



CROP Agencies

Report on the Banding of CEO Roles

**Prepared by Dennis O'Callaghan
Strategic Pay Limited
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1 Background

The issue of CEO banding was first raised by Strategic Pay and PricewaterhouseCoopers (PwC) in the 2009 Triennial Remuneration Review. Prior to 2009, all chief executive roles across the Agencies were sized on the basis of the Mercer CED job evaluation system and paid in Band M of the CROP scale. In practice, the roles had been sized differentially by those responsible for the original job evaluations, with SPC's CEO role sized above those in the other Agencies. Strategic Pay's interim evaluations of the CEO roles delivered a similar outcome.

The Consultants to the Triennial Review recommended *"that the agencies treat the Chief Executive roles as a separate "band" supplying remuneration ranges for them based specifically on their job size."* There was some discomfort by the CROP Executives with the Consultants' proposal, and the CROP Executives asked the Working Group on Harmonisation (WG) to consider this further and provide options for their consideration.

In response to this request, the WG presented a paper to the special meeting of the CROP Executives in February 2010. The CROP Executives discussed the issue of the CEO banding and requested the Consultants to build on the work done so far, and prepare a paper for their consideration in June 2010.

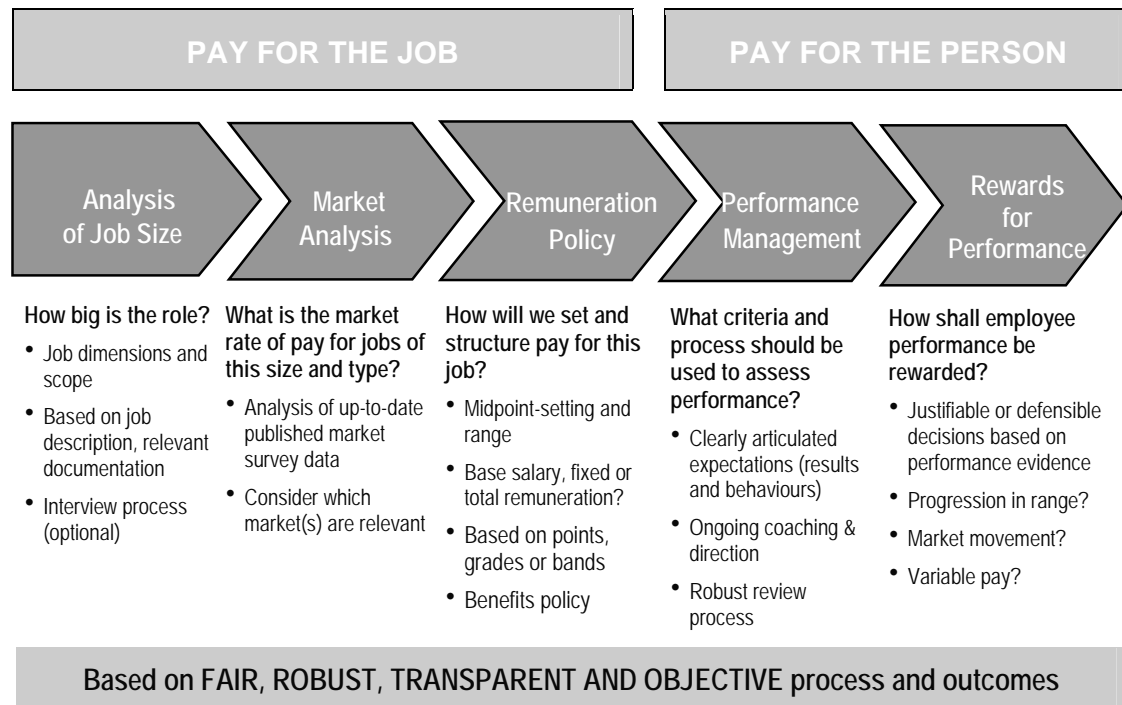
The purpose of this paper is to provide a set of recommendations for consideration by the CROP Executives and their governing bodies regarding

- the job evaluation of chief executive roles;
- how they should be banded for pay purposes;
- how market data should be applied and midpoints set;
- how performance should be managed; and
- how the annual salary review should consider the performance of the chief executive.

2 A Framework for CEO Remuneration and Performance

The remuneration of the CEOs requires a policy framework that covers two main areas and within those five key processes as set out in Figure 1.

