

Hewitt Review

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Where to from here with executive incentive plans, p.1

Avoiding unnecessary salary costs by accessing latest market data, p.2

New report: executive remuneration practices, p.2

Remuneration practices of high performing companies, p.3

Remuneration Symposium 2009, p.3

Soft-copy subscription offer: chance to win RedBalloon voucher, p.3

Market update: new hires and current business environment, p.4

HR spotlight: career profile, p.4

Where to from here with executive incentive plans?

Executive pay is under unprecedented scrutiny from many quarters, especially in the wake of the global financial crisis and related governance inquiries. Among the major criticisms of executive pay are its perceived lack of transparency and of alignment to the company's long-term performance and risk appetite.

Globally, governments have responded in different ways, from regulatory guidelines around executive pay to direct intervention, such as for TARP-regulated companies in the US. In Australia, the Government recently announced a decision to tax executive/employee share plan awards up front.

Short-term incentive challenges

Short-term incentives (STIs) have been characterised as promoting an excessive focus on short-term results, with inadequate regard for judicious risk management and sustainability. There is now a strong push to defer a significant portion of short-term incentive payments and tie the deferred value to the company's ongoing performance. Many companies are already deferring part of their annual executive bonuses and many others are expected to join them over the next year or so.

Long-term incentive challenges

Hardly anyone seems to be happy with long-term incentives (LTIs). Shareholder representative groups and proxy advisers have imposed very blunt vesting conditions on long-term equity awards, which tend to deliver 'feast or famine' outcomes from one year to another.

Many executives treat this highly volatile pattern of equity reward vesting as a game of chance, largely unrelated to their effort and operating performance. In general, executives attach low prospective value to these awards, relative to their accounting cost to the company. Up-front taxation of performance-contingent, equity-based LTI awards will make them even less attractive to participants.

In these uncertain times it may make sense to re-balance the LTI performance horizon, so that greater consideration is given to prior performance, with subsequent clawbacks or adjustment of award value during the vesting period, if performance is not sustained.

Instead of imposing 'one-size-fits-all' vesting criteria (e.g. relative total shareholder return), shareholders should then be more comfortable with vesting being linked directly to accomplishment of the company's distinct long-term strategic goals or milestones. Indeed, if the announced tax changes become legislated, the inevitable shift to cash-based long-term incentives should give companies greater design freedom and deliver a simpler, purer form of pay-for-performance.

Convergence of short-term and long-term plan features

In this new, mainly cash-based incentive environment, many companies may find it more meaningful and administratively simpler to morph their former short-term and long-term incentive systems into a single incentive award for each executive each year, which:

- Reflects a sound blend of short-term and long-term goals
- Draws on an appropriate balance of absolute and relative performance metrics
- Has a pay-out stream delivered in the form of some cash immediately, followed by staggered delivery of payments over a considerable period

There will still be strong alignment with shareholder interests, if some of the performance measures relate to shareholder value creation. Further, if deferred shares can no longer be utilised, executives could be required to convert part of their net vested cash incentives into the purchase of company shares, at the prevailing share price, for a required holding period post-vesting. This type of end-on share purchase plan, with no connection to share price discounts nor tax exemptions, should in our understanding be free of an up-front tax.

If shareholders can see a clearer line of sight to sustainable results, and if executives feel their more limited equity exposure is less of a lottery, a well thought out single incentive plan may be more effective for all concerned and less contentious than the present array of executive incentive plans.

Avoid unnecessary salary costs with latest market data

This year we are seeing significant shifts in the way organisations are rewarding their employees.

Some positions are now attracting a higher rate of pay whilst others have dropped significantly as supply and demand for various skill-sets shift and change.

Additionally, many organisations are restructuring their reward packages to get the most out of limited salary budgets.

Staying informed of these market movements is critical to ensure your reward strategies are still meeting your business needs whilst minimising costs.

The money spent on a salary survey subscription can be made back many times over in savings on unnecessary salary costs.

