

# REMUNERATION REVIEW



NUMBER 2 SUMMER 2001/ 02

## THIS ISSUE

Remuneration for regional roles

Trends in ICT remuneration

Executive pay in the media

Pay overview 2001

HR salaries

Domestic economy

Global economy

New Zealand pay increase trends

CSi Professional Services

Surveys for release

Survey feedback sessions

## HOT TOPICS

'White-collar' recession

Uncertain global economic outlook

Resilient Australian economy

## A REVIEW OF CURRENT REMUNERATION PRACTICES



CSi's department heads Jairus Ashworth, Kylee Small, Peter Barton and Stephen Gee, wish all clients a happy holiday.

## EDITOR'S MESSAGE

You would be forgiven for thinking that media reports concerning the domestic economy over the past few weeks have been a little gloomy. With the exception of a few spirited accounts of how Harry Potter, housing construction and consumer spending will save the day, it seems the global economic outlook remains the great uncertainty for Australia in 2002.

From redundancies to 'downsizing', 'rightsizing', falling corporate profits and corporate collapses, to recruitment freezes and poor business sentiment, all roads lead to a weak labour market, particularly in the business services sector, and soft pressures on pay.

We here at CSi would like to take something positive from all the negative hype. From an HR perspective, it is the tough economic times that can be used to re-examine the way staff are remunerated, in order to reflect overall business objectives.

In this issue of Remuneration Review we look at remuneration trends in the Information and Communications Technology sector; Jairus Ashworth discusses regional reward management; and Peter Barton talks about executive pay.

We hope you find the Summer 2001/02 issue informative and look forward to bringing you Remuneration Review in the New Year.

Erica Holburn, CSi Marketing and Communications

## STAT WRAP

By all accounts the economy is slowing, the flow-on effect being a weaker labour market. However, there are some positive signs, including economic growth, that the Australian economy remains resilient in the face of global recession. Here are some current statistics:

- Domestic economic growth of 2.6 per cent annualised to September 2001
- ANZ job ads figure fall of 0.8 per cent in November
- Unemployment for October 7.1 per cent (seasonally adjusted)
- Consumer Price Index rise of 2.5 per cent (September 2000 to 2001)
- Wage Cost Index rise of 3.6 per cent (September quarter 2000-01)
- Median general salary increase of 5.5 per cent at total remuneration cost
- 3.3 per cent fall in corporate profits for September
- RBA interest rate cut to 4.25 per cent

Source: The Australian Bureau of Statistics and CSi's General/Combined Industries Database

## IT SPOT

The Information Technology sector continues to suffer as a result of the dot-com crash and the global economic downturn. While business investment is expected to pick-up in 2002, the outlook is still uncertain, with IT projects being postponed until the economy fully recovers.

- In late October, the Australian office of the United States research company IDC revised its forecast for growth in the Australian IT industry this year from 4.6 per cent to 2.9 per cent. Growth in 2000 was 10.1 per cent.
- The Department of Employment and Workplace Relations' ICT Vacancy Index fell by 19.6 per cent over the four weeks to mid-November 2001.
- Between 6,000 and 10,000 people have been retrenched this year out of a total IT industry workforce of about 200,000.

See our article on page 2 for more ICT Industry information.





**EMPLOYERS HIRING CAUTIOUSLY**

The quarterly TMP Worldwide Job Index showed that Australian employers are extremely concerned about the global and local economies, with a net effect of 12.1 per cent of organisations intending to create jobs in the next quarter.

A growth in part-time employment points to a preference amongst employers for temporary or part-time placements in uncertain times. The Australian Bureau of Statistics reported that part-time employment rose by 74,700 jobs in October.

Source: HR Newsmagazine, December 2001.

**NZ STATISTICS**

The Labour Cost Index (salary and wages rates) increased by 0.6 per cent in the September quarter, a rise of 2 per cent since September 2000.

Survey respondents reported that one in three increases in ordinary time pay rates during the past year was to match market rates or retain or attract staff. Three in five pay increases of more than 5 per cent were also for these reasons and annual increases of more than 5 per cent have become more common.

- Unemployment rate 5.2 per cent (annualised to September quarter)
- September quarter CPI up 0.6 per cent from June quarter
- CPI 2.4 per cent (annualised to September 2001)

Source: Statistics New Zealand



**REGIONAL REWARD MANAGEMENT**

An increasingly important remuneration issue in Australia is how to reward employees with Asia Pacific responsibilities. CSi Professional Services Manager, **Jairus Ashworth**, looks at compensation issues for these roles.

Multinational corporations, for which the remuneration of employees with multinational responsibilities is an important issue, typically divide the globe into four regions: the USA; The Americas; Europe, the Middle East and Africa; and the Asia Pacific.