Figure 1: Managing Pay and Rewards



The elements at the left-hand side of the diagram relate to how pay is structured around the job. The outcome of these three elements will be a market-related rate for the job and associated pay range to reflect performance. Pay will be delivered as a fixed or total remuneration package or as base salary with additional benefits paid as conditions of service.

The final two elements involve aligning employee rewards with performance, and how those rewards are structured, i.e. based on salary progression, variable pay or a mix of the two.

This is the essence of the CROP remuneration system and should underpin how the governing bodies approach the setting of CEO remuneration.

Underlying this is the need for an executive remuneration policy.

Best Practice

Jenny Seeto, Managing Partner of PricewaterhouseCoopers Fiji, has significant experience in job evaluation for organisations in Fiji and other Pacific islands. She describes best practice with respect to remuneration for CEOs as follows:

- a. CEO job evaluation is conducted and discussed with the company's board (or a sub-committee of the board) in order to finalise the job points;
- b. Based on the job points of the position, the market data is obtained;
- c. The market data provides the mid-point of a base salary, fixed or total remuneration range which is described as +/- 20% of the mid-point. This range then provides a structure for CEO remuneration;
- d. On appointment, the CEO would negotiate with the board (or sub-committee of the board) and a starting salary, and relevant terms and conditions, agreed;
- e. Movement through the salary scale would then be based on annual performance review through some predetermined methodology;
- f. Changes to the salary scale would be in accordance with the same process used for the rest of the organisation's salary scale grades (i.e. annual market data review);
- g. A review of the job evaluation would normally occur before recruitment of a new CEO.

This approach is in use in approximately 60 organisations (including government departments) with which PwC works.

John McGill, now Managing Director of Strategic Pay, who co-authored the 2009 Triennial Review report, confirms that this is the predominant practice in Australia, New Zealand and internationally. He estimates that Strategic Pay is involved with 60 to 80 organisations a year that undertake a process similar to that described above.

3 Analysis of Job Size

3.1 Application of SP10 to CEO Roles

The job evaluation of CEO roles was undertaken by Strategic Pay and PwC Fiji in 2009. Each role was sized according to the 10 factors in the Strategic Pay SP10® system. The SP10® factors are set out in Appendix A.

Job evaluation provides a language about work. All job evaluation systems comprise a series of factors. The factors are effectively a series of language ladders, or criteria, such as education and experience, for assessing job content and forming a judgement about the level or degree to which that factor is required in the job. Each level has associated points. The factors are designed to encompass the major elements considered important in the market when assessing job size, and hence most job evaluation systems will include factors such as education and experience, problem solving, impact, interpersonal skills, although they may label them differently.

In this way, job evaluation is a tool for analysing all manner of jobs in widely differing organisations.

In the case of CEOs and senior executives, organisation size is an additional factor that needs to be taken into account. This recognises that the dimension and scope of these roles is impacted by the organisation's size, and that small not for profit organisations are very different in size, shape, and ultimately complexity, than a government ministry or a large multi-national. Rather than constituting an additional factor, most job evaluation systems build this dimension into the wording of the factor language, so that the highest levels in some factors, such as Scope and Authorities, are only available to the CEOs or senior executives in very large, diverse, multinational organisations.

The SP10 system recognises this factor by distinguishing three sizes of organisation:

- Small organisation - Up to NZ\$55 million turnover and/or up to 200 employees
- Medium organisation - NZ\$55 million to NZ\$270 million turnover and/or 200 to 1000 employees
- Large organisation - NZ\$270 million to NZ\$3 billion turnover and/or over 1000 employees.

These definitions are used to 'fine tune' the scores within the factors where they are applied.

On this basis, SPC meets the criteria for a medium-sized organisation, PIFS in the small to medium range, with all the other Agencies ranking in the small category. This does have a bearing on how some of the factors are scored for the SPC role, such as People Management. In the Mercer system, the Impact chart was applied to recognise these distinctions.

3.2 Review of CEO Evaluations

We are conscious that changes have occurred for some of the CEO roles since the evaluations were conducted early in 2009. We are also conscious that the evaluations have not been finalised with the governing bodies. It is generally our practice to discuss the CEO evaluation with the governing body, in the form of a Board or Council, or its representative, generally the Chair.

The recent review of executive roles in Bands 14-16 and our on-going work with the CROP Agencies has afforded the Strategic Pay consultants a strong understanding of the chief executive roles across the CROP. We have had access to job descriptions and wider documentation across the Agencies.