Standard benefits of Hewitt CSI salary survey subscription

As a Hewitt CSI salary survey subscriber you have access to the very latest data to ensure informed salary decisions in your organisation.

You also receive the high level of client service Hewitt CSI is known for along with our standard package of benefits:

- Access to Hewitt CSI's salary database, the largest and most reliable database in the marketplace
- Economic commentary containing a summary of general trends, up-to-date national and global economic indicators and job vacancy data
- 12-month coverage of actual salary movements and forecasts for the coming year
- Detailed, full-page position descriptions for all positions covered in the survey
- Comprehensive data on all the major elements of the remuneration package - salary, benefits and short and long-term incentives
- Online remuneration data through Data Centre that can be filtered according to your specific data needs (optional on some surveys)

- 'Career Levels' section provides separate remuneration tables for each Job Family which can be used to enhance job matching, or as an alternative source of data for non-standard positions

- A policy & practice 'Feature Survey' on a specific remuneration or HR issue

- Free attendance to a remuneration forum to receive an overview of survey results, expert advice on an area of remuneration/HR management and an opportunity to network (not available for all surveys)

Additional benefits now available

To help clients who are trying to make the most of tight HR budgets we are pleased to offer additional benefits to new and renewing salary survey subscribers.

As a new or renewing subscriber you can gain added value on your subscription with your choice of the benefits listed below:

- The Hewitt CSI Policy & Practice Report of your choice
- A 20% discount on a new subscription to a second Hewitt CSI Salary & Benefits Survey
- Two hours consulting time with a Hewitt CSI Remuneration Specialist
- A 25% discount on 2009 Hewitt CSI training (training sessions not currently available in NZ)

Early-bird offer - renewal

Existing subscribers who pay their renewal invoice within one calendar month can select a second additional benefit from the list above.

Early-bird offer - new subscribers

New subscribers who sign-up before July 31st, 2009 can select a second additional benefit from the list above plus receive a complimentary full-day registration to Remuneration Symposium 2009.

How to register

To find out more or to take advantage of this offer, go to www.csirem.com.au/Surveys/surveyoffers or www.csirem.co.nz/Surveys/surveyoffers (case sensitive).

If you have any questions please call us on +64 9 579 9733 in New Zealand or +61 2 8440 6500 in Australia.

What effect will recent changes in Executive Remuneration in Australia have on pay practices

In recent months we have seen a major shake-up of executive remuneration in Australia.

APRA Review

In October 2008, the government called on the Australian Prudential Regulation Authority (APRA) to review executive remuneration practices within the Financial Services industry and release a set of compulsory executive remuneration guidelines, which are due for release any day.

Regulation of Golden Handshakes and AICD Guidelines

In March, the Australian Institute of Company Directors (AICD) released a set of voluntary guidelines in an attempt to pre-empt government regulation, and earlier this month the government gave greater clarity to its March announcement on proposed legislative changes that regulate and limit executive termination payments ("golden handshakes").

Proposed changes in federal budget

In this year's budget the government proposed major changes that could see Long Term Incentives (LTIs) awarded to executives through share and option plans,

taxed at the time incentives are awarded rather than when they vest. The result would mean tax could be paid on the potential value of share plan awards that may never bear fruit if, for example, performance hurdles aren't met.

Report: Stay up to date on changes and their impact

To stay abreast of how all these changes will impact executive pay in Australia sign-up to receive a copy of Hewitt CSI's Top Executive Climate Report 2009. This report will contain in-depth long term incentive plan analysis, current trends in senior executive remuneration and benefits as well as insight into the concerns organisations are considering when re-designing plans for their senior executives.

Report release

Results will be released in late July and a 33% discount is available for those organisations that also contribute data to the survey.

To purchase

For more information or to purchase a copy contact Bethany Jones on +61 2 8440 6500 or email bethany.jones@hewitt.com.

