

REMUNERATION REVIEW

NUMBER 5 SPRING 2002

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A REVIEW OF CURRENT REMUNERATION PRACTICES



L to R: CSi's Natasha Edwards, Tristan Smith from SAP and David Hamilton from Getronics Australia at the AIIA Feedback Session in August.

EDITOR'S MESSAGE

While our economy can be guarded against the severe drought on world equity markets, the same cannot be said for the literal drought sweeping through our rural farming areas.

For an economy heavily reliant on livestock-raising and crop farming, this 'Year of the Outback' has been anything but, with export profits tumbling and about 40,000 jobs already lost. Get your rain-dancing shoes ready for action, because it looks to be a long, hot summer.

On a lighter note, the white-collar and services industries appear to be picking up. Job vacancies have increased, particularly in IT and financial services, and business confidence remains robust. In another sign of economic stability, wage pressures are starting to build: look out for the results of CSi's *General/Combined Industries Salary Survey* – Australia's largest white-collar salary survey – in November.

Please send through any ideas and feedback – it's great to hear from you.

Erica Holburn, CSi Marketing and Communications

CSi— your remuneration specialists

STAT WRAP

Unstable international economic and political conditions are no deterrent for most Australian businesses, with activity remaining strong in September according to the latest NAB Quarterly Business Survey.

Household and domestic-oriented sectors are supporting the economy while externally-oriented and agricultural sectors are doing it tough. A buoyant local economy and tightening labour market are also acting to put pressure on pay. The latest statistics show:

- CPI 3.2 per cent annualised to September
- September unemployment at 6.2 per cent
- Consumer sentiment rose 2.7 per cent in September*
- Wage expectations rose to 3.5 per cent in October
- The ANZ job ad index increased 3.2 per cent in September

*Westpac/Melbourne Institute Consumer Sentiment Index

IT SPOT

There have been mixed messages about the ICT industry of late: some employment indexes have reported remarkable rises in job vacancies, yet companies such as Lucent Technologies and Ericsson continue to retrench employees.

One thing we can be certain of is that the sector is far from a full recovery.

- The DEWR ICT Vacancy Index rose by 0.4 per cent over the four weeks to mid-September 2002.
- The Olivier Job Index shows an 11.2 per cent fall in ICT employment for September.
- Demand for IT professionals rose by 52 per cent in September according to E.L. Consult.
- CSi is forecasting average salary increases of 3.5 per cent for ICT professionals over the next 12 months.





NZ STATISTICS

The Consumers Price Index (CPI) rose by 0.5 per cent in the September quarter, bringing the annual rate to 2.6 per cent.

The increase in the September quarter reflects higher prices for housing, household operation, alcoholic drinks and healthcare.

Labour costs rose by 1.8 per cent from the June 2001 quarter to the June 2002 quarter, according to Statistics New Zealand.

The salary and wages rate component of the Labour Cost Index increased by 2.1 per cent over the period, while the non-wage labour costs component increased by 0.4 per cent.

The non-wage labour costs movement was partly driven by a 2.1 per cent increase in annual leave and statutory holiday costs. Employer superannuation costs also contributed to the rise in non-wage labour costs. These costs rose 1.3 per cent, partly as a result of higher pay rates.

Source: www.stats.govt.nz

THE REGION

Uncertainty is the word of the moment, with the true economic and political fallout from October's 'Bali bombings' yet to materialise.

The question of whether Australian investment in Indonesia will decline, as well as the effect on the country's lucrative tourism sector, remain two of the issues at hand.

BRW's *Asia Forecast* for 2003 sees China sitting at the head of the economic table, with GDP expected to increase by more than 7 per cent next year.

The business magazine is forecasting GDP growth of 4.2 per cent for a Singaporean economy reliant on exports; just 1.1 per cent for Japan; 3.4 per cent for Hong Kong; and a pre-terrorist-attack estimate of 4.5 per cent for Indonesia.



EXPECT MODERATE PAY RISES IN IT

HR professionals in the IT industry are quietly confident about a pick up in activity in 2003, though employees will receive only moderate salary increases over the next 12 months, according to Australia's largest IT survey.

The CSI/AIIA survey of 31,000 salaried employees in the IT industry found that many incumbents were given no increase in base salary over the 12 months to August, including those in sales and graduate positions. The median total remuneration increase was 3 per cent, down from 4.6 per cent in the March survey.