While we had envisaged a process of telephone interviews with each CEO to ensure we have a solid grasp of the nature and scope of each CEO role, not all incumbents have been available. Instead, Dennis O'Callaghan and John McGill, the principals of Strategic Pay and two of NZ's foremost job

evaluation specialists, have analysed the five CEO roles at length. We have reviewed the job descriptions supplied and other relevant documentation, as well as the job evaluations undertaken in 2009. We have examined our assumptions in the light of the SP10® job evaluation manual as well as appreciating the nuances of roles operating across the Region.

We have been mindful of feedback from the CROP chief executives about their own roles and the nuances that distinguish these roles from typical public service roles –

- The governing body, and in particular its Chairperson, operates differently in some respects and meets less frequently than a typical Board of Directors or elected public sector Council or Board.
- Stakeholder management, including a requirement for the highest levels of interpersonal skills for advocating, influencing, negotiating and diplomacy across the Leaders and senior Government officials of member countries and territories as well as with donors, development partners, and other related parties. This is a regular and exacting element of these roles and is reflected in the manner in which we have scored these roles in the Interpersonal Skills factor.
- The programmes delivered by the CROP Agencies have a significant social and economic impact across the region. While impact of this nature is not specifically measured in the Impact/Results of Decisions factor in the SP10® system, we have taken this into account when assigning the factor scores.

Figure 2 below outlines the outcome of this analysis:

Figure 2: Proposed CEO Job Evaluations

Education	Experience	Complexity	Scope	Subtotal	Problem Solving	Freedom to Act	Impact/Results of Decisions	Interpersonal Skills	Authorities	People Management	Total Points
Director-General SPC											
J 152	L 230	D 55	F 30	325	F 175	F 152	E 3 152	F 5 115	E 2 66	F 2 115	1482
Secretary-General PIFS											
J 152	K 200	D 50	F 30	282	F 175	F 132	E 3 152	F 5 132	E 2 66	E 2 76	1387
Director SOPAC											
J 152	K 200	D 50	F 30	282	F 152	F 132	E 2 115	F 5 115	E 2 66	E 2 76	1290
Director SPREP											
J 152	K 200	D 50	F 30	282	F 152	F 132	E 2 115	F 5 115	E 2 66	D 2 57	1271
Director-General FFA											
J 152	K 200	D 50	F 30	282	F 152	F 132	E 2 115	F 5 115	E 2 66	D 2 57	1271

Recommendation

1. That the Consultant's job evaluation results be received and recommended for adoption by each governing body.

4 Market Analysis

We recommend that the market referencing for the CEO roles be applied in the same manner as for Bands 1-16, i.e. on the basis of the average of the base salary data derived from three reference markets as in the past:

- Median of the New Zealand Public Service
- Median of the Australian Public Service
- Upper quartile of the Fiji All Organisations sector.

New Zealand Data

Data on the New Zealand public service is based on the Strategic Pay database, and in particular the March 2010 Central Government survey, released in April and published annually. This covers 50 State Sector organisations, primarily Government departments and ministries/agencies, and a sample of 14,657 employees. This survey is now a pre-eminent source of data on Central Government remuneration levels. The median base salary is used as the CROP's market reference point.

Australian Data

The Australian data is sourced from the Australian public service (APS) rates using median base salary data in the publicly available 2008 APS Remuneration Survey, prepared by Mercer Australia. This annual survey of federal public service rates relies on data collected in December 2008, with the full report published in July 2009. It is set out as a series of broad bands, each derived from job sizing using the Mercer Cullen Egan Dell job evaluation system as far back as 2001.

In order to access and analyse this data for the current study, we have a correlation framework to convert the Mercer CED points to SP10® format. This framework is illustrated in the following table:

CED	SP10
1100	1185
1150	1251
1200	1318
1250	1385
1300	1448

The December 2009 APS Survey has not yet been released. Therefore, we have updated the 2008 APS data on the basis of estimated movement in the median data to December 2009. Our estimate is guided by information from the Department of Education, Employment and Workplace Relations (DEEWR), who reported an average annualised wage increase (AAWI) in all public sector wage agreements concluded in the September 2009 quarter of 4.0%.

In the absence of the December 2009 APS Remuneration Survey, and for the purposes of this report, an increase of 4.0% has been applied to the 2008 APS Remuneration survey data.

