

REMUNERATION REVIEW

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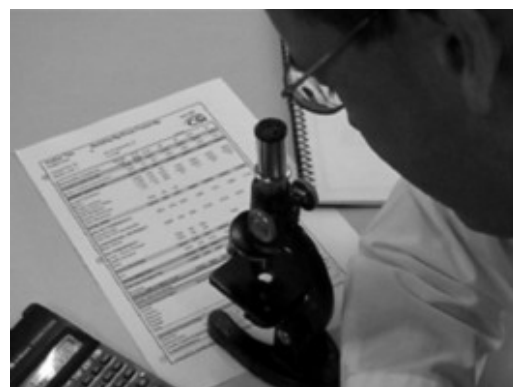
Australia's first salary survey for the biotechnology industry, produced by CSI, will be released in May 2003.

The *Australian Biotech Industry Salaries and Benefits Survey*, which covers a range of both technical and non-technical roles, is the latest to be added to CSI's list of industry-specific salary surveys.

"CSI are extremely excited about working on the project," says CSI team leader Caroline Hill. "Both on the initial survey and thereafter, when the survey is produced on an annual basis each February."

"The establishment of this Survey is largely thanks to the persistence of HR Professionals Anne Bartlett (Mimotopes) and Di Arnold (Amrad), who have been instrumental in gaining the necessary support for the Survey from other industry HR Professionals and AusBiotech Ltd alike," says Caroline.

If you would like further information concerning this survey or would like your organisation to participate, please contact CSI's Nick Milne on 61 2 8440 6520.



CSI will be putting remuneration in the biotechnology industry under the microscope with the launch of the *Australian Biotech Industry Salaries and Benefits Survey*.

CSI – your remuneration specialists.

STAT WRAP

The eyes of Australian business leaders and economists alike are still firmly on the global economy, despite signs of continued resilience in the Australian market. The repercussions of a US-led war on Iraq is a point of contention, though, as *Sydney Morning Herald* economics editor Ross Gittins has pointed out, global economic problems go far deeper than simply uncertainty about war.

At home, wage pressures remain subdued, though the CPI is sitting at the top end of the RBA's target range. The continued drought and looming end to the property boom are cause for more immediate concern, but these should be offset by improvement in other areas including non-residential construction.

- CPI 3.0 per cent annualised to December quarter 2002
- December unemployment 6.2 per cent
- Job ads were up 4.3 per cent in January (ANZ Survey)
- \$3 billion trade deficit in December

IT SPOT

The *Rust Report* says that IT spending remains 'woeful', with moderate growth predicted for the industry in 2003. A survey by recruitment firm Hamilton James & Bruce suggests that demand is soft (only 37 per cent of respondents say there's a shortage of talent), though companies are beginning to undertake those projects put on hold during the downturn, including upgrading software.*

- The DEWR ICT Vacancy Index fell by 18.8 per cent over the four weeks to mid-January 2003 (which may be a reflection of seasonal factors).
- ICT jobs counted in the Olivier Internet Job Index fell 4.5 per cent in December.
- Demand for IT executives fell 23 per cent in December, reflecting the summer slowdown and concern about conflict in Iraq according to E.L Consult.

*Recruit 2003, *The Sydney Morning Herald*, 1 February 2003.





EDITOR'S MESSAGE

Though tragedy has struck more than once already this year, and war seems imminent, it is quite un-Australian to dwell on the negative, as demonstrated by the courageous families of the Bali victims. Let's hope that Australian businesses take a similar approach in 2003.

Last year saw a number of redundancies take place, as businesses urgently trimmed staff from the payroll. While some companies will still be downsizing in the new year, 2002 was definitely the year for correcting the imbalances produced by the dotcom boom (and a few now-infamous executives).

In this issue of *Remuneration Review* Andrew White discusses strategies for limiting expatriate expense, Peter Barton puts his case forward for the structuring of executive pay and Jairus Ashworth gives some advice on salary packaging.

