

Remuneration Review

New Zealand Edition, Issue 5, Winter 2006



20/20 Hindsight with CSI MD Jairus Ashworth

Incentive Plan Design: Just How Bad Were The One.Tel Bonuses?

Cast your mind back to 2001 (is it really 5 years ago?) when the One.Tel annual report revealed the payment of \$7m-odd bonuses to the joint managing directors hot on the heels of a sharp drop in share price and a real concern about the company's ongoing viability. Based on hindsight, the payments were quite clearly ridiculous. But as remuneration practitioners we do not have the benefit of hindsight when devising incentive plans. If you were advising the board of One.Tel in 1998 on your opinion of these proposed incentive plans, what would you have suggested?

CSI would like to examine the plan in close detail; we believe that there were fundamental problems with the plan but the ones we have uncovered are not necessarily consistent with what was headlined in the media.

Plan Detail

The incentive plan was restricted to the joint managing directors of One.Tel, Bradley Keeling and Jodee Rich. The plan was to pay out fixed amounts (denominated in \$US dollars) upon reaching certain targets in terms of market capitalisation within certain time frames, as detailed in the following table:

Market Capitalisation	Bonus Payable (each; cumulative)
A\$1 billion	US\$1 million
A\$2.4b	US\$2.5m
A\$3.4b	US\$1m

The market capitalisation hit A\$5 billion in November 1999, triggering entitlement to payments of US\$4.5 million each (at the time, A\$6.9 million).

Analysis: The problems with the use of Market Capitalisation as a sole measure of success

One.Tel was a relatively closely held company, with the joint Managing Directors, News Corporation and PBL, owning more than 75%

of the issued shares. This meant One.Tel stock lacked liquidity and that the share price (and hence market capitalisation) was quite volatile. When demand for the stock was high, the share price was artificially high, and the converse applied in times when demand was low. Hence, liquidity issues meant this measure was potentially flawed.

Of more concern was the very narrow basis against which success was measured. Good practice suggests a mixture of measures be used to ensure there is no 'gaming' of individual components of the system. For instance, plans may also measure profitability (EBIT, etc), cash flow, customer attraction and retention (and billing!) and cost controls.

There is also concern at the quantum of the bonuses, the amounts seeming out of line with normal market practice (over the three years 1998-2001, they amount to 400% of Base Salary).

Refutation

The joint Managing Directors were entrepreneurs, not agents. They were both substantial holders of One.Tel stock (both were paper billionaires at one point) and hence one would think they needed little additional motivation to manage the company to the best of their ability. It is unlikely the bonus plan would cause them to sacrifice the long term viability of the business to meet short term market capitalisation targets. As major shareholders, the MDs already had complete alignment with other shareholders and hence the bonus payment probably had little motivational or retention effect. Their sale of shares to new investors had netted each tens of millions of dollars. And each had a separate share option plan which was potentially far more lucrative.

The worst aspect of the plan was probably that it was to be paid in cash; the short supply of which was what eventually bankrupted One.Tel.



CSI News

New Zealand Office Launch Parties

CSI celebrated the opening of its New Zealand office in July with a series of cocktail parties hosted by Managing Director Jairus Ashworth and New Zealand Practice Manager, Rachael Finnemore.

Representatives from leading New Zealand businesses were in attendance, including ASB Limited; Axon Computer Systems; Bank of New Zealand; BECA; Canon New Zealand; Eagle Technology Group; Fonterra Co-operative Group; Invitrogen Australia; Living Cell Technologies; Microsoft; Noel Leeming Group; Oracle New Zealand; Vodafone New Zealand; and Westpac.

The parties provided a great opportunity for CSI to show off the new office premises in Newmarket. They also allowed attendees to get to know each other and share information.

Due to the level of lively debate on HR issues, CSI will be establishing ongoing networking groups for CSI clients in Auckland and Wellington.

