



In this issue ...

An Update on Australia's Wage Growth	P.2
Factors Affecting Wage Growth in Australia	P.4
The Rise of Intelligent Automation	P.6
Pay Rises for Support and Administrative Staff in Primary and Pre-Schools	P.8
Australian School Teachers Among Highest Paid in the OECD	P.11
ASIC Targets Corporate Governance and Culture	P.14
Meet Our Principals <i>and</i> Keep An Eye Out!	P.17

Welcome to our September 2019 Newsletter!

This quarter's newsletter takes a timely look at issues which will significantly impact all aspects of the Australian workplace – specifically, wage growth, intelligent automation, corporate governance and culture and an important pay milestone in NSW schools. We also address a recent OECD Survey which reveals that Australian school teachers are among the highest paid in the OECD. We're sure you'll find these articles both relevant and helpful.

We're also pleased to announce the launch of **Our New Research Reports Service**.

The first in our series of Reports, "**Non-Executive Directors Remuneration Insights**", is focused on NEDs' remuneration with analysis by ASX rank, annual revenue and industry sector as well as NZX top 50 companies. It provides an industry profile and information on fees paid for those chairing or serving on key Board committees.

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An Update on Australia's Wage Growth

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In recent years, wage growth in Australia has been uncharacteristically low in a range of key labour cost advices, including the Wage Price Index (WPI).

Persistent low wage growth has had a broad-based impact across all industries and states and has been associated with low inflation outcomes and government revenue from household spending. The most recently reported **ABS Statistics on WPI** (to June 2019) show that WPI for the private sector has remained flat at 2.3% for consecutive quarters. Public sector WPI has been only marginally higher at 2.6%. In the five years prior to the Global Financial Crisis, these rates averaged 4%. In the 22-year history of the WPI series, dispersion in wages growth across jobs has never been lower.

Labour productivity growth has been well below average over the past 5

growing by an average of only 1.1%, where previously it was 1.5%. Treasurer, Josh Frydenberg is challenging corporate Australia to boost its productivity by prioritising long-term investments like new technologies over short-term share buybacks and special dividends. At the same time, the **Reserve Bank of Australia (RBA) interest rates** are also currently at their lowest, sitting at 1% following two recent cuts in June and July 2019. The RBA Governor, Philip Lowe, has indicated economic growth in Australia has been lower than expected following a protracted period of subdued wage growth and declining house prices. Looking forward, Lowe says he expects growth to strengthen gradually and

would welcome a further gradual lift in wages growth.

From July 2019, Australia has **increased its national minimum wage by 3%**, making it now the highest minimum wage in the world according to the OECD. According to ABS Labour Force Statistics, Australia's **unemployment, under-employment and under-utilisation rates** have remained steady, at 5.2%, 8.3% and 13.5% respectively for the year to June 2019. For the 12-month period to May 2019, full-time **Adult Average Weekly Earnings** increased by 2.7%, with employees in the Mining industry receiving the highest average weekly earnings.

...cont'd

“An Update on Australia’s Wage Growth” (Cont’d)

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TRANSACTIONS

BOARD AND NED FEE
REVIEWS

The Construction, Forestry, Maritime, Mining and Energy Union has just released its draft NSW pattern agreement, which pushes for **5% pay increases per year indefinitely** from 2019 onwards.

Among Australia’s highest earners, more than a third of the top 100 CEOs had their fixed pay frozen in the last year along with 29% of top executives according to a report by Pricewaterhouse-Coopers. This is the first time since 2016 that executive pay has lagged behind general employee wage growth. 77% of chief executives in financial services received no increase in fixed pay following the Hayne Royal Commission. There has also been a move towards a greater reliance on base salaries and less on bonuses and variable remuneration.

In parallel with the above observations and the general uncertainty in global trade following the GFC, together with the near-term impact of the Hayne Royal Commission on the financial services sector, we are observing a decline in the rate of fore-



shadowed growth in earnings and revenue among many organisations.

Boards are showing resistance towards rewarding the company’s leadership and management group for a substantially diminished performance in a manner comparable to the past by reflecting relative outperformance aligned to diminished returns. Where this is coupled with a zero to modest rate of increase in annual salary, declining overall reward opportunity in the 2019 and foreshadowed 2020 Financial Year will have an impact on management’s view in relation to base wage increases. ■

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Factors Affecting Wage Growth in Australia

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In the face of broad-based low wage growth, there has been considerable analysis undertaken to better understand the causes and consequences.