The next time you're visiting the CSI website, click on the News icon and go to 'Newsletter', to access archived issues of *Remuneration Review*. They might just be a good source of information for your next presentation or writing that report.

We're starting a new column in the next issue, where you'll get the chance to have your remuneration question answered by Jairus Ashworth. Please send any questions to remreview@classalinfo.com.au.

Erica Holburn, CSI Marketing and Communications

NZ STATISTICS

The Consumers Price Index (CPI) rose by 0.6 per cent in the December quarter, bringing the annual rate to 2.7 per cent.

The increase in the December quarter reflects higher prices for housing and transportation.

The September quarter unemployment rate was 5.4 per cent, up from 5.1 per cent in the June quarter.

Source: www.stats.govt.nz



I.T. SALARIES FALL IN LINE

IT professionals received only modest salary increases over the year to January, bringing their remuneration in line with colleagues in other professional areas, according to new research by CSI.

The *January 2003 Australian Computer Specialists Salaries and Benefits Survey* shows that the average annual salary increase for IT incumbents was 3.2 per cent, a rate marginally higher than the December quarter CPI of 3.0 per cent.

"Our same incumbent move, like the current CPI, is retrospective," says CSI remuneration and benefits specialist Nick Woodward. "That means there's a bit of a lag effect. The current low figures just emphasise what we already knew about 2002 - it was a bad year for IT employees! The fact that the base salary incumbent moves are in line with inflation means, in real terms, IT salaries are neutral."

The survey of over 13,000 salaried IT professionals from more than 100 companies, found that their Total Remuneration Packages increased on average

by 4.7 per cent, while the median figure was 3.6 per cent. This compares to the average Total Package increase of 6.1 per cent reported in the January 2002 survey.

These comparatively small increases demonstrate the rationalisation of IT salaries that has taken place in Australian companies over the past 12 months:

"The decreased pressure on pay for IT staff has allowed corporate IT departments to examine remuneration policies and procedures that may have been neglected over recent times," says Nick.

"There has been a huge demand for information on Shift Allowances, Oncall/Standby Allowances and Disturbance payments, suggesting this has been an area of great interest over the past six months."

Note: CSI will be conducting an Oncall/Shift Allowance feature survey in the first half of 2003 and encourages subscribers to participate.

DIRECTORS UP THE ANTE

Australian company directors believe the extra demands placed on them due to changes to corporation laws is reason enough for a pay rise.

Australian Institute of Company Directors chief executive John Hall told *The Age* that directors were underpaid, particularly because they were now expected to play a bigger role in the boardroom.

"There is a general recognition that directors' remuneration is likely to increase given their increased roles and responsibilities," he said.

Under the Federal Government's changes to corporation laws, known as CLERP 9, audit committees will be mandatory for Australia's Top 500 listed companies.

Source: *The Age*, 23 December 2002.

PRAGMATIC SALARY PACKAGING - Jairus Ashworth

In these difficult times, it is tempting for employers to view the introduction of salary packaging as a panacea; delivering increased flexibility and disposable income to their employees at no additional cost. Indeed, this is the way it is promoted by those companies who specialise in facilitating and administering such programs.

Salary packaging tends to suit companies with very limited benefits offerings, who do not even allow the few items that can be salary-sacrificed tax effectively, such as a motor vehicle, superannuation and laptop computer. It is favoured by about 50 per cent of companies in the private sector (particularly in the financial services industry) and is even more common in the public sector.

CSI Professional Services has advised several ma-

ior corporations in the past 12 months on the introduction of salary packaging. This has involved employee focus groups, detailed discussions with other companies in the industry and a review of outsourced service provider offerings. In some cases, we have found that a client can get 90 per cent of the benefits with only 10 per cent of the costs by making judicious, but minor, changes to their existing programs.

The simple message is that, with salary packaging, one size does not fit all. Companies should conduct a comprehensive feasibility study prior to considering its introduction.