HR professionals attending the survey feedback session in August agreed the IT industry and subse-

quently the salary market are expected to pick up next year, though a return to pre-2001 levels is doubtful.

The survey shows organisations are cautiously optimistic, with anticipated salary increases of around 3.5 per cent (up 0.5 per cent on expectations in March.)

Salary 'hot spots' still exist in the industry with professional services, human resources and marketing employees and senior executives receiving increases of more than 6 per cent over the last 12 months.



GOOD PAY INCREASES FOR HR

Human Resources and Front Office staff in the banking and finance industry have received healthy salary increases over the past 12 months, according to CSI's *Banking and Financial Industries Salaries and Benefits Survey*.

The survey, involving 34 organisations, shows HR and Front Office employees received median remuneration increases of 5.4 and 5.0 per cent respectively over the 12 months to October. It also identified a median remuneration increase across the industry of 3.7 per cent.

Many employees were given no increase in base salary over the 12 months to October, including those in sales and marketing. Others received only minimal increases (call centre and computing staff).

Though some companies still have salary freezes in place, average salary increases of 3.6 per cent are anticipated over the next 12 months, up from 2.8 per cent in April, signalling a more optimistic outlook by the sector.

TELCO EMPLOYEES STAY PUT

Levels of voluntary staff attrition have been low and retrenchments pervasive in the Telecommunications sector, according to CSI's survey of 42 organisations.

With the recent announcement of job cuts at Ericsson and retrenchments at several other major companies over the last six months, it is little wonder that voluntary staff attrition rates have fallen to 4.5 per cent (levels were around 20 per cent in 2000).

A total of 93 per cent of Australian telcos have made redundancies in the last 12 months, accounting for 18 per cent of the sector's total workforce.

Despite a poor outlook for the sector five years after deregulation, the CSI Telecommunications salary

survey found senior executives are still commanding healthy average increases of around 5.6 per cent, though this is well below the 9 per cent increases given in 2000.

With most pay rises being given to align rates with the market and some companies maintaining salary freeze conditions, there has been little incentive for organisations to give increases of more than 3 or 4 per cent.

"Many companies are hoping for the end of salary freezes by the end of this financial year at least," said CSI remuneration specialist Natasha Edwards after the survey feedback session in September.



EXECUTIVE DEMAND

The E.L Consult Executive Demand Index rose by 9 per cent in September, led by IT and finance sector jobs, though the drought has affected executive demand in New South Wales and Queensland.

The large rise in demand for IT executives can be attributed to employers putting off hiring in August due to the impending September 11 anniversary.

Industry	% demand increase over previous month
Information Technology	52
Finance	18
Management	12
Marketing	-15
Engineering	-2

DROUGHT UPDATE

- About 40,000 jobs have been lost (ABS)
- The drought is expected to cut \$3.8 billion from economic growth in 2002-03 (ABARE)
- Vegetable prices increased by 12.1 per cent in the September quarter, due to lower supplies
- About 0.5 per cent will be trimmed off GDP

CLIENT SERVICES TEAM

Besides producing a range of salary surveys, the CSI Client Services Team has undertaken several special projects including:

- Reporting on on-call and shift allowances for technical support roles for a large IT organisation
- Conducting a comprehensive salaries and benefits survey for the media industry
- Progressing CSI's Global Position Descriptions project

RETAINING TALENT TO PROTECT FUTURE PROFIT

The NRL salary-cap scandal is a good example of how employee retention practices can go wrong. **Lisa Halloran**, Director of *Illuminati Partners*, looks at how to retain your top performers - the right way.

For all organisations where people make the profit, there will be a definable group of staff who are more valuable than others. Those employees who make the most significant contribution to the strategic goals of the business are critical to sustained performance and must be an organisation's prime retention focus.

For example, an organisation that aims for revenue growth will focus on the retention of members of the sales team. It's likely that competitors with a similar market objective will be scouting for the same talent, so not only are these employees high value, they're also susceptible to being poached. The corporate objectives therefore define the organisation's high risk/high value staff.

Examples of high risk/high value groups include:

- Product developers
- IT implementers
- Strategy and planning staff
- Project managers
- Technical specialists
- Customer-facing staff
- Client relationship managers
- Emerging leaders
- Finance specialists

In order to stabilise turnover within key groups of staff, establish the factors which determine that group's stay/quit decisions. By understanding what would make them leave and what encourages them

to stay, an organisation can tailor retention tactics for specific groups.

