

Newsletter January 2018

Our January Newsletter, the first for the 2018 calendar year, provides readers with insight into the most popular articles over the last 60 editions of our Newsletter, together with an update on votes against the Remuneration Report in the recent round of AGMs. Our Agenda addresses transparency in remuneration reporting, the Australian employment market including gender bias, and some data on contradictory trends. In our February Newsletter we intend to comment on wages growth, looking both retrospectively and forward.



The Past and the Future

We comment on the 10 most popular articles over the last 60 editions of our newsletter and the most widely read Key Management Personnel Reports (KMP Reports) of the past 5 years.



Strikes Against Remuneration Report

Among the top 300 listed companies by market capitalisation*, there were six companies that experienced a significant shareholder vote against their Remuneration Report during the final quarter of the 2017 Annual General Meeting season.



The Agenda

The Agenda is the must-read summary of issues influencing Boards of Directors and Government.

The Past and the Future

The first Newsletter of the 2018 calendar year provides not only comment on contemporary issues, but also includes comment on the 10 most popular articles over the last 60 editions of our Newsletter and the most widely read Key Management Personnel Reports (KMP Reports) of the past 5 years.

In response to feedback received from our subscribers, we look forward to publishing articles more regularly each month and consolidating those articles in our monthly Newsletter. This will provide our readers not only with comment aligned with events as they occur, but will also enable our readers to look at each month in review.



We also note that the most widely read articles of the last several years were those where we commented on remuneration trends during each reporting period, together with comment on the basis of shareholder voting against a company's Remuneration Report.

A selection of the most popular articles published between 2013 and 2017 include:

- [Eight examples of non-standard incentive schemes](#)
- [CEO and CFO fixed remuneration in perspective](#)
- [3 key questions to lift Board performance](#)
- [Clarity in Remuneration Reports – Common problem areas](#)
- [Discretion guidelines for Remuneration Committees](#)
- [The dilemma with incentive structures](#)
- [Offering a reasonable remuneration package](#)
- [Remuneration value – not the same as accounting cost](#)
- [The Board and its Advisor: can their viewing point become a moral dilemma?](#)

Among our most widely read [KMP Reports](#) were our annual reviews of Directors' Fees in Australia and New Zealand and our reports dealing with the emerging perspectives of proxy advisers as they advise their institutional clients on inappropriate remuneration strategies adopted by Australia's leading listed companies.

The [LTI Revolution](#), published in March 2017, the [Rise and Rise of Risk](#), published in April 2015, and a [Board's Cost of Governance](#) in July 2014, were also widely read and well received.

[Back to Title Page](#)

Strikes Against Remuneration Report

Among the top 300 listed companies by market capitalisation*, there were six companies that experienced a significant shareholder vote against their Remuneration Report during the final quarter of the 2017 Annual General Meeting season. A further eleven companies received a negative vote above 20% and an additional twelve received a vote against their Remuneration Report above 15%. The top 300 companies exclude overseas-based companies and trust fund companies.

Below is a summary of the disclosed commentary on those companies that received a strike in the most series of Annual General Meetings.

1. Ainsworth Game Technology

- 28% of shareholders voted against the Remuneration Report.

2. Cromwell Property

- 30.84% of shareholders voted against the remuneration report.
- Proxy advisors recommended a vote against the Remuneration Report due to the limited proportion of reward which was at risk.

3. Mineral Resources

- 41% of shareholders voted against the Remuneration Report.
- Concerns expressed reflected the use of a single financial measure under both the annual and long term incentive plans (12% return on invested capital - ROIC). We note that ROIC was calculated using normalised net profit after tax excluding impairments.

4. Myer Holdings

- 29.23% of shareholders voted against the Remuneration Report.
- Concern was expressed in relation to Directors' reward given the performance of the company.

5. [Reliance Worldwide Corporation Limited](#)

- 41.82 % of shareholders voted against the Remuneration Report.
- Concern was expressed in relation to senior executive bonuses under the annual incentive plan, particularly the CEO who received a bonus of \$2.5 million.

6. TPG Telecom

- 29.81% of shareholders voted against the Remuneration Report.
- The response appears to be closely related to the company's share price performance and its more recent investment in mobile and fibre infrastructure.

Companies on the cusp of the top 300 list receiving a strike included Isentia Group, Karoon Gas and Mortgage Choice.

We observe, in relation to the vote, that Directors of the affected companies, in addressing shareholders, expressed the view that their prevailing remuneration arrangements were appropriate given the circumstances of the company and that a substantial proportion of the noise, which influenced the negative vote, was influenced by other factors.