CSI can advise on or conduct such feasibility studies for clients. Please contact Jairus Ashworth on (02) 9415 3455 for more information.

PROFESSIONAL SERVICES TEAM UPDATE

Since our Summer Update edition, there has been a lot of interest in the Salary Increase Tool created by the CSI Professional Services Team. Designed to streamline the salary management process across any organisation, the tool can assist you during the salary review process. For a demonstration please phone (02) 9415 3455 or email consulting@classalinfo.com.au.

Meanwhile, Professional Services has also been busy working on the following projects:

- Providing an evaluation of roles and recommendations on remuneration design to a manufacturer and supplier of specialist medical devices.
- A job evaluation and analysis exercise for a leading pharmaceutical organisation in the process of restructuring its sales job family.

AUSSIES LIKE IT CASUAL

According to a poll on workplace culture by IT training company Spherion, Australian employees prefer casual and relaxed workplaces.

The survey found that one-third of respondents prefer a 'team-driven' culture; 30 per cent a 'creative' culture and 20 per cent an 'informal' culture. Ten per cent said they wanted a 'rigid' corporate culture.

Two-thirds of those surveyed said they preferred smart casual or casual dress with suits for meetings, while 23 per cent said they preferred business dress.

Source: *The Australian Financial Review*, 23 January 2003.

DOES EXPAT EXPENSE = LONG-TERM VALUE?

There's no doubt that expatriate remuneration is a costly item on any company's expense account. CSI's Andrew White looks at strategies for reducing unnecessary costs and increasing the value of expatriate placements.

The use of expatriates has grown in conjunction with globalisation and the subsequent extension of company operations beyond traditional domestic borders. In order to be internationally competitive, firms have had to rethink the way they transfer knowledge (such as company cultural values, management practices and operational expertise) into overseas locations. It therefore makes good sense to utilise expatriates who can carry this essential knowledge across borders into operations outside the parent country, particularly if they are at a 'start up' phase.

While there are several advantages to using expatriates on international assignments, including career development and providing the parent company with a greater understanding of local market conditions, extended use of these expensive staff, especially in sensitive local countries, will not prove as effective in the long term. They should instead be utilised as a means for empowering local managers.

Why are expatriates so expensive? Consider what is involved in setting an expatriate up in a foreign country. Firstly, there needs to be some kind of selection process which, in addition to technical competence, should consider cultural awareness and sensitivity, the incumbent's family situation and language skills. Once selected, the incumbent should have sufficient pre-departure training to further guarantee meaningful integration and success for both the individual and the company.

There are several components of pre-departure training programs that will "contribute to a smooth transition to a foreign post, including: cultural awareness training; preliminary visits; language instruction; and assistance with practical, day-to-day matters" (Dowling et al, 1999). Cultural awareness programs help the employee adapt to the host country by fostering an appreciation of the local culture. While most countries accept English as the language of 'world business', the ability to communicate effectively in the host country's tongue can improve the expatriate's access to information, negotiation skills, and cultural adjustment.

Selection and training become very important when one considers the failure rates of expatriates, which are typically around 10 per cent (Price Waterhouse, 1997), being higher for US parent companies and lower for European parent companies. The main reason that expatriates fail on assignment is that while being technically quite competent, parent country nationals (PCNs) often lack sufficient cultural awareness and sensitivity.

Beyond cultural problems, two of the most important factors contributing to the failure of international postings are the inability of the expatriate's spouse to adjust to a different physical or cultural environment and other family-related problems. And although the impact of family affairs on international assignments is becoming more common knowledge in both organisations and literature, there is little being done about it. A study of spouse adjustment to expatriate success (Black and Stephens, 1989) reported that only 30 percent of organisations seek the spouse's opinion concerning an international assignment.

