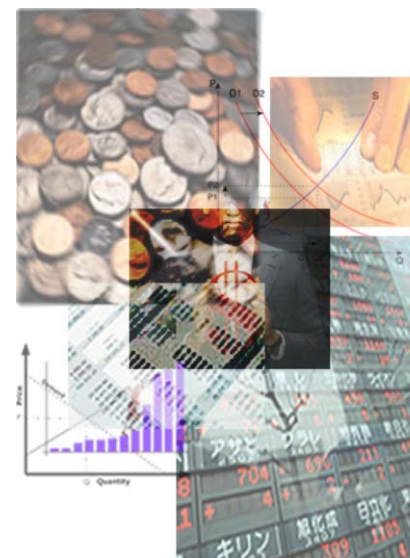




**GEOFF NUNN  
AND ASSOCIATES PTY LTD**

Independent Remuneration and Organisation Specialists

## Summary of Services and Company Profile



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Geoff Nunn, Executive Director  
Elizabeth Plant, Principal Consultant  
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## 1. Introduction

Geoff Nunn & Associates was established in 1993 as an independent provider of remuneration and organisation consulting services to business and government. Since that time we have established an enviable reputation for professionalism and quality service.

### 1.1 Consulting Services

- Remuneration Strategy Development.
- Job Sizing and Market Remuneration Advice.
- Executive Remuneration Advice.
- Specialist Remuneration Surveys.
- Remuneration Packaging Advice.
- Board Remuneration Advice.
- Design of Performance-Based Incentive Plans.
- Balanced Scorecard Performance System.
- Organisation Structuring and Design.  
Contracts of Employment.

Projects have been completed in over 900 organisations in Australia and New Zealand.

### 1.2 Philosophy

These underlying philosophies guide all of our work:

*Philosophy 1. We provide the highest standard of professional service.*

*Philosophy 2. We deliver on-time.*

*Philosophy 3. We provide substantial depth of professional expertise. Our consultants and associates are all professionally qualified and specialists in their fields.*

*Philosophy 4. Independence increases the options available for addressing organisational problems.*

*Philosophy 5. Each organisation's operating environment is unique. This uniqueness suggests the need to tailor specific solutions rather than rely on generic approaches.*

*Philosophy 6. All stakeholders should share in the risks and rewards associated with organisational performance.*

## 2. Remuneration Strategy Development

Remuneration continues to be a critical issue in the management of human resources. How an organisation pays its people impacts on its capacity to attract the right people and motivate them to remain focused on critical business objectives.

To achieve maximum return, remuneration strategies need to be integrated with other human resource and business strategies.

In recent years there has been a shift in the way many organisations think about remuneration. Greater flexibility in terms of packaging, broadening performance ranges and increasing the variable “at risk” component of total remuneration are just a few of the changes that have taken place.

### 2.1 Remuneration Strategy Objectives

- Support business and human resource strategies;
- Attract, retain and motivate the best staff;
- Contain fixed remuneration costs;
- Provide incentives for performance improvement;
- Reward past performance;
- Provide flexibility and responsiveness;
- Provide the best return on expenditure.

### 2.2 Remuneration Strategy Issues

- Remuneration market sector;
- Target market positioning;
- Remuneration structure design;
- Job sizing mechanisms;
- Remuneration packaging and benefits;
- Design of variable reward systems;
- Ratio of fixed to variable reward;
- The role of equity participation;
- Alignment of board and executive remuneration.