For example, an organisation may find it hard to retain sales representatives. Retention research may discover that they are frustrated by the lack of lead-time from the marketing department; they believe the new commission structure is unfair for regional sales people; and they don't receive any thanks from their managers. The issues for finance specialists would be quite different, but are just as critical to that group's decision about staying or resigning.

Without this retention profile for your high-risk/high-value staff, attempts to retain them may miss the mark, resulting in misspending and unaffected attrition rates. And while remuneration equity must be evident, remuneration-based retention will be less effective if key aspects of their employment expectations are unmet.

Establish a clear understanding of the expectations of high risk/high value employees, discover what promises need to be met, what their future needs are and what would make them think about leaving; then tailor retention interventions for this group. By focussing on the controllable attrition and retention factors affecting the most strategically important groups of staff, retention and organisational performance can only increase.

For more information on retaining employees, or to participate in Illuminati Partners' upcoming 'Retaining Generation X' workshop, contact Lisa on (02) 9238 2296. Illuminati Partners are Australia's retention specialists.



STRONG DEMAND FOR REDUNDANCY REPORT

The *Redundancy in Australia* report produced by CSI has been in strong demand, signalling that cost reductions in the form of retrenchments remain a concern for many organisations.

According to CSI team leader Caroline Hill, those people wanting information about the report have been interested in topics such as average severance pay entitlements and average workforce reduction levels.

"The interest in the report indicates to me that people are wanting to equip themselves with information that they think they may need to use in the near future; information they will need to be able to answer the questions being raised by those wanting to

undertake redundancies and who need to know what it will cost the organisation," says Caroline.

With companies like Vodafone coming under scrutiny for their 'bare statutory minimum' redundancy payments and some facing class action by disgruntled employees, it is little wonder that such information is in demand:

"There has been a lot of fuss lately around those organisations adhering only to the statutory guidelines," says Caroline. "Companies are being taken to court by their former (retrenched) employees, who believe that industry practices need to be more generous."

Phone Caroline on (02) 9415 3455 for more information.

PROFESSIONAL SERVICES TEAM

The CSI Professional Services Team has been busy working on a variety of projects over the past few months. Highlights include:

- An audit of benefits provision for a large multinational hi-tech company
- A market pricing exercise for a brewing organisation
- An analysis of executive remuneration for a large media sector organisation
- A remuneration audit for an agricultural-chemical organisation

SHOW ME THE MONEY!

A survey of 1,200 Australian workers by Aon Consulting has found that most were only moderately committed to their jobs, with one in four prepared to leave their employer for a 10 per cent pay increase. More than half were prepared to leave for a 20 per cent rise.

With the cost of staff turnover at 2 ½ times the average salary cost and a third of employees 'not seeing their pay as encouraging', the survey highlights the importance of remuneration for retaining employees.

RR

SKILLED VACANCIES

The Department of Employment and Workplace Relations' Skilled Vacancies Index decreased by 0.6 per cent in September 2002.

Skilled vacancies declined for Professionals (down 3.3 per cent) and Associate Professionals (down 1.6 per cent) while Trade vacancies increased by 2.3 per cent.

In annual terms, skilled vacancies are 8.5 per cent higher than in September 2001. Trades have recorded a 31.4 per cent annual rise, while Professionals and Associate Professionals recorded decreases of 6.9 per cent and 3.9 per cent respectively.

Vacancies increased in Victoria, Queensland, Western Australia, Tasmania and the Northern Territory but decreased in New South Wales and South Australia. The decreases in NSW correspond to the falling levels of executive demand in the state, recorded by E.L Consult (see p2).

A FORMAL AFFAIR

Further to our article on office attire last edition, a survey of 5,000 employees by TMP Worldwide has shown a backlash against business casual wear, with 39 per cent of respondents believing office wardrobes have become too casual. Thirty-eight per cent think casual dress makes them less productive. The sentiment is strongest in the human resources and banking and finance sectors.

FAST FACT

A new UK study by reed.co.uk has found that the average employee earned about A\$66,400, but spent up to 25 per cent of this on appearance and other work-related costs such as travel, networking with colleagues and electronic gadgets.

Professor Cary Cooper, an organisational psychologist, said the trend by employers to retrench staff during economic downturns made workers insecure, leading them to spend more money on those things they believe employers value, like presentation.