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This year, the Reserve Bank of Australia's **annual conference** focused on 'Low Wage Growth', bringing together leading local and international central bankers, industry professionals and academics. John Simon, Head of Economic Research at the RBA said, "there is clearly not enough evidence to single out one cause 'beyond reasonable doubt'; even on a 'balance of probabilities' standard of proof it would be challenging." Treasury's Meghan Quinn also delivered an **address** in July 2019 considering the factors driving low wages growth in

Australia. Several potential contributors have been identified.

One such factor is the timing and significance of recent economic cycles. Since the Global Financial Crisis, internationally there has been a larger level of risk aversion, estimates of the NAIRU (non-accelerating inflation rate of unemployment) have decreased. In Australia, the recent mining boom may have masked the effects of the GFC to some extent. Market dynamism has declined, with implications including low wage growth, low inflation, slow productivity growth, high rates of participation and spare capacity in the labour market. According to Treasury's **Meghan Quinn**, capital deepening has accounted for around three

quarters of labour productivity growth over the past 30 years, now reaching point of 'capital shallowing'.

Other contributors to low wage growth include the impact of technological change, particularly increases in the use of artificial intelligence, automation and robotics. This is facilitating the outsourcing of an increasing range of roles to countries with lower wages and is changing the bargaining power of employees who increasingly fear being replaced by robots.

On the flipside, the automation of certain process driven components of work may allow more diverse talent into organisations in part time roles. **.../cont'd**

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“Factors Affecting Wage Growth” (Cont’d)

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CORPORATE
TRANSACTIONS

BOARD AND NED FEE
REVIEWS



Weak wage growth is also affected by the changing nature of work. There has been growth in self-employment, temporary employment and highly flexible ‘gig’ work with low barriers to entry and extreme flexibility traded off for high pay. That being said, those in such roles have a lower level of bargaining power and no leave entitlements, leading to declines in job mobility. Employees are less confident about wage bargaining because there is still spare capacity in the labour market and an influx of skilled young workers from overseas.

Workers are **switching jobs less frequently** and there has been a reduction in worker transitions from mature to young firms due to higher costs and risks to workers.

This results in less upward pressure on wages.

In the current setting, it is probable that both wage restraint and reward containment will reflect a broadly adopted outcome which is unlikely to motivate an organisation’s leadership to increase its wages cost base. Equally, the increased application of technology, the embrace of transformation initiatives, the downsizing of the employment base in a number of organisations is unlikely in the near term to lead to a wages increase.

With a knowledge through engagement over many years that the public sector follow not lead the market and are typically rewarding senior staff at or below a general market median, the private sector’s pay alignment with the public sector is likely to continue to reflect the former’s positioning below more demanding commercial rates of reward at many levels of staff.

The containment of incen-

There has been growth in self-employment, temporary employment and highly flexible ‘gig’ work...

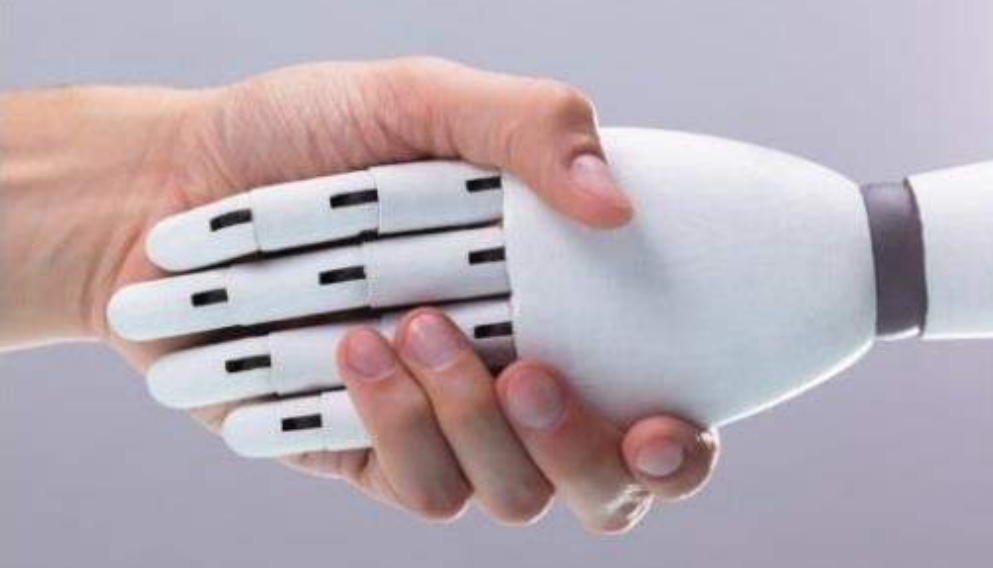
While governments are embracing adjustments to their enterprise agreements and senior management reward arrangements generally in the 2% to 3% range, we also observe that operating in parallel with those initiatives are general demands to reduce wages cost which will lead to reduced levels of employment.

