

Geoff Nunn & Associates
Australia's Leading Independent Remuneration Specialists

Remuneration Update

Executive Remuneration—Scrutiny Continues.

In this issue of Remuneration Update we focus on the process to ensure sound practice in executive remuneration.

Key Topics:

- Executive Remuneration—Scrutiny Continues.
- Corporate Social Responsibility.
- Key Performance Indicators.
- Board Remuneration.

The impact of CLERP 9 continues to be felt during the corporate reporting season. One recent high profile case has caught the attention of the public and investment community with the CEO's total package moving into uncharted territory in Australia.

When considering issues of executive remuneration there are a number of key factors which Board Remuneration Committees need to keep in mind:

- The quantum of executive remuneration offered needs to be benchmarked against like organisations and the remuneration market generally. The job evaluated approach is the best way to do this as it takes into account job and organisational differences.

- The measures used to drive short and long term incentives need to be transparent and valid. They should reflect financials and underlying business fundamentals. Some organisations have been somewhat less than open in disclosing the measures used to drive STIs and LTIs.

- There should be a fairly direct nexus between assessed corporate performance and the overall level of executive remuneration. In one recent well publicised case there seemed to be a considerable disconnect between the quantum of the CEO's total remuneration package and public perception of the organisation's overall performance.



Geoff Nunn & Associates specialises in providing advice to Boards on fixed remuneration and STI plans for executives.

Retention Options – Some Companies Going the Extra Metre.

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In the last issue of Remuneration Update we discussed the rise of financially based retention plans—usually focused at the executive, management and key contributor levels. However, retention is a broader issue and involves the total employment relationship.

Some additional benefits used to facilitate retention include offering regular health checks, fitness programs, income protection insurance and a favourable work environment.

In our view the real incentive to remain with an organisation is the

level to which positive engagement can be achieved. The factors that engage people with the organisation and the work have been known for a long time.

They include:

- Meaningful and challenging work. Job design is sometimes neglected these days. Build in challenging tasks to even the most basic of roles.

- A workplace which offers the opportunity for social engagement with peers. Individuals will always form their own internal networks. But providing some formalised opportunity for socialising is important.
- A focus on competency and career development.
- An open and involved leadership team. Leaders that take a personal interest in the work and development of individuals are a valuable resource and make people feel connected.



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Corporate Social Responsibility - The Human Resource Contribution

Corporate Social Responsibility and Sustainability are finally being recognised as key issues for human resource professionals as well as the executive team and board. In this article we discuss some of the opportunities whereby human resource professionals can contribute to their organisation's place in the broader social environment.

Overview

Ultimately all organisations (government and private) exist to provide goods and/or services to their communities. These communities may be the general public, sections of the general public, business or government. Whilst all organisations have responsibilities to a general range of stakeholders, they must also be concerned to ensure that their activities make a positive contribution to the community. This means not only following respective legislative codes but acting in ways which are socially responsible and environmentally sustainable.

Human resource practitioners can make a valuable contribution to corporate social responsibility and sustainability. We discuss below some ways in which this may be achieved.

Maintaining Ethical Human Resource Policies.

All human resource practitioners understand their roles in ensuring policies support equal opportunity and anti-discrimination. But there are a range of other opportunities including:

- Ensuring that recruitment and selection policies support merit based selection. But also (where possible) provide the opportunity for some disadvantaged individuals to find meaningful work.
- Ensuring that equal opportunity and merit form the basis of internal promotion and transfer opportunities.
- Ensuring disciplinary and dispute resolu-

tion policies respect the integrity of the individuals concerned.

- Offering comprehensive employee assistance services. Some organisations extend this service to the employee's immediate family.

Responsible Remuneration Practices

Remuneration strategies need to be designed to attract, retain and reward. In times of a booming economy and tight resource market some organisations have been fairly aggressive in their approach to remuneration.

Organisations need to be aware that consistently paying at the upper end creates inflationary pressures in the remuneration market. Not only does this contribute to inflation in the broader economy but it makes it more difficult for organisations with limited financial resources or those which operate in a regulated environment (such as government entities) to attract and retain staff.