THE TOP EXEC PAY DEBATE

With stock options currently out of favour at many organisations and new legislation on the expensing and disclosure of options on the table, CSI's Peter Barton questions the validity of stock options as a compensation device.

Whether executive remuneration should incorporate 'wealth creation' is a focal point of the executive pay debate. It is my belief that wealth creation, in the form of share options, should not have been incorporated into executive reward. Wealth creation is a personal issue outside the corporate arena.

The practice of valuing shares into packages has created an artificially high expectation of pay – that very large amounts should be paid to executives and that if stock is not available then they should be compensated with some other form of reward to make good the shortfall.

Redundancy and unfair dismissal laws have picked up on these inflated expectations and as a result, many exit packages for under-achieving executives have been grossly over-valued. A basic premise should be that stock valuations should not be used in the case where executive payout options are being determined.

External market forces can have a greater effect on stock prices than executive performance. Stock market valuations are such that prices may fluctuate due to market conditions and sector-wide movements in share prices, rather than any influence executives have in their roles.

CSI professional services manager Jairus Ashworth says stock prices reflect an investor's future expectations of earnings direction, not satisfaction with operational performance. Essentially, stock is a blunt tool for rewarding and motivating staff.

CONFIDENCE STILL ROBUST

The August – October *TMP Worldwide Job Index* indicates that Australian employer confidence remains robust.

Sector	% employers creating new jobs
Law	43.0
Electronics	35.0
Engineering	26.0
Health/Medical/Pharmaceutical	22.3
Professional Services	20.0
Telecommunications	8.9
Chemical/Oil	2.6

FAST FACT

A study by management consultancy Proudfoot Consulting has found workers are wasting 40 per cent of the 225 days in an average Australian working year doing unproductive things in the workplace. Proudfoot found the major reason behind the wasted working days was "insufficient planning and control" by bosses.

The survey of 2,700 chief executives also found that Australian workers are more productive than their British and French counterparts. Those in South Africa were the worst, with 54 per cent of their working days being classified as unproductive.

Source: The Sun-Herald, 20 October 2002.

SURVEYS FOR RELEASE

NOVEMBER

Computer Specialists

Defence Systems Engineers

General/Combined Industries

General Insurance

DECEMBER

Travel

GLOBAL UPDATE

USA – A survey of 431 North American companies by Watson Wyatt Worldwide has found a majority of companies have reduced salary increase budgets, eliminated jobs, or put hiring moratoriums in place this year in light of economic uncertainty.

The organisation's *2002 Strategic Rewards* survey also polled 3,000 top-performing employees at various companies and found that 47 per cent would prefer to lose their stock-based rewards than have their benefits or annual pay and bonuses reduced to help their companies in cost-cutting initiatives.

According to the survey, more than 82 per cent of the companies surveyed implemented at least one of the following cost reduction measures during 2002: reduced staff; reduced salary increase budgets; froze/greatly reduced hiring; increased employee contributions for benefits; and eliminated/severely cut bonuses.

Source: www.watsonwyatt.com

HR SPOTLIGHT

Aurora De Gracia, Agilent Technologies



The CSI *Redundancy in Australia 2002* report identified that 50 per cent of companies have taken steps to avoid laying off staff over the last 12 months: one of the protagonists was telco Agilent Technologies. We had a chat to Agilent's compensation and benefits manager, Aurora De Gracia, about her recent experiences.

Tell us about Agilent's bid to avoid laying off staff.

Eighteen months ago, Agilent took a hard stand to implement a temporary across-the-board (10 per cent) pay reduction for all employees, in an effort to save jobs and reduce costs. All employees supported the company's decision: this would not have been possible without the culture we have.

With depressed global conditions, it was inevitable that we still had to lay off some jobs, however, pay was reinstated to 100 per cent in August.

Are there any remuneration trends to look out for?

The impact of the Australian Government's plan in 2004 to legislate a requirement for local companies to fully disclose and expense the value of share options issued to executives.

What is your work/life philosophy?

I believe in the concept of work/life integration. If a suitable arrangement can be worked out that will assist the employee's work and home life, employers should try to find a way to achieve this. In my opinion, flexibility is the order of the day.

What are you listening to?

Vanessa Mae and 80s music.

Dining out?

I love Thai, Vietnamese and Indian cuisine. I like to try different restaurants.

Aurora has a Graduate Diploma in HR from Monash University and a Bachelor of Arts in Behavioural Science from the University of Saint Thomas, Manila. She plans to study Labour Relations Law next year.



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