

Newsletter March 2019



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New ASX Corporate Governance Guidelines

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Issues Impacting on Preparation of Upcoming Annual Reports and 2019 AGMs

Considering some observations made by proxy advisers, institutional investors and researchers pertaining to the 2018 financial year, we believe there are some key issues to be addressed for 2019 AGMs.

Sector Employment and Pay

[Trend monthly employment data in January 2019](#) indicated that employment increased by 24,900 with the number of unemployed increasing by 1,800 though the unemployment rate remained steady at 5.1% as did the under employment rate at 8.3% and the under utilisation rate at 13.3%.

Revealing a steady state in the employment market, the participation rate remained at 65.7% and the employment to population ratio also remained constant at 62.4%.

The ABS data revealed a trend employment increase by 295,500 individuals or 2.4% over the previous 12 months. This was above the average annual growth rate over the past 20 years which stood at 2%.

We note also that over the past 12 months the trend employment to population ratio, which is a measure of how employed the population is, increased by 0.4%.

Of interest in the trend data is employment dynamics, where research reveals that around 300,000 people enter employment each month and 300,000 leave. This is particularly the case in the December/January period of each year.

Compared to January 2018, the data reveals there are 218,600 more full time employees and 76,800 more part time employees engaged in work. This reflected a marginal shift to full time employment.

Average hours worked were around 31.8 hours per week. It was noticeable that in the trend participation, female participation rates reflected the long term convergence of male and female participation, those rates being 82.9% and 73.5% respectively.

The unemployment rate in the 15–24 year old category remained steady at 11.4% though decreased by 0.9% over the year.

On a State basis, the largest increases in employment were in NSW (up 133,900), Victoria (up 118,000) and Queensland (up 27,800). The highest annual growth rate was in Victoria at 3.7% followed by NSW at 3.4% and Queensland at 1.1%.

It is noteworthy that NSW and Victoria were the only States to deliver a year-on-year growth rate in trend employment above their 20 year average.

Unemployment rates, seasonally adjusted, were Tasmania (7%), Western Australia (6.8%), South Australia (6.3%). Queensland (6%) compared unfavourably to the stronger economies of NSW (3.9%) and Victoria (4.5%) respectively.

While there are differences in pay levels between Australian States and regions, the following table sets out differentials by industry or employee category which highlight indicative median weekly earnings and the significant variability between sectors where the median in the mining sector is \$1,950 and in the accommodation and food services sector, \$500.



This demographic dissection of workforce pay levels and employment levels further highlights the significant challenge faced by employers in addressing any minimum wage adjustment. There is clearly sensitivity in those areas of high employment and relatively modest skills where profit margins are under pressure compared to those sectors which are enjoying prosperity, either domestically or internationally.

We note that the ABS segments the labour market into 19 sectors (categories).

The following table provides information on the employment level by sector in November 2018, the 5 year employment growth to November 2018, as well as the median age and weekly earnings of sector employees.

Industry	Employment Level (people)	Growth Rate over past 5 years	Percentage of total Workforce	Median Age of employees	Indicative Median Weekly Earnings
Accommodation and Food Services	900,1000	16.4%	7.1%	26	\$500
Administrative and Support Services	407,400	5%	3.2%	41	\$930
Agriculture, Forestry and Fishing	327,300	5.2%	2.6%	49	\$945
Art and Recreation Services	244,500	17.7%	1.9%	34	\$699
Construction	1,166,900	17.3%	9.2%	37	\$1,280
Education and Training	1,035,400	15.8%	8.1%	42	\$1,150
Electricity, Gas, Water and Waste Services	153,000	1.1%	1.2%	43	\$1,500
Financial and insurance services	448,800	7.9%	3.5%	39	\$1,434
Healthcare and Social Assistance	1,685,100	21.4%	13.2%	42	\$1,000
Information, Media and Telecommunications	227,100	16.5%	1.8%	38	\$1,304
Manufacturing	965,600	4.1%	7.6%	42	\$1,150
Mining	255,800	4.5%	2%	40	\$1,950
Other Services	484,700	2.5%	3.8%	39	\$950
Professional, Scientific and Technical Services	1,082,100	19.4%	8.5%	39	\$1,380
Public Administration and Safety	838,500	11.3%	6.6%	44	\$1,411
Rental, Hiring and Real Estate	218,200	10.2%	1.7%	39	\$1,100
Retail Trade	1,272,300	3%	10%	32	\$700
Transport, Postal and Warehousing	648,700	10.9%	5.1%	44	\$1,183
Wholesale Trade	381,700	4.4%	3%	43	\$1,141

The list below sets out the three most represented occupations in each employment sector.