tives in the public sector will also ensure, at senior professional, management and executive level, that government reward levels will not lead the market in the near term though not act as a stimulant to rapid growth in the rate of wages increase at any level in the workforce. ■

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The Rise of Intelligent Automation

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Intelligent automation (IA) has arrived in Australia and is already transforming the nature of work and the workplace.

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Intelligent automation (IA) has arrived in Australia and is already transforming the nature of work and the workplace. The advent of artificial intelligence and disruptive digital technologies is changing the way business is done in nearly every sector of the community. The impact of these technologies on jobs is as beneficial and disruptive as previous waves of automation, ranging from empowering workers with new opportunities, insights and skills, through to partial or full elimination of roles. A smooth transition will

will require significant investment in education and reskilling by workplaces and workers alike.

What is IA?

IA is an umbrella term for the suite of technologies that enable automation and transformation of business processes. It can complement and even progress processes beyond current human capabilities. It encompasses automation, artificial intelligence, software robotics, cloud technology, machine learning and smart machines. It comprises a mixture of basic and enhanced robotic process automation and cognitive automation. IA is enabled by artificial intelligence, rules-based macros and natural language processing.

What are the benefits or disadvantages of IA?

IA can help streamline and enhance operations, assess risks, make predictions, take actions and solve problems. IA systems can collect, analyse, synthesise and make decisions about vast amounts of textual information. It has the potential to automate entire processes and workflows and guide autonomous vehicles and robots, while continuously learning and adapting to change. Other benefits may include fast processing speed, a high degree of accuracy and availability, robust traceability, flexibility and ease of deployment.

The rise of IA can create economic advantage,

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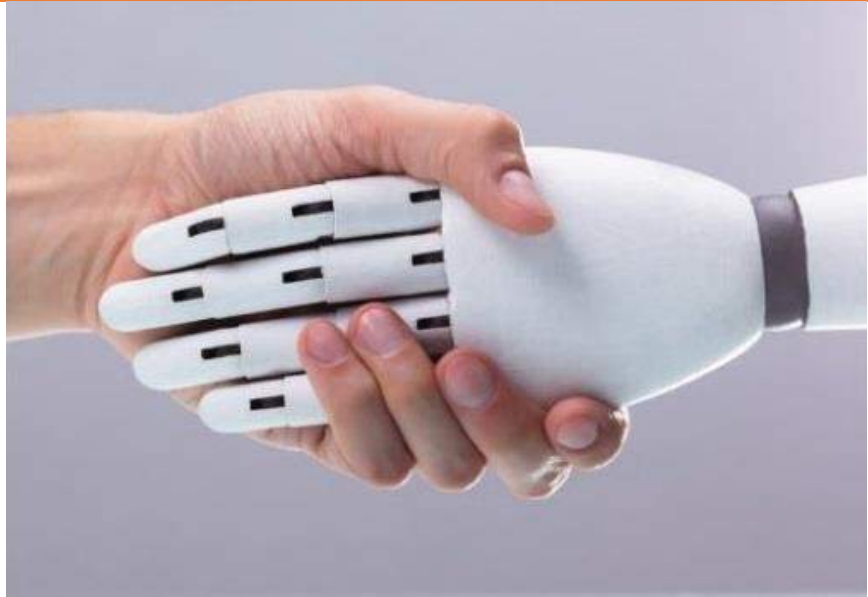
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MATTERS

REMUNERATION REVIEWS
AND ADVICE

CORPORATE
TRANSACTIONS

BOARD AND NED FEE
REVIEWS

boosting productivity, reducing costs and improving sales and efficiency. It can lead to the creation of new roles within companies and new jobs in yet-to exist industries. It also has the potential to free employees to focus more on the 'human' aspects of work, such as customer experience, employee engagement and workplace culture.



