I. Developing Key Performance Indicators and Productivity/Performance Benchmarks for Performance Based Remuneration Systems in Australia

By

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1.0 Australia's Economy

As of 2006, Australia's GDP amounts to $ 743.7 billion. Inflation rate is at 3.9 % per annum. The country exports coal, iron ore, non-monetary gold, crude petroleum, and bovine meat with an estimated income of $114 billion for the period of 2005-2006 alone, with major markets including Japan, China, Korea, and the U.S. Similarly, Australia imports passenger motor vehicles, crude petroleum, computers, medicaments, and telecommunications equipment from major suppliers such as China, U.S., Japan, Singapore, and Germany amounting to $125 billion for 2005-2006.

Australia's advanced market economy is dominated by its services sector, (72% of the GDP) yet it is the agricultural and mining industries (8% of the GDP combined) that account for the bulk of its goods and service exports. The manufacturing sector has experienced continuous decline in production for several decades, but is now steady at 10% of the GDP. In the 1980's, the Australian Government have instituted significant structural reforms to transform Australia into an internationally competitive, export-oriented country. Key reforms include:

a) Reduction of tariffs and other barriers;
b) floating the Australian dollar exchange rate;
c) deregulating the financial services sector;
d) liberalizing access for foreign bank branches;
e) restructuring the highly centralized system of industrial relations and labor bargaining;
f) better integrating the state economies into a national federal system;
g) improving and standardizing national infrastructure;
h) privatizing government-owned services and public utilities; and
i) reforming the taxation system, including the introduction of a broad-based Goods and Services Tax.

Australia is now in its 16th year of uninterrupted economic expansion and enjoys a higher standard of living better than any G7 country other than the U.S. The Australian Government has zero net debt, and through "Future Fund", is building a net assent position to deal with future liabilities springing from an aging population.

Australia has completed Free Trade Agreements with Singapore and Thailand, and is currently pursuing similar Agreements with the U.S. (commenced January 1, 2005) and other Southeast Asian countries. Australia's current economic standing is a result of a commitment to best-practice macroeconomic policy settings which include the delegation of the conduct of monetary policy to the independent Reserve Bank of Australia, and a broad acceptance of prudent fiscal policy where the government itself aims for fiscal balance over the economic cycle.

Aside from this, the country inculcates of a Strong Ethical Framework – a nation free of corruption, where intellectual property rights are respected and protected, consumer and supplier protection is strengthened, and the environmental standards are high. Education played a key role in contributing to the economic prosperity and the social fabric of the nation. It rates as 6th in place in terms of it's population's educational attainment up to the secondary level following the Korea, Japan, Canada, US, and New Zealand.

1.1 Inflation

In terms of inflation, Australia has maintained a low trending since 1990s and this contributed to the improvement of its international competitiveness. Also, improvements in productivity and increased competition in goods and services markets are the thought to have contributed to low inflations. Since inflation can have significant economic effects, the relative rates of inflation in Australia and overseas affect international competitiveness. A low and stable rate of inflation is desirable for health and economy and for individual welfare. For Australia, trends from 1950 to 2005 have been clearly defined. Inflation was relatively low from the mid-1950s to the late 1960s. Then a sharp rise in inflation in the first half of 1970s was experienced as this was influenced by higher oil prices, wage growth and other factors. These inflationary pressures persisted until the 1980s, partly due to a second oil price shock. Although at relatively high levels, inflation was fairly stable during the 1980s. It began to slow down in the early 1990s. As of 2006, Australia's inflation rate is at 3.9% per annum.

Diagram 1: Gross National Income Growth, 2004

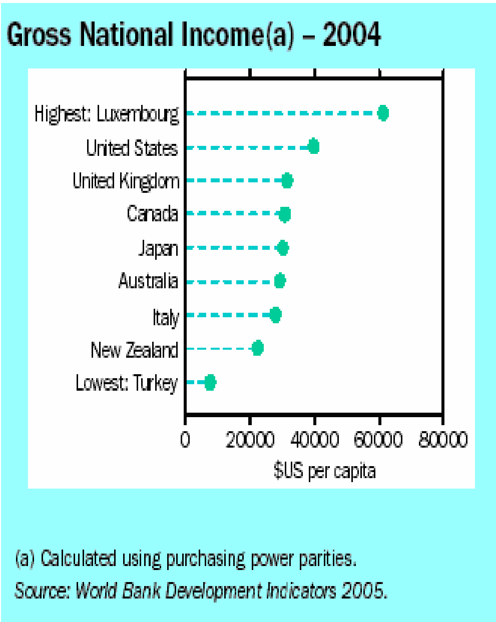
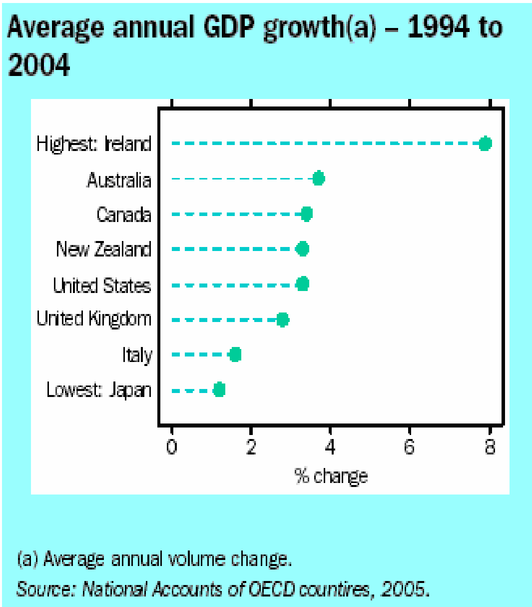


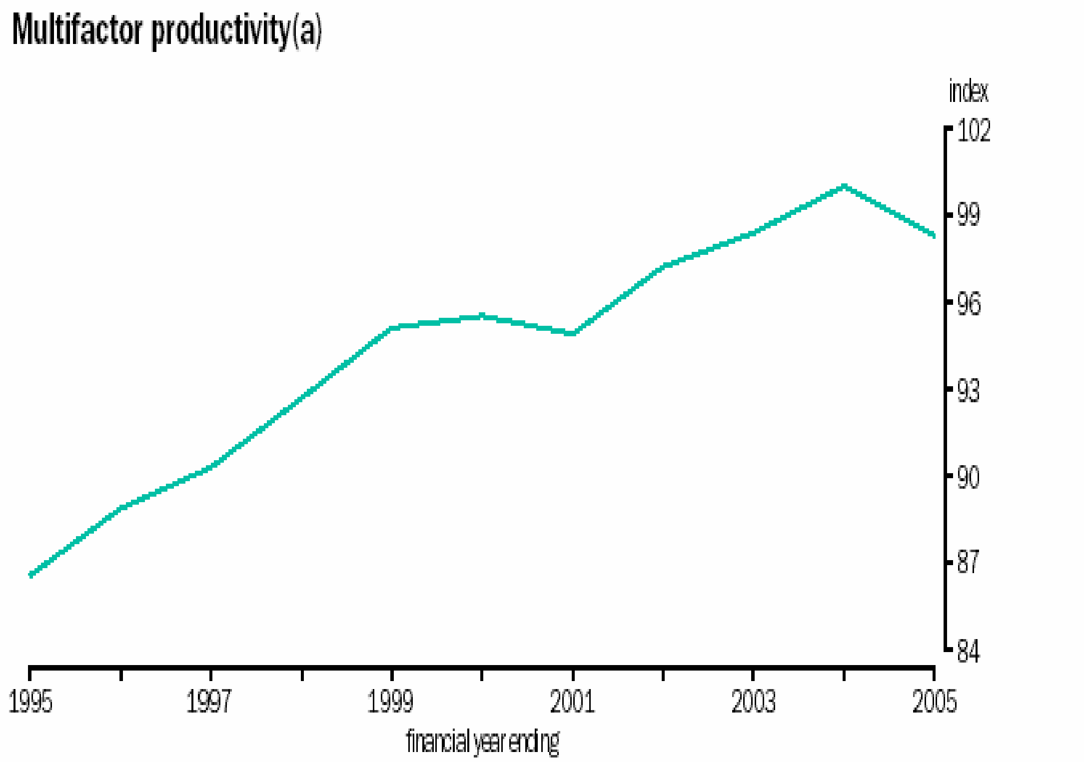
Diagram 2: Average Annual 1994 - 2004



1.2 Productivity

In terms of productivity, over the past half-century, the country's productivity has been mostly between 75 and 85 percent of that of US.

Diagram 3: Australia's Multifactor Productivity



(a) Reference year for MFP indexes is 2003–04 = 100 .

Source: Australian System of National Accounts, cat. no. 5204.0.[1]

In recent years Australia has generally experienced improved productivity growth. During the decade 1994–95 to 2004–05, Australia's multifactor productivity rose 1.3% per year on average.

Economic reforms of the recent decades have helped Australia narrow the gap, which manifested itself as an increase in Australia's productivity growth rate. Below is a sample trending of the country's labor productivity for the period of 1994 to 1995 to 2004 to 2005.

Diagram 4: Australia's Labour Productivity

Labour productivity(a), average annual growth rate – 1994–95 to 2004–2005

Industry(b)	%
Agriculture, forestry and fishing	6.2
Mining	0.9
Manufacturing	3.0
Electricity, gas and water supply	1.3
Construction	1.6
Wholesale trade	4.2
Retail trade	2.4
Accommodation, cafes and restaurants	1.6
Transport and storage	2.8
Communication services	4.4
Finance and insurance	2.4
Health and community services	1.1
Cultural and recreational services	1.6
All market sector industries	**2.1**

(a) Gross product per hour worked. (b) Estimates are not available for Property and business services, Government administration and defence, Education, and Personal and other services.

Source: Australian System of National Accounts.[1]

1.3 GDP and Gross National Income (GNI)

In the period of 1994 to 2004, annual average growth in GDP was at 3.7%, the 7th highest of OECD countries. From this period also, it rates 2nd to Ireland in terms of annual growth in volume change. GDP can be defined in three ways, the sum of labour incomes, net profits, and depreciation; the difference between the gross outputs and intermediate consumptions; and the sum of consumption expenditures, fixed capitals formation, changes in inventories, and net exports.

As of 2004, it rates 6th in Gross National Income, following Luxembourg, US, UK, Canada and Japan. GNI measures the total domestic and foreign value added claimed by residents. Growth in Financial Consumption per capita as of 2004 to 2005 rose by 2.6% a year. FCE is the acquisition of goods and services used for direct satisfaction of individual and collective wants. Over the past decade, growth in final consumption per capita has been quite strong, as illustrated in the table below.

Table 1: Real Household Final Consumption per capiita

Real household final consumption(a) per capita

	1994–95	2004–05	Average annual growth rate
	$	$	%
Food	2 549	2 784	0.9
Alcoholic beverages and tobacco	975	1 007	0.3
Clothing and footwear	786	995	2.4
Rent and other dwelling services	3 532	4 388	2.2
Electricity, gas and other fuel	404	514	2.4
Furnishings and household equipment	1 009	1 470	3.8
Health	1 082	1 289	1.8
Transport	2 198	2 989	3.1
Communication	319	734	8.7
Recreation and culture	1 919	3 079	4.8
Education services	682	847	2.2
Hotels, cafes and restaurants	1 554	1 900	2.0
Miscellaneous goods and services	2 531	3 449	3.1
Total	**19 376**	**25 447**	**2.8**

(a) Volume measures; reference year 2003–04. Components may not sum to totals.

Source: Australian System of National Accounts.[1]

2.0 Conditions of Work

Unemployment rate has continued to decline in Australia. The average annual unemployment rate in 2005 is 5.1% and currently, is at its low at 4.6%.

2.1 Award (Wage) Conditions

An award is an order of an industrial relations tribunal that sets out minimum conditions of employment. The following below are its types:

Federal awards – handled by the Australian Industrial Relations Commission; apply all throughout Australia.