*Geoff Nunn and Associates specialises in assisting organisations develop integrated remuneration strategies which support their business objectives including the design of 'performance-based incentive schemes'. Over the past fifteen years we have had the opportunity to work with a diverse range of organisations to develop innovative and market aligned remuneration strategies.*

### 2.3 Integrated Approaches to Remuneration

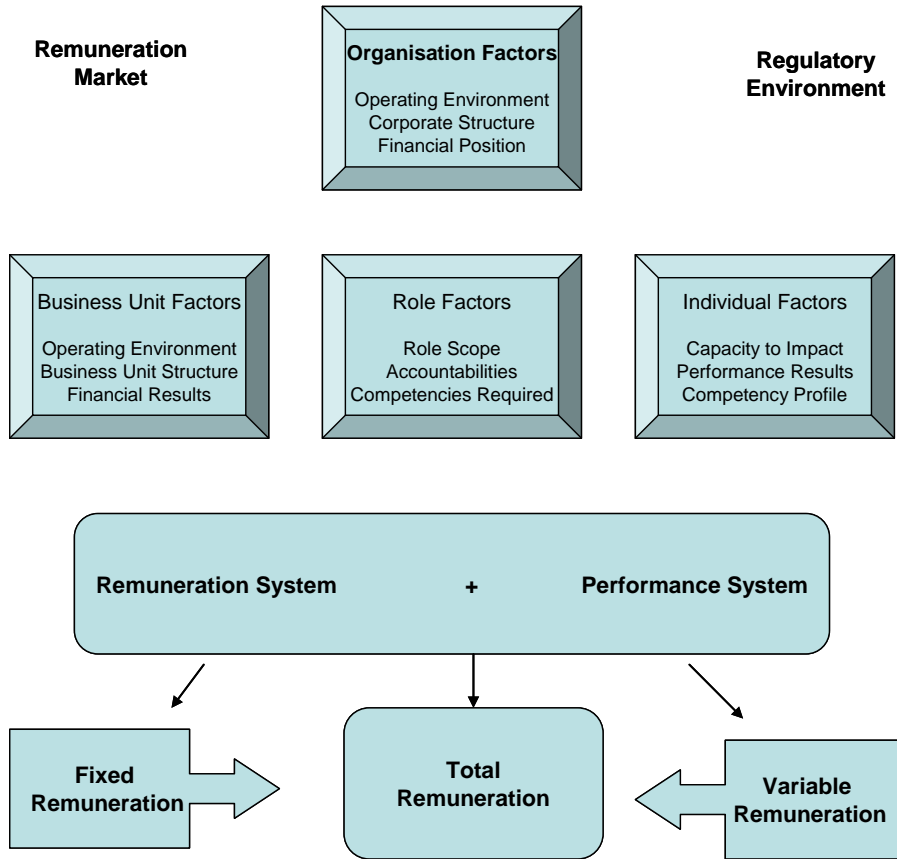


Figure 1 Integrated Remuneration Model

### 2.4 "At Risk" Remuneration

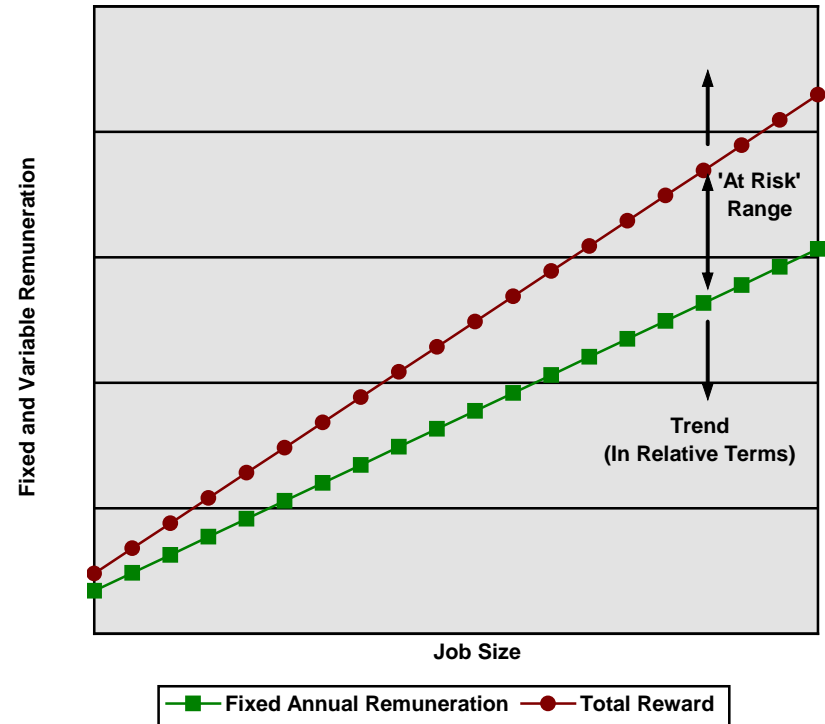


Figure 2 'At Risk' Remuneration Trend

### 3. Job Sizing & Market Remuneration Advice

Geoff Nunn & Associates uses and distributes the latest computer based, job sizing technologies and remuneration market databases to assist organisations determine:

- ❑ Internal relativities;
- ❑ Market remuneration rates.

#### 3.1 Job Sizing

Job evaluation has undergone a major change in the last ten years. Organisations can no longer afford to have several senior staff locked away for days reviewing position descriptions and evaluating jobs with cumbersome job factor tables. These days, speed and accuracy are essential.

Geoff Nunn & Associates has access to a number of job evaluation methodologies to assist organisations determine relative job size.

#### 3.2 Market Remuneration

Organisations need to ensure market alignment of their remuneration structures. Paying too low in the market will cause attraction and retention problems. Paying too high may be an ineffective use of financial resources.

Geoff Nunn & Associates sources market remuneration data from a range of survey providers. In combination with our job evaluation systems, we can provide accurate and timely remuneration advice for specific jobs and job families within your organisation.

*Since our establishment in 1993, Geoff Nunn & Associates has provided market remuneration advice to over nine hundred organisations across Australia.*

### 4. Specialist Remuneration Surveys

We undertake specialist surveys on request such as:

- Trustee Industry (1997-2003)
- Mining Equipment (1999)
- Utilities Sector (2000 and ongoing)