The final 'expat expense' is compensation and benefits. The rule of thumb is that they will receive three times their remuneration from their parent country. Companies have become quite creative in the range of benefits and allowances provided to expatriates to encourage them in a new country. Some of the more typical items include: tax equalisation; motor vehicle; cost of living allowance (COLA); accommodation; school fees; large variable pay components; stock options; and a generous base salary.

Based on these three considerations (selection, training and remuneration), careful use should be made of these expensive staff. The implementation of expatriate programs should incorporate a strategy for the empowering of local management, which in turn will alleviate many long-term costs.

If you would like more information about executive and/or international remuneration, please contact Andrew White on (02) 9415 3455 or email awhite@classalinfo.com.au.

CSI routinely sources global remuneration data for clients to assist Australian executives being placed overseas and international executives being assigned to Australia.



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SKILLED VACANCIES

The Department of Employment and Workplace Relations' Skilled Vacancies Index increased by 0.4 per cent in January 2003.

Skilled vacancies declined for Professionals (down 1.6 per cent) and rose for Associate Professionals and Trades (up 1.7 per cent and 1.8 per cent respectively).

In annual terms, skilled vacancies are 10.0 per cent higher than in January 2002. Trades have recorded a 30.1 per cent annual rise and Associate Professionals a 7.2 per cent rise, while Professional vacancies fell 10.7 per cent in the year to January.

The strongest rises in January were for Medical/Science Technical Officers (up 9.8%), Chefs (4.7%), Automotive Trades (3.8%) and Metal Trades (3.4%).

JOBS MORE SECURE IN 2003

According to a recent Morgan Poll, Australians are confident in the security of their jobs and the opportunity to find new employment.

The Poll, conducted in December 2002 and focussing on the year ahead, found that more than three-quarters of Australians feel confident that their present job is safe, with 20 per cent saying there is a chance of unemployment.

Should they become unemployed, 66 per cent of Australians believe they'll be able to find a new job fairly quickly in 2003, up 12 per cent on 2002 expectations.

Australians are also feeling more optimistic about employment in 2003 than last year: 56 per cent of respondents believe unemployment will fall or stay the same in 2003 and 44 per cent expect it to rise.

Source: www.roymorgan.com

BOOMER BRAIN DRAIN

As baby-boomer employees begin to think about retirement, companies should be thinking about strategies for dealing with the subsequent 'brain drain'.

A survey by the NSW Chamber of Commerce found that only 4 per cent of companies have made provisions to harness retiring workers' knowledge and experience. And while 20 per cent have policies for retiring workers, nearly 52 per cent of those relate solely to financial advice.

The Chamber's survey of more than 100 businesses shows that 48 per cent expect up to 10 per cent of their workforce to retire within five years and 6 per cent expect 10 to 30 per cent of their workforce to retire.

Source: *The Australian Financial Review*, 16 January 2003.

EXECUTIVE DEMAND

The E.L Consult Executive Demand Index fell 29 per cent in December, with international instability and doubts about the global economic recovery accentuating the usual summer slowdown.

Industry	% executive demand increase
Information Technology	-23
Engineering	-24
Finance	-27
Management	-32
Marketing	-37



A MATTER OF FORM

The message is clear from CSi managing director Peter Barton: executive pay needs more structure.

Over recent years, CEOs have been paid what are seen to be excessive amounts of reward for little effort. In some quarters, CEOs are now seen as 'pariahs', as in the 18 November 2002 edition of *Fortune* magazine. There is clearly a need to reform CEO pay. The following are my thoughts on how:

Remuneration committees: Some appalling errors of judgement have been made by remuneration committees in past years. There is clearly danger in their current operation and structure. We would argue that committees need to rely more on specialist advisers than their own personal experience and interrogate management recommendations far more critically. All companies should have a clearly articulated remuneration strategy, with clear measurement criteria, not just the kind of copy-and-paste job seen in every annual report.