CSi has found that the Information Technology, Telecommunications, Medical Equipment, Pharmaceutical and Financial Services industries commonly follow this model.

There are some very interesting issues which arise from the management of rewards on a regional level. The development of a regional rewards strategy, or at least a series of internally coherent policies and practices, requires consideration of many factors. A few of the considerations typically include:

*Executives versus individual contributors:* To what extent do regional responsibilities increase the complexity of the work undertaken?

For executive roles regional responsibilities involve; significant travel; the effective management of staff from other cultures who may only be in direct contact on an annual basis; and the development of a set of unique local programs which must pull together into a regionally coherent strategy.

In this case there is clearly an added dimension that comes with regional responsibilities. However, it should not be automatically assumed this occurs. In CSi's experience, some roles with an Asia Pacific focus are not significantly more complex than those focused on Australia. For example, an employee who simply provides regional technical support for a product, with no specific people management, travel or developmental responsibilities, should be accommodated for in the normal salary range.

*Matrix organisational structures:* The reality of power balances within an organisation also has an effect on remuneration for regional roles. Whereas in many organisations a regional role is seen as requiring a higher level strategic consideration and greater re-

sponsibility, it is not unheard of for the regional office to be seen as an added layer of bureaucracy, fulfilling an administrative and coordinating role rather than as a driver of strategy. Where revenue and earnings targets overlap, an unclear appreciation of the internal *real politik* will most likely result in exposure to excessive compensation costs and bonus payouts.

*Isolating causative factors:* In sizing and market pricing a job it is important to appreciate that Asia Pacific responsibilities are just *one element* affecting pay. A failure to take into account other factors such as company size and industry, which have a greater effect on pay, will lead to errors. Remember that multi-country responsibilities are just one variable affecting the value of a job.

We have come across many instances of smaller companies which employ executives with regional responsibility. However, the dollar value of the area under their control is often less or equal to positions in larger companies with Australia-only responsibilities.

*Market Practice:* CSi's experience is that regional pay issues are often dealt with on an ad-hoc basis rather than as part of an integrated pay strategy. Hence, common practice is to apply an arbitrary percentage uplift (see table) or move the job up into the next salary grade.

Number of Countries Responsible For	Range of Base Salary Premiums	Average Premium
1 Other (Typically New Zealand)	0-14%	5%
2-5 Others (Sub Region eg. South East Asia)	12-30%	12%
6-12 Others (Region eg. Asia, Americas)	12-45%	21%
More than 13 Other Countries (Multi-regional, Global)	13-53%	28%

Source: CSi's Australian Top Executive Remuneration Report 2001

CSi Professional Services invites organisations grappling with issues relating to regional pay to contact us to discuss how we may be able to assist.

**PROFESSIONAL SERVICES TEAM**

The CSi Professional Services Team, headed by Jairus Ashworth, assists organisations with the creation of remuneration solutions that enhance and improve business performance. Some of the team's recent projects include:

- The preparation of a market remuneration review for the Australian operations of a large global IT organisation. This involved job analysis interviews with 15 of the organisation's top executives and the collation of highly targeted market data benchmarks for each role. Recommendations were made for base salary, benefits and short- and long-term incentive amounts.
- The preparation of a document outlining

competitive market practice for non-sales incentive plans for staff at all levels within a telecommunications company.

- The implementation of CSi salary review management software for a manufacturing and service organisation.
- The publishing of a report examining methods of structuring executive pay in the service industry. The paper discussed how base salaries are determined; the weighting between fixed pay, short- and long-term incentives; differences in remuneration strategy based upon ownership structure; and the performance criteria upon which performance pay plans are based.

For further information about how CSi Professional Services can assist you please contact Jairus Ashworth by phone on +61 2 9415 3455 or email at [consulting@classinfo.com.au](mailto:consulting@classinfo.com.au).

## CURRENT TRENDS IN ICT REMUNERATION

The Information and Communications Technology sector has for many years been one of the highest paying fields in Australia. In more recent times, Y2K preparations, GST compliance and the boom in e-commerce have ensured that those specialists working in the industry have been in high demand and amongst the better-paid employees.

However, the demise of the dot-com's, the recent spate of corporate collapses, September 11 and the current economic downturn have created low business confidence and subsequently both global and local corporations are tightening-up expenditure on every level. This is reducing demand for those products and services produced by the ICT sector.

With profit warnings, retrenchments, restructurings and recruitment and wage freezes already on the agenda, CSI is currently reviewing remuneration trends in the industry.

The Department of Employment and Workplace Relations' ICT Index shows there are 70 per cent less vacancies and new projects for IT professionals now than a year ago and premiums paid for 'hot' IT skills (skills that are in demand, but in short supply) have dropped sharply from 21.5 per cent in November 2000, to 6 per cent in November 2001.\*

This suggests that companies are experiencing less pressure in the market for specific hot skills and that the 'up-skilling' of IT professionals has led to an increase in the supply of candidates to the market. These supply and demand factors have combined to produce an environment where IT salaries have reached a level of stability, and in some cases decline.