- Biotechnology (2001)
- Environment Sector (2003)

All surveys provide comprehensive market statistics and can be undertaken on a job evaluated as well as a position match basis.

Geoff Nunn & Associates maintains a close association with the National Remuneration Centre and collaborates on a number of remuneration surveys.

## 5. Board Remuneration

The role of the Board is increasingly important to organisational success. Shareholders and regulators continue to demand greater accountability of Board members and directors. Fair and equitable remuneration is essential.

### 5.1 Remuneration Practice for Non-Executive Directors

A range of factors need to be taken into account when establishing the remuneration of non-executive directors in Australia:

- The overall remuneration market for directors as measured through various remuneration surveys;
- The nature of director's role on the Board - such as chairperson, deputy chairperson, committee member;
- Organisation type such as listed public company, private company, mutual society, government business enterprise, statutory authority;
- Organisation size as measured by gross turnover, value of assets, earnings before interest and tax, overall budget.

In the past, remuneration practice for non-executive directors has been characterised by relatively fixed structures. Some companies have introduced share and option plans for directors. The ASX now discourages the use of equity based incentives for non-executive directors as these are seen to reduce independence.

Very few Australian organisations directly link non-executive directors' remuneration to organisational performance. The ASX 'Principles of Good Corporate Governance and Best Practice Recommendations' March 2003. Specifically Principle 9 'Remunerate Fairly and Responsibly' addresses the issue of directors remuneration. It contains two seemingly contradictory statements:

'The company should design its remuneration policy in such a way that it:

"Motivates directors and management to pursue the long term growth and success of the company within an appropriate framework." P 54

And yet further in Box 9.3: Guidelines for non-executive director remuneration:

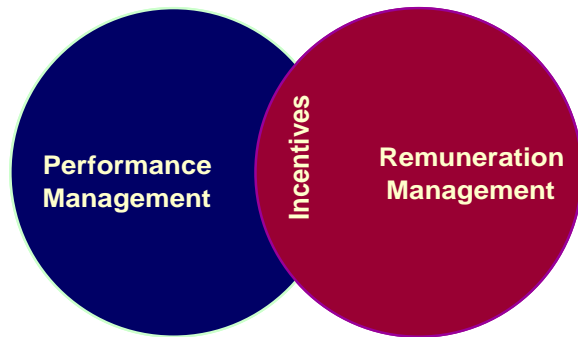
- '1. Non-executive directors should normally be remunerated by way of fees; they should not participate in schemes designed for the remuneration of executives.
2. Non-executive directors should not receive options or bonus payments'.

*Geoff Nunn & Associates specialises in providing expert advice on Board remuneration and the development of Board remuneration structures appropriate for the organisation's operating environment. We also provide expert advice on executive remuneration strategy to Board Remuneration Committees.*



## 6. Performance Based Incentives

Performance based incentives schemes or variable reward plans, operate at the interface of performance and remuneration management. To be effective variable remuneration schemes require careful consideration, design and management.



**Figure 3 Interface of Performance and Remuneration Management**

There has been a great deal of discussion regarding the merits of performance-based incentive schemes. Most organisations (and employees) now accept that remuneration mix need to contain an 'at risk' component. Not only does this provide a focus for performance outcomes but helps to contain fixed remuneration costs.

Performance-based incentive schemes can assist an organisation to maximise its return on remuneration expenditure.

### 6.1 Potential Benefits

- Focus staff on delivery of results;
- Contribute to overall organisation and business unit performance;
- Provide a common performance language;
- Improve communication at all levels;
- Contribute to cultural change;
- Contain fixed remuneration costs.

Factors to consider when designing an incentive scheme :

- Performance drivers;
- Split between organisation, business unit and individual components;
- Activation points;
- Capping levels (the maximum incentive payment);
- Short term/medium term/long term;
- Delivery mechanisms (cash, benefits, shares).

*Geoff Nunn and Associates has developed a range of approaches to variable reward. Effective incentive schemes must fit with the organisation's operating environment and overall remuneration strategy.*

## 7. Corporate Governance and Executive Remuneration

Executive remuneration continues to be a key issue for Boards and Directors of Australian organisations. The quantum of fixed and variable remuneration awarded to some executives has caused concern for regulators and the investment community.

The key issues confronting Directors include:

- Defining a clear charter for the Board Remuneration Committee;
- Ensuring transparency and governance requirements are met;
- Determining appropriate levels of executive remuneration in accordance with market conditions and industry sector practice;
- Determining the right ratio of fixed to variable remuneration;
- Structuring the short and long incentive plans;
- Determining the right balance of short and long term performance measures (bearing in mind the interests of different stakeholder groups).
- Formulating the Executive 'Employment Agreement' (Contract).

Effective from the financial year ended 30.6.2005 listed companies were required to submit an annual 'Remuneration Report' as part of the annual reporting process. This Report is required under CLERP 9 legislation and should cover all key aspect of Board and Executive remuneration. The shareholder vote is 'Non-Binding'.

Even though not currently required by legislation, many Boards are now moving to seek independent remuneration advice, on an annual basis, regarding the quantum and structure of executive remuneration.