Despite its benefits, IA also creates significant disruption to the workforce. Robot process automation, for example, has the potential to fully or partially eliminate many work roles within an organisation. In manufacturing, for example, each new robot is said to eliminate 1.6 jobs. Concerns have been expressed around the hollowing out of middle management jobs and the automation of roles in place of rehiring. There is, however, less demand for IA in less structured environments that demand compassion, creativity, empathy and social intelligence.

Workforce adaptation to IA

Actionable and scalable solutions are needed in several areas to help facilitate the adaption to the emergence of IA technologies. A significant investment in education and reskilling is needed to ensure a smooth social and economic transition. This can involve implementing new models of organisational structure, leadership, culture and rewards.

Employers utilising IA solutions have several options available for managing those displaced by IA, assuming that they wish to retain such staff.

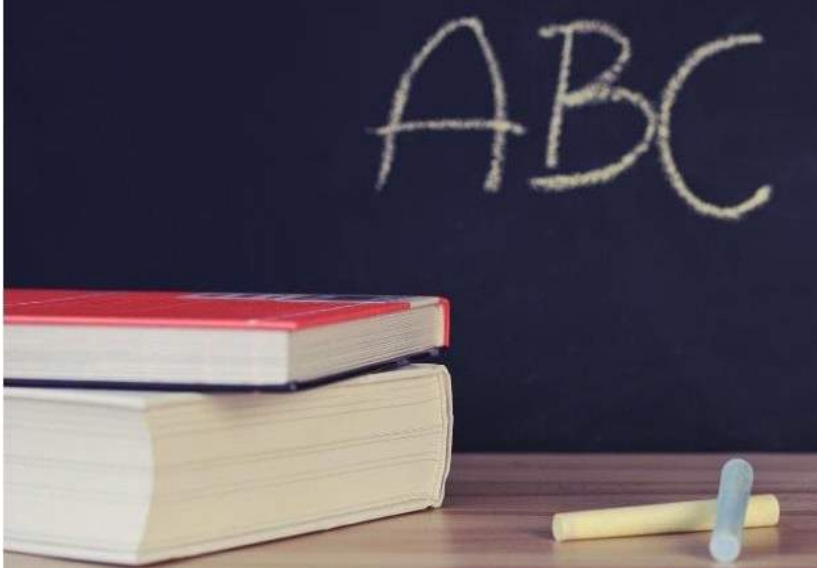
Staff can be retrained to deal with the data outputs of IA, machine learning, new business needs such as exception handling and customer facing roles, and specialisation in industry or process domains.

Workers will also need to be proactive in upskilling, by advancing their technological skills to adapt to increasingly capable machines. Upskilling may also involve developing and refining social, emotional and higher cognitive skills, such as complex information processing, critical thinking and creativity. ■

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Pay Rises for Support and Administrative Staff in NSW Primary Schools and Pre-Schools

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The NSW Public Service Association (PSA) has reached an agreement with the Department of Education to settle its landmark Equal Pay Case in the Industrial Relations Commission, with all school administrative and support (SAS) staff in public primary schools and pre-schools set to receive substantial pay increases.

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The Agreement seeks to address gender-based undervaluation of SAS staff and includes cumulative pay rises ranging from 19% to 35.8% for these staff over three years from 1 July 2019.

These pay rises are significant when considered in the context of the current environment of modest wage increases for NSW public servants (2.5%). The settlement has been described by the PSA general secretary, Stewart Little, as an “historic win” for the SAS workforce which comprises

approximately 94% women.