CSI Managing Director, Peter Barton, says that IT companies, particularly in the hardware sector, are treating pay increases very differently now, with some freezing them altogether. "For those companies giving increases, the move is now likely to be around 3 to 6 per cent, depending on the industry sector; Hardware and Professional Services being lower and Outsourcing and Software slightly higher," he said.

CSI Associate Professional Services Consultant, Andrew White, says the market saturation of skilled IT employees has created an 'employers market', where reduced pay increases are generally accepted.

## GLOBAL UPDATE

While the US is currently in recession, driving export-dependant countries such as Japan and Singapore also into recession, talk has now turned to 'when will the turnaround come?'

The OECD predicts that industrialised economies will remain weak until mid-2002, before further government monetary stimulus in the US sparks a global recovery.

CSI's Kylee Small says that while some Australian operations are doing well, they and their pay levels are suffering due to the US economy.

"Here we have positive signs such as building approvals, GDP growth and consumer spending," she says, "but that performance is being undermined by weak US profits and subsequent downsizing exercises by the corporate US head-office."

## KEY POINTS

- 'Hot' skill premiums down to 6 per cent
- Anticipated ICT salary increases 3-6 per cent
- Creative remuneration instead of redundancy

The slowing demand for telecommunications services has been exacerbated by the global ICT downturn, while the deregulation of the sector has resulted in the demise of those smaller companies unable to generate sufficiently high margins in the competitive new environment.

The speed of change within the industry caught many by surprise, particularly the dramatic downward effect on pay increases. Speaking after the Telecommunications survey feedback session in September, Remuneration and Benefits Client Specialist, Natasha Edwards said, "The market has gone flat. Anticipated salary increases are now generally between 3 and 5 per cent, in contrast to the 6.2 per cent increase anticipated by participants in August."

Businesses are now concerned with 'downsizing' or 'rightsizing' staff levels. Some telecommunications companies, in lieu of reducing the headcount, are opting to grant talented staff four-day working weeks, extended leave on reduced pay levels and frozen pay increases. Others are simply reducing variable pay payments, pre-empting an economic and industry recovery. Recent times have been very awkward for those specialists used to high levels of incentive pay topped up with high valued long-term rewards in the form of stock.

With a 3.3 per cent drop in corporate profits for the September quarter, employment and wages growth in the ICT sector are expected to remain modest over the next quarter, despite growing optimism about the resilience of the Australian economy.

How volatile pay rates will become in the future will depend on how strongly the community embraces new technology in the emerging dot.corp, e-commerce and mobile phone (data/SMS and image) environment. Even then, the over-supply of specialists, the move to outsourcing, and a lack of new projects may cause ICT pay to remain cool for some time.

\*Source: CSI's Computer Specialists within Leading Sites Salaries and Benefits Survey

## CLIENT SERVICES TEAM

The CSI Client Services Team, headed by Kylee Small, provides clients with everything from specialised job pricing and departmental market reviews, to personalised remuneration information, job analysis, salary benchmarking and customised salary and benefits surveys. Some of the team's recent projects include:

- Reporting on manufacturing, support and logistical roles for a leading health product manufacturer. Part of the project included a soft benefits survey and an examination of rates of pay in a suburban environment.
- Producing a pay and benefits report involving Taiwanese and Chinese-based ICT organisations for a leading Australian ICT company.

## HR SALARIES TAKE OFF

The November 2001 edition of CSI's General/Combined Industries Salaries and Benefits Survey shows HR salaries are leaping ahead of traditionally high-paying job fields.

HR salaries saw a median increase of 7.4 per cent at total remuneration cost, for the year to November 2001, while Computing lagged behind on 5.5 per cent.

This is reflective of the current marketplace and particularly of the over-supply of skilled candidates to the Computing field.

The other high-earner was Research and Development with a 7.9 per cent increase over the same period.

## DOMESTIC ECONOMY - HAS THE WORST PASSED?

Housing and consumer spending are the two areas currently keeping the Australian economy afloat. The low Australian dollar is also helping the export sector, but it is unknown if or when the global economic recession will really hit the domestic economy.

In its *Economic Outlook* report, the OECD says the Australian economy will be one of the fastest growing Western economies in 2002, with business investment overtaking the housing construction sector in accelerating economic growth over the next two years.

However, the effect that the current trend of corporate downsizing will have on exacerbating the downturn will become obvious in 2002.



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## EXECUTIVE PAY IN THE MEDIA

When the reporting season rolls around each year and executive salary figures are released to be scrutinised by shareholders, the media, and the public, we at CSI look on with trepidation.