Fiji Data

As in earlier years, data on the Fiji All Organisations market has been sourced from the PwC Fiji database, or more particularly the April 2010 All Organisations survey. Upper quartile data is used in this case as the CROP market reference point for deriving the averaged scale.

Recommendation

2. That the remuneration of the CEO roles be related to the average of the same three reference markets as is used for all other CROP roles.

5 Remuneration Policy

This section of the paper relates exclusively to the development of a pay structure for the CEO roles, loosely referred to as “banding” in earlier papers on this subject.

It is unfortunate that the term “banding” is used in conjunction with developing a pay structure for CEO roles. The outcome of a job evaluation exercise is a points total for every job. It is common practice to cluster these points into groupings or “bands” for pay purposes. e.g. all roles between 130 and 150 points are grouped together as Band A in the CROP remuneration system. In this manner, all the roles below the CROP CEOs have been sized and placed into one of bands 1-16.

Hence the term “band” refers to a cluster of points. In practice, neither Strategic Pay nor PwC has encountered the notion of a pay “band” for CEOs. However, the CROP Agencies are unique in their bold initiative to harmonise remuneration across a number of discrete organisations, and that does beg the question of how that applies to the CEOs.

5.1 Why Change the Status Quo?

The current M banding of CROP CEO roles is highly unusual and out of step with market practice.

The CEO role is almost always treated separately when Strategic Pay or PwC conduct a remuneration study. This is because the remuneration issues around the CEO role are often focussed on the appointment and management of a particular type of individual relevant to the organisation at that stage of its development. While the CEO is generally the “employer” of all staff below their own level, the CEO is employed by and reports to a multi-member Board or governing council. Governance issues alone make the CEO role unique and in that sense it is appropriate that they lie outside and above the banding model for other staff.

Both Strategic Pay and PwC use job evaluation as the starting point for these roles. Market data is applied to the job points for each role to determine a 100% “midpoint” and associated range.

The composition and shape of the CROP has changed. When full implementation of RIF occurs, only four Agencies will be part of the CROP remuneration system, and SPC is demonstrably larger than any of the others, and, we understand, will continue to grow.

The new CROP banding model has created nine bands for the staff previously on the I-M Professional scale. The new banding model provides for narrower pay bands and hence allows the Agencies to recognise that not all Advisor roles are necessarily the same size and hence in the same pay band. The same holds true for the senior executive roles, which now fit across bands 14-16. The consultants believe the same logic should hold true for the CEO roles.

The new CROP remuneration system represents a major break from the past. A new Job Families model, underpinned by the SP10® system, has been introduced for evaluating roles. A new banding model has been introduced, with progression in range subject to performance. Revised performance systems are being introduced across the CROP and new pay linkages. Retaining the status quo, one pay band for CEOs, would be highly anomalous in the context of the work to date.

5.2 The Options for CEO “Banding”

In the 2009 Triennial Review report, the Consultants’ noted the “*wide disparity in organisation size between the agencies*”. This disparity results in a discernable difference in job size reflecting the different scope of operations, the resources under their management (breadth) and the associated complexity and impact of the different roles. Hence, the Consultants recommended that the CEO roles should not be grouped together, but should be treated individually and a market rate derived for each role based on job points.

We recognise that this recommendation, and the resulting exclusion of the chief executive roles from the banding model developed for other CROP staff, has created a level of discomfort and uncertainty for the chief executives and their governing bodies. As requested by the chief executives at their February 2010 meeting, the Consultants have reviewed the Triennial Review recommendation. We have taken into consideration the views of the Working Group, as reported to the CROP chief executives in February 2010. Their report is attached as Appendix 2.

Broadly speaking, the Working Group identified two alternatives to the separate banding of each CEO role:

Alternative 1

“To create two bands for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 and 18 would be reserved for the CEOs that would provide the opportunity for some differentiation recognising the discernable difference in job size....”

Alternative 2

“To create one band for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 would be reserved for the CEOs although it would not provide the opportunity to differentiate due to the job size differences.”

5.3 Proposed Model

The Consultants have reviewed their 2009 recommendation in light of the feedback from the chief executives and the Working Group, but also recognising that the principle of harmonisation should be applied equally to the chief executive roles as it is for other CROP staff.

The 16 band model approved by the CEOs at their February meeting provides a compelling logic for the banding of CEO roles. With the exception of bands 9-13, where the bands were narrowed to provide for additional flexibility in the job families, there is a relatively consistent progression of around 15-16% in the job points between each band.