In facilitating the networking groups CSI hopes to assist in creating a space for the HR community to meet and discuss HR/remuneration issues and policies. Within this space HR professionals will be able to enhance their learning through debate; be challenged by the ideas and experiences of others; and build a network of valuable HR contacts.

Should you wish to become a member of a CSI networking group in Auckland or Wellington, please contact Rachael Finnemore on +64 9 522 8194 or rfinnemore@csirem.co.nz for further details.

CSI would like to thank all of the clients who attended the office launch parties and helped to make the opening of the New Zealand office an event to remember!

Congratulations to Amy Bull, Analyst - Performance & Rewards of Fonterra Cooperative Group for winning the NZ Office Launch Party Prize Draw.

Amy and her HR team enjoyed a 'morning tea shower' compliments of CSI.

Inside This Edition:

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- Employee Turnover – A Critical Business Issue
- HR Spotlight: James Rutherford, HR Manager, Microsoft
- Remuneration Training
- CSI's Soft Copy Surveys
- Stat Wrap
- Employment Expectations
- Job Vacancies
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What's Happening?

Remuneration Training

REM101 - An Introduction To Remuneration

This seminar will provide a broad introduction to remuneration and its role in HR. You will achieve a working knowledge of the important elements of remuneration management, from the 'big picture' to the specifics of day-to-day practicalities. The course contains several hands-on components aimed at reinforcing the theoretical learnings.

When?

Auckland

Monday, 11th September 2006

Sydney

Monday, 25th October 2006

Melbourne

Monday, 25th October 2006

Who Should Attend?

HR generalists wanting a refresher course in remuneration or junior to mid-level staff requiring a comprehensive introduction to this important part of the HR function.

Registration Fees

\$880 (inc GST) per participant. Discounts apply for organisations sending 3 or more participants.

How To Register

Go to: <http://www.csirem.com.au/Training/calendar.htm> or phone Christine Rulli at CSI on +61 2 8440 6529.

CSi Gets Soft!

On 1st July 2006, CSi transitioned all clients to softcopy surveys. This initiative provides a way for CSi's valued clients to share in the benefits that technology has brought to our products and allows CSi to make a contribution to the global efforts towards preserving our environment.

Key benefits of the softcopy surveys include their portability and the choice to either maintain the reports as softcopy or to print out the relevant pages when required.

For more information on this initiative, please contact CSi on +61 2 8440 6500.



Current Business Environment

Stat Wrap

GDP 2.2%
(annualised Mar 06 trend figure)

CPI 4.0%
(annualised Jun 06 trend figure)

Unemployment 3.9%
(annualised Mar 06 trend figure)

Wages Growth 3.0%
(annualised Mar 06 original figure)

Employment Expectations

The Hudson survey of employment expectations (www.hudson.com) for the six months to December 2006 has recorded positive sentiment.

The survey of 1,705 clients showed a positive net effect of 36.0%. While positive net effects have been recorded across all industries and regions the results represent a decrease of 0.6% on the previous survey and is the lowest level of sentiment recorded in two years.

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

Job Vacancies

According to the Job Vacancy Monitor (www.dol.govt.nz), there were 6,695 advertised job vacancies measured in June 2006, 4% fewer than in the same period 12 months earlier. The rate of growth in advertised vacancies has slowed off a peak of 26% in April 2004. Vacancies have declined in every month since October 2005 compared to the same period a year earlier.

The number of highly skilled job vacancies in June 2006 (1,254) was at exactly the same level as one-year earlier. This zero growth figure compares with average annual growth of 20% over the first three-quarters of 2005.

IT Spot

According to CSi's NZ IT/Computer Specialists Survey, employers of IT staff are predicting an average 4.4% salary increase for the 06/07 financial year.

In comparison, the average salary increase at total remuneration cost for incumbent employees between March 05-06 was 5.7%.

By Penny Fox, CSi's Remuneration Specialist

Employee Turnover – A Critical Business Issue

Employee turnover can have a number of functional outcomes for organisations in terms of bringing in 'new blood' and fresh ideas into the organisation – preventing a stagnating workforce and encouraging innovation and adaptation to rapid change.