Company's Response to their 2016 AGM Strike

Instructive of the influence of shareholders, including institutional shareholders and guidance received from Proxy Advisers, is the response of those companies which received a strike in the 2016 AGM round.

The Boards of the leading companies most directly affected in the 2016 round of AGMs clearly addressed concerns expressed by shareholders. The table below sets out the vote against the Remuneration Report at the 2016 and the 2017 AGMs.

Vote against the Remuneration Report

Company	2016 AGM	2017 AGM
Commonwealth Bank	41.82%	7.80%
CSL	25.46%	12.12%
Woodside	26.94%	1.39%
AGL	37.08%	2.53%
Boral	26.09%	3.89%
Bellamys Organic	27.51%	5.69%

We also observe that a number of organisations outside the ASX 300 received a strike in the most recent round of AGMs.

* 20 trading days smoothing as at 22 December 2017.

[Back to Title Page](#)

The Agenda

Pay Transparency

Arising from the [California Assembly Bill 168](#), employers in that State, upon receiving a reasonable request, must provide the pay scale for a position to an applicant applying for employment.



We understand that this pay initiative requires improved communication transparency in relation to California's employers' pay disclosure. We also understand that these initiatives will require employers to ensure:

- pay range alignment in recruiting
- pay transparency with employees
- establishment of pay bands or pay ranges reflecting work value relativity

Wage Increase in the US

While the US stock market reaches new highs, annual median base salaries in the US were only adjusted modestly in the 2017 year. According to [Glassdoor Local Pay Reports](#), the annual median base pay across the US grew by 1.1% in the year to December 2017, reaching an amount of US\$51,210 (A\$66,500 approx.).



Glassdoor's reports for the prior year revealed a rate of adjustment in the year to January 2017 of 3.5%. There is some evidence that with the growth in employment, those re-joining the labour market accepted below average wages in order to re-join the workforce.

The research reveals that the healthcare sector median base pay increased by 6.2% during the period, whereas those occupations impacted by automation and artificial intelligence were experiencing wage declines

Graduate Employment Pressured on Disclosure

Australian Universities have welcomed recent research revealing that employers are satisfied with the quality of preparation graduates receive through their time at university. The research, drawn from the Government's [Quality Indicators for Learning and Teaching](#), shows that 83.6% of employers surveyed were satisfied with the university qualifications students were receiving.

Further, 88% of students surveyed were of the view that their degrees prepared them well or very well for the jobs they were seeking. These research outcomes are based on the views of over 3,000 companies.



According to the research, employer satisfaction had increased from 92% to 93.4% over the prior year with businesses revealing an improvement in graduates' ability to adapt to the changed circumstances of the world of work, including their ability to work in teams.

Notwithstanding the general improvement in the employability of graduates, the Business Council of Australia, while acknowledging that local universities are for the most part world class, believes that a bigger issue was the relative emphasis on university versus vocational training for jobs, such as trades. Their [Chief Executive, Jennifer Westacott](#), was reported as stating, *"we don't know if we are getting the best value for the \$20 billion we are putting into VET and higher education each year."*

Clearly a key question for the Government is the continuing level of funding for universities and the balance of that funding between the university and VET sectors, and the alignment with employers' needs.

Job Opportunities may be in Decline

[During December 2017](#), newspaper and online job advertisements declined. This suggested that Australia's labour market might be slowing down. [The ANZ survey](#) found a 2.3 per cent drop in job advertisements in December, whilst in November there was a 1.1 per cent increase.

[David Plank, the Head of Australian Economics](#) at ANZ, observed that the annual December holiday period often produced volatility in job advertisements for that month. He stated, *"The labour market in 2017 was characterised by widespread job growth, particularly in full time jobs, an increase in participation and a fall in the unemployment rate to a four-year low of 5.4 per cent...[F]or this reason we are not unduly worried around the drop in December job ads."*

Plank, observing 14 consecutive months of growth, believes a period of moderation in jobs growth is likely, with a *"continued improvement in labour market conditions over 2018, albeit at a slower pace"*.