We propose to apply the same principle to the chief executive banding, thereby deriving two additional bands, as outlined below:

Figure 3: Revised CROP Banding Model

Band	From	Midpoint	To	Band Width	% Difference
1	130	140	150	20	-
2	151	162	173	22	15.7%
3	174	187	200	26	15.4%
4	201	216	231	30	15.5%
5	232	250	267	35	15.7%
6	268	288	308	40	15.2%
7	309	333	356	47	15.6%
8	357	382	406	49	14.7%
9	407	431	455	48	12.8%
10	456	484	512	56	12.3%
11	513	544	574	61	12.4%
12	575	609	642	67	11.9%
13	643	686	728	85	12.6%
14	729	785	840	111	14.4%
15	841	903	965	124	15.0%
16	966	1048	1130	164	16.1%
Proposed CEO Bands					
17	1131	1216	1301	170	16.0%
18	1302	1411	1520	218	16.0%

All figures are expressed in SP10@ points

On this basis the CROP CEO roles would be sized as follows:

	Role	JE points
Band 17	Director-General FFA	1271
	Director SPREP	1271
	Director SOPAC	1290
Band 18	Secretary-General PIFS	1387
	Director-General SPC	1482

5.4 Proposed Midpoints

The market referencing assumptions outlined in Section 4 of this report have been applied, and the average of the three markets has been calculated to each of the three reference markets to derive the following midpoints for 2011.

Figure 4: Market Data as at May 2010

(all figures expressed in base salary)

Strategic Pay SP10 Points				March 2010 Market Data - SDR			
Band	From	To	Midpoint	NZ Central Govt Median as at Mar 10	Australia APS Median as at Dec 2008	Fiji All Orgs UQ as at April 2010	Average
17	1131	1301	1216	119,005	104,972	49,644	91,207
18	1302	1520	1411	139,081	112,829	65,566	105,825

These mid-points would result in salary ranges (+/- 20% of the mid-point) as follows:

Band	Minimum	Mid-point	Maximum
17	72,996	91,207	109,448
18	84,660	105,825	126,990

In our view, this scale will provide each of the Agencies with a fair and equitable market framework for the recruitment and remuneration of the chief executives. Based on the 80-120% range recommended for the harmonised CROP scale, there is sufficient overlap for a high performing chief executive in Band 17 to be paid at or above the same level of a newly appointed CEO in Band 18. That is a key principle of modern salary administration.

Recommendation

3. That the CEO roles be assigned to new bands 17 and 18 as proposed by the Consultants in Figure 3; and that the market midpoints outlined in Figure 4 be applied effective from 1 January 2011 or at the applicable salary review date for the chief executive in each Agency.
4. That the market mid-points be reviewed annually through the annual Market Data Review process along with those of the other CROP roles.

6 Performance Management

The performance review process for the CEOs varies across the agencies. For example, most CEO review processes enable the CEO (or a representative) to present a summary of outcomes or results either to the Chair, or the governing body, or a sub-committee of the governing body. But there is little opportunity for most CEOs to receive feedback from members. Since the agencies are looking to promote best practice performance management for their staff, it might be timely to do the same for the CEOs.

In FFA's case the Director-General's performance review is conducted by a sub-Committee of FFC. The process includes 360 degree feedback, which is sought from the Director-General's direct reports as well as from members and key stakeholders.

The sub-committee approach provides a robust and effective mechanism for performance review and feedback. This is consistent with best practice in governance regimes. The sub-committee could also have an additional role during the appointment of a new CEO – to review the job description and job evaluation before recruiting a new CEO.

Recommendation

5. That each governing body review its current approach to managing and reviewing CEO performance with a view to implementing process and documentation aligned with best practice and in accordance with the performance management of other Agency staff.

7 Rewards for Performance

The Triennial Review report recommended the development of performance-related pay mechanisms for all staff and an end to the step-based scale in the former system. Strategic Pay has been working with each of the Agencies to implement performance-related pay, including the use of pay matrix guidelines to give effect to the performance zones identified in Figure 5 below.

Figure 5: Movement in Range Depends on Performance

High Performance zone – 110-120%	\$ Maximum
Adding Value zone – performance consistently exceeds requirements	
Competence zone 98-102%	Midpoint Range
Developing zone (appropriate for new recruits, CEO tracking to full competence, marginal performance) – 80-98%	\$ Minimum \$ Minimum

Over time, it is the intention of each Agency to ensure that remuneration for each employee is positioned in the appropriate zone above.