Consulting engineering firm's annual salary review woes solved by web-based salary review solution

AECOM is a leading global provider of professional technical and management support services with approximately 43,000 employees worldwide. Faced with a number of issues relating to their annual salary review process, AECOM's local Australia, New Zealand and Asia (ANZA) HR team turned to Hewitt CSI for help.

After gaining an understanding of the problems the local HR team and line managers were facing in their region during salary review, Hewitt CSI recommended the implementation of Pivot Software's Remuneration Decision Assistant (RDA).

More than two years later, Peter Richards, AECOM's Corporate People and Performance Manager, ANZA, is very pleased with the solution provided. He says that RDA has freed his team from the administrative headaches they used to face during the annual salary review and has provided line managers with insights, data and efficient processes that allow them to make timely and informed salary decisions.

"We wanted the ability to be a lot more proactive in the remuneration review process. The system has enabled us to provide strong strategic support to the executive team and line managers, particularly around the reporting functionality and from a budget modelling perspective"

Read the full story in the next issue of Hewitt Review.

Hewitt CSI is the exclusive reseller of Pivot Software's RDA solution in Australia and Auckland.

Remuneration practices of high performing companies – what can we learn?

The Hewitt **Best Employers** in Australia and New Zealand program assesses and compares employee engagement levels and HR practices of organisations in our region.

This research shows that organisations that focus on the engagement levels of their employees deliver better business results. Globally, Hewitt **Best Employer** studies have found that employee engagement scores are highly correlated to Total Shareholder Return (TSR), revenue and profit growth.

For example, Hewitt **Best Employers** in 2008 achieved a TSR of, on average, almost 30% above the market. But are the pay practices of Hewitt **Best Employers** different and what can be learned from them?

The results indicate that, irrespective of actual quantitative levels of pay, there are clear differences in the way that Hewitt **Best Employers** (“**The Best**”) and other participating organisations (“**Others**”) manage their remuneration practices.

The two key areas of difference are: communication and understanding of remuneration practices; and performance-based differentiation of rewards.

Understanding of pay practices and the role of HR

There are two primary internal sources of information for employees when it comes to understanding remuneration – Human Resources and their direct managers.

Almost 80% of employees at Hewitt **Best Employers** report they have a good understanding of how their pay and rewards are determined, compared to less than half of employees at Other organisations.

An employee’s understanding of how decisions are made about their pay can enhance their perception of the fairness of those processes. Devolving responsibility to managers for communicating remuneration and ensuring they have the capability to do so is clearly successful.

Manager Response	The Best	Others
I am well equipped to explain our reward structure to our employees	83%	49%
Answers to HR questions are easy to obtain	76%	46%
HR delivers its products and services in an efficient manner	75%	42%
I am rewarded for developing high performers	64%	31%
Our review and rewards systems give me all the autonomy I need to recognise both solid performers and high performers	76%	39%

Table 1 - Source: Hewitt **Best Employers** 2008

Performance-based differentiation of rewards

Hewitt **Best Employers** have institutionalised the practice of pay-for-performance. Employees understand that their performance significantly impacts their pay and acknowledge that high performers receive higher remuneration, and managers are themselves rewarded for developing high performers.

Average fixed remuneration increases for top performers at Hewitt **Best Employers** tend to be significantly higher than the average increases given to all employees – and that difference is far greater than the differentiation of rewards for top performers at Other organisations.

Furthermore, Hewitt **Best Employers** are also less likely to give salary increases to poor performers.

Employee Response	The Best	Others
I have a good understanding of how my pay and rewards are determined	79%	49%
I receive appropriate recognition (beyond my pay) for my contributions and accomplishments	72%	43%
My performance has a significant impact on my pay	64%	39%
We provide higher remuneration to high performers in our business	67%	33%
Overall, the way we reward and recognise people in this organisation helps us produce the results we want	74%	36%

Table 2 - Source: Hewitt **Best Employers** 2008

Summary

This article highlights just two attributes that set Hewitt **Best Employers** apart from the rest. Key learnings for managing remuneration practices and maintaining (or even improving) employee engagement during an economic downturn include:

1. Ensure HR and managers are well-equipped to explain remuneration structures and processes, with easy access to information and answers. This is even more important when salary increase budgets may be reduced or removed.