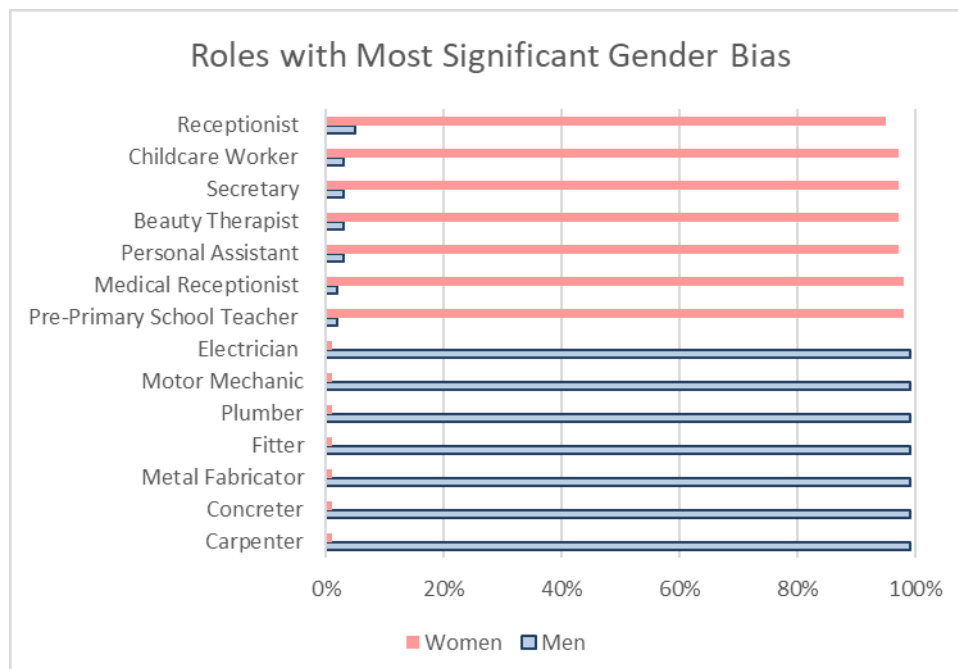
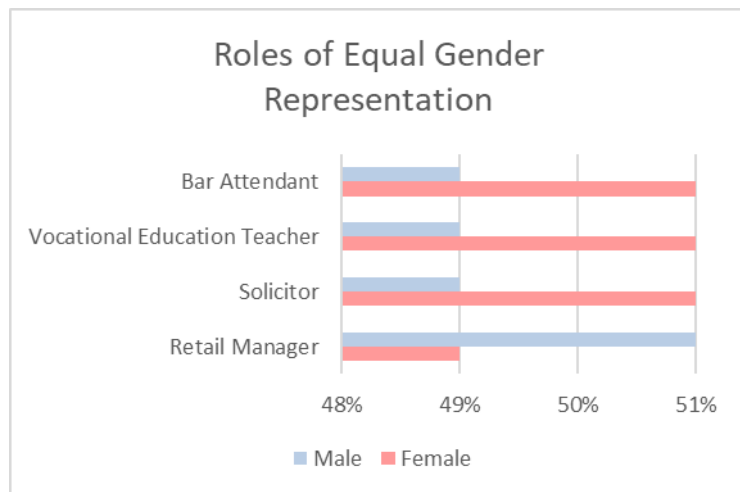
Gender Stereotypes Still Prevail in the 21st Century

[Gender stereotypes](#) remain prevalent within Australia's workforce. Workforce participation for men is 71 per cent and for women, 57 per cent with male and female representation varying from modest to extreme within certain roles and sectors. According to [ABS statistics](#), fourteen jobs have an extreme level of gender bias, with many of these jobs retaining a strong "tradition" in their imbalance.

According to the [ABS](#), there are just four jobs in Australia that are equal, or close to being, equal, in gender representation.

These statistics suggest that cultural barriers may be the most significant influence on gender bias within jobs and sectors. For instance, among 149,000 primary school teachers only 15 % are male.

Similarly, women are equally unrepresented in trades roles. Of the 363,000 workers employed in Australia as metal fabricators, concreters, fitters, plumbers and electricians, only 4,000 are women.



Pay Increases in Decline

Employees in telecommunications, media, mining, retail and transport industries will probably struggle with the rising cost of living after signing wage rise agreements which could fall below inflation rates in two years' time. [The Department of Jobs and Small Businesses](#) are finding that employers are not signing nearly as many agreements with their employees as they did three years ago.



Figures from the [Australian Bureau of Statistics \(ABS\)](#), reveal that wage increases remain at historically low levels. According to Cap IQ, current levels are close to 1941 wage increases, which was 1.9%.

Employees in the telecommunications, media, retail and transport industries signed agreements for 2 per cent increases in the three months to September.

According to the [Sydney Morning Herald](#), over 3,000 Qantas flight attendants signed an agreement, which will increase their pay package up to 1.8 per cent a year. Similarly, more than 2,000 Ikea employees will only receive a wage increase of 1 per cent. The mining industry's prior year's average annual pay increase of 6 per cent is down to 1.9 per cent in the year to September. Across the States, the 206 agreements that were signed between 88,000 workers in the three months to September in Victoria reveal an average wage increase of 3.1 per cent.