We recommend that the chief executives be treated in the same manner as for other staff, not simply in the interests of harmonisation but also to give effect to key principles such as pay fairness in relation to performance.

We have provided the following guidelines to assist the governing bodies to implement performance-related pay movement for the chief executives:

- The Chief Executive's performance shall be reviewed annually at a mutually agreed time, but ideally within two months of the start of the business year, by the governing body, or the Chair or a sub-committee with delegated authority to conduct the review and determine the overall level of performance in the year under review.
- Performance shall be reviewed according to performance documentation agreed between the chief executive and governing body, with input and agreement from the chief executive officer. The chief executive's performance shall be reviewed against each of the agreed measures and assessed as Exceeds, Fully Effective, On Track or Needs Improvement.
- The governing body shall review the chief executive's remuneration package as soon as possible after completion of the performance review, based on the following guidelines:

Figure 6: Sample Guidelines for Salary Movement

Performance Outcome	Salary Review
Performance issues exist, and a plan is in place to address these	Hard to justify an increase, even for market movement. 95% of new midpoint should be the ceiling for any increase. Governing body discretion.
Competent performance, as evidenced by overall performance ratings of Fully Effective for both Expected Results and Behaviours	Target payment should be around the midpoint (98-102%). Market movement if already at that level, otherwise performance movement as well. If already above that level, Governing body may elect to withhold all or part of the market movement.
Performance above the requirements for the role, as evidenced by overall performance ratings of Exceeds or Outstanding for either or both Expected Results and Expected Behaviours	Package should be in the range of 102% to 120% of the midpoint. Market movement plus consideration of a performance movement. At the upper levels any percentage increase would need to be supported by demonstrable evidence of added value for the organisation and wider stakeholders from the CEO's performance.

- Any change in remuneration shall apply from the Agency's operative salary review date.

Recommendation

6. That the harmonised CROP remuneration system relating salary progression in range to performance be applied to the chief executives, with each governing body reviewing its CEO's remuneration on an annual basis in accordance with the guidelines above.

8 Conclusions

The work of the CROP Agencies over the past decade to harmonise their remuneration policies and practices, both for staff and the chief executives, is probably unique in the world of remuneration. In preparing this report and identifying the recommendations, we have been mindful of the need to balance remuneration best practice against the commitment of the Agencies to harmonisation and the associated Guiding Principles.

We have drawn the conclusion that there remains a place for harmonisation in the remuneration of the chief executives. To that end, our recommendations all have a strong commitment to harmonisation:

- The two band approach recognises that both similarities and differences exist in the “size” of the CEO roles, and have been derived using the same logic as the 16 bands for all other CROP roles;
- The market referencing approach retains the commitment of the CROP Agencies to market comparisons from three chosen markets, and is undertaken in the same manner as for Bands 1-16; and
- The recommendations on performance and the linkage to remuneration are consistent with the approaches now being adopted by each CROP Agency as they move to harmonise performance systems and the linkage to performance, as declared in the guiding principles, and as agreed by the CROP chief executives at their February 2010 meeting.

We believe that adoption of the recommendations in this report will provide a workable, fair and defensible structure for setting and managing CEO remuneration and performance.

APPENDIX A:

The Strategic Pay SP10® Job Evaluation System

This job evaluation system was first development by Pricewaterhouse and was acquired by Strategic Pay in 2004. It has a wide following in the public and private sectors, particularly at executive level, and with its associated linkage to executive remuneration data. It suits the executive scene and environments where points differentials are considered important.

The ten factors are:

1. Education

The level of education required to perform the functions required of the position, however obtained.

2. Experience

The length of practical experience and nature of specialist or managerial familiarity required. This experience is in addition to the knowledge required in Factor 1.

3. Complexity - measured in terms of:

- The time taken to learn and adjust to the specific job requirements.
- The level to which the job function is defined and follows established and predictable patterns.
- The thinking challenge required to adapt to rapidly changing circumstances and innovative or conceptual thinking needed to initiate new corporate directions.

4. Scope of Work

The breadth or scope of the position (i.e. the span of influence in the organisation).

5. Problem Solving

The nature and complexity of problem solving expected of the job. This considers the judgement exercised, availability of rules and guidelines to assist in problem solving, the degree of analysis and research required, and the originality, ingenuity or initiative required to arrive at a solution.