State awards – handled by state industrial tribunals in the states of New South Wales, Queensland, South Australia, Western Australia and Tasmania; apply only to respective states.

*****In Victoria, the Australian Capital Territory and the Northern Territory, only federal awards apply.

Under the Work Choices legislation, all federal and state awards are to be combined into a national system designed to cover constitutional corporations, thus, for a time, awards will be duplicated, awarding both constitutional corporations and non-constitutional corporations and their employees.

2.2 The Work Choices Act

The Australian Government has committed to ensure that high productivity, increasing real wages, choice and flexibility remain the central focus of the workplace relations reform program. Although reforms continue as an enduring task, the complexity of the system must be addressed to increase its accessibility and effectivity.

Since May 26, 2005, the Australian Government has committed to:

a) establishing the Australian Fair Pay Commission (to protect minimum and award classification wages);

   The AFPC has been established to set minimum wage rates and wage rates contained within awards, as well as set and periodically adjust a single adult minimum wage, non-adult minimum wages, and minimum wages for award classification levels and casual loadings. Minimum and award classification wages will be protected at the level set after the inclusion of any increase mentioned in the 2005 Safety Net Increase (See Working Conditions, Fair Award Safety Net).

   Though the AFPC can raise wages upward (guided by parameters set in legislation), they will not be authorized to lower such.

b) enshrining minimum conditions in legislation

   The Government has set out in legislation the key minimum conditions for employment: i) annual leave; ii) personal/carer's leave; iii) parental leave; and iv) maximum hours of work.

c) introducing the Australian Fair Pay and Conditions Standard (to protect workers in the bargaining process)

The legislated minimum conditions of work, together with the minimum wages established by the AFPC form the Australian Fair Pay and Conditions Standard.
This will serve as a basis for employers and employees for their respective agreements' comparison.

d) simplifying the agreement-making process in the workplace

The introduction of workplace agreements has provided workers and businesses with greater flexibility in negotiating working conditions and helped ensure that wage rises are underpinned by productivity improvements. Previously, every Australian Workplace Agreement (AWA) was handled by Australian Industrial Relations Commission, then assessed by the Office of the Employment Advocate (OEA) before approval, creating uncertainty for the parties involved in the said agreements.

A streamlined, simpler, less costly agreement making process has now been introduced. All collective and individual agreements will still be directed to the OEA, however, the process has been simplified. If approved, all agreements will take effect on the date of lodgement rather than the date of certification or approval, to reduce delays and uncertainty. The maximum duration of new agreements will now cover 5 years (except greenfields arrangements with a maximum of 12 months).

e) providing modern award protection for those not covered by agreements

The Award Review Taskforce is now responsible for rationalizing existing awards and award classification structures. The Government will continue to ensure the award system is reviewed so it maintains relevance in a modern system.

f) ensuring that the Australian Industrial Relations Commission has an ongoing role

The Australian Industrial Relations Commission's role has changed into a commission concerned with dispute resolution and further award simplification.

g) balancing the unfair dismissal laws

The Australian Government will exempt businesses that employ up to 100 employees from unfair dismissal laws, so as to generate jobs in the small to medium businesses. It will also continue to have provisions for unlawful termination on the basis of discrimination, union membership and so on (see Conditions of Work, Unlawful Termination).

For businesses with over 100 employees, those covered must have a minimum of six months of employment before they can pursue an unfair dismissal remedy (see Working Conditions, Unlawful Termination).

h) introducing a national system of workplace relations

From having six different workplace relations systems, the Government is working toward establishing a national workplace relations system that is projected to cover 85% of Australian workers.

However, the reforms will not:

- cut minimum and award classification wages
- abolish awards
- remove the right to join a union
- take away the right to a strike
- outlaw union agreements
- abolish the AIRC.

3.0 Measures of Australia's Progress

Based on ABS Report 2006, there are three key principles to considering progress:

1. Progress (in its broadest sense) is life getting better.
2. Progress is multi-dimensional, and measuring each dimension is necessary.
3. Assessments of whether Australia is on balance progressing and at what rate depends on the personal evaluations placed on the relative importance of progress in each dimension.

In the development of MAP, the dimensions of progress are:

Table 2: Australia's Dimensions of Progress 1

Economic Progress	enhancing the nation's income while maintaining or enhancing (if possible) national wealth
Environmental Progress	Reducing of threats to the environment and improvements to the health of Australian ecosystems
Societal Progress	increases in the well-being of the population, a reduction of threats to and increases in social cohesion, protection and enhancement of democratic rights

Another way of clustering such dimensions (as to be discussed in this report) is through the following as in Table 3:

Table 3: Australia's Dimensions of Progress 2

	Headline Dimensions	Supplementary Dimensions
Individuals	Health, Education and training, Work	Culture and leisure
Economy and Economic resources	National income; Economic hardship; National wealth; Housing; Productivity	Competitiveness and openness; Inflation
Environment	The natural landscape; The air and atmosphere; Oceans and estuaries	
Living together	Family, community and social cohesion; Crime; Democracy, governance and citizenship	Communication; Transport

Most, if not all of these dimensions are linked.

3.1 Progress to Individuals

3.1.1 Health

Low Socioeconomic Status (SES) and a lack of education bring about poor health and vice versa. Australians are healthier than they were a decade ago; life expectancy has increased by 2-3 years.

3.1.2 Education and training

Higher Education supports economic development, specialized skills increase levels of productivity and extend the range and quality of goods and services, improves the capability to address wider range of health and welfare issues, and also improves outcomes in employment (Increased qualifications, more career growth opportunities). The percentage of Australians aged 25-26 with vocational or higher education has grown in the past decade.

3.1.3 Work

Increased Unemployment is associated with higher levels of crime and poorer health, produces higher risk of financial hardship, is a lost opportunity for producing goods and services, and lowers levels of social cohesion. Economic growth is observed to be very strongly influenced by changes in labor force participation.

Australia's unemployment rate has continued to decline since the 1990's.The average unemployment rate in 2005 was 5.1% of the population. It is now at an all-time low of 4.6%.

3.2 Progress to the Economy and Economic Resources

3.2.1 National Income

National Income is equated to the capacity to acquire goods and services for consumption. It is also a determinant of material living standards. A strong influence to national income is the production of goods and services. Production increases if the factors of production –capital, labor, and non-produced assets are built up (savings) or used (consumption) more efficiently.

Final consumption expenditure (FCE) is a measure of consumption most relevant to progress. It is the acquisition of goods and services for the direct satisfaction of individual or collective wants. Growth in FCE per capita in the past decade has been strong. This is indicative of the improvement in Australian spending power, directed to especially Communication expenses(8.7% annual average FCE growth per capita), as well as Recreation and Culture(4.8%) .

Increased income produces improvements in health and education (and vice versa). However, more income-generating activity increases environmental degradation, and consequently, more funds are allocated to restoration. The income dimension is strongly linked to work. Income growth may result from longer working hours and reduced leisure.

Australia's average annual GDP growth from 1994-2004 is around 3.7%, second only to Ireland (7.9%) among OECD countries. Australia's income growth (3.0% growth of real net national disposable income per capita) between 1994-95 and 2004-05 may be associated with the growth of the Australian workforce during the said time period; which is an observable difference from the preceding 20 years. However, when compared to other OECD countries, Australia's GNI is only around the median ($29,200).

3.2.2 Economic hardship (standards of living)

Low material standards of living are associated with problems such as lack of participation in work, substance abuse, poor health, poor education, poor housing, crime, social exclusion, and; lack of opportunity for children. As mentioned above, income is a determinant of material living standards. Over the period 1994-95 to 2003-04, the real income of low to middle income (22%) and middle income groups grew. This sets high standards of living that increase the quality, not only of day-to-day life, but also, of the goods and services provided by the country.

3.2.3 National wealth

National wealth refers to the net worth (or the equivalised assets less the liabilities) of a country. The most relevant measure is the real national net worth per capita of a country, which is the amount by which a nation's net worth is compared to the rest of the world. An increase in national wealth signals an increase in buildings and infrastructure used to deliver health, education and other services. Between 1995 and 2005 real net worth per capita increased by 0.9% per year on average.

Machinery, buildings and other fixed assets are inputs to the production of goods and services, otherwise known as capital stock that produce capital services. An increase in capital stock leads to an increase in capital services per unit of labor output, which contributes to and increases of labor productivity. In both June 1995 and 2005, Australia's fixed assets contributed to 47% of the total value of its assets .Throughout this time period, Australia's net capital stock grew on the average of 2.0% per annum on a per capita basis.

3.2.4 Productivity

Productivity is the ratio of the volume of outputs (goods and services produced) to the volume of inputs (labor and capital). Growth in productivity means more output from inputs rather than the absence of such. Much of Australia's output growth results from increases in input, thus, the most comprehensive Australian measure of productivity is the Multifactor Productivity growth (the growth in output that cannot be explained by additional input).

National productivity may improve with a shift of labor, capital and other inputs to other firms or industries that are more productive. Such changes may be prompted or assisted by a change in the overall economic environment (such as increased levels of domestic cooperation, reduced barriers to resource allocation and greater openness to the international marketplace. It can also improve with the introduction of new technology and its applications (knowledge and innovation).

At the level of the individual firm or industry, key influences to productivity growth include technological advances and improvements to the quality of labor, or to management practices and work arrangements. During a period of productivity growth, it is possible to raise real wages and other income without inflationary pressures. Also, businesses or industries with higher rates of productivity growth enhance their competitiveness. Over the past decades, successive Australian governments have enacted reforms that have sought to create an economic environment favorable to increased competition, better allocation of resources, and more innovation.

3.3 Competitiveness and Openness

International competitiveness affects international trade, and thus, influences national production, employment and income. A fall in competitiveness indicates difficulty for products and services to find buyers abroad. A country's competitiveness can be measured in terms of: a) changes in domestic prices relative to prices in competitor countries; and b) exchange rate movements.

Three factors have an important influence to international competitiveness:

a) Movements in wages compared to other countries;
b) Movements in labor productivity relative to other countries;
c) Changes in the exchange rate relative to other country's currencies.

Australia's international competitiveness has been observed to fluctuate in the past decade, however, decreases in unit labor costs likely resulted in increases in competitiveness in 2004-05. Openness is the interaction of an economy to other economies. Increased openness indicates a wide range of goods and services patronized and preferred by consumers. On the other hand, openness results in access to new innovative technologies that may improve productivity. The government[1] has passed reforms regarding openness to other economies, with key reforms focusing on tariff reductions and more provisions for international investors.