Respect for People

Human resource practices play a key role in shaping the culture of the organisation. Practices which respect the integrity of individuals have a positive impact on morale and productivity.

At the point where organisations and their employees interface with the community the value of 'respect for people' becomes evident and potentially influential.

Supporting a Positive Work/Life Balance

Excessive hours, high stress levels, uncertainty of tenure can make it difficult for individuals to play a positive role with family and community.

Policies which support a positive work/life balance have the potential to not only enhance productivity and performance but ensure individuals have the opportunity to contribute to the broader social framework.

Learning and Development

Policies which encourage leadership and management development not only contribute to corporate performance but equip individuals with the skills to take up leadership roles within the community.

All organisations which invest in the development of their people also make an investment in the skill base of the total Australian workforce. All organisations potentially benefit from investment of others in people development.

Environment, Health & Safety

This extends beyond ensuring all organisational activities comply with relevant Environmental and OH & S legislation.

A pro-active approach to employee health, such as offering annual medical checks, hearing and eye tests not only contributes to employee well being but potentially reduces the burden on the public health system through early detection of problems.

Efforts to reduce the negative impacts on the environment of conducting business also contributes to an organisations social profile.

Summary

The initiatives listed above can contribute to an organisation's profile as an employer. The human resource contribution to corporate social responsibility and sustainability is clear and demonstrable.

We encourage all human resource practitioners to consider the broader implications when developing their human resource strategy.

References

Australian Institute of Company Directors
[Boardroom Report Volume 5, Issue 9, June 5 2007.](#)

Geoff Nunn & Associates has assisted a range of organisations develop effective and socially responsible HR Strategies linked to business plans.

KPI Advice From Leading UK Remuneration Expert

In the latest Reward Quarter (Summer 2007) leading UK remuneration and reward specialist Michael Armstrong provides some 'Reward Rules' in relation to performance measurement:

1. "Key performance indicators should be related to strategic goals and measure which are organisationally significant and drive business performance.
2. Performance measures need to focus on outputs, outcomes and behaviours

which can be clearly defined and for which evidence can be made available.

3. Performance measures should indicate the data or evidence that will be available as the basis of measurement. They also need to be verifiable—provide information which will confirm the extent to which expectations have been met.
4. Performance measures should be as precise as possible in accordance with the purpose of the

Measurement and availability of data.

5. Performance measures should provide a sound basis for feedback and action. What's more they need to be comprehensive covering all key aspects of performance...

Armstrong quotes Lawler:

"Most individuals quickly decide that they deserve the pay they receive and do not try to better performance in order to receive it. It is the anticipation of higher

pay that is motivating." Lawler The New Pay: A Strategic Approach, July 1995.

In the Australian context the Balanced Scorecard is now well established as proving the vital link between corporate strategic objectives and individual KPIs.

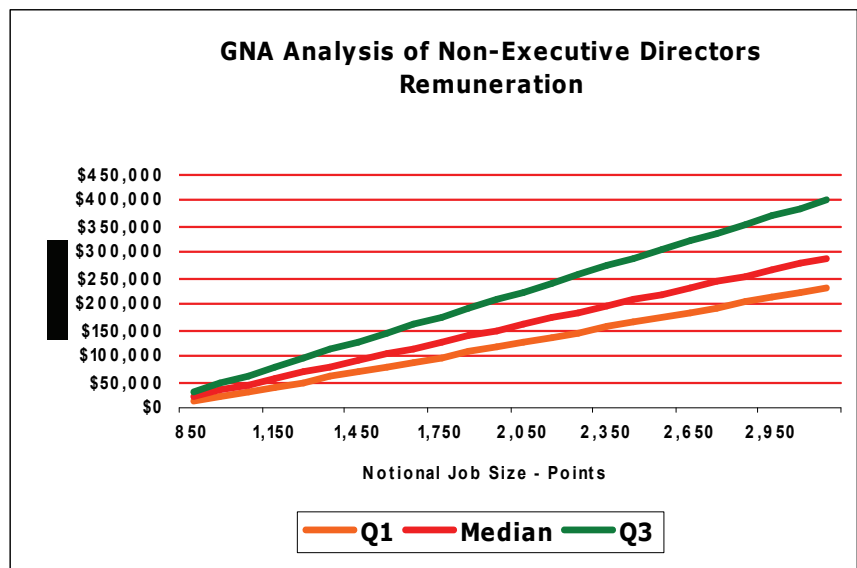
For many organisations it provides the core platform for their incentive plans and is viewed as a key contributor to lifting corporate performance.