6. Freedom to Act

The extent of supervision, direction or guidance imposed on the jobholder and the freedom the jobholder has to take action.

7. Impact / Results of Decisions

The level of discretionary decision making delegated to the job holder.

8. Interpersonal Skills

The requirement for interpersonal skills in dealing with other personnel and external contacts.

9. Authorities

Authority levels expressed in terms of routine expenditure and investments, granting loans, and employing and dismissing staff.

10. People Management

The responsibility for the control and management of staff within the organisation, including direct line management, and other forms of supervision, direction, co-ordination or influence over other staff.

APPENDIX B: Working Group Paper on CEO Banding February 2010



PACIFIC ISLANDS FORUM SECRETARIAT

PIFS(10)CROP.

COUNCIL OF REGIONAL ORGANISATIONS IN THE PACIFIC

Noumea, New Caledonia

4th February 2010

CEO BANDING

Purpose

The purpose of this paper is to provide additional information for consideration by the CROP Executives regarding the proposal in the 2009 Triennial Remuneration Review to treat the Chief Executive roles as a separate band.

Background

3. The 2009 Triennial Remuneration Review was undertaken by PricewaterhouseCoopers (PwC) and Strategic Pay (the Consultants). Their review report was presented to the CROP Executives at their meeting in June 2009.

4. In their report, the Consultants proposed that a new banding (salary scale) model be considered by the CROP agencies. In addition, they recommended *“that the agencies treat the Chief Executive roles as a separate “band” supplying remuneration ranges for them based specifically on their job size.”*

5. There was some discomfort by the CROP Executives with the Consultants’ proposal, and the CROP Executives *asked the Working Group (WG) to consider this further and provide options for their consideration.*

6. This paper outlines in more detail the Consultants’ proposal and how this might work in practice, and provides a number of alternatives for consideration by the CROP Executives. It also proposes developing guidelines, or regulations, for the appointment, remuneration and terms and conditions of the CROP CEOs.

Why Change the Status Quo?

7. The proposed new banding for staff is based on the premise that jobs of similar size should be grouped together and should be paid at similar levels of pay. This logic holds for the CEOs – or more to the point, there is little to suggest that this logic should not hold for the CEOs.

8. According to John McGill, Strategic Pay, the CEO’s role is often put into a band of its own (and in some organisations, the senior management team as well). This is because the remuneration issues around the most senior executives are often focussed on the appointment and management of a particular type of individual relevant to the organisation at that stage of its development. Because the CEOs stand apart from the rest of the organisation, they have a separate band attached to the job points of that job.

9. In this case, Strategic Pay note that we are dealing with a group of organisations, which while they are different with respect to their mandate, they share common overall goals and philosophies and so, they argue that the CEOs could be treated in a similar manner to each other, but only to a point.
10. In the 2009 Triennial Review report, the Consultants' noted the "*wide disparity in organisation size between the agencies*". This disparity results in a discernable difference in job size reflecting the different scope of operations, the resources under their management (breadth) and the associated complexity and impact of the different roles.
11. Based on the premise that jobs of similar size should be grouped together, this discernable difference in job size suggests that CEO roles should not be grouped together. This argument forms the basis of the rationale of the Consultants' recommendations.
12. Furthermore, the Consultants' view their recommendations as representing best practice.

Best Practice

13. Jenny Seeto, PwC, has significant experience in job evaluation for organisations in Fiji and other Pacific islands. She describes the emerging best practice with respect to salaries for CEOs as follows:
 - a. CEO job evaluation is conducted and discussed with the company's board (or a sub-committee of the board) in order to finalise the job points;
 - b. Based on the job points of the position, the market data is obtained;
 - c. The market data provides the mid-point of a salary range which is described as +/- 20% of the mid-point. This range then determines the salary range for the CEO;
 - d. On appointment, the CEO would negotiate with the board (or sub-committee of the board) and a starting salary agreed;
 - e. Movement through the salary scale would then be based on annual performance review through some predetermined methodology;
 - f. Changes to the salary scale would be in accordance with the same process used for the rest of the organisation's salary scale grades (i.e. annual market data review);
 - g. A review of the job evaluation would normally occur before recruitment of a new CEO.
14. The approach is in use in approximately 60 organisations (including government departments) with which Jenny works.
15. John McGill, Strategic Pay, confirms this practice is also becoming predominant in Australia, New Zealand and internationally. He estimates that Strategic Pay