3.3.1 Australia's Competitiveness Ranking : World Competitiveness Yearbook, Institute of Management Development, Switzerland

Table 4 : Competitiveness Ranking

Domestic Economy	**2003**	**2004**	**2005**	**2006**	**2007**
Overall Competitiveness (ranks) Total number of countries 51 in 2003, 51 in 2004, 51 in 2005, 53 in 2006, 55 in 2007	(7)	(4)	(9)	(6)	(12)
GDP (PPP) Estimates; US$ billions at purchasing power parity	(16) 574.53	(16) 609.38	(16) 646.34	(16) 663.34	
GDP per capita US$ per capita	(22) 26,409.06	(22) 31,779.25	(19) 34,960.66	(15) 36,677.16	

[1] World Competitiveness Yearbook, Institute of Management Development (IMD), various issues

GDP (PPP) per capita Estimates; US$ per capita at purchasing power parity	(14) 28,911.74	(13) 30,331.05	(17) 31,777.25	(16) 32,201.87	
Real GDP Growth Percentage change, based on national currency in constant prices		(37) 3.6	(43) 2.6	(47) 2.7	
Real GDP Growth per capita Percentage change, based on national currency in constant prices		(47) 1.73	(47) 1.4	(52) 1.08	
Overall productivity (PPP) Estimates: GDP (PPP) per person employed, US$	(15) 60,737.49	(15) 63,238.09	(22) 64,910.81	(17) 65,342.71	
Overall productivity GDP per person employed, US$		(23) 55,476.89	(23) 66,257.47	(22) 71,413.51	(17) 74,423.80
Productivity in industry (PPP) Estimates: Related GDP (PPP) per person employed in industry, US$		(9) 71,563.26	(8) 72,425.24	(13) 74,482.99	(14) 74,241.36
Productivity in services (PPP) Estimates: Related GDP (PPP) per person employed in services, US$		(23) 58,560.90	(19) 61,263.96	(23) 62,688.30	(20) 63,529.53

Table 5 : Employment Ranking

Employment	**2003**	**2004**	**2005**	**2006**	**2007**
Total number of countries 51 in 2003, 51 in 2004, 51 in 2005, 53 in 2006, 55 in 2007					
Employment Total employment in millions	(29) 9.46	(29) 9.64	(27) 9.96	(26) 10.15	
Employment Percentage of population	(17) 47.60	(15) 47.96	(13) 48.96	(14) 49.28	
Employment – growth Estimates: percentage change	(3) 3.52)	(3) 3.52	(21) 2.21	(21) 2.31	
Employment by sector/Agriculture Percentage of total employment	4.46	3.95	3.79	3.66	
Employment by sector/Industry Percentage of total employment	21.17	21.46	21.39		
Employment by sector/Services Percentage of total employment	74.88	74.75	74.95		
Employment in the public sector Percentage of total employment	15.9	(27) 15.4	(20) 14.8		
Unemployment rate **Percentage of labor force**	(23) 6.05	(21) 5.53	(19) 5.10	(19) 4.98	
Unemployment legislation Unemployment legislation provides an incentive to look for work	5.77	(21) 5.58	(25) 5.11	(8) 5.98	(8) 6.13

Youth unemployment Percentage of youth labor force (under the age of 25)	(19) 12.21	(17) 11.60	(15) 10.81	(13) 10.29	
Part-time employment Percentage of total employment	(3) 27.91	(3) 27.91	(3) 27.10	(3) 27.30	

Table 6 : Labour Market Ranking

Labor market	**2003**	**2004**	**2005**	**2006**	**2007**
Labor Market(ranks) Total number of countries 51 in 2003, 51 in 2004, 51 in 2005, 53 in 2006, 55 in 2007	10	13	14	11	16
Labor regulations Labor regulations (hiring/firing practices, minimum wages, etc.) do not hinder business activities (IMD WCY Executive Opinion Survey based on an index from 0 to 10)	5.40	(24) 5.01	(31) 4.20	(18) 5.98	(10) 6.96
Labor relations Labor relations are generally productive (IMD WCY Executive Opinion Survey based on an index from 0 to 10)		(23) 7.19	(22) 6.98	(18) 7.15	(6) 7.85
Labor productivity (PPP) Estimates: GDP (PPP) per person employed per hour, US$	(22) 34.57	(17) 35.99	(21) 36.94	(15) 36.91	
Unit labor costs in the manufacturing sector Percentage change	3.40	(44) 3.29	(49) 4.96	(32) 2.8	
Labor force	(29)	(28)	(28)	(26)	

Employed and registered unemployed millions	10.09	10.24	10.52	10.71	
Labor force Percentage of population	(16) 50.79	(19) 50.99	(15) 51.74	(14) 52.00	
Labor force growth Percentage change	(22) 1.87	(25) 1.50	(5) 2.73	(17) 1.81	
Female labor force Percentage of total labor force	(28) 44.72	(29) 44.64	(24) 44.95	(26) 45.04	
Foreign labor force Percentage of total labor force	(3) 24.64	(3) 24.64	(3) 24.64		
Skilled labor Skilled labor is readily available (IMD WCY Executive Opinion Survey based on an index from 0 to 10)	(28) 7.39	(28) 6.83	(40) 5.64	(34) 5.63	(43) 4.44
Finance skills Finance skills are readily available (IMD WCY Executive Opinion Survey based on an index from 0 to 10)	(8) 8.00	(4) 8.37	(17) 7.54	(18) 7.44	(19) 6.84
Brain drain Brain drain (well-educated and skilled people)does not hinder competitiveness in your economy (IMD WCY Executive Opinion Survey based on an index from 0 to 10)	(27) 5.89	(29) 5.95	(29) 5.64	(23) 6.10	(29) 5.32
Working hours Average number of working hours per year	(13) 2,152.00	(13) 2,152.00	(13) 2,152.00	(13) 2,130.19	
Compensation levels Estimates: Total hourly compensation for manufacturing workers (wages + supplementary benefits), US$	(43) 15.39	(43) 19.66	(44) 24.87	(39) 24.60	

Table 7 : Remunerations Ranking

Remunerations	**2003**	**2004**	**2005**	**2006**	**2007**
Remuneration in services professions/Bank credit officer Gross annual income including supplements such as bonuses, in US$	(34) 19,600.00			(37) 37,500.00	
Remuneration in services professions/ Primary school teacher Gross annual income including supplements such as bonuses, in US$	(34) 24,300.00			(37) 38,000.00	
Remuneration in services professions/Personal assistant Gross annual income including supplements such as bonuses, in US$	(34) 18,900.00			(37) 29,500.00	
Remuneration in services professions/Department Head Gross annual income including supplements such as bonuses, in US$				(37) 26,800.00	
Remuneration of management/CEO Gross annual income including supplements such as bonuses, in US$	(23) 178,313.09	(24) 209,082.14	(28) 290,336.47	(28) 336,993.97	
Remuneration of management/	(23)	(24)	(28)	(28)	

Engineer Gross annual income including supplements such as bonuses, in US$	68,846.22	81,835.37	87,243.48	89,233.31	
Remuneration of management /Human resources director Gross annual income including supplements such as bonuses, in US$	(23) 101,477.25	(24) 120,853.06	(28) 131,341.17	(28) 137,128.55	

Table 8 : Business Efficiency Ranking

Business Efficiency IMD WCY Executive Opinion Survey based on an index from 0 to 10	**2004**	**2005**	**2006**	**2007**
Foreign high-skilled people Foreign high-skilled people are attracted to your country's business environment	(10) 7.19	(11) 6.59	(9) 7.27	(6) 7.87
Competent senior managers Competent senior managers are readily available	(17) 7.22	(20) 6.30	(20) 6.54	(22) 5.97
Large corporations Large corporations are efficient by international standards		(13) 7.77	(15) 7.68	(16) 7.54
Small and medium-size enterprises Small and medium-size enterprises are efficient by international standards		(9) 7.44	(14) 7.14	(13) 7.18
Attitudes toward globalization Attitudes toward globalization are generally positive in your society	(16) 6.89	(8) 7.28	(11) 7.07	(13) 6.94

Ethical Practices Ethical practices are implemented in companies	(4) 7.92	(2) 8.23	(8) 7.61	(3) 8.00

3.3.2 Australia's Competitiveness Ranking: The Global Competitiveness Report 2006-2007

Indicators on Wages and Labour Relations	**Rank (125 countries)**	**Score**
Flexibility of Wage determination Wages are (1 = set by a centralized bargaining process, 7 = up to each individual company)	95	4.6
Cooperation in Labor-employer relation Labor-employer relations are (1=generally confrontational, 7 = generally cooperative)	50	4.8
Pay and Productivity Pay is (1=not related to worker productivity, 7 = strongly related to worker productivity)	30	4.6
Extent of Incentive Compensation Cash Compensation of Management (1=is based exclusively on salary,7 = includes bonuses and stock options, representing a significant portion of overall compensation)	10	5.5

4.0 Improving Business Management Processes to Enhance Performance Practices in Australia

This report covers the different processes that are implemented in enhancing performance practices in Australia;

1. Business Excellence Models
2. Business Management System
3. The Balance Scorecard

4.1 Business Excellence Models

Business excellence models are frameworks to guide organizations towards achieving success in various forms across the world. The GEM Council Members represent a group of organizations who have created an Excellence Model that meets the business and cultural needs of their country. The Australian Business Excellence Framework describes the principles and practices of high performing organizations and contains collective intellectual capital and business wisdom gathered over 15 years. The Framework has been designed to assist organizations to measure current performance and build a pathway to long-term success. Leading Australian and Australian-based organizations use the Framework to: improve management and leadership practices, assess the performance of their leadership and management systems, build those results into strategic planning processes, and benchmark where their organization stands in terms of the marketplace and competitors.

The Framework was developed in 1987 and was one of the first four global excellence frameworks. It was initially developed in response to Commonwealth Government and general industry calls for Australian enterprises to be more efficient and competitive. The Framework is reviewed and updated annually by a Committee formed of management and leadership experts to reflect the latest in management thinking and practice. The Framework was developed with the objective of describing the principles and practices that create high performing organizations. The criteria could then be used by organizations to assess their performance and drive continuous and sustainable improvement in their leadership and management systems. The Framework is also used as the assessment criteria for the Australian Business Excellence Awards. Through the Awards, organizations can be recognized for their achievements in excellence and improvement.

4.2 Business Management System

In today's complex and globally competitive business environment, organization objectives such as growth and profitability have been joined by a new imperative - risk management. Organizations are now choosing to operate within a comprehensive risk management framework that protects profit margins and other critical stakeholder interests. Many organizations have found success in achieving this outcome by implementing an integrated management approach through a Business Management System, which is recognized worldwide as ISO 9001, the Quality Management System standard.

A research project conducted by Monash University's Australian Supply Chain Management Research Unit confirms that the ISO 9000 quality management system continues to have a positive impact on the performance of Australian organizations. Currently, there are over 35,000 organizations with JAS-ANZ accredited certificates for ISO 9001 in Australia, New Zealand, and internationally.

The ISO 9001 is the best-known Business Management Standard since its approach offers a comprehensive framework on which to build processes that help ensure key business objectives are achieved. ISO 9001 has received widespread international recognition as almost one million certificates worldwide have been issued. ISO 9001 compliant business management systems have been adopted across all industry types, from manufacturing through to professional service organizations. This level of recognition and acceptance is a reflection of the flexibility and proven practical value it offers a variety of businesses.

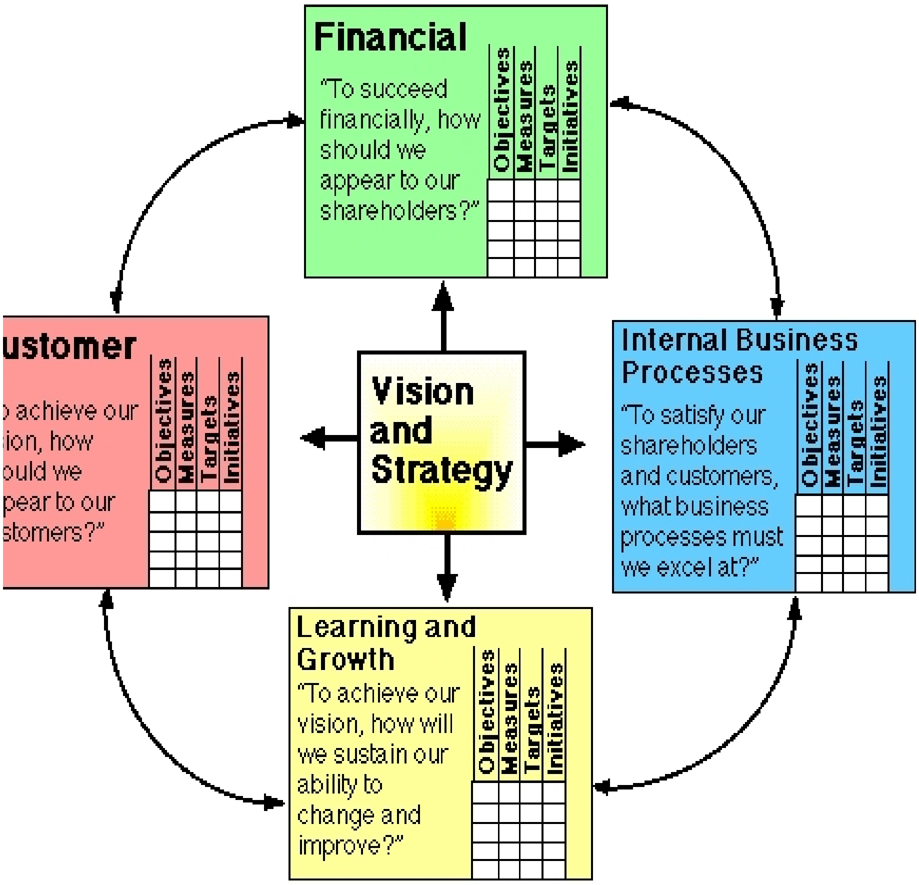
4.3 The Balance Scorecard

In 1992, Robert S. Kaplan and David Norton introduced the balanced scorecard, a concept for measuring a company's activities in terms of its vision and strategies, to give managers a comprehensive view of the performance of a business. The key new element is focusing not only on financial outcomes but also on the human issues that drive those outcomes, so that organisations focus on the future and act in their long-term best interest. The strategic management system forces managers to focus on the important performance metrics that drive success. It balances a financial perspective with customer, process, and employee perspectives. Measures are often indicators of future performance.