Accommodation and Food Services:

Waiters, kitchenhands, bar attendants and baristas

Administrative and Support Services:

Commercial cleaners, human resource professionals and domestic cleaners

Agriculture, Forestry and Fishing:

Livestock farmers, crop farmers, mixed crop and livestock farmers

Art and Recreation Services:

Sports coaches, instructors and officials, fitness instructors and sports persons

Construction:

Carpenters and joiners, electricians, construction managers

Education and Training:

Primary school teachers, secondary school teachers, education aides

Electricity, Gas, Water and Waste Services:

Truck drivers, electrical distribution trades workers and electricians

Financial and Insurance Services:

Bank workers, financial investment advisers and managers, financial brokers

Healthcare and Social Assistance:

Registered nurse, aged and disability carers and child carers

Information, Media and Telecommunications:

Telecommunications trades, workers, journalists and other writers, film, television, radio and stage directors

Manufacturing:

Structural steel and welding trades workers, packers, metal fitters and machinists

Mining:

Drillers, miners and shot firers, metal fitters and machinists, truck drivers

Other Services:

Motor mechanics, hairdressers and beauty therapists

Professional, Scientific and Technical Services:

Accountant, software and applications programmer, solicitor

Public Administration and Safety:

Police officer, general clerk, security officer, guard

Rental, Hiring and Real Estate:

Real estate sales agent, general clerk, hospitality, retail and service managers

Retail Trade:

Sales assistant, retail manager, checkout operator/cashier

Transport, Postal and Warehousing:

Truck driver, automobile driver, bus and coach driver

Wholesale Trade:

Store person, sales representative, purchasing and supply logistics clerk

The above data, in terms of indicative median weekly wages of employees in each sector, is almost universally below full time adult average weekly earnings which in November 2018 stood indicatively at \$1,605 with full time adult average total earnings amounting to \$1,666.

Move ahead with confidence and 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 all your reward frameworks align with your organisation's strategies and stakeholder expectations.

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New ASX Corporate Governance Guidelines

In late February the ASX released the most recent edition of their Corporate Governance Council's [Corporate Governance Principles and Recommendations](#).

We note that the recommendations will take effect for an entity's first full Financial Year commencing on or after the 1 January 2020. The link above provides you with the ASX's full advice.

The ASX have commented specifically on disclosure of policies including diversity, code of conduct, whistle-blower, anti-bribery and corruption, and continuous disclosure.

The ASX have also commented on the requirements for Board Charters to clearly set out the roles and responsibilities of the Board. In particular, to make sure that the Board establishes an appropriate framework to ensure relevant information is reported by management to the Board, and the requirement of the Board to challenge management and hold them to account.



There are further advices in relation to the appointment and election of Directors, the need for written contracts of appointment, a perspective in relation to diversity, Board reviews, Board structures, a Board Skills Matrix, Director independence including a majority of independent Directors, Board values, investor and analyst presentations, information to be posted on a company's website, recognition and management of risk, remuneration, reinforcing the principle of remunerating fairly and responsibly.

A company's reputation and success can often hinge on the effectiveness and compliance of its Board. We can help your Board be the best it can be. Call Egan Associates now on 02-9225 3225 for a confidential discussion.

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Concern About Wage Growth

Data from the US reveals that average weekly earnings over the past 2 years have increased from around US\$895 (February 2017) to US\$951 in February 2019.

This increase reflects an era of confidence and growth since the election of President Trump. Current US average weekly earnings equate to A\$1,359, which is below Australia's most recently reported full time adult average weekly earnings of A\$1,666 (November 2018).

The rate of improvement in the US is clearly significant, revealing an increase marginally above 3% in the past 12 months whereas in the last 2 years average weekly earnings have increased from \$894 to their present level or an increase of 6.37%. (the increase in the 12 months from February 2016 was 2.16%).



On a currency exchange assuming an Australian dollar represents 70% of a US dollar, the US average weekly wage cost (A\$1,359) presently stands at around 82% of Australia's average weekly earnings (A\$1,666). With a view being expressed that a considerable amount of the employment and wages growth in the US was influenced by significant corporate tax cuts, Australia does not appear to have corporate tax on its radar as a stimulus to sponsor an improvement in the average worker's living wage.

Notwithstanding the modest rate of wage growth in Australia over the last 2 to 3 years, there is evidence of strong employment growth and increasing female labour force participation.