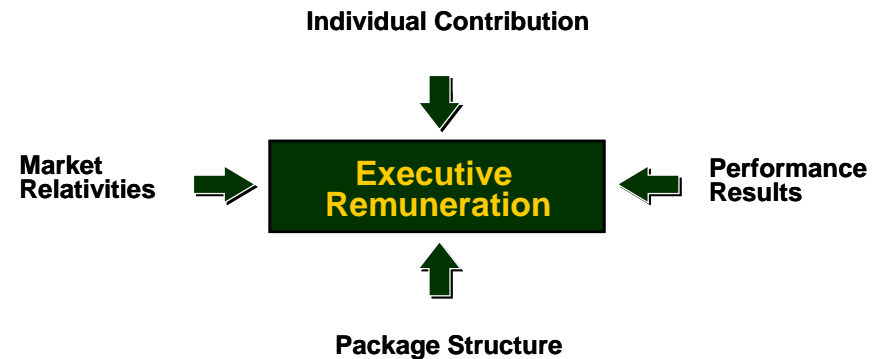
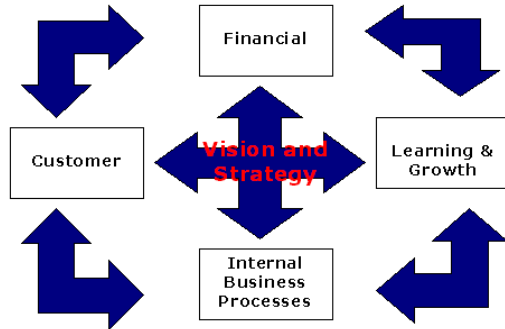


Figure 4 Drivers of Executive Remuneration

*Geoff Nunn & Associates has operated in the area of Executive Remuneration since 1993. We have provided independent remuneration advice to over 900 organisations across Australia. Our approaches are specifically designed to ensure the organisation achieves the best return for its expenditure on remuneration and that the quantum of rewards is fair, equitable and in accordance with prevailing market conditions.*

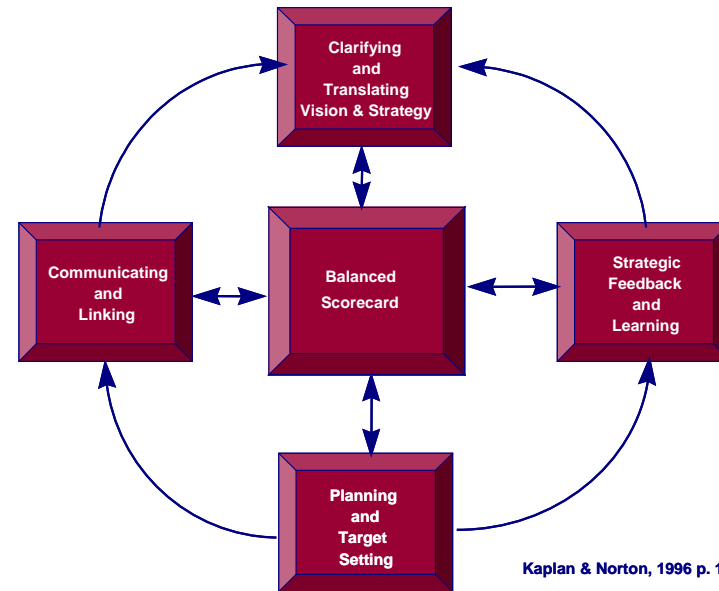
## 8. The Balanced Scorecard Performance System



The Balanced Scorecard concept has its origins in accounting theory and is primarily a business planning and performance monitoring tool. It was developed by Robert S. Kaplan and David P. Norton of Harvard University in the early 1990s. The underlying premise is that long term business viability requires a focus on a broad range of performance drivers<sup>1</sup>. These include, but are not limited to, financial drivers. Performance drivers may also include: customer, market, environment, human resources, research and operational measures. The strength of the Balanced Scorecard process is that it can be used to capture performance drivers unique to each organisation's operating environment.

<sup>1</sup> The term 'Performance Driver' refers to measures of various business activities which contribute to success.

The following diagram sets out the linkages between corporate strategy and the Balanced Scorecard<sup>2</sup>:



Kaplan & Norton, 1996 p. 11

Figure 5 Linkages to Corporate Strategy

### 8.1 Linkages

The Balanced Scorecard endeavours to provide linkages between two interdependent streams of activity. The first stream relates to the setting and monitoring of business strategies and objectives. The second relates to those human resource activities which support business strategies and objectives. In particular, performance management at the individual level.