Since the original concept was introduced, balanced scorecards have become a fertile field of theory and research, and many practitioners have diverted from the original Kaplan & Norton articles. Kaplan & Norton themselves revisited the scorecard with the benefit of a decade's experience since the original article. The earliest Balanced Scorecards comprised simple tables broken into four sections - typically these 'perspectives' were labeled "Financial", "Customer", "Internal Business Processes", and "Learning & Growth". Designing the Balanced Scorecard simply required picking five or six good measures for each perspective. Many writers have since suggested alternative headings for these perspectives, and also suggested using either additional or fewer perspectives: these suggestions being triggered by a belief that 'better' designs will come from use of different headings. The major design challenge faced with this type of Balanced Scorecard is justifying the choice of measures made. The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

- Learning and Growth
- Business Process
- Customer
- Financial

Diagram 5: The Four Perspectives

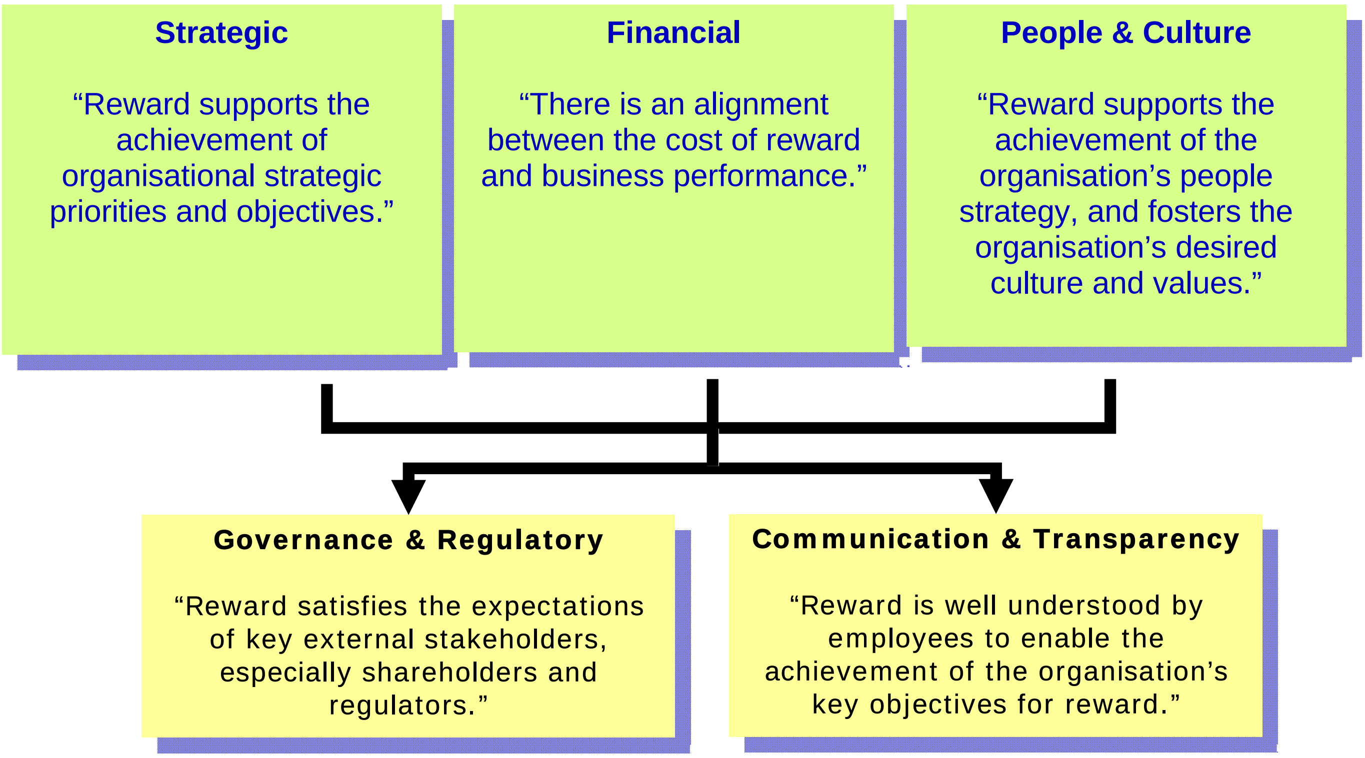


5.0 Performance-Based Remuneration

Employee compensation schemes, including bonus payments and other rewards, are used to recompense workers for their services in accordance with their performance, and as a means of motivating them towards achieving organisational goals. In most organisations there is a need to balance, often significant, labour costs against the need to pay competitive rates. A well designed compensation scheme may be used to motivate employees toward achieving more ambitious goals and also play a vital role in attracting and retaining top talent within an organisation. Employers must seek to reward employees through a combination of monetary and non-monetary benefits and thereby tap into the cooperative strength of workers to create an enthusiastic and satisfied workplace.

5.1 A Strategic Context for Reward

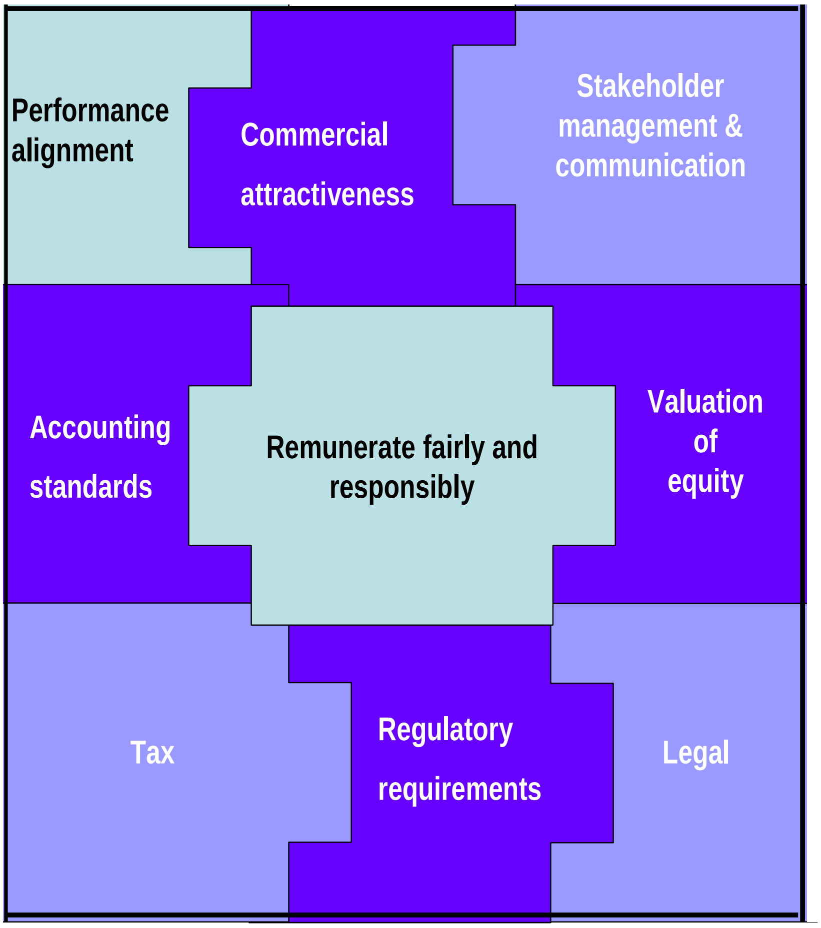
Diagram 6 : Aligning reward practices is paramount…



Strategically, because reward supports the achievement of organisational strategic priorities and objectives i.e. Balanced Scorecard perspectives. **Financially,** because there should be an alignment between the cost of reward and business performance. With respect to **People and Culture**, reward supports the achievement of the organisation's people strategy, and fosters the organisation's desired culture and values. Strategic, Financial, People & Cultural alignment contribute towards

Governance & Regulatory requirements, where reward satisfies the expectations of key external stakeholders, especially shareholders and regulators; and **Communication & Transparency**, where reward is well understood by employees to enable the achievement of the organisation's key objectives for reward.

Diagram 7 : A Rewards Framework



In formulating a sound remuneration philosophy it is important to link employee incentives to the overall strategy and mission of the organisation; and frequently evaluate design of existing programs. One of the most important roles of management is the motivation of staff. In regard to this, Adrian Furnham, Professor of Psychology at University College, London, states that the concept that "*better paid people are more productive and happy does not tie in with the* *evidence found in the workplace, and states 4 key reasons to support this statement"…*

***Money as a de-motivator*; there is no simple correlation between pay and performance. Perceived low pay often leads lead to considerable dissatisfaction and de-motivation, but not vice versa. The effects of any pay increases will very soon wear off, and any improvements are likely to be temporary.

Total remuneration – this includes extrinsic & intrinsic rewards, that I will discuss further in another slide.

***Absolute salary vs. comparative salary*; if pay increases significantly but in concert with the rest of the work group there is likely to be little change in behaviour. This crucial factor relates to an essential problem associated with performance related pay. If employees believe, with or without evidence, that they are not equitably and fairly paid, they will become de-motivated.

***Money is not everything*; Employees are often happier with more time off, or greater job security, and are prepared to trade these for money. Essentially once employees have enough they grow weary of the game. I would like however, to emphasise that this concept depends on Maslow's Hierarchy of Needs.

Efficiency improvements need to be measured, processes understood, goals/targets set and achievements rewarded. If there is no clear relationship between the effort extended, and rewards received, either by individuals or by teams, then there is little point in implementing incentives encouraging employees to be more productive.

Talented people want to work for organisations that recognise their value and which provide opportunities to move ahead. For organisations to win the war for talent, they have to compete for labour in a tight market, which drives remuneration. Studies indicate that there is a global trend to adopt pay-for-performance policies. However, many of the compensation and reward systems that are in use today are based on assumptions that have not been tested for many years. There are other alternatives that focus less on individual wage increases and introduce group incentives, such as incentives related to a common goal. Group incentives have proved to be effective in practice and employees generally like them. Pay for performance systems need to be closely overseen and owned by the organisation's managers i.e. not by its HR department.

It is also wise to involve employees in the planning and design process of compensation schemes because this best develops in them a sense of ownership. Employees who are to be covered under proposed pay-for-performance systems can be used in focus groups or task forces to fine tune proposals. These employees will then tend to serve as valuable communication channels among their co-workers. They will be able to explain the reasons for decisions and be trusted by their colleagues. Pay for performance is most effective at obtaining the desired behaviours when it is related to a management process and when it truly matches the goals of the organisation.