Board Remuneration.

According to a number of recently published surveys and articles, Board remuneration continues to be a topic of discussion. Setting fees for directors and board members has, to date, lacked the rigour of the job evaluated approach usually used to determine executive remuneration. To overcome this Geoff Nunn & Associates has developed a range of template board evaluations using the NRC's Jobscore system. Analysis of underlying trends in director remuneration has also been completed using a range of board surveys. The adjacent graph illustrates:

For independent advice on Board Remuneration contact Geoff Nunn or Elizabeth Plant on (03) 9629 6866.



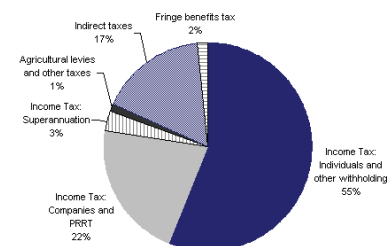
Taxation Issues Continue

It seems both major parties have jumped on the tax cut band wagon. Whilst income tax cuts will certainly be welcome to most tax payers, as will an increase in the threshold at which income tax becomes payable, neither party seems interested in simplification of the tax structure.

Australian businesses, both large and small, are burden with a multilayered and sometimes convoluted tax system which adds to costs and utilises valuable people resources to administer. Tax compliance requirements for business have never been higher and continue to grow.

We are looking forward to the day when any government does away with the unwieldy and complicated Fringe Benefits Tax system. As governments have progressively moved to equalise the tax treatment of benefits and salaried income the need for two tax systems has reduced.

How about a simple formula for valuing benefits. The value could then be added to cash salary and personal income tax paid at the appropriate rate. If the company wishes to meet the cost of the benefit outside package non-deductibility remains a policy option.



Mechanical Problems Emerge at the Australian Historic Motoring Festival—13/14 October 2007

For those of you interested in historic motor sport (yes—we know there are a few of you out there) we thought it appropriate to provide an update on our sponsorship activities.

The Datsun Fairlady 1966 (the Beast) continues to develop in capability and is now at its most advanced state yet. We have recently made a number of changes to enhance handling and performance including:

- Fitted a new cylinder head to the H20 with increased compressing and larger valves for improved flow;
- Lowered the front suspension and re-set the shocks.
- Fitted a lightweight Odyssey battery.
- Changed the tyres for a new set of Yokohama Advan AO48 Rs.

We ran it up on the dyno in September and the Beast produced 97 kw at 5750 rpm at the rear wheels. Even the grand master, Lou Mondello, was impressed. On road performance is dynamic to say the least.

Unfortunately the clutch was not up to the increased power output and failed during Race 2 at the recent Winton meeting. Major slip at race start and the problems continued around the track with an inability to get power down.

Thanks to Brian Tuckett of Sensis and Gerry Smith, Moreland City Council for their continued support



About Geoff Nunn and Associates

Geoff Nunn & Associates was established in Melbourne, Australia in 1993. Since then, the Company has established a reputation for professionalism and quality service. Projects have been completed in over 750 organisations across Australia.

Our Services

- **Remuneration Strategy Development.**
- **Job Evaluation.**
- **Market Remuneration Advice.**
- **Board and Executive Remuneration.**
- **Performance-Based Incentives.**
- **Balanced Scorecard Performance System.**
- **Organisation Structuring and Design.**
- **Contracts of Employment.**

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