

Newsletter February 2019



Reward in the Financial Sector

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Pay Equity

As a Federal election year, 2019 is likely to see ongoing comment on pay equity as the two major political parties seek to identify workplace support for policies somewhat different in character.



Challenging the Glass Ceiling ?

Evidence is emerging of gradual improvement in the representation of women in leadership and senior professional roles. In a workplace where many roles are being displaced by technology, are these improvements sustainable?



Pay Equality

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Is it time for a new paradigm?

Board Remuneration Committees of major companies, of which financial services represent a significant proportion, generally seek information and occasionally advice from consulting organisations in positioning their remuneration strategy.

This advice often includes setting annual salaries and benefits, establishing policies in relation to both annual and long-term incentives and determining appropriate performance conditions for payments under those programs.

The approach adopted by the majority of consulting organisations would be described as undertaking a benchmark review and, in that context, reviewing the practices and levels of reward among organisations of comparable scale. Such a review would typically consider financial metrics in a similar industry and comparable customers and suppliers where appropriate.

A further overlay will often relate to the international spread of the organisation's activities which can require investigation into reward practices in many jurisdictions outside Australia.

In financial services, including banking and insurance companies and wealth managers, a key focus of Boards is the practices of their peers. This, in part, is predicated on the desire to retain a level of talent to meet the organisation's operational demands, ensure its sustainability and develop its business base, either in terms of product diversity, geographic diversity or both.



Many would believe that this process has led to a leap-frogging in reward levels as organisations strive to remain competitive. Competition will be influenced by the peers they consider as relevant, the global spread of the organisation and the sources drawn upon by the Board in populating the first two layers of management in their organisation.

A number of witnesses in the Banking Royal Commission revealed that things can and have gone wrong and occasionally inappropriate practices have arisen through dishonesty. On other occasions failures have arisen because of neglect, carelessness or just sheer coincidence. The "root cause" for inappropriate conduct has been described in Justice Hayne's interim and final reports as often being sponsored by greed through *"the pursuit of short-term profit at the expense of basic standards of honesty"*.

Many of the observations in the Royal Commission's two reports reflect on a principal source of inappropriate judgement and reward outcomes being underpinned by poor culture.

Some evidence also revealed that Boards, and their Remuneration Committees in particular, relied too heavily on reports from management and assurances of the organisation's compliance with policies including codes of conduct as well as fulsome and transparent communication with the organisation's customers.

It can equally be observed over recent years that although a number of leading financial institutions primarily sought information from remuneration consultants, they did not seek advice or recommendations. Implicit in these observations is that the accountability for interpreting information could well have rested with management with the Board authorising recommendations sourced from management rather than independent advisors.

Partly implicit in these outcomes could well be the independence of the advisor. Notwithstanding the above and the acknowledgement of many leading financial institutions and their Boards that they need a more detailed appreciation of reward practices throughout the entire organisation, Directors need to reflect upon the appropriateness of prevailing reward in the context of what constitutes "reasonable remuneration" as set out in the *Corporations Act 2001*.

It is essentially the responsibility of the Board Remuneration Committee to ensure the entire Board is fully informed and well-advised in such matters. It is also incumbent upon the Board that it partners with well-informed external organisations to assist in their review. Advisors need to question the influence of traditional benchmarking which evidence suggests has led to progressive adjustments to reward, particularly at-risk incentive reward, by following the practices of ever-changing industry leaders arising from the continuous leap-frog approach.

A further complexity is the extent to which the Board determine that reward practices in the financial services sector are influenced by practices elsewhere in the world and the extent to which those practices are influenced by the relative scale of the comparator global organisations.

Our recent research across all industries has revealed a general pause, if not decline, in the level of fixed remuneration paid to successor Chief Executives who are receiving lower salaries than their longer-serving predecessors.

CUSTOMER - CULTURE - COMPLIANCE

It is up to the Boards of leading financial institutions to initiate significant, if not radical change in reward outcomes. This is essential to the process of executive renewal, of whatever proportions, as Boards review their practices and realign their culture to ensure a greater focus on the customer. In this context, traditional benchmarking may not be the path forward but rather an examination of the relative change in work value through the hierarchy of the organisation.

While not endorsing inequality in reward, the opportunity may now exist for many Boards to provide the means for highly talented, capable and experienced women to assume a larger proportion of leadership roles in the sector. Boards will need to ensure that new appointees are

appropriately rewarded, rather than leaning towards the pattern of “extravagance” in reward as noted by the Hayne Royal Commission.

The challenge rests with the Board, not management. In an earlier article ([Governance : Front and Centre – July 2018](#)) we note that a first step may be for the Board to establish a small group of independent, highly experienced staff to provide guidance and advice and undertake forensic examination of the organisation’s culture, any source of malpractice and the paths forward in changing any inappropriate practices.

At the time of preparing this article, we are aware of the decisions taken by the Board of the National Australia Bank in responding to criticism, with the Chairman engaging in the renewal process though stepping down in the near term when a successor has been identified and appointed.

Take the risks out of reward by calling Egan Associates now on 02-9225 3225. We have the experience and the know-how to help you ensure your reward framework aligns with your organisation’s strategies and stakeholder expectations.

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Pay Equity

As a Federal election year, 2019 is likely to see ongoing comment on the equity and equality of pay as the two major political parties seek to identify workplace support for policies somewhat different in character.

Pay equity, in principle, should reflect the equivalence of pay comparability having regard to position accountability at the first level, hours worked and effectiveness at another level. Pay equity challenges are likely to arise in the 2019 year where workforces, represented by unions and others, seek to align pay outcomes by addressing multiple occupations where there is a noticeable differential in pay levels advocating change in the belief that there is no difference in work value.