However, the advantages of turnover only exist up to a certain level, after which the costs tend to outweigh the benefits. As such, turnover remains a critical business issue because it can have significant impacts on the bottom line if not properly managed.

A key starting point for a strategic approach to managing turnover and retention is detailed and accurate measurement and diagnosis of the issue (via a cost-benefit analysis).

This requires collecting data on turnover, including the reasons why employees are leaving. A critical part of this process is the collection of data by an independent party, not the employee's manager.

This process also requires careful consideration of both the obvious costs associated with replacing employees, and also more intangible or 'hidden' effects such as lost productivity; operational disruption, particularly in a team environment; effects on employee morale and company image; and customer service.

While industry benchmarks can be an important indication of market pressures, it is important within organisations to consider the full impact of turnover, because a high attrition rate is not necessarily alarming if the turnover is not costly. In some cases the cost of reducing turnover may outweigh the cost of turnover itself.

Turnover is generally a function of alternative opportunities and job satisfaction. In an 'employees market' moving jobs is easy, so job satisfaction becomes the major determinant of turnover; it is also the only factor organisations can really control.

As a preventative measure, ensure that recruitment and selection processes address the notion of cultural 'fit' between the

employee and the organisation turnover to occur.

Once you are confident in the recruitment processes, consider the other pieces of the employee value proposition, i.e. learning & development; remuneration; work/life balance; recognition; and career progression. Each component of this offering should be given equal weighting and consideration on a per employee basis. For example, when determining rates of remuneration offered, it is important to understand and pay market-related rates. This will minimise the potential for employees to feel dissatisfied or undervalued in a tight employment market.

Finally, if employees perceive the management of turnover and retention to be inadequate, this can impact on their broader perceptions of the HR department and the organisation as a whole, as well as their job satisfaction and performance.

Tips For Managing Turnover:

1. Be seen to be addressing turnover/retention issues.
2. Collect accurate and detailed information on turnover.
3. Consider the intangible impacts of turnover, not just the obvious costs.
4. Know your demographic/s and tailor retention initiatives accordingly; focus on employee satisfaction.
5. Get it right by starting with recruitment and selection.

New CSi Report - Available Now!

New Zealand Top Executive Remuneration Report

Your definitive guide to market remuneration rates and salary packaging arrangements for top executive roles

More Info:

<http://www.csirem.co.nz/Surveys/NewZealand/TopExec/index.htm>

Ensuring Your Salary Review Yields A ROI

Funding employees' salaries and benefits packages is typically one of the largest investments organisations will make in any financial year. The annual salary review is a process which directly affects the cost of this investment. It is therefore a significant organisational event and depending on how it is managed, it can have positive or negative implications for the profitability of an organisation.

This article provides an overview of the key activities that should take place at various stages throughout the salary review process to ensure a return on investment (ROI).

Prior to the commencement of salary review

- Review your organisation's remuneration strategy and ensure you have a clear idea of:
 - your organisation's target market/s and target market position/s for the different areas of your business;
 - the optimal mix of base salary, benefits and performance (variable) pay within employees' salary packages;
 - how your organisation links pay to performance;
 - the benefits offered to your employees and whether new benefits will be introduced as part of the salary review process;
 - your organisation's approach to structuring and communicating employees' remuneration and benefits packages. Consider *what* needs to be communicated and *how* it will be communicated.
- Set salary review budgets.
- Determine how the salary review will be run, who will be involved and what the projected outcomes are. Ensure the projected processes and outcomes are aligned to your organisation's business strategies.
- Assess your salary review processes to determine whether they incorporate 'best practice' fundamentals that are relevant to your organisation. Also, identify areas where software or process upgrades will streamline or automate manual salary review processes.
- Spend time coaching and

mentoring your remuneration/HR team so that they in turn can educate managers and employees in different areas of the business that are involved in making the salary review a success.