Of concern to Australian business in the current climate, where unions are seeking an 11% increase in the minimum wage, is the fact that today Australia has the third highest minimum wage globally which does not support our economy's international competitiveness.

A challenge for policy makers and for government in putting their case to the Fair Work Commission will be how they believe the interaction between employment growth, the cost of living (particularly in core areas affecting every wage earner), energy, education, health, housing and transport will align to improve our productivity, profits and hence prosperity.

While it is anticipated that with lower taxes corporate Australia will invest more and that capital and innovation will contribute to productivity improvement, labour productivity will clearly be influenced by management, communication, employee engagement and increasingly on the job training and input from the education sector.

The nation's capacity to meet higher wage costs and to celebrate increasing wages will impact variably across sectors, a number of which operate on relatively low margins and are dependent on discretionary expenditure.

Data in relation to industry employment reveals that the lowest wages are in the sectors of accommodation and food services where the majority of employees are waiters, kitchen hands, bar attendants and baristas; in the arts and recreation services where the majority of employees

are sports coaches and fitness instructors; and in retail where the majority of employees are sales assistants, checkout operators or cashiers or small store/category managers.

In these categories, median weekly earnings appear to stand below \$700, or less than half the nation's average weekly earnings.

Sectors where the median weekly earnings are at or above average weekly earnings appear to be entirely exclusive to the mining sector.

In the above observations it is acknowledged that median earnings are almost universally below average earnings and weekly employment is less than 38 hours.

Need experienced, objective insights to help your organisation recognise and manage opportunities and challenges? Call Egan Associates now on 02-9225 3225 for a confidential discussion.

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Issues Impacting on Preparation of Upcoming Annual Reports and 2019 AGMs

Considering some observations made by proxy advisers, institutional investors and researchers pertaining to the 2018 financial year, we believe some key issues for 2019 AGMs will include:

- The quality and comprehensiveness of disclosures focusing on:
 - Business strategy
 - Financial performance of the year in review
 - Operational performance of the year in review
 - Board composition, renewal and skills
 - Governance policy increasingly referencing the environment, the customer and society
- The criticality of Board skills and experience and in this context a requirement for broader definitions of skill sets, not labels such as “finance”, “marketing”, “information technology”, “industry know-how”, and “people and culture”;
- An explanation of the organisation’s diversity policy and criteria including experience, gender, residency, representation by age and ethnicity;
- The Board’s stated engagement in leadership and Board succession planning including those Directors with a principal role at Committee level;
- Policy statements communicating how the organisation will ensure management complies with corporate codes of conduct;
- The relative weighting of corporate culture and the integrity of the relationship with customers and suppliers;
- The oversight of risk and the identification of areas of risk;
- The frequency and nature of Board performance evaluation and effectiveness and the Board’s response to shortcomings;
- Shareholder engagement;
- Discussion on the relevance of climate risk;
- Discussion on the company’s exposure to cyber security
- Transparency in discussion on remuneration policies and guidance received by the Board.



In addition to the quantum of remuneration, we anticipate a greater focus on the relevance of KPIs and the weighting of financial, strategic and operational KPIs for the leadership team, including the CEO.

Other issues which we believe will experience greater scrutiny will be the pay relative between the CEO and direct reports and both the proportion and level of at risk reward.

In this context, we believe that shareholders will increasingly focus on the proportion of at risk reward potential being payable over the 3 most recent years including the 2019 Financial Year.

Within the framework of reward, there is clearly a focus on the choice and relevance of criteria regarded as driving performance, the rigour with which performance assessment is undertaken and the independence of the Board's engagement in that process.

Transparency and completeness of descriptive material in Remuneration Reports will, in our opinion, also experience greater scrutiny.

Sustainability will also continue as a significant issue for Boards to manage both in terms of long term strategy and the allocation of capital, particularly as shareholders seek specifics on all aspects of the sustainability of an organisation and the Board's engagement in the formulation of long term strategy and the allocation of capital.

Shareholder expectations will be high as these issues roll out through the current financial year. Shareholders are likely to be more inclined to reward clarity with brevity and a direct response in relation to management's reward, particularly performance aligned which reflects Board enquiry into management's performance and outcomes of the Hayne Royal Commission and observations of ASIC, APRA and other regulators, where appropriate.

Egan Associates can assist with Board effectiveness reviews, the development of capability / skill matrices, and guidance on governance including details of Board and committee Charters. 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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