Emerging arguments may also be influenced by the gender balance of occupations and the equivalence of pre-employment training as well as continuing professional development. Such arguments are unlikely to focus on the capacity of different industry sectors to pay or source the funds essential to meet employment costs. We believe it is unlikely that those advocating change will discriminate between the for profit, not-for-profit or the government sector. They are also unlikely to consider the proximity of the employment opportunity to the residency of the employed individuals or other circumstances which influence the time taken by employees to participate in employment relevant to their training and expertise or lifestyle expectations.

Recent comment in this context has arisen in academic circles where there has been criticism about entry standards required to undertake three and four-year degrees which reflect, potentially, supply and demand not prerequisite educational attainments. University admission may also be creating a misalignment between aspirations and high school accomplishments of those preparing for tertiary training.



A collective perspective being put in some quarters is that all training at university leading to a Bachelor's degree, which generally takes three or four years to achieve, produces employees able to offer equivalent contributions and undertake work of equivalent value. This proposition should be subject to careful review given that it assumes that all occupations require similar entry standards and intellect before commencing tertiary training and delivers graduates of equivalent quality and capacity.

One of the fundamental constructs in behavioural science is the acknowledgement that there are individual differences across every human attribute. A proposition which assumes these differences are limited appears to be taking a position which is not plausible.

Traditionally, there has also been a view expressed that many occupations require particular physical attributes and strength which nominally favour male workers. We observe there are emerging academic studies asserting that many undefined or less observable attributes or skills

which differentiate male and female employees are not given due consideration in the determination of work value and, as a consequence, pay equity.

We believe that these issues may well gain wider government and community support over the next five to ten years as they are considered through “non-traditional” lenses.

In an environment of modest wage growth, we anticipate that well-represented workforces in the least well-paid occupations, or those where there is a gender dominance in relation to workforce participation may be subject to a pay equity and work value review. Such reviews may not be driven by prevailing pay levels or work value determinations but rather to untried, untested and potentially inappropriate criteria to leverage remuneration.

A number of industry sectors would struggle to meet the outcome if pay equivalence was predicated on factors not traditionally considered in work value and did not account for an industry’s or employer’s capacity to meet pay increases. Outcomes could also be detrimental to one gender over another if determinations changed access to employment opportunity.

While an election year always creates uncertainty you needn’t be caught off guard. Call Egan Associates now on 02-9225 3225 for a confidential discussion. We’ll help you keep up, and get ahead, in our rapidly changing world of work.

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Challenging the Glass Ceiling ?

The recently released Report from the Government's [Workplace Gender Equality Agency](#) (WGEA) indicates greater representation of women in leadership roles in the five years to July 2018, with representation among Key Management Personnel (KMP) increasing from 26.1% to 30.5%. Representation of women within both Senior Management and Executive/General Management categories increased by 3.5% over the same period.

Data gathered over the five years indicates that as July 2018, women were *"still hitting the glass ceiling at CEO and board level"*. Female board members had increased by 2.7% to 28.1%; female Chairs by 1.7% to 13.7% and female CEOs by 1.4% to 17.1%.

In its [Media Release of 30 January 2019](#), the Australian Institute of Company Directors ("AICD") welcomed the trending increases over the past three years of female representation on ASX200 boards and noted that at by the end of 2018, women accounted for 29.7% of all ASX200 board positions. The AICD noted further that although 45% of all appointments to ASX200 boards in 2018 were women, a target of 30% remains *"the floor and not the ceiling for gender diversity"*.



At the recent World Economic Forum (WEF) in Davos, [a report](#) submitted on the future of jobs, adopting a global framework, revealed that the dominance of males in various fields of employment such as information and biotechnology, together with the health and education sectors, was contributing to a reversal in gender equality after recent years of improvement.

A report submitted to the Forum estimated that 57% of the jobs set to be displaced by technology between now and 2026 belong to women.

According to Saadia Zahidi, the WEF's Head of Education, Gender and Work, this challenges the global efforts to reduce gender inequality in business.

The WEF's annual Gender Gap Report at the end of 2018 revealed that the gulf between male and female opportunity had widened for the first time since it started gathering data in 2006. These findings will need to be considered by policy makers, educators and employers carefully in the decade ahead in order to ensure that all nations optimise the contribution potential of their population.

Need experienced, objective help with ensuring your employee demographics align with your organisation's aspirations and community expectations? Call Egan Associates now on 02-9225 3225 for a confidential discussion.

Pay Equality

In its recent Report spanning five years of data collection to July 2018, the [Workplace Gender Equality Agency](#) observed a decline in the pay gap between males and females employed full time from 24.7% to 21.3%. The Report also revealed an 8.1% increase in the number of organisations with targeted policies and/or strategies to support gender equality. Almost three-quarters of employers now embrace such policies and/or strategies compared to two-thirds five years ago.



[Information on gender pay equality](#) draws upon the difference between male average full time earnings and female average full time earnings expressed as a percentage of male earnings. The research, however, does not reflect comparisons of men and women in the same roles. It is a

workforce measure, not a comparative measure holding work value constant and is influenced by male and female participation at all levels across all industries/sectors in the Australian workforce.

In this context, it reflects an aggregate trend which is influenced by male and female participation across all occupations and all industries where sector employment growth is variable and will favour males and females differentially.

With more than 30 years' experience across all levels of incentive planning and benchmarking, we can help you ensure your reward frameworks are underpinned by integrity and resilience. Call Egan Associates now on 02-9225 3225 and speak with one of our Consultants.

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About Egan Associates



For 30 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.
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