HaRe Group newsletter: 5 June 2003

Subject: Cash, equity and peanuts

The **SALARIES** feature story in the June 5-11 BRW provides a useful update for HR professionals. Many familiar themes are covered, including "breathtaking chief executive payouts" and how executives should not take their salaries & bonuses for granted. Some helpful reminders in this article include:

- management remuneration should be justified and transparent to shareholders;
- ASX guidelines say top executive performance pay should be linked to clearly specified goals - executive bonuses should be based (at least in part) on achieving annual budgets;
- bonuses should also reflect different levels of individual contribution;
- long-term, equity-based incentive plans should include well tested hurdles based on peer company performance;
- pure benchmarking is flawed - published salary trends can reflect a recent appointee's pay as well as big salary increases for stellar talent, as well as different companies with different remuneration strategies, etc;
- variable global/ market sector performance will influence incentive payments (eg. "finance executives...bonuses cut by 5-10%");
- there is a clear trend to put more remuneration at risk in short and long term incentive pay.

In another BRW article, "**the penalties of paying peanuts**" highlights the global disparity in executive remuneration. Based in Singapore, Peter Roberts writes "...you have to pay big dollars to employ the right people in cities such as Tokyo....Australians overseas are earning peanuts..." The real problem, says Roberts, is not the money paid in Asia to talented people - it's the pre-tax Australian dollars that must be paid to lure them home.

These stories reflect the issues that frequently confront HR professionals. While there are several pointers in the BRW stories, there are 3 basic remuneration principles that should still apply:

1. the fixed (base) remuneration package is compensation for responsibilities performed and capabilities proved;
2. short-term incentives & bonuses are rewards for achieving SMART individual, team and corporate objectives;
3. long-term incentives are usually equity-based rewards for contributing to longer term corporate success.

In my experience, most employers know that they need to engage their talented people for the longest possible term. This requires:

- a clearly defined purpose for each of the above 3 remuneration components;
- remuneration program designs that directly support unique business strategy and competitive advantage;
- performance measures that focus all employees on key business objectives;
- global & local market pay alignment policies for setting base pay and incentive levels;
- constant & effective communication, communication, communication,......

By developing a Strategic Remuneration Framework that captures all these features, every HR professional will have an effective tool for attracting, motivating and retaining talented people. Of course, a successful HR strategy must also address corresponding Staffing, Organisation, Performance and Development programs.

Simon Hare
HaRe Group