To manage human relations effectively and achieve desired performance levels, organisations must motivate its employees. Motivation though is a complex psychological process in which needs lead to drives aimed at goals or incentives. Attaining the goals or incentives reduces the intensity of the drives and fulfils the needs. The needs are really the mainspring of the motivation. For example, if you have a need to complete a project on time (or want to be recognised or rewarded for doing so), your behaviour aimed at satisfying that need may be to work more hours. The goal may be to get a bonus, pay rise and/or promotion, and if achieved, your drive will be less intense and your need satisfied. Consequently, after the project is complete, your need for rest or a holiday might seem more important than your need for achievement

To motivate people is to see the world the way they do. Employees may be motivated by challenging work, good wages and salaries or fringe benefits, and each individual will seek to satisfy personal needs… which supports the concept that “Money is not everything”. To understand what motivates people is to understand what their secondary needs are. This will vary between cultures and the economic state of a country. In Australia, employees needs are between Esteem and Self-Actualisation.

5.2 Pay for Performance Schemes

Having set performance expectations, Pay for performance schemes can include:

Sales Compensation Plans which are intended to modify the behaviour of sales people and to align their goals with those that are of most benefit to the organisation. Deriving the highest possible return from sales compensation plans requires that managers strike the right balance between economics and the organisation's strategic priorities.

Gainsharing plans which motivate employees to use their skills and efforts to boost company performance. Under Gainsharing a proportion of any savings made are awarded to the employees as a bonus, and the remainder is retained by the company. Pay-outs are made periodically in accordance with overall company performance improvements. Gainsharing is both a popular and effective group-incentive program. No improvement means no gain, and no gain means no bonus, and this simple fact can strongly drive employee behaviour. Bonuses under Gainsharing programmes are essentially self-funded by the incremental productivity and quality improvements that Gainsharing generates.

Long Term Incentives are used to encourage executives in particular to focus on business activities which can lead to improved organisational performance.

Long term incentives can also be used to minimise fixed costs to an organisation. Total Rewards covers extrinsic rewards i.e. monetary and intrinsic rewards which impact on self-motivation.

5.3 Current remuneration trends in Australia

Increased remuneration levels – recent review of salaries show that certain industries are setting new benchmarks, thereby putting the pressure on others to reassess their offerings to remain competitive in attracting people to work in their industry. In WA for example, there is a skill shortage in some industries because people prefer to work in mining due to higher pay.

Increased variable pay –Focus on performance not quantum; Alignment of variable pay with business strategy ; Increased pressure on performance ; Long Term Incentive reward outcomes in relation to business performance. Increasing influence of stakeholders

5.3.1 Expected future developments

Executive "push back" to long-term incentive (LTI) performance targets
Long term incentives are used to encourage executives in particular to focus on business activities which can lead to improved organisational performance. Long term incentives can also be used to minimise fixed costs to an organisation. Examples include: **Stock Option Plans***;* which give employees the right to buy stock at a designated point in the future at the issue date's price. If the stock price increases the employees can benefit by exercising this option. Alternatively should the stock price fall below the issue price, and the option expires, then the employees will receive nothing.

Service-Based Restricted Stock Plans*;* which can be used as an alternative to stock options, or instead of complex incentive schemes. For service-based restricted stock, the employee receives the value of the stock at the time of investing as long as the agreed service requirement has been met.

Performance Share Plans; which reward executives for having a positive impact on performance including company financial performance/stock price performance. Using performance share plans, executives are offered the ability to earn shares based on pre defined performance measures.

Reducing acceptance of relative total shareholder return (TSR) – higher and immediate return on investment

5.4 Components of remuneration

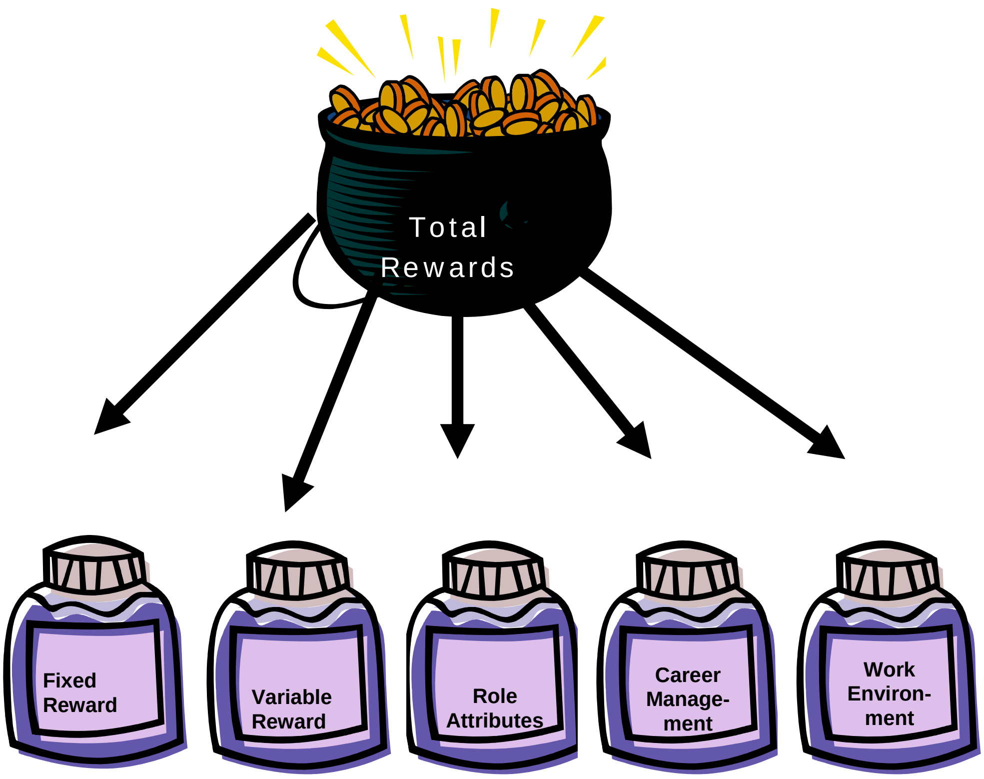
When designing an effective compensation plan organisations need to take into account the overall packages offered to employees. "Total Rewards" is a generic term used to describe such compensation and incentive packages and may include: *Pay, bonuses, incentives; Core benefits such as health, dental and vision, and motor vehicle for private use; Recognition; Pensions/Superannuation; Voluntary benefits i.e. discounted rates for car and home insurance; Training and development, career opportunities and; Workplace culture and the work environment.*

5.4.1 Aligning remuneration

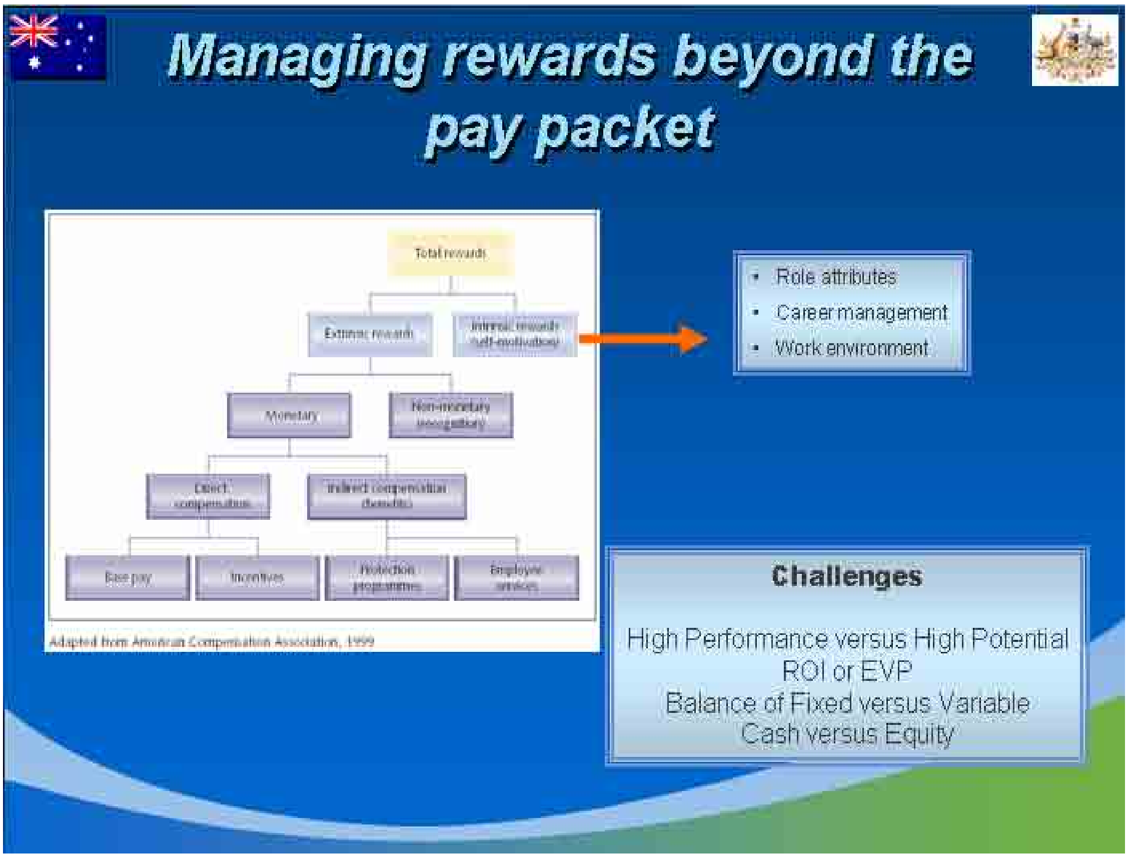
It is prudent for organisations to focus upon setting those goals which are critical to achieving its success; and as part of this process ensuring that its employees understand how success will be measured, and how personally they can influence the outcomes that lead to success. Goal setting and measurement are central elements of incentive plans, and in particular for the design of executive compensation plans. The primary objective of goal setting and measurement is the selection of instruments which align with business strategy. The most common goal-setting approaches involve linking incentive goals to annual budgets, or to longer term business plans.