The following diagram illustrates:

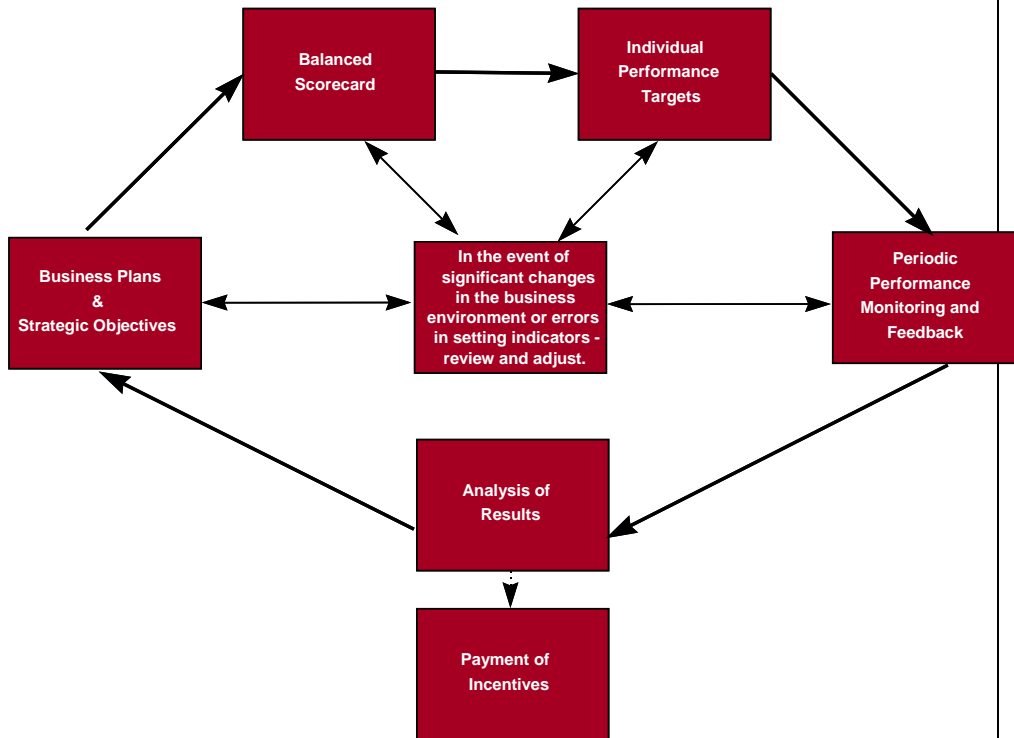


Figure 6 Performance Planning Cycle

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<sup>2</sup> Source: Robert S. Kaplan, David P. Norton, 'Using the Balanced Scorecard as a Strategic Management System', *Harvard Business Review*, (January/February, 1996) :77.

### 8.1.1 Organisational Performance Measurement

Scorecard drivers should complement existing planning and reporting systems. In some instances they will be drawn directly from business plans. In other instances new performance drivers will have to be developed.

Capturing all of these drivers into a Balanced Scorecard enables an aggregate 'score' to be determined for assessment purposes.

The Balanced Scorecard methodology requires each performance driver:

- To be weighted according to its relative importance;
- A target level of performance to be established;
- A minimum acceptable level of performance to be set; and
- A maximum achievable level of performance to be projected.

Performance drivers within the Balanced Scorecard need to be aligned to give collective focus to those measures which will deliver maximum value. Where appropriate they can be cross-referenced to external benchmark measures.

### 8.1.2 Human Resource Management

Human resource management is essentially concerned with sourcing, developing, managing and monitoring the people resources necessary for the organisation to achieve its goals and objectives. In the context of the Balanced Scorecard, individual performance management forms a key component. Individual Key Result Areas (KRAs), Key Performance Indicators (KPIs) and Action Plans need to be linked to Balanced Scorecard performance drivers. Competency development processes are critical to ensure individuals possess and apply skills and aptitudes necessary to achieve performance outcomes.