The settlement package contains six main features:

- pay increases for all adult **School Administrative Managers (SAM)**, **Aboriginal Education Officers (AEO)**, **School Administration Officers (SAO)** and **School Learning Support Officers (SLSO)**;
- **changes to employee classification structures;**
- **new** classification descriptions and **statements of duty;**
- **revised recruitment and appointment procedures;**
- **changes to ordinary and additional hours; and**
- **incorporation of general public sector conditions.**

The changes are predicted to affect over 17,500 SAS school and pre-school staff in New South Wales and improve outcomes for the 824,000 students in the NSW public school system.

Pay will be immediately increased by at least 13.8% for all public school SAS staff and will include backpay from 1 July 2019. There will be two further increases in 2020 and 2021, resulting in at least a 19% increase in hourly wages for all public school SAS staff over three years.

Pre-school SLSOs, who have been the lowest paid SLSO staff for many years, will receive a 29.9% increase in 2019 and up to 35.8%

.../cont'd

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BOARD AND NED FEE
REVIEWS

increases over the next three years to bring them in line with other SLSOs.

Existing Junior SLSO award rates (**currently \$17.67 per hour**) will be increased immediately by 63.8% and up to 71.3% over the next three years. In addition to increases in base wages, allowances for first aid, health support and administration of medication will also be increased by up to 20%.

For permanent and long term temporary full-time employees, examples of the **current hourly award rates** and immediate **increases effective 1 July 2019** are set out below:

SAS classification	Current IRC hourly award rate	Amount increased per hour	Number of hours worked per week	Extra income per week	Extra income per year
SAM Level 4	\$34.96	\$5.19	33 hours 20 minutes	\$172.98	\$9,025.85
SAM Level 3	\$33.96	\$5.03	33 hours 20 minutes	\$167.65	\$8,747.73
AEO Year 4	\$33.03	\$4.90	31 hours 15 minutes	\$153.13	\$7,990.10
SAO	\$27.77	\$4.12	31 hours 15 minutes	\$128.75	\$6,717.99
SLSO Year 4	\$29.53	\$4.38	31 hours 15 minutes	\$136.88	\$7,142.20
SLSO (Pre School) Year 4	\$25.88	\$8.32	31 hours 15 minutes	\$260.00	\$13,566.43

There are two significant changes to the classification of roles, being the introduction of a new SLSO (Student Health Support) and two **new Business Manager (BM) classifications which are intended to provide SAMs with greater scope for career progression.** The former will translate to those performing health care procedures receiving higher base wages. The latter will bring Business Managers

within SAS Staff Award Conditions and will include pay rates of up to 29.9% above the current SAM Level 4 rate. BM will have up to an extra four to six weeks' leave per year on the basis that their annual salary is reduced by the equivalent of 2.85 weeks' pay.

The settlement includes new, **modernised statements of duties to reflect the current requirements of each role,**

giving greater recognition of the nature, level and skills required.

New recruitment and appointment procedures will also be developed in consultation with the PSA.

The bandwidth of ordinary and additional hours for all

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Pay Rises for Support and Administrative Staff (Cont'd)



classifications of SAS staff will be extended, while the normal number of hours of work per week for each classification will be retained. The new SAS award will continue to incorporate general public sector conditions such as travelling compensation and private motor vehicle allowances.

The agreement has been presented to union members for their approval and **the matter will return to the Industrial Relations Commission to be finalised on 13 September 2019.**

An Advance for Pay Equality

Egan Associates commend the NSW Department of Education in reaching agreement with the Public Service Association in respect of appropriate remuneration for support and administrative staff across primary schools and preschools in NSW.

If the initiative and the agreement as stated address

what may have been considered as a sector work value bias, the initiative and agreement appears to have incorporated appropriate and relevant workforce considerations including changes to the classification structures which apply, enhancement and adoption of contemporary statements of duty, revised recruitment and appointment procedures, changes to hours and incorporation of general public sector conditions.

If the negotiations led to an awareness of bias, either related to the nature of work and the contemporary skill sets required of support and administrative staff in the primary school and preschool sector within the NSW Government, this is a positive outcome.

If statements of duty have been contemporised to reflect emerging demands on incumbents of all roles with greater clarity and recognition of the level of skill required, this is further recognition that pay equality would be a derivative of work value in an environment which has been traditionally considered to have gender bias. We make these obser-

vations without having an intimate understanding of these negotiations.