5.4.2 Managing Rewards

Diagram 8: Managing Rewards Beyond the Pay Packet

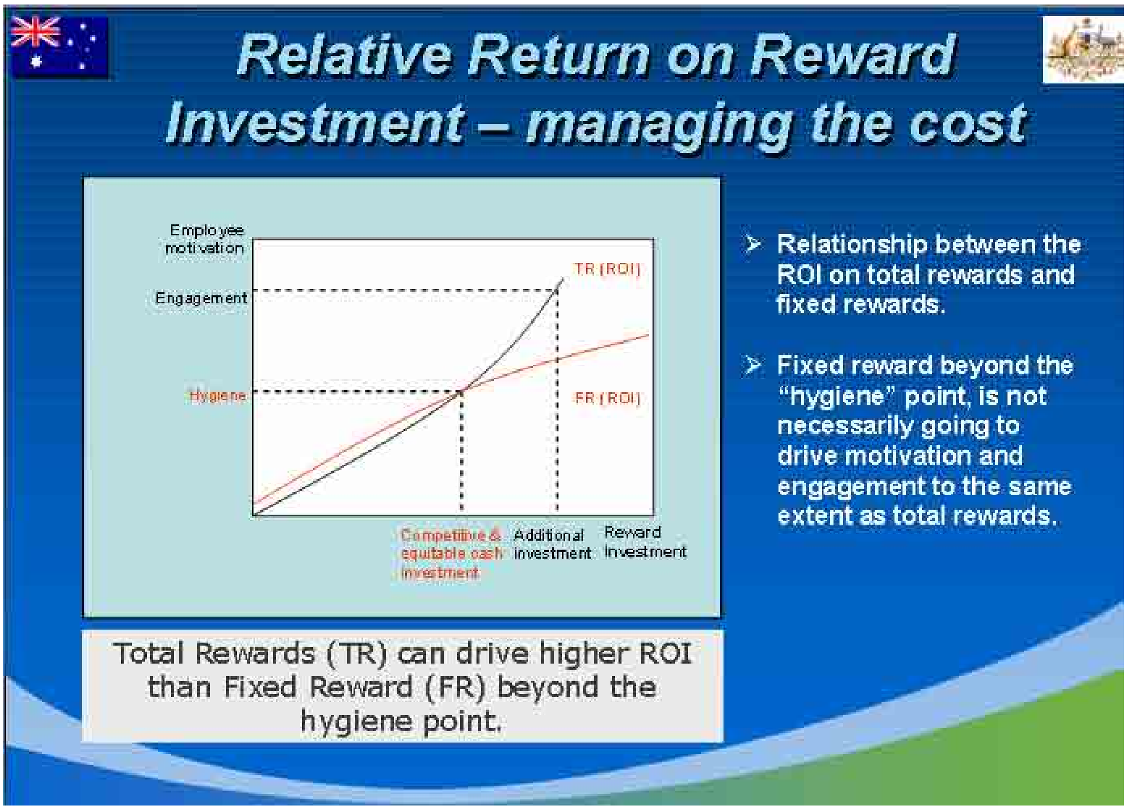


Challenges
High performance versus High Potential
ROI or EVP
Balance fixed variable
Cash versus equity



Managing rewards beyond the pay packet includes intrinsic rewards (which contribute to self-motivation) such as role attributes, career management and the work environment, among others. The challenges however include balancing between:

- High performance and High Potential
- ROI and EVP (Equity Value Proposition)
- Fixed and Variable pay
- Cash and equity



- Management theorists believe that fixed reward beyond the hygiene point, is not necessarily going to drive motivation and engagement to the same extent as total rewards.
- Total rewards can drive higher return than fixed reward beyond the hygiene point.

5.5 Strategic Performance Measurement

According to a joint study by Watson Wyatt Worldwide and the Cranfield School of Management (in the UK), the relationship between Strategic or Business Performance Measurement systems (e.g. Balanced Scorecard, Key Performance Indicators, etc.) and reward processes in organisations is an issue that remains unclear. This issue exists despite the extensive research dedicated to each topic; and despite the fact that, at present, many organisations are establishing a link between these two systems.

Studies have indicated that around half of large US and European organisations and 35 per cent of Australian organisations are now using a strategic performance measurement (SPM) system such as the Balanced Scorecard for measuring their business performance. There is also evidence suggesting that just under half of those firms using a strategic performance measurement system are linking it to their compensation practices. However, beyond this data, the relationship between SPM systems and reward systems in organisations is not well understood.

5.5.1 Survey Findings on SPM

A number of findings from the joint study by Watson Wyatt Worldwide and the Cranfield School of Management change their perception on what earlier studies indicated. KPIs are by far the most commonly used performance measurement system in the survey. The frequency of use of the Balanced Scorecard is lower in the survey than has been previously reported. Previous surveys have suggested the Balanced Scorecard is used in about half of larger organisations. Survey results suggest that the Balanced Scorecard is popular, but not as widely used as KPIs.

This result may have occurred because the survey asked questions about performance measurement systems usage and did not purely focus on the Balanced Scorecard. The inclusion of KPIs as a type of measurement system may have provided the respondents with an alternative to the Balanced Scorecard for their responses. KPIs are different to the Balanced Scorecard and this suggests that companies are balancing financial with non-financial measures, but not in the same proportion as one would expect in the Balanced Scorecard. The balance is between financial and non-financial, rather than one financial perspective with three non-financial perspectives.

The results also suggest that there is a much stronger link between performance measurement and reward than has been previously reported. In the survey two-thirds of those surveyed made the link. Even those companies that did not have a formal performance measurement system still linked reward with a mixture of financial and non-financial objectives. Companies who did not have formal performance measurement systems relied more heavily on personal objectives to reward individual performance. KPIs and the Balanced Scorecard have, in much of the management literature, replaced Management by Objectives (MBO).

However, the results of the survey show that along with the Strategic Performance Measurement system and meeting Budget, Management by Objective (MBO) is still a dominant factor for rewarding senior executives. The main benefits from linking reward with the measurement system are to increase the focus and understanding of the key strategic objectives. This goes beyond rewarding short-term financial objectives by rewarding the implementation of the strategy for achieving organisational sustainability and long-term success. This suggests that companies are becoming more confident in their belief in how long term success is achieved and that they believe that rewarding pure financial performance may lead managers to be too short-term in their outlook.

5.5.2 Summary

In summary, in terms of variable pay a careful balance is necessary to be achieved between the way in which employees would like to be compensated and the business performance for which they are compensated. Employees are not necessarily motivated to be more productive or in fact happier in their role by the level of monetary compensation alone. Organisations need to regularly re-assess compensation plans to ensure that they are continuing to meet the intended objectives, and importantly, that they are effectively motivating employees. An effective compensation programme requires goals to be set that enable employees to focus upon the issues and activities that are most important for achieving organisational success. For this reason goal setting and measurement are central elements of an effective incentive plan.

The design and effectiveness of compensation plans has a direct bearing on the retention of an organisation's best and most productive staff. In addition it is desirable to minimise turnover expenses as these can equate to a significant proportion of annual compensation costs. The loss of good employees is also associated with customer service disruption, loss of morale, and a loss of valuable knowledge from the organisation.

6.0 Case Studies on Performance Based Remuneration Systems

Below are some case studies, practical business set-ups and how they implement their performance-based remuneration: The following are samples taken from the different Australian business communities.

6.1 Public Sector Organization – Council

The organization is a large diverse public sector organization which delivers construction and maintenance of infrastructure, transport services, community facilities and services, and utility services. The 8000 strong workforce is unionized and consists of both white and blue collar, predominantly permanent, but with a range of other employment arrangements. Generally, the organization is pitched midrange in terms of salary when compared with the market, but is highly regarded in terms of its flexible working arrangements.

For the majority of staff (wages and salaried staff), there is no link between performance and pay. They are instead covered by awards, and the organization’s Enterprise Bargaining Agreement (EBA). Pay is linked to the value of the job being performed, as assessed by an independent process i.e. not a direct link to individual competency or contribution. These employees are covered by a performance management process, which focuses on agreed goals and achievements; behaviours; learning and development; and career development. Whilst the focus is on planning for performance, there is no direct link to remuneration.

Performance is formally assessed on a regular basis (6 monthly). Those employees who achieve adequately may progress through the performance scale within their band level (related to the value of the job). And those employees who fail to perform adequately may have the pay progression withheld for a period, and go through a poor performance management process. Individual high performers are not rewarded through this process, but may however, be recognised and rewarded in a limited way through Reward and Recognition strategies.

For those staff who are part of the Executive Service (approximately 150), an Executive Performance Planning system applies (the executives are not covered by the Enterprise Bargaining Agreement). This process does link performance to pay, through a bonus system, comprising up to 15-20% of nominal salary. Each of the executives has a number of objectives to achieve – corporate; divisional/branch; individual, with a weighting for each objective. Depending on the level of achievement of each objective, a cumulative bonus of up to 15-20% can be achieved. It should be noted that targets that are set corporately or divisionally must be achieved collectively for individual executives to receive the benefit.

The Enterprise Bargaining Agreements, which have been part of the landscape since the 1990s, have provided reasonable pay increases at each level of the classification structures within the Awards. These pay increases reflected pay movements in the general community. During the late 1990s, the organisation attempted to have performance measures in the earlier versions of Enterprise Bargaining Agreements, linked to the performance of work units and divisions. Bonus payments were made on the satisfactory achievement of key performance indicators. However, this approach has been discontinued due to the difficulty in choosing cost-effective measures which reflect actual performance, and also measuring the direct contribution of an individual (individuals received a bonus based on the performance of the larger group). The current Enterprise Bargaining Agreement is about commitment to collective improvement, and working towards achieving important organisational agendas.

Current initiatives are exploring changes to some arrangements. For example, some executives (generally those in high demand occupations and critical roles) may be moved to a retention type bonus, rather than a performance based bonus. In other words, paid at the end of a three year contract rather than annually. Another initiative is looking at a remuneration strategy that helps attract and retain staff into hot skill areas, through a revamped remuneration package for designated individuals and roles. This is in response to market demands and the need to attract and retain staff in key occupational groups. Initially, it is not proposed to include a performance based component, but could so in the future.

6.2 Large Multinational Organisation

The company is part of a large multi-national organization which manufactures and supplies product to the building and automotive industry. Its business management system is based on ISO9001: 2000 and manufacturing excellence practices i.e. Lean Mfg & the Toyota Production System. The Balanced Scorecard is used as the basis for measuring business performance.

6.2.1 Performance Management - Award Covered Staff

Employees are covered by the relevant Industry Award as well as Collective or Enterprise Bargaining Agreements (EBA), which provides for wages (based on skill level and competency) and other benefits (i.e. training allowance) that are above those set in the Award. Currently, performance management may or may not be part of an EBA. However, there are plans to standardise and include this in future EBA negotiations.

Where performance management is included as part of the EBA (i.e. primary product manufacturing), employees are covered by an incentive scheme i.e. Profit Share, which provides performance-based pay where performance targets are exceeded i.e. for every $10m above the target, a percentage for incentive is attached to every $. The scheme defines a pro-rata payment based on the percentage exceeded on the performance target and on job groups i.e. Management, Operators, Maintenance, Admin, etc.

Performance measures and target include Safety, Yield, Productivity, Waste, Quality, including quantity of acceptable product, and Attendance. Each measure has a weighting and is based on what an employee can control and/or influence. Targets may be stretched but are not impossible.

6.2.2 Performance Management – Evaluated Staff (Employees on fixed salary)

Evaluated employees are entitled to the same performance-based pay incentive scheme (as Award Covered Staff) with the following percentage depending on the level of management.

- Administration & Management staff - up to 10% of base salary
- Senior Management - 15% up to 60% of base salary

In addition, the performance of evaluated staff is also measured against the following:

- Administration staff – achievement of broader-based targets i.e. team or departmental objectives
- Management - achievement of individual and team or departmental objectives

A Management Incentive Plan (MIP) is also given to senior management. It is based on:

- Financial performance of the business i.e. operating profit (35%), Net cash (20%), Working Capital (15%)
- Achievement of personal targets* which will be not less than 3 measurable key results agreed with the immediate manager (30%)
- Assessment of the overall effort and contribution to the business

For more senior management i.e. Executive management, short term (STI) and long term incentives (LTI) are offered, and are also performance-based as well as linked to business growth/wealth creation and share price earnings. (This is further discussed in case study 6).

6.2.3 Salary Evaluation using the HAY system

The organization uses the Hay Point Method to evaluate jobs. Its widespread use and the consistency of the job size numbering scale enable it to provide the basis for valid pay comparisons between organizations, both nationally and internationally. The Hay Guide Chart-Profile method is based on observations of the elements common to all jobs, namely:

- Outputs - all jobs exist to produce end results - Accountability
- Inputs - to deliver these end results, job holders require the appropriate knowledge and skills - Know How
- Process (management and improvement) - in utilizing know-how to achieve end results, job holders must address and resolve problems - Problem Solving
- For any given job, a relationship will exist between these three factors. Therefore, jobs can be characterized by the size or level of each factor and the balance between the jobs which reflects the 'shape' of the job (otherwise referred to as the Job Grade).

*Job Grade

The outcome of Salary Evaluation is grading of the job, which then determines the salary range (lower and upper limits) of the job.