## 8.2 Four Central Perspectives

The Balanced Scorecard methodology is based on four central performance perspectives:

### 8.2.1 Financial Perspective

The financial perspective is critical. Shareholders expect a reasonable return on their investment. When establishing scorecard drivers for organisations and business units the key focus may be on:

- Earnings before interest and tax (EBIT);
- Earning per share/growth in share price;
- Gross revenue;
- Income to expense ratios.

Financial measures need to be customised to fit each particular organisation although there are common items.

### 8.2.2 Internal Business Process Perspective

This perspective focuses on the way organisations and business units go about meeting customer requirements and providing financial returns. Potential areas for inclusion are:

- Operations management;
- Service and support;
- Quality assurance systems;
- IT systems effectiveness

### 8.2.3 Customer's Perspective

The needs of customers are critical to the achievement of business success. For most organisations this is self evident. Yet few incorporate customer/market measures when assessing organisation and business unit performance.

Consider some of the elements:

- Customer profitability
- Customer retention
- Customer satisfaction
- Market share.

### 8.2.4 Learning and Growth

Learning and Growth are required to sustain the long term viability of the organisation:

- Employee capabilities;
- Intellectual capital;
- Research and development;
- Motivation and alignment.

*Geoff Nunn and Associates leads in the development and installation of Balanced Scorecard performance management systems in Australia. Interest in its application continues to grow. When linked to incentives it becomes a particularly powerful tool for performance management at the organisational, business unit and individual levels (see also Performance-Based Incentive Schemes).*

## 9. Employment Contracts

In today's environment it is important to accurately specify the terms and conditions of the employment relationship. Each party needs to understand their obligations and expectations. A comprehensive performance contract will specify the terms and conditions of employment and performance targets and measures.

Geoff Nunn and Associates offers specialist expertise in developing performance contracts that cover:

- Quantum of remuneration and package arrangements;
- Conditions of Employment;
- Appointment, duration of the Contract and termination conditions;
- Scope of the role and its accountabilities;
- Performance criteria and measures;
- Performance Incentives (short and long term).

Termination provisions can be contentious, particularly in executive contracts. Each case can be different and its always a case of finding the right balance. Executives expect compensation for early termination. The real question is how much?

*Our specialists have worked with a range of organisations in different industries to develop contemporary approaches to employment contracts.*

## 10. Organisation Structuring and Design

The design of organisation structures is critical for success in today's volatile and competitive business environment. Gone are the days when organisations could achieve targets with their structures only loosely aligned to business plans. Structures of contemporary organisations must complement the mission, business and strategic direction. They must enhance and sustain the major competitive advantages of the organisation.

The factors to consider when designing structures:

- The mission of the organisation;
- Strategic objectives and key business imperatives;
- Underlying values;
- Operating culture and climate;
- Distinctive competence and expertise;
- Customer interfaces and expectations of service delivery;
- The regulatory environment.

Rather than regarding organisation structures as static many organisations take the view that periodic adjustment to structures is necessary to maintain focus.

*All of our specialist resources have extensive organisation design experience.*

## 11. Clients

Geoff Nunn and Associates has a diverse range of consulting and industry experience. Projects, in our different areas of specialisation, have been successfully completed in over 900 organisations including:

7-Eleven Stores

Advanced Lighting Technologies

Albright & Wilson

Alinta

Amcor Cartons

Amcor Fibre Packaging

ARRB Transport Research

Audio Visual Dynamics

Australian Automobile Association

Australian Council for Educational Research

Australian Inland Energy and Water

Australian Motoring Services

Austin Research Institute

Barwon Water

Becton Dickinson

BHP (now BHP Billiton)

