HaRe Group newsletter: 1 September 2005

Subject: Branding, or Big Bucks

What is it about a job that engages an executive? Is it the promise of personal wealth, or is it more about the work environment and the values of the employer?

Branding

Many market leading companies have established an "employment brand" that mirrors the external brand it promotes to its customers. Each company's values, work environment and culture are closely aligned to the drivers of business success. This means that every employee should appreciate the relationship between:

- What management wants from employees, and
- What employees need from the organisation.

This relationship is often tuned by an array of management "levers" including organisation design, business education, career opportunities, leadership, work/life balance, technology, performance and rewards. If the power of each lever is well understood, then the company is more able to promote and sustain a desired organisation culture. The company should know which levers need adjusting to establish an employment brand that delivers the closest alignment of its market (customer) brand and its desired culture.

Many companies now tout their employment brand during their recruitment process. However, new employees occasionally experience a void between branding and reality, which may often cause an early and costly separation.

Big Bucks

Some companies have promised large remuneration opportunities as a major part of their employment brand. Very often, this wealth is delivered through increases in the value of company equity – but, as many will know, equity-based long term incentives (LTIs) have been under the media microscope in recent years.

In the AFR dated 24 August, the Australian Council of Super Investors was reported to warn company directors that they will face a shareholder backlash unless they link executive pay more closely to performance. ACSI can now use its weight of proxies in shareholder voting on executive remuneration. While these AGM votes are non-binding, a negative message to directors will still be embarrassing.

A survey by Chartered Secretaries Australia (reported in The Age, 30 August) found that 56% of the companies represented are likely to review remuneration practices if an AGM vote on remuneration is more than 20% negative. Another 28% of companies said a review would need a 35-50% negative vote.

Comment

An incalculable array of factors will motivate talented executives in their employment choices. An executive's decision to stay with Company A or move to Company B will be influenced, in varying degrees, by employment branding, including pay opportunities.

In this "tight governance" era, unfettered remuneration will become rare. Large incentive pay opportunities will only be realised if individual and corporate performance justifies a large reward. Increasingly, long term company performance will be assessed by comparisons to similar organisations. Recently updated ACSI guidelines include performance hurdles for LTIs that are based on peer company performance.

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The power of the executive remuneration "lever" is less than it was five years ago. If any executives have been highly motivated by wealth creation, then the current business climate should temper their ambitions. Other factors (like career opportunities and work/life balance) may now take higher priorities.

To fully engage talented people, an employer must ensure that the deal it strikes with all current and potential employees is true to the company's employment brand, including its values, culture and realistic reward opportunities.

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