuneration levels or at least the upper quartile and less on ensuring that the more aggressive pay outcomes are only triggered by aggressive performance hurdles. Target the middle of the market and pay only top 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 New Zealand 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."

New in February: 2009 New Zealand Call Centre Report

The 2009 New Zealand 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 5,600 New Zealand call centre employees making it the most comprehensive survey of its type available to New Zealand 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

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Helping New Zealanders Make the Most of Life

Westpac has been helping Kiwis find the right financial solutions to suit their lives since 1861. Westpac is also one of the most recognised bank brands in New Zealand and is acknowledged as a leader in measuring and improving its impact in far more ways than just financial performance. For Westpac, this means taking a closer look at the impact on all stakeholders and the environment. With over 5,000 employees, aiming for continuous improvement in all areas of human resource management and leadership is a key focus to ensure progress towards achieving success with all stakeholders.

Westpac operated an in-house designed and managed, web-based tool for managing their remuneration process. Whilst leading edge at the time of implementation, the technology was approaching six years old and had had numerous upgrades to it during this time as the business needs changed. Several business risks were identified that needed to be dealt with to ensure the system was sustainable for the future.

"We were continually requiring technical support from original developers that was costly. Our changing needs meant that the developers were always looking for the "quick fix" solution resulting in the base code of the system becoming unstable," says Paul Louis, Westpac's Head of Remuneration and Performance Management. "We also found that we would benefit from an external view of how some parts of the process could be managed rather than us having to identify the problem, design the solution and instruct technology developers who did not always have an understanding of the user experience required".

Paul had utilised Pivot's Remuneration Decision Assistant (RDA) in a previous role and saw the advantages of moving to a commercially available configurable system. The recently upgraded RDA solution utilises the latest version of Microsoft .NET therefore it is able to easily integrate into their infrastructure. Pivot ensures the product remains up-to-date through upgrades that have been derived from proactively seeking customer feedback. "We now have value-adding features not possible in our own in-house system," says Paul.

There were high expectations by everyone due to the fact that from a business perspective the technical difficulties faced by the Human Resource team with the in-house version largely went unnoticed. Feedback from users gave the RDA system the "Thumbs up" saying it was very easy to use and delivered to their needs.

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 Rachael Finnemore on (09) 579 6733 or at rachael.finnemore@hewitt.com.

Hardcopy Survey Reports

Hewitt CSI is happy to offer survey subscribers the option to receive hardcopy reports, now produced in New Zealand, at a more cost effective rate.

In the interest of the environment, surveys and reports are currently sent out in softcopy (PDF) format. However, if you find hardcopy easier to manage and wish to receive hardcopy in addition to soft, please contact us on (09) 579 9733 to arrange adding hardcopy editions to your subscription.

Hewitt CSI Welcomes New Survey Clients

- Blackbay
- Community Support Services ITO Ltd
- HSBC

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>

Stat Wrap

GDP (annualised June 08)	2.6%
CPI (annualised June 08)	4.0%
Unemployment (annualised June 08)	3.9%
Wages Growth (annualised June 08)	3.5%

IT Spot

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

The average salary increase at Total Remuneration Cost for incumbent employees between September 07-08 was 6.5%.

The voluntary staff attrition/turnover rate related to IT specialists is 21.5% (weighted average).

The New Hires Market

The Hudson survey of permanent hiring expectations (www.hudson.com) revealed that the hiring stance of employers has softened from the previous aggressive stance displayed previously. A net positive 26.8% of the 1,969 employers surveyed indicated an intention to increase their permanent staff levels over the July-December 2008 period. This result is down 9.0pp on the previous period. The IT industry recorded the highest level of employer sentiment of all industries surveyed for the sixth period running.

Employer sentiment in the Upper North Island declined 15.5pp to positive 19.1%. Similarly, the South Island reported a 15.6pp decline in sentiment with a net positive 23.4% intending to increase permanent staff levels over the coming six months. The Lower North Island is the only region reporting increased sentiment compared to the first half of the year with a 2.7pp increase up to positive 38.9%.

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 ...

Employment Outlook According To The Manpower Survey

The Manpower Employment Outlook Survey (www.manpower.co.nz) for the fourth quarter of 2008 was conducted by interviewing a representative sample of 770 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 2008 as compared to the current quarter?"

The results show that employers report a steady level of hiring intention for the above mentioned quarter with 23% of employers expecting to increase their headcount. 14% are expecting to reduce their numbers and 62% are predicting no change at all. The resulting Net Employment Outlook for New Zealand is +9%. This result however, for the year-over-year outlook has weakened considerably, and for the second quarter in succession, New Zealand employers report their weakest Outlook since the survey was launched in Quarter 2, 2004.

There also existed different assessments of likely hiring activity based on different regional locations. Employers in Wellington gave the most favourable assessment with a Net Employment Outlook of +15%. Auckland and Christchurch were more subdued with their assessments yet still see opportunities for job seekers with Outlooks of +9% and +10%, respectively.

In all seven industry sectors, New Zealand employers anticipate increasing their headcount however the extent of their optimism varies. The most favourable Net Employment Outlook is reported for the Services sector, at +17%. Employers in the Finance, Insurance & Real Estate sector and Public Administration & Education sector both report hopeful Outlooks, at +13%. However, in the Wholesale & Retail Trade the Outlook is a modest +4%.

Note: the "Net Employment Outlook" figure is calculated by taking the percentage of employers anticipating total employment to increase, and subtracting from this, the percentage expecting to see a decrease in employment at their location in the next quarter.



HR Spotlight

Connie Nicholson
Manager - People Capability
Crop & Food Research

Connie Nicholson leads the HR function for Crop & Food Research as the Manager - People Capability. Crop & Food Research is a Crown Research Institute wholly owned by the New Zealand Government. It is a science and technology company, undertaking significant research both for private companies and for the public benefit through contracts with the Foundation for Research, Science and Technology (FRST). We spoke to Connie to find out more...

What are your career highlights?

I would have to say winning HRINZ's HR Young Practitioner of the Year in 2006, and my current involvement in a merger between Crop & Food Research and HortResearch.

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

In the last 6 months we have clarified our remuneration strategy and approach, provided managers training on both remuneration practices and in leading discussions with their employees on decision making. We implemented the RDA (Remuneration Decision Assistant) software with the assistance of Hewitt CSI. RDA has assisted managers with the remuneration review process, reduced administration and enhanced transparency for senior management on remuneration decision making across the entire organisation.

How do you spend your time outside of work?

In addition to ongoing study, I'm getting married on New Year's Eve - my partner and I are so over wedding details!

What do you use Hewitt CSI for?

We use Hewitt CSI for the development of our remuneration frameworks and for guidance and advice on market data and movements. The consultants at Hewitt CSI recently facilitated a number of our training workshops for our managers. It has been really great having that expertise available to our organisation.

Connie holds a NZ Diploma in Business, Diploma in HR Management and Bachelor of Business Management. She is also currently completing her HR Management major.