- Perform job analysis. This is a systematic process of identifying and documenting important and defining information associated with individual job roles within your organisation, including key responsibilities; main activities; skills; work environment; and required education levels. Job analysis allows you to gain a detailed understanding of the roles your employees perform and provides vital data for your remuneration benchmarking exercise (defined in the next point).
- Source relevant market remuneration data for all roles within your organisation and undertake a remuneration benchmarking exercise (a two-stage project that involves matching your organisation's roles to generic job roles in the market and then comparing the differences in salaries and benefits paid). This will assist you to gain a clearer understanding of your organisation's market position and the competitiveness of your employees' remuneration and benefits packages. With this intelligence you can use the salary review process to move your organisation to a more market competitive position.

During salary review

- Target salary review spend according to your organisation's strategic remuneration goals. For example, if your organisational strategy is to reward high achieving employees, utilise software that will automatically weight recommended salary increases according to your strategy.
- Identify where individual employees' remuneration is lagging behind the market and recommend appropriate salary increases to rectify their market positions.
- Generate salary review letters and benefits statements for each

employee. Utilise software that ensures you need only type each sentence/paragraph used within your employees' letters *once*.

- Assess the effectiveness of internal communications with reviewing managers and employees and make adjustments or enhancements where required to increase the impact of the salary review.
- Utilise software that reduces the potential for errors to occur within salary review files that are accessed and edited by multiple staff members.
- Generate reports that summarise the key outcomes of the salary review process whilst the salary review is in progress and make adjustments to processes and communications to ensure the project outcomes are achieved.

Post salary review

- Conduct post salary review debriefs and efficiency audits with key employees in various areas of the business involved at different stages of the salary review process. Identify and document the positive and negative elements of the process.
- Analyse budget spend.
- Present salary review outcomes to senior executives within your organisation.
- Perform any necessary preparation to ensure the next salary review is a success.
- Celebrate a job well done!

Depending on your organisation's size, preparation for your salary review should start approximately five months prior to the commencement of the salary review process.

CSI's consultants can partner with you to ensure your salary review is geared towards enhancing the credibility of your HR function. CSI also offers a leading edge salary review and management software tool which meets all of the criteria discussed in this article.

For more information, please contact Rachael Finnemore, Practice Manager on +64 9 522 8194 or rfinnemore@csirem.co.nz

CSI Welcomes New Clients

- Alliance e-Finance
- Australian Laboratory Services
- Australian Rail Track Corporation
- Australian Railroad Group
- Barnardos Australia
- BT Financial Group
- Chamber of Commerce
- CitiStreet
- Colltech Australia
- Connex Melbourne
- Dialect Solutions Group
- Eagle Datamation International
- Easy Being Green
- Father Chris Riley Youth Off the Streets
- Federal Publishing Company
- Great Southern Plantations
- House With No Steps
- Invitrogen
- Medibank Private
- Ministry of Education (NZ)
- Ministry of Foreign Affairs & Trade
- MXL Consolidated
- National Breast Cancer Foundation
- National Heart Foundation of Australia
- Network Ten
- ninemsn
- Orotan Group
- Pacific National
- Pepper Australia
- Pilbara Iron
- Pinpoint
- Public Transport Authority (WA)
- Pumpkin Patch
- Qantas Airways
- QR (Queensland Rail)
- RBC Dexia Investor Services
- Red Energy
- RSA Security Australia
- Seventh-Day Adventist Church
- SMS Management & Technology
- Stratex Networks (NZ)
- SunGard Systems NZ
- TGR Biosciences
- The Fred Hollows Foundation
- The Wine Society
- TransAdelaide
- Transurban
- Union Switch & Signal
- V/Line Passenger
- Valeant Pharmaceuticals
- Ventracor
- Vision Systems
- Whirlwind
- Woosh Wireless
- XL Insurance Company
- Yahoo!7
- Yooralla Society of Victoria

We look forward to working with you!