Employee perceptions and reactions can be managed by assisting them to understand how decisions about their remuneration are made, including decisions at the budgeting level.

Communication about the process rather than just the outcome is likely to have a far more positive impact on their perceptions of fairness and overall engagement levels.

2. Pay individuals for performance and reward or recognise managers for developing performance. During an economic downturn high performers are likely to be the people who help your business survive and thrive.

Moreover, savvy employers are taking advantage of current labour market conditions to recruit high performing talent as they become more affordable.

If you have a reduced budget for salary increases, think strategically about where that investment is best applied, the messages you will be giving to your top performers and where you are likely get the best return for that investment.

In short, it is not how much you spend on remuneration increases, but how you spend it and how well that process is understood across your organisation.

Remuneration Symposium 2009

Hewitt CSI’s 2009 Remuneration Symposium will be held in Sydney in late August. The Symposium will present leading edge thinking in remuneration, addressing both current and future perspectives on rewards.

We know that businesses are experiencing the downturn in different ways, and there is still a lot of uncertainty around forecasts for the next twelve months. The Remuneration Symposium will tap into the different stages of the downturn and consider what we can expect from a reward perspective, whether the future be bleak or bright.

The event will feature a number of interactive presentations and workshops from key personnel within Hewitt’s Reward practice. The Remuneration Symposium is suitable for all HR/Remuneration Managers and senior professionals wanting to keep up-to-date with the current environment and latest thinking on what reward will look like post-crisis.

For more information on the Symposium, or to register your expression of interest to attend, please phone Penelope Fox on +61 2 8440 6536 or email penelope.fox@hewitt.com.

Win an AUD\$500 Red Balloon voucher

Sign-up to receive your future copies of Hewitt Review in soft copy and you will go in the draw to win

In an effort to save some trees we are encouraging our readers to take up a soft-copy subscription to replace their current hard-copy edition of the newsletter. All readers who sign-up before July 31st, 2009 will go in the draw.

For your chance to win visit <http://eepurl.com/bmKQ> and enter your details. The prize draw will take place on August 3rd, 2009 and you will receive your first soft copy newsletter when the next issue is published in November.

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Current business environment

Stat wrap

	Aust	NZ
Economic Growth	0.60% (Dec 08)	1.70% (Sept 08)
Inflation	3.70% (Dec 08)	3.40% (Dec 08)
Unemployment	4.90% (Feb 09)	4.20% (Sept 08)
Wages Growth	4.10% (Nov 08)	3.60% (Sept 08)

(Annualised trend figures - www.abs.gov.au)

The new hires market

IT spot

According to Hewitt CSI's IT Specialists Salaries and Benefits Survey, employers of IT staff are predicting an average 2.8% (Australia) and 3.6% (New Zealand) salary increase for the 09/10 financial year.

Australia

The DEEWR ICT Vacancy Index (trend) decreased by 10.3% in March 2009 to 114.3. Over the month, Western Australia experienced the largest decline (down by 18.0%), followed by New South Wales (12.1%) and Queensland (9.7%). In annual terms, the ICT Vacancy Index is 57.4% lower than in March 2008.

New Zealand

The average salary increase at Total Remuneration Cost for incumbent employees between March 08-09 was 5.8%. The voluntary staff attrition rate related to IT specialists is 11.8% (weighted average).

Employment expectations

The Hudson Survey of permanent hiring expectations (www.hudson.com) for the January to March 2009 quarter (Australia) and January to June 2009 period (New Zealand), reveals that employer sentiment has continued to decline.

Australia

A net positive 5.4% of the 7,280 employers surveyed indicated an intention to increase their permanent staff levels during the January-March 2009 quarter. This result is a considerable 19.9 percentage points (pp) lower than that recorded the previous period and is the lowest level of employer sentiment on record.