The principles which appear to have been applied represent a maturing of the foundation for pay equality. There has been an implicit recognition of changing work demands, changing requirements in relation to experience and skill and changing demands on those working in the primary and preschool sectors. This segment of the community is carrying increasing accountability for preparing young people for secondary school and tertiary training and education to equip them for a future role in a rapidly changing employment environment across almost all sectors.

While the cost burden will be substantially met by tax payers, it is hoped that the restated accountabilities and skill levels will lead to enhanced productivity and employee effectiveness in the stewardship of the school environment in nurturing our youngest community members in the formative stages of their learning. ■

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Australian School Teachers Among the Highest Paid in the OECD



The OECD has recently released its 2019 report *Education at a Glance: OECD Indicators*, revealing that Australian teacher salaries are among the highest paid across the OECD countries.

Actual average salaries including bonuses and allowances are 22% higher at upper secondary level, 32% higher at lower secondary level, 36% higher at primary school level and 52% higher at pre-primary level than OECD average salaries for those positions. Depending on the level of education taught, average Australian teacher salaries are 93-94% of the average of salaries of tertiary-educated workers. This places Australian teachers' earnings among the highest in the OECD.

The annual starting salaries of teachers at all levels are consistently higher than the OECD average, for example an Australian primary school

teacher's starting salary is US\$44,287, compared with US\$33,058 across the OECD. Salary progression is significantly faster for Australian teachers, taking only seven years for a lower secondary teacher to progress from the statutory starting salary to the top of the scale, compared with a 25-year average across OECD countries. While this may be beneficial for those in the early part of their teaching careers, the relative salaries for high-performing, experienced Australian teachers are low compared their OECD peers. This comparatively flat distribution of teacher salaries in Australia may make it difficult to attract

and retain the highest achieving teachers.

Australian teachers do however have strong financial incentives to become school principals. Australian school principals are the second highest paid in the OECD, ranked above the US, the Netherlands and New Zealand. Their salaries are significantly higher than the OECD average, for example at the lower secondary level, principals earn US\$105,703 (A\$154,094) compared to US\$66,534.

In considering the remuneration of teachers, it is also important to consider

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measures of student performance. The Australian Curriculum Assessment and Reporting Authority has recently released **the 2019 results of the NAPLAN assessments** for primary school students in years 3 and 5, and high school students in years 7 and 9. For years 3, 5 and 7, NAPLAN scores in reading, writing and grammar have improved over the last

decade. For our most senior students in these assessments however, NAPLAN scores have declined over the last decade in all these domains. Similarly, the **PISA average** performance of 15-year-old Australian students in reading, maths and science has declined significantly since 2000.

Information of this nature clearly creates a challenge for those endeavouring to ensure that the quality of the learning environment for young Australians is optimised. In circumstances where our most senior and experienced teachers have

Department of Education which has resulted in salary increases and role reviews of NSW pre-school and primary school support and administrative staff. It is likely that these decisions will also lead to a review of pay equity for teachers relative to support and administrative staff, having regard to the training and qualifications needed to become a teacher. Over the past decade or more, the tertiary training of school teachers has shifted to a requirement of a four-year university degree. This indicates that in the working population of school teachers there would be many who qualified under pre-university mandatory education requirements.

The challenge from our observation, having engaged in work value deliberations for more than four decades, is that the degree of granularity in most work value or job evaluation methodologies does not effectively differentiate work value among positions particularly comparable to a preschool teacher. This arises from the adoption of methodologies established

*Some academic work has been undertaken which postulates that certain **invisible skills** can be observed as essential in the workforce and lead to a differentiation between occupations.*

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relatively flat salary progression, the attraction and retention of those teachers may be difficult, and this can have flow on effects for student performance.

Egan Associates recently reported on the agreement between **the NSW Public Service Association** and the

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Australian School Teachers Among Highest Paid in OECD (Cont'd)



measures of student more than half a century ago which were underpinned by the concept of a just noticeable difference which adopted a 15% move up or down a work value factor scale.

Some academic work has been undertaken which postulates that certain *invisible skills* can be observed as essential in the workforce and lead to a differentiation between occupations. These soft skills include empathic and emotional intelligence. At this stage, they have not been incorporated in points factor methodologies to the best of our knowledge. The incorporation of these soft skills leading to quantification of difference

in work value and consequently pay equity will become a challenge in areas that might be seen as related which would include preschool teachers, nurses, disability care workers and aged care workers to nominate a few.