Structuring pay: With regard to guaranteed pay, the late 1990s saw payments made that were unstructured and open-ended. As we move forward, we will need to bring back more structure to make pay rates fairer (by setting them against a range of criteria) and readily defensible.

In terms of base salary, the CEO's pay should not generally be excessively out of line with other company executives – management is a team effort. From an external equity point of view, guaranteed pay should be salary-market competitive, meaning it should sit with at least the top 40 per cent of the market. Salary surveys are a good indicator for setting competitive rates.

Performance payment schemes (in the form of short or long-term incentives) are difficult to establish and, as a result, organisations strive for easy measurement to determine the amount to be paid. There is a need for plans to be more structured – one-dimensional measurements are no longer acceptable. There definitely need to be guidelines for the leveraging of incentive schemes. As a general rule, payments should be tied to the improved operating results of the company.

The compensation mix: The CEO compensation mix – base salary and incentives – is about 60:40 in Australia, where 60 per cent would be guaranteed as base salary and the rest 'at risk.' To go beyond this level of split would result in highly leveraged schemes, encouraging the maverick or opportunist type CEO.

A split of 80:20 was the norm for top executive performance pay in the 1980s. To achieve this level of split now may well lead to increases in guaranteed (base) pay. This would tend to encourage a different type of performance: that which is speculative.

(Continued next column.)

Wealth creation: Clearly, wealth creation schemes (long-term incentives) need to be capped. One of the main objectives of their introduction was for the retention of key people. However, in the late 1990s, some executives became so wealthy in such a short period of time that they could opt for an early retirement, which was plainly ridiculous. We should not be following US practices blindly – unlike our tax regime, which is in desperate need of reform, theirs encourages a highly leveraged, wealth-creating culture.

With politicians receiving a plethora of fringe benefits, on top of their overly generous superannuation, they are not in a position to take a stance on CEO pay reform: this responsibility will fall on boards and practitioners.

Note: CSi's annual Top Executive Remuneration Report will be available in July.

WEBSITE UPDATE

For a range of articles and news updates, please visit CSi News at www.classalinfo.com.au.

SURVEYS FOR RELEASE

FEBRUARY

Australia Computer Industry Compensation Group

NZ Information Technology Industry Survey Group

Telecommunications

New Zealand IT&T

MARCH

Australian Information Industry Association

IT Contractor and Consultant Rates

Insurance Remuneration Group

NZ Computer Specialists

SURVEY FEEDBACK SESSIONS

FEBRUARY

Australian Computer Industry Compensation Group

MARCH

NZ Information Technology Industry Group

HR SPOTLIGHT

Nicola Edwards
Human Resources Analyst



A model student in the school of work/life balance, Nicola Edwards provides an insight into the life of a Generation Xer. Outside of her role at a leading Sydney-based legal firm, she is also an associate Jazzercise instructor and has undertaken a Masters of Management (Human Resources) at MGSM.

What is the most important remuneration situation you've had to deal with?

The most important (and challenging) remuneration situation is staying ahead of the market, and competitors, in terms of offering employees an innovative, online, transparent remuneration process/system.

What is your work/life philosophy?

Balance! I set myself strict goals with deadlines at work so I can then allow ample time for "life" (usually in the form of Jazzercise after a day of sitting or socializing with friends on the weekend.)

What are you listening to?

Coldplay and Moby.

Book you're reading

A marketing textbook and the Dalai Lama's *The Art of Happiness*.

Dining Out?

Asago Japanese, Sydney CBD and Sri's Indian, Narrabeen.

How have you used CSi in the past 12 months and for what reason?

We subscribe to CSi's (*Computer Specialists* and *General/Combined*) surveys to benchmark salaries for 'shared' services staff. These surveys are essential because we recruit people to work for us from all industries.

I also use CSi as a source of information and for networking purposes: I read their quarterly newsletter for the latest findings, I use them as an advice line and sometimes participate in mini HR policy questionnaires that CSi have been commissioned to research.



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