

HaRe Group newsletter: 16 February 2003

Subject: World-class remuneration - who needs it?

In the most recent BRW cover story (February 13-19), there were several comments relating to high executive rewards while company performance falters. Some of these comments included:

- The recent returns of more than half of Australia's top 1000 companies fall under the 5-year average cost of equity of 10.5%, a basic capital requirement to compensate for the higher risk of investing in shares;
- During the past 15 years, the average return on shareholders funds in the Top 1000 has halved to 6.7% (the US benchmark is 25% ROSF);
- Over this period, "CEO's have been rewarding themselves higher and higher...People are being rewarded for poor performance..." (Phil Ruthven);
- It is necessary to use world-class incentives when pursuing world-class talent (Allan Moss, Macquarie Bank).

No doubt, this will be a familiar theme - it seems that every second day, the business press reports on the excesses of executive remuneration. However, the foremost challenge for every company is to ensure that it has the capabilities (the talented people) to properly execute business strategy and achieve its long term goals - attracting and motivating the right people often requires world-class incentives.

In a related story in this month's BOSS, Dave Ulrich referred to the importance of measuring the things that really matter to long term success, including:

- Management's ability to align with shareholders, and leverage the skills, expertise & commitment of employees;
- Management's ability to attract, reward, develop and keep the best people;
- The quality of executive remuneration - how well it is tied to strategic goals.

If Australian companies are to achieve long term success on a global scale, the HR function has a critical role to play - not the least of which is focusing employees on the longer terms interests of shareholders and rewarding them appropriately for their achievements.

So, who needs world-class remuneration? Companies with significant global operations that are in global competition would argue that they compete for global talent, therefore they need world-class incentives. Many Australian-based companies competing in global markets may also have a good case for world-class incentives. However, local companies with a predominantly domestic focus will need to consider the extent to which they should compete for global talent and pay their executives world-class remuneration.

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