HR Spotlight

James Rutherford

HR Manager - Microsoft New Zealand

James Rutherford has built a human resources career in three countries and performed a number of generalist and specialist HR roles across different industry sectors, including IT, manufacturing and recruitment. We chatted to him about remuneration management, his work life and his 'relax and unwind' activities.

Describe your current HR Manager role at Microsoft?

As the HR Manager I am essentially the HR department for the business. I perform a true generalist role and focus on business partnership for the leadership team and building strong and valuable relationships with my colleagues in Australia who provide loads of specialist backup, help and support.

How would you characterise your workplace culture?

Microsoft's workplace culture is pretty relaxed, we have no dress code and individuals are pretty much free to work in the way and at the times that suit them, provided that they deliver results. We tend to work hard and are highly results driven. We take the time to relax together too, overall it's a well balanced culture that appeals to most.

What are the most important elements of remuneration management from your perspective?

There are 3 key elements for me. First, simple good data to ensure that you have solid market awareness and you can manage your costs and your remuneration practices in the correct way. Second, you need to spend time educating (sometimes in some detail) the managers in your business to enable them to correctly position the remuneration impacts on their teams effectively. Finally, you need to be transparent to all the people in your group with compensation data (without breaching confidentiality and privacy guidelines). This generates trust in the business rather than rumour and myth.

What are some of your career highlights?

In the UK, working in a part of the Fujitsu business that grew massively in revenue and people over a 2 year period - it was crazy, but always positive and challenging. In Australia, working with the Services business of Microsoft as part of a brilliant management team that focussed on strategy and cultural change - and delivered the plan! In my compensation focussed role at Microsoft Australia, effecting some clear changes in the compensation practice of the business, which had a visible impact on employee satisfaction and retention.

How do you spend your time outside of work?

I enjoy sports. I run and swim regularly, I get to sail every now and again and I'm a huge rugby fan. I'm increasingly getting into food and wine too so I enjoy eating out a lot.

What do you use CSI for?

We benchmark across a range of measures so we rely on CSI for market survey data. We also use CSI for specific reports and special projects.

How would you rate CSI's service?

Its excellent, the quality of the people at CSI is great, they have a huge knowledge and high standards but a really relaxed and customer focused style.

James is tertiary educated with a BA(Hons) in Business Studies and postgraduate qualifications via the HR professional institute in the UK (CIPD).



How Are New Zealand Organisations Responding To Rising Fuel Prices?

For details, go to: <http://www.csirem.co.nz/Knowledge/strategy.htm>

By Hays, A Specialist Recruiter

Hot Jobs In The Recruitment Market

The following jobs are hot from a recruitment perspective:

Accountancy & Finance

Auckland:

- CA qualified, experienced financial controllers and finance managers
- Management accountants and financial analysts with CA qualifications particularly within the service industry
- Tax specialists, especially those with 2-3 years of NZ tax experience
- Newly qualified financial accountants
- Part qualified assistant accountants with NZ commercial experience
- Credit controllers and payroll clerks, particularly those with 2-3 years NZ experience
- Business advisory staff at an intermediate and senior level

Wellington:

- Experienced candidates dedicated to a career in CA firms - demand is across all areas including BAS, auditing and tax
- Part qualified/qualified candidates for the public and private sectors

Construction & Property

Auckland:

- Estimators
- Property asset managers
- Architectural technicians and design staff
- Facilities managers
- Valuers

Contact Centres

- CSR's with call centre and customer service experience, plus sound English communication skills
- Collections candidates with previous experience for shift work
- Telesales and telemarketing candidates and team leaders

Information Technology

- Candidates with Java skills
- Candidates with Microsoft skills

Office Support

- All positions from senior level support roles such as PA's, team secretaries, HR administrators, administration managers to receptionist and all levels of administrators
- Top level career receptionist

For full details of the Hays Quarterly Forecast, including current market conditions for sectors across New Zealand, visit: www.hays-hps.co.nz/forecast

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