Egan Associates look forward with interest in how work value differentiation is addressed and indeed how hierarchical classifications might be developed for teachers. ■

Egan Associates look forward with interest in how work value differentiation is addressed and indeed how hierarchical classifications might be developed for teachers.

With work value principles being applied at trades, trades assistants, junior administrative roles and others, current pay equity reviews are leading to a clustering of positions which are different in their entry requirements to tertiary education, the skills and judgements required to be exercised in the workforce and the nature of a position's accountability.



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ASIC Targets Corporate Governance and Culture



As part of its **Corporate Governance Taskforce**, ASIC has recently appointed organisational psychologist Elizabeth Arzadon from Kiel Advisory Group to assist with targeted reviews of corporate governance practices in large listed entities.

Ms Arzadon has previously held roles with APRA, Macquarie, McKinsey and Deloitte.

Ms Arzadon's role involves sitting in on board meetings for up to 21 of Australia's leading companies, including Qantas, IOOF, AMP and Lendlease, to closely examine how directors interact with management and help them understand their role in tackling deeply engrained conduct and cultural issues. Key areas of focus include looking at governance processes and practices around the oversight of non-financial risk and practices regarding the payment of variable remuneration to key

Personnel.

This appointment closely followed the release by APRA in May 2019 of its **Information Paper** entitled 'Self-assessments of governance, accountability and culture'. Following the **Prudential Inquiry into the Commonwealth Bank of Australia** and the **Royal Commission into the Banking, Superannuation and Financial Services Industry**, APRA called on all APRA-regulated institutions to review their own management of non-financial risks, in particular operational, conduct and compliance risks. This paper analysed the self-assessments of 36 of

Australia's largest banks, insurers and superannuation licensees and found a number of common themes in terms of governance, accountability and culture, including:

- A need to improve non-financial risk management;
 - Lack of clarity, cascading and enforcement of key accountabilities within the organisations;
 - An acknowledgement that shortcomings are both well-known and, in some instances, have been long standing; and
 - A widespread lack of understanding of risk culture, which therefore
- .../cont'd

ASIC Targets Corporate Governance and Culture (Cont'd)

does not adequately reinforce desired behaviours.

Most of the institutions participating in the self-assessment critically evaluated their organisations and committed to extensive lists of actionable improvements. Prominent cultural issues identified as having significant scope for improvement included a widespread sense of complacency, insularity and not learning from experiences and mistakes, an overly collegial and collaborative working environment that lessened constructive criticism, timely decision-making and a focus on outcomes, and a reactive rather than proactive stance in dealing with risks.

APRA itself was also subject to a **capability review** by the Australian Treasury of its

own internal culture, regulatory approach and ability to meet its mandate into the future. The Chairman, Graeme Samuel, together with Diane Smith-Gander and Grant Spencer, undertook a four-month review, finding inter alia that the culture was lacking in and discouraging of internal challenge, robust debate and professional collaboration. Findings also included a low tolerance for operating beyond quantifiable risks

The increasing focus on self-assessment and the appointment of an organisational psychologist to monitor board management of non-financial risks and culture demonstrate a shift towards greater accountability and transparency within Australian corporates. ■

Most of the institutions participating in the self-assessment critically evaluated their organisations and committed to extensive lists of actionable improvements.

and robust strategies with poor execution. 24 recommendations were made, aiming to improve leadership and culture, maintain financial stability, improve focus on assessment of governance, culture and accountability, regulating superannuation for members and becoming a more open, forceful regulator. Furthermore, it was recommended that APRA replicate the banks' self-assessments on its own processes every two years.

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CEO Insights will be available in October. This report will provide information on CEO remuneration across the ASX 500 in various bands by ASX rank, 7 bands by revenue and CEO pay across the consumer, energy, IT & telecommunications, financials, healthcare, industrials, materials and real estate sectors, in both the ASX 200 and among companies ranked on the ASX between 200 and 500.

The report highlights the level of fixed remuneration, annual incentives and equity-based long term incentives together with the proportionality of elements of reward across ASX ranked data by revenue band and by industry sector.

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