This reporting season, the media had a field day, with the exorbitant bonuses paid to One.Tel directors still fresh in the public's memory. Headlines such as 'CEOs don't go hungry', 'How much is too much?' and 'Greater disclosure has led to pay boom' graced the front pages of our newspapers.

Two Sydney-based newspapers reported that Australian chief executives are now the third-highest paid in the world, behind the US and UK, rising 73 per cent over two years, to an average annual pay package of \$1.3 million. This information was sourced from British business journal *Management Today*.

"This figure is misleading," says CSI Managing Director, Peter Barton, "CSI's Top Executive survey shows \$1.3 million to be excessive, but unfortunately the fact it has been published may cause Australian CEOs to believe salaries over \$1 million are the norm. It, in fact, only applies to the very largest firms. The media creates this perception that executive pay is out of control and this itself has the ability to inflate executive pay."

CSI's 2001 Australian Top Executive Remuneration Report, which surveys executives in companies with annual turnover from under \$25 million to over \$1 billion, reported that the average total remuneration cost for Australian executives is \$503,417 (not including stock).

CSI's findings are corroborated by the Australian Institute of Management, who says that the CEOs of companies with annual turnover of \$200 million or more earn an average salary of just over \$500,000 a year.\*

The current global economic downturn has seen executive bonuses reduced, with some receiving no bonus at all, and 'at risk' components of pay falling in line with the market. "Executive pay is a confused market, but generally speaking, executive salaries are moving in line with the general salary market," Peter says, "Some have forgone bonuses or have been affected by wage freezes. It's really relative to the performance of the company and the industry in which the executive is involved."

While senior executives and company directors name the disclosure of executive pay as the primary reason for rising salaries, surely sensational media reporting is another.

\*Source: Sydney Morning Herald, 20 August 2001.

## FAST FACT

"It is reasonable to suggest that some organisations will have no option but to reassess priorities and restructure to survive... Many organisations, particularly in the service industries, have high salary related costs that range from 60-90 per cent of total expenditure. Without improved business activity, redundancies in these enterprises will become inevitable."

Source: Burns, *The Australian Financial Review*, 3.11.01

## SURVEYS FOR RELEASE

### DECEMBER

General/Combined Industries  
General Insurance

### JANUARY

Computer Specialists within Leading Sites

### FEBRUARY

NZ Computer Specialists within Leading Sites  
Travel  
Telecommunications

### MARCH

Australian Information Industry (AIIA)

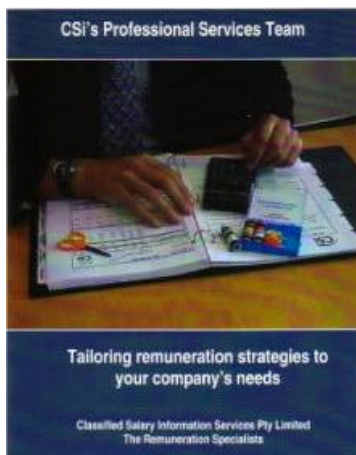
## SURVEY FEEDBACK SESSIONS

### FEBRUARY

ACICG

### MARCH

New Zealand IT&T  
Telecommunications



## PAY—WHAT TO DO IN 2002

2001 has been a difficult year with a number of well-documented events having a major effect on the Australian economy and the way we pay people. CSI's **Peter Barton** gives an overview of the pay market as it was in 2001 and what to expect in 2002.

- We have moved rapidly from an 'employees' to an 'employers' market.
- Senior executive pay is going to become even more transparent and needs to be defensible due to the demise of major Australian corporations, One.Tel, HIH and Ansett.
- Salary increases are going to be very conservative. Increases of 6-7 per cent that we had seen through the year will now fall to 3-5 per cent, or lower. Concurrently, interest rates are low and the CPI is expected to fall to rates lower than 2.5 per cent.
- Some positions may disappear and never return, especially those in the dot-com environment.
- Jobs that offer stability and security, that may pay less, will become more popular.
- Generation X is now enduring tough economic times and will benefit from learning from those who have endured recessions before.
- Remember that variable pay is just that, it goes down in slow times. Employees will want to resist this unfortunate truth.
- Likewise, share grants are unattractive at the moment but will become more so as the market becomes 'bullish' again.

## COMPANY PROFILE

Classified Salary Information Services Pty Limited has been delivering customised remuneration solutions and salary surveys to companies, in Australia and New Zealand, since 1985. Today CSI is a leading provider of salaries and benefits information.

CSI equips clients with accurate survey data, while also providing dedicated customer support and a range of specialised remuneration services. Our surveys are considered an essential tool for organisations in industries ranging from information technology to the medical and travel.

With the help of CSI's surveys and services, employers, human resource and finance managers are able to use remuneration effectively to attract, motivate and retain staff.



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