6.2.4 Remuneration Policy - Base Salary & Fixed Benefits

In this approach, Base Salary is fixed and some additional benefits (below) are provided. The employee has no choice in the amount of Base Salary and cannot elect to reduce/increase Base Salary for increased/decreased benefits. The approach was based on comparison against other organizations such as: AMCOR, BASF, Bluesteel, Capral Aluminum, Coca-Cola Amatil, Ford Motor

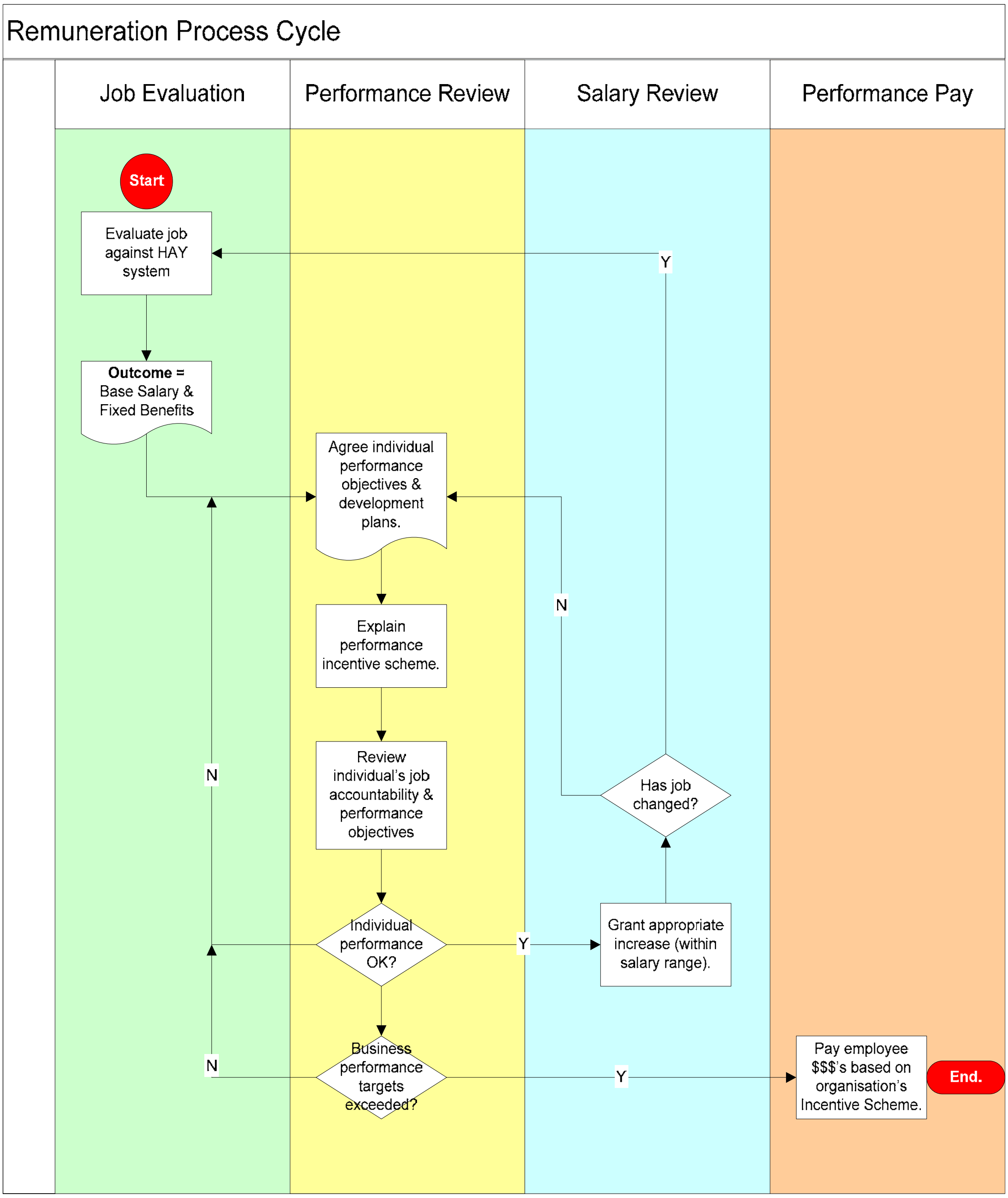
Company Holden, Kimberly-Clark, Kraft Foods, Mitsubishi, National Foods, Pacifica, Philip Morris, Rheem, Southcorp, Toyota, Uniliver and others.

*Salary Review

Salary review is linked and follows the yearly performance review. Salary increases when appropriate, are granted according to ratings, position within the Hay salary range and correction of any anomalies.

The overall picture of the Remuneration Process Cycle is illustrated in the diagram below.

Diagram 9: Remuneration Process Cycle



6.3 Products and Services for Homes and Buildings

The company employs more than 1300 employees in Australia, New Zealand, Fiji and PNG and provides products and control systems for homes and buildings. The organization has a flat and responsive structure that ensures responsibility and accountability is devolved to managers, team leaders and teams. The company drives these strategies through its ISO9001-based Business Management model and measures their performance against the Australian Business Excellence Framework.

Their people strategy includes the following initiatives : Flatter organization with fewer levels of management , Empowerment of employees through the empowerment card, Focus on teams and teamwork, Entitlement of a minimum of five days training for all staff, Involvement of a large number of employees in the planning process, and Improving internal communication processes. Since 1995 the company has implemented an Employee Opinion Survey which looks at employee's perceptions of what is important and how the company is performing on these items.

The factors measured relate directly to the Business Management Model and the ABEF criteria, thus enabling comparison of results and benchmarking of key areas for improvement. Standardized applications and systems are in place to provide data to employees and communicate both operational matters and overall company performance.

Process control concepts are employed to ensure that the scope of the measurement system provides data for process improvement and understanding at the operator level. There is evidence of widespread understanding and ownership of process brought about through various improvement initiatives and the application of mature certified quality management systems within the Business Units.

The company's people management, development, communication and involvement processes are comprehensive, well planned and effectively implemented. Recognition and reward systems provide a variety of award programs linked to the achievement of key strategies and organizational goals. In line with the organization's Key Success Factor of employee well being there has been developed a proactive, company-wide approach to Occupational Health and Safety.

6.3.1 Performance Management

Employees at all locations, including overseas assignments, receive an annual Performance Effectiveness Review which encompasses a review of current performance against objectives set the previous year, career planning, development and training plans, and individual objectives for the following year. The Performance Effectiveness Review process includes a 360 degree review for directors, managers and team leaders. There is widespread use at other levels. The process can involve customers and staff from other divisions.

A set of 12 core competencies aligned to the Vision and Values have been identified and are the basis for multi-rater reviews. Pay for performance is assessed on the basis of achievement against personal objectives derived from annual business plans. There is evidence that staff value the recognition and reward systems which provide for a wide variety of awards with a particular emphasis on customer service and the achievement of organisational goals.

6.3.2 Process

Performance management is the way the contribution of people to achieving organizational objectives is managed and evaluated. The company approaches performance management from a number of perspectives: Performance Effectiveness Review System, Career Development, Pay for Performance, and Recognition and Reward.

6.4 Large Manufacturer

6.4.1.Strategic Planning

The planning is carried out by senior management. They comprise the corporate planning team and a process expert. The focus for their planning is to zero-in on 1/2 dozen things that must be done right over the medium to long term.

The firm has two corporate objectives:

- to achieve a satisfactory return on capital
- to achieve a satisfactory long term profit growth

There are only two Corporate Performance Indicators (CPI's):

- RoC (return on capital)
- EBIT (earnings before interest and tax)

As part of the plan, targets and forecasts are set . Minimum targets are set (Tmin) but satisfactory targets (Tsat) are what they want to achieve. Forecasts: where they expect to be. This is done by examining the past, making opportunistic and pessimistic forecasts and having a high recognition of the variability of future outcomes. This is particularly important to the firm as their biggest product is subject to both cyclicality and seasonality.

Progress against the plan is checked on a monthly basis. This consists of a monthly meeting of the corporate planning team. The plans are formally reviewed on an annual basis. The planning process is tightly tied to the budget process. The entire planning process runs for approximately nine months, beginning in September for the preparation of plans for the new financial year.

Action plans are derived from the strategic plans. Many of the action plans involve cross functional teams of which there is a high emphasis at the firm. The General Managers who have responsibility for seeing through the cross functional initiatives do not get rewarded for achieving these initiatives. It is considered as part of doing the job.

6.4.2 Process Improvement

The firm has a process improvement framework and methodology using team approach and the ISO9001 process model. The major outcomes from the improvement cycle are:

- improved process
- understanding of customer needs
- improved customer satisfaction
- reduced waste
- involvement of people working in the process
- adoption of a structured approach to the introduction of change, team work and problem solving.

6.4.3 Gain Sharing – linked to performance

Gain sharing came about as a result of asking people to continually improve, of people wanting to know what to improve and how well they are contributing to overall business performance. Gain sharing is a focus on company performance, a mechanism for employee involvement, aligned with commercial strategies, under employees direct control, is focused on teams, and dependent on continuous improvement.

Calculation of the amount received under gain sharing is done via the gain sharing plan matrix and involves performance against a set of KPI's. Each employee receives the same amount of money. The highest received so far has been $1000. It is not a proportional system, i.e. linked to salary.

6.5 Small Engineering Service Company

The company is one of Australia's SME's, and it does not operate a conventional Performance-based Pay system. Instead, it has a bonus system based on customer satisfaction ratings. The operation of a single work group constrains the awarding of reward to individual employees. Performance management and assessment is carried out on the group as a whole and is based on customer survey results and organisational performance indicators such as recall rates and productivity.

The use of a group reward system is due to the fact that everyone's tasks are interrelated with other employees in the group. The approach taken towards a group reward scheme ensures that no employee loses touch with the concept of internal customers and fails to recognise that achieving customer satisfaction is everyone's responsibility not just the people that come in contact with any individual customer. Adjustments are made for any special causes which affect the outcomes achieved. Rewards given for achievement are:

- Monetary bonuses
- Non-monetary bonuses such as weekend away with accommodation paid for.

The company has a philosophy that if employees are nurtured and rewarded for exceptional performance in providing customer service then the whole company will prosper as they are the key to success. All staff is publicly acknowledged where they have done something outstanding which enhances or improves how they do things in its business. Career development in the company is unconventional due to the fact that its organizational structure has only two levels. Career development in the company therefore consists wholly of increasing the skills and capability of its employees in the following areas:

- Multi-skilling
- Improving technical skills
- Improving customer relations
- Improving management capability

Performance appraisal is also applicable to the directors when employees complete Rate Your Organization Questionnaires.

6.6 Investa Property Group

Share-and-unit based Investa Property Trust and Investa Properties Limited united to form **Investa Property Group** (IPG), founded on 1 December 2000. IPG is a property company that is also into residential and commercial development, through its residential division, Clarendon Residential (formerly Residential Developments).

With a market capitalization of $ 3.3 billion, IPG is among the Top 100 organizations in the Australian Stock Exchange. IPG is a global leader in sustainability and was recently rated number one in the Dow Jones Sustainability Index both in the real estate sector and the financial services “supersector”; as well as being one of only three Australian companies to be part of the Global 100 list of sustainable corporations at the World Economic Forum in January 2007.

6.6.1 Financial Particulars

As of December 2006, Investa Property Group had assets under management amounting to $ 7.0 billion; including an Australian commercial office portfolio of $ 4.0 billion and external funds worth $1.7 billion.

6.6.2 Vision and Core Values

Investa Property Group aims to become Australia's most respected real estate company through core values:

a) Customer Focus;
b) Team;
c) Performance;
d) Can Do;
e) Nimble;
f) Accountability;
g) Empowerment;
h) Innovation;
i) Integrity;
j) Every Job Counts; and
k) Personal Growth.