Biomolecular Research Institute

Brimbank City Council

Burson Automotive

Cabot Australasia

Castalloy

CBHS Friendly Society

CEO Institute

Champion Compressors

City West Water

CPE Systems

Dairy Research and Development Corporation

Defence Health

Delta Electricity

Dennis Family Corporation

Department of Justice (Victoria)

Donpra Hire

EarthTech Engineering

East Gippsland CMA

East Gippsland Water

Envestra

Environment Protection Authority

Envirozel

Eraring Energy

Equity Trustees

Federation Health

GMHBA

Glennelg Hopkins CMA

Government Superannuation Office

GWM Water

Hawker Richardson

HIF of WA

HostPlus

Hume Building Society

Intelligent Transport Systems

ION

K & S Environmental

Linak Australia

Metricon

Melbourne Market Authority

Moreland City Council

NATA

NCSI International

NEMMCO

North East CMA

North East Water

Penrice Soda Limited

Perpetual Trustees Tasmania

Pfizer Australia

Ramahyuck

REIQ

Roaring 40s Renewable Energy

Royal Automobile Club of Victoria (RACV)

SEAGas

Snowy Mountains Engineering Corporation (SMEC)

South East Water

State Trustees

Tattersall's

Tasmanian Perpetual Trustees

TED Engineering

Trustee Corporations Association of Australia

Urban Maintenance Services

VicTrack Access

Villa Maria Society

Victoria Police

Victorian Employers' Chamber of Commerce and Industry

Wannon Water

Water Corporation of WA

Wimmera CMA

Yarra Trams

Yarra Valley Water

## 12. Consulting Resources

### 12.1 Geoff Nunn - Executive Director

Geoff has been involved in human resource management for over twenty years. He is a specialist in remuneration management, pay for performance schemes, performance management, organisation structuring, competency profiling and people strategy development.

He has consulted widely to the private sector. Organisations include those from manufacturing, utilities, engineering, finance, insurance, automotive, mining and petroleum industries. Geoff has also consulted extensively to the government sector.

Before entering consulting in 1993, Geoff spent twenty years in a range of senior human resource and remuneration roles with the National Australia Bank, Public Transport Corporation of Victoria and CRA Group (now RioTinto).

Geoff has undergraduate qualifications in Accounting, a Graduate Diploma and a Masters Degree in Organisational Behaviour from Swinburne University. He is a Fellow of the Australian Human Resources Institute, a Member of the Australian Institute of Company Directors and is published in the areas of performance and remuneration management.

### 12.2 Elizabeth Plant – Principal Consultant

As a consultant, Elizabeth specialises in remuneration management, performance management, organisation structuring and design, contracts of employment, competency profiling and people strategy development.

Elizabeth has been involved in remuneration and organisation projects with more than 800 organisations across Australia. These have included organisations in the manufacturing, equipment, finance, retail, chemicals, medical and public sectors.

Elizabeth entered consulting in 1995 after spending fourteen years in a range of human resource and specialist management roles within the corporate sector.

She holds a Bachelor of Commerce Degree (majors in Commercial Law & Psychology) from the University of Melbourne, and a Graduate Diploma in Organisation Behaviour (Majors in Interpersonal Psychology and Group Dynamics) from Swinburne University.

### 12.3 Ian Siebert – Senior Associate

Ian Siebert has worked as a management consultant and educator for the past twenty years. His consulting expertise is in the areas of remuneration, organisation and management development and competency modelling. He worked as a Senior Consultant with the HayGroup for five years and has a ten year association with Geoff Nunn & Associates.

He has extensive consulting experience in the service, manufacturing, finance, consumer products and higher education sectors. His exposure includes large and small organisations in both the public and private sectors.

He currently works with the Australian Institute of Management in the design and delivery of contemporary leadership and change management programs and is the Director of Postgraduate Programs for AIM Victoria and Tasmania. He holds undergraduate qualifications in Higher Education and Economics and an MBA from Monash University. He is a Fellow of AIM and Member of the Australian Human Resources Institute.