In Queensland, the ACT and Northern Territory demonstrated that wage increase deals of 2.5 per cent were achieved whereas NSW was regarded as having the fourth lowest wage increases in Australia at 2.3 per cent. Workers in Western Australia, South Australia and Tasmania received the lowest pay rises in Australia.

Consumer Confidence Rises to a Four-Year High

Despite modest wage increases, recent retail spending data revealed that consumer confidence had risen to a four-year high. [ANZ-Roy Morgan Consumer Confidence](#) Index rose 1.2 per cent to 123.5 in the week to January 14, which is the highest increase since October in 2013.

David Plank, ANZ's head of Australian Economics, found that the rise of consumer confidence was primarily sponsored by the data on [building approvals and retail sales](#). The data concludes that approvals for the construction of new homes jumped by 11.7 per cent in November, which was primarily influenced by a rise in apartment and townhouse building in Melbourne.



Similarly, [retail sales rose 1.2 per cent](#) to \$26.4 billion in November, seasonally adjusted – beating the 0.4 per cent rise which economists had predicted.

Employment and Unemployment - December 2017

Seasonally adjusted employment increased by 34,700 persons for the period November to December 2017. While this was lower than the 61,000 in November, it was more than double the forecast of the majority of economists.

We note in the December figures more than 15,000 were represented by full time employment, the balance being part time employment. On a trend analysis, **full time employment rose by 322,000 in the 2017 calendar year** and represented the majority of the jobs growth. Trend employment increased 3.3% which was above the average **yearly growth** of 1.9% over the past two decades and the **highest since September 2005**. The participation rate steadily increased to 65.7% though monthly hours of work performed per employee declined by 0.5%.

Notwithstanding the positive figures in relation to employment growth, on the basis of seasonally adjusted estimates, **unemployment increased by 20,500 to 730,600**, with the number of unemployed persons looking for full time work increasing by nearly 10,000 to marginally above 500,000. The unemployment rate increased from 5.4% to 5.5%.

The [ABS Labour Force Commentary](#) highlights these trend estimates.

Key releases in the coming months will be average weekly earnings statistics to November 2017 which are expected to be released on 22 February 2018. A guide to these statistics can be obtained through the following links - [A Guide to Understanding Average Weekly Earnings](#) and [Average Weekly Earnings & Wage Price Index - what do they measure?](#)

[Back to Title Page](#)

About Egan Associates



For more than 25 years, Egan Associates has advised leading organisations and emerging enterprises in Australia and New Zealand on the remuneration of Board Directors, executives and key staff members, as well as performance management, corporate governance and Board effectiveness.

Our Services include:

- **Remuneration reviews and benchmarking:** for CEOs, executives, senior management and professional positions, including specialist roles
- **Annual incentive plan structures:** advice on performance criteria, target and maximum payment levels as well as deferral and clawback provisions
- **Long term incentive plan structures:** advice on participation, performance hurdles, equity instruments, valuation and allocation, as well as provision of performance monitoring services
- **Corporate transactions / IPOs:** assistance transitioning pre-IPO reward arrangements into the listed company environment (or any other corporate transformation) considering issues including escrow provisions
- **Government pay reviews:** assistance at federal, state and local level in administrative, policy and corporatised environments on reward for senior executives, professional and administrative staff, and governing Boards
- **Board fee reviews:** benchmarking Board fee levels, including Chairman and Director retainer fees, Committee Chairman and member fees and fees for adhoc engagements.
- **Board effectiveness:** assistance with Board reviews, Board skills matrices, scenario planning and Board documentation.
- **Workforce & Governance:** *Define and evaluate positions and analyse pay the easy way!* Our new cloud-based software captures more than 30 years' knowledge, learning and experience in organisation analysis and remuneration in a suite of products which operate either as powerful, stand-alone modules or as an integrated combination. Access more than 1,000 role templates and over 13,000 accountability statements or easily create your own PDs from scratch. Organisation charts are generated automatically. Powerful analytics give you pay and workforce insights in one click. And our intuitive, user-friendly job evaluation module is designed to bring your JE process into the 21st century. And because *Workforce is* designed and hosted in Australia by Egan Associates, you know you're in great hands!



John Egan



John has been an advisor to Boards and senior executives on organisation, governance and reward issues over many years. He has assisted a significant majority of Australia's top 200 companies as well as a myriad of entrepreneurial organisations and government entities across a wide range of industries.

John has been actively involved with Universities, chairing Sydney University's Board of Advice for its Faculty of Economics & Business (2001 – 2010). John is an Honorary Fellow of the University and an Adjunct Professor in the School of

Business.

John's personal interests are in cool climate gardens – www.thebraesgarden.com – and he served as a Trustee of the Sydney Royal Botanic Gardens & Domain Trust from May 2010 to June 2014.