6.6.3 Investor Information

Currently, Investa Property Group has approximately 24,500 security holders, from large institutions to private investors. As customer service is a focus of IPG's management, Investa prides itself on providing up-to-date information (financial results, investor presentations and company announcements) to securityholders.

6.6.4 Sustainability

For the Investa Property Group, sustainability equates to utilizing business strategies and practices to meet the needs of the group and its stakeholders while protecting human and natural resources for future consumption. To achieve this, IPG management integrates measurable, accountable and enduring sustainability practices into their business platform; which results in enhancing shareholder value.

Such practices are targeted at:

a) Fostering innovation;
b) Improving identification and management of risks;
c) Elevating recognition of changes in the business environment;
d) Strengthening employee alignment and motivation; and
e) Reinforcing access to capital through greater disclosure.

Over the past three years, Investa has reduced the utility expenses of its office buildings (electricity by 14%, water by 28% and gas by 37%).It is also recycling more than 50 percent of its office waste, and continues to maintain its 5-star rating (highest rating) from the National Safety Council of Australia. This is an offshoot of Investa’s commitment to achieving workplace health and safety excellence. Investa is at the forefront of utilizing the latest innovations to address corporate responsibility. These innovations (and their respective progress) are chronicled in their annual sustainability reports.

A recent example is the Green Lease Guide, which is a partnership between the Department of Environment and Conservation (NSW); the Institute for Sustainable Futures (at UTS), the coastal cities of Sydney and Melbourne, and Investa. This program involves helping tenants who appreciate productive and environmentally friendly workspaces the value of collaboration.

6.6.5 Corporate Governance

At Investa, corporate governance influences how the organization's objectives are set, how risk is monitored and assessed, and how performance is optimized. This is the responsibility of the Investa Board of Directors.

6.6.6 Risk Management and Mitigation

IPG views the management of risks to its people, assets and all aspects of its operations as a fundamental responsibility. Risk management is to be instilled throughout the organization's day-to-day operations and investment decisions, as directed by the Managing Director and other Senior Managers and carried out by each employee.

Investa will be launching Risk Management Programs throughout the organization, as outlined in IPG's Risk Management Guide. The delegation responsibility for carrying out aspects in these initiatives is also mentioned in the said guide.

6.6.7 Performance Planning and Review

I. Preparing for Performance discussions
II. The Performance Review and Development Plan
III. Planning for the coming financial year
IV. Establishing Performance Objectives
V. Setting Incentive Weightings
VI. Writing Performance Objectives
VII. Establishing Performance Measures
VIII. Writing Development Plans

I. Preparing for Performance Discussions

It is essential for a Manager to ask their team members about the following before launching the performance review and planning process:

a) Clarity of Position Description ;
b) Tasks done or delivered well since the last formal performance review;
c) Areas for improvement (Work Performance);
d) Focus for individual development.

II. The Performance Review and Development Plan

The contents of the Performance Review and Development Plan of the Investa Property Group include the following:

a) Position Description;
   -indicates the Purpose, Key Accountabilities and other Aspects of the team member's job; has a timeframe beyond current year
b) Performance Assessment – Key Behaviors;
   -assessment of how the employee has been going about his work, important in relation to culture, sustainability and growth
c) Annual Scorecard;
   -specific annual targets, consistent with the Position Description, but focused on one year
d) Performance Review – Overall Rating and Comments;
   -overall rating and summary of all aspects of performance (Key Behaviors, Annual Scorecard, ongoing performance and development)
e) Development Plan
   -combines evidence from past performance with career aspirations; necessary for success in current job and future career.
f) *Sign Off

III. Planning for the coming financial year

Manager and team member write down three key projects for the team's next financial year.

IV. Establishing Performance Objectives

A certain process (involving key figures in the organization) is followed in establishing the performance objectives in different levels.

GROUP PERFORMANCE OBJECTIVES (Managing Director)

↓

BUSINESS OBJECTIVES (Group Executive)

↓

SITE/DIVISION/DEPARTMENT OBJECTIVES (Divisional Manager)

↓

INDIVIDUAL OBJECTIVES* (Direct Manager)

*These individual objectives are set to capture the Key Performance Indicators of the team's outcomes.

V. Setting Incentive Weightings

The Incentive Weighting will depend on the role (position) of the employee. The divisions are as follows:

a) Group measure;
b) Business unit measure;
c) State / Department measure; and
d) Personal measure.

VI. Writing Performance Objectives

A Performance Objective must be accurately defined and measurable. They must contain: a) Outcome (what needs to be delivered); and Measures (variables to assess whether the outcome has been achieved)

*Measures will accompany one or a combination of time, budget (costs and or revenue) and standards/compliance variables.

VII. Establishing Performance Measures

Three levels of measurement used to rate each objective in the Annual Scorecard are: Target (reflects the planned outcome); Stretch (reflects a substantially better outcome); and Base (recognizes a reasonably good level of performance but not quite to target).

VIII. Writing Development Plans

Each Development Plan which should be completed by September 30th of each year. When thinking of Development, each manager should consider:

a) issues arising from Objective Setting and Achievement of objectives;
b) previous performance reviews; and
c) feedback and comments (in relation to career aspirations).

For each development action, a range of activities should be utilized (on-the-job training, self-directed learning, projects or secondments, broadened row responsibilities, formal training and education), considering the Divisional budget for training and development.

7.0 Issues and Challenges in Implementing the Performance Based Remuneration among Australian Industries

7.1 Motivating employees, especially when "money is not everything"

Australian culture like other countries still considers financial rewards as the primary motivator of performance. In reality, intrinsic rewards also play a major role in encouraging employees to excel and continue to do their best. At times, one needs to go one step backwards to eventually move double or triple steps in one's career. Example, on the job training to prepare someone for greater responsibility may not necessarily provide monetary rewards immediately but is an important investment for a key performer identified with leadership potential to learn the ropes without an increase. Once the training is completed with flying colors that is the time to reap the possible financial reward.

Australian culture sometimes does not encourage this arrangement as immediacy of the rewards is crucial

7.2 Difficulty in choosing cost-effective measures which reflect actual performance, and also measuring the direct contribution of an individual

The challenge is to be able to measure and link contribution specially of the support group to the bottom line. But some functions are difficult to measure. Like performance counseling done to boost performing employees' morale or to encourage those who can not shape up to ship out can not be linked directly to the bottom line but is an important function of Human Resources in tandem with the line.

7.3 Selecting the appropriate "Pay for Performance" scheme

Just like in training when a training needs analysis is needed, the appropriate rewards scheme is dependent on a particular need of team in an organization and the nature of business the company is in. One needs to also be creative to think of unorthodox schemes to incentivize both the young and old employees

7.4 Finding the balance between intrinsic and extrinsic rewards

Both intrinsic and extrinsic rewards are important but finding the right balance is a continuous challenge. For marketing and the sales people on commission basis, proportion of extrinsic reward over intrinsic may be higher as immediate results will dictates immediate grant of rewards. For other functions, mostly support and those in relatively higher positions expect a 50 50 proportion between the 2.

Since Australia is experiencing an aging population and also allows people to work late in life, up to age 65 or more, the balance becomes more challenging.

7.5 Aligning performance with strategy and use of a formal performance measurement system

Current performance management for some key Australian companies still follow a behavior based performance appraisal system with unclear linkage to corporate objectives and over-all strategy. While others already adopt a performance balance scorecard appraisal system, not everyone has appreciation of the company's over-all's strategy map, leaving the corporate plan only to a few. Thus, the deliverables are not directly linked to the corporate strategy causing misalignment and confusion. Individual performance measures do not necessarily support the corporate goals/objectives

8.0 Summary and Conclusion

The Commonwealth of Australia is currently enjoying its 16th year of economic expansion, second to the U.S. in terms of high material living standards among the G7 countries. Its income ($743.7 billion in 2006), in terms of GDP growth, increases around 3.9% annually which again places it in the top bracket in comparison to other countries.

Australia's soaring economy lies in its advocacy of increasing competition (both domestic and international) by making legislative reforms such as decreasing tariffs, increasing its accessibility to foreign investors, and privatizing public utilities; to the effect of improving the quality of services and products the country is known for. Also, addressing the areas for improvement in the Australian workplace (working conditions, awards and wages, office policies and infrastructure) and providing solutions for such, lead to increased employee satisfaction and labor efficiency. These improvements increase Australia's competitiveness, which, in turn, influences national productivity.

Among Australia's best practices also, as included in this report, are the measures of its progress, business management processes that enhance performance, and performance-based remuneration, and case studies. A hypothetical investment in all listed Australian Business Excellence Award recipients generated a significantly higher return than that of the market benchmark, Standard and Poor's Accumulated Index.

Over the period 1990 to 2003, a portfolio of Business Excellence Award recipients generated a 169 percent return, outperforming the Standard and Poor's Accumulated Index benchmark of 113 percent. The portfolio further grew from A$44,113 invested on 10 March 2003, to A$118,447 by 30 June 2006.
Table 9 below presents a summary of the results (THPR is Total Holding Period Return).

Table 9: 1990-2006 Australian Business Excellence Award Winners versus Standard and Poor's Accumulated Index

	TOTAL A$ Investment 31 October 1990	TOTAL A$ Value 10 March 2003	TOTAL A$ Value 30 June 2006	THPR % Since 2003	THPR % Since 1990
Award recipients	$12,192	$44,113	$118,477	168.58%	871.76%
Standard and Poor's All Ordinaries	$12,192	$21,251	$45,197	112.68%	270.71%

Business Excellence Award-winning organisations outperform
the Australian All Ords by over 3 to 1
(for full Report contact bes@sai-global.com)

The Framework was developed with the objective of describing the principles and practices that create high performing organizations. The criteria could then be used by organizations to assess their performance and drive continuous and sustainable improvement in their leadership and management systems. The Framework is also used as the assessment criteria for the Australian Business Excellence Awards. Through the Awards, organizations can be recognized for their achievements in excellence and improvement.

An organization can use the Business Excellence Framework to:

- Achieve stronger financial performance.
- Create visionary and inspirational leadership.
- Drive innovation in products and services.
- Focus on customer service and satisfaction
- Increase market penetration and revenue.
- Create effective business planning processes.
- Raise productivity and reduce operating costs.
- Engage teams in the process of improvement and increase staff satisfaction.
- Improve its decision-making capabilities.
- Increase its capacity to manage change.
- Be recognized for its achievements in excellence and best practice through the Australian Business Excellence Awards.
- Demonstrate to key stakeholders (i.e. customers, shareholders, boards, community, employees) that it has a structured and systematic approach to improving and achieving best practice and excellence.

Additionally, the BEF provides an umbrella under which a number of business initiatives can be integrated to form one coherent, cohesive organizational system. Business initiatives that fit comfortably within the BEF include the following:

- ISO 9000 series
- Six Sigma
- Balanced Scorecard
- Enterprise Resource Planning
- Triple/Quadruple Bottom Line reporting
- Corporate Governance
- Risk Management

In line with the above, it is important for organizations to link payment of remunerations to performance measurements. The case studies demonstrate that performance based remunerations will attract, retain and motivate employees while aligning to organizational objectives and excellence. Pay for Performance systems are typically compensation plans in which the pay opportunities of employees are indexed both to the organisation's and the individual's performance.

Pay for Performance systems tend to be self-funding and have the following objectives; to increase the profitability of the organisation, to fairly share profits with owners, customers, and employees, and to create a highly responsive open reward system. Another type of pay-for-performance programme is called Gainsharing which is used to motivate employees to use their skills towards boosting company performance. Gainsharing is used to award a proportion of the savings, or profits, made by an organisation back to its employees.

The sum of all the rewards given to employees comprising both monetary and non-monetary compensation are commonly called "Total Rewards" packages, which in addition to pay, bonuses, and incentives include; core benefits such as health, dental and vision, motor vehicles for private use; recognition; pensions; training and development, career paths and; improvements to the workplace environment itself.

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