New Zealand

A net positive 7.9% of the 2,285 employers surveyed indicated an intention to increase their permanent staff levels during the January-June 2009 period. This result is a considerable 18.9 percentage points (pp) lower than that recorded the previous period.

The new hires market cont'd...

Skilled vacancies - Australia

The Skilled Vacancies Index (SVI) (trend) decreased by 8.9% in April 2009 to 37.1 (2007 = 100). Vacancies fell for all three occupational groups: Trades (down by 10.4%) Associate Professionals (8.0%) and Professionals (7.2%). In annual terms, the SVI is 61.0% lower than in April 2008.

The monthly fall in skilled vacancies was widespread, with decreases evident across most occupations. The largest fall over the month was for Medical and Science Technical Officers (down by 25.1%), followed by Metal Trades (16.3%). Marketing and Advertising Professionals and Printing Trades both increased slightly (up by 6.7% and 4.1% respectively).

In April 2009, all states and territories experienced a decline in skilled vacancies. The strongest falls were recorded for Western Australia (down by 16.9%), Victoria (9.7%), South Australia (7.1%) and New South Wales (6.8%).

Over the year to April 2009, decreases in skilled vacancies were recorded in all states and territories. The largest decreases were recorded in Western Australia (down by 68.8%), New South Wales (64.3%), Victoria (59.8%) and Queensland (58.8%).

The new hires market - NZ

The Manpower Employment Outlook Survey for the second quarter 2009 was conducted by interviewing a representative sample of 868 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 June 2009 as compared to the current quarter?"

Although 13% of New Zealand employers forecast an increase in headcount during Quarter 2 2009, 22% predict a decrease and 63% expect no change. Based on these figures, the Net Employment Outlook is -9%, indicating a struggling labour market.

The current Outlook is the least optimistic since the survey began in Quarter 2 2004, having declined by a considerable nine percentage points quarter-over-quarter. There has been a steep decline of 33 percentage points year-over-year.

Once seasonal adjustments are included in the analysis, the Outlook is -10%. Hiring intentions have weakened considerably, with a 14 percentage point decline in the Outlook since the previous quarter and a year-over-year decrease of 30 percentage points.

HR community



HR spotlight

Junita Mushenko

**People and Culture
Manager**

Standards Australia

Standards Australia (SA) is recognised by the Government as Australia's peak Standards development body. The organisation's core purpose is to realise timely, sustainable, industry and community benefits by championing consistent Australian and International standards development solutions. The organisation is currently undergoing a significant business transformation underpinned by increased process rigour and creative operational management. Junita's role is to ensure the people strategies are effectively aligned to this new vision and mission.

What are your career highlights?

Being able to blend my commercial experience and practice in HR in the Not-for-Profit sector has been especially rewarding. More recently the cultural shift focus of my SA role has further exposed me to change management practices and methodologies in a small to medium business environment.

What is your work background?

Combined 11 years experience in HR and middle management roles within the Not-for-Profit, financial services, telco and FMCG industries. I hold a Bachelor of Science with a Psychology major and a Graduate Certificate in HR Management.

What is the most important element of remuneration management from your perspective?

The staffing salary bill is an organisation's greatest investment. Salary is also the area in staff opinion surveys that is most likely to cry red tears, therefore, having a suite of attractive salaried and non-salaried benefits appropriately matched to the company's demographics is essential. Educating staff on the value of these is a mindset shift that can save a lot of angst. Flexibility is also the key to the magic garden. At SA we are currently conducting internal and external benchmarking to help us decide the best mix of options for our workforce.

How would you rate Hewitt CSI's service?

I have partnered with Hewitt CSI through various role incarnations and have consistently experienced reliable and credible data supply, a customised approach to the business needs and excellent value. The consultants are always helpful, accommodating, commercial and good-humoured which kind of breaks the mould of a number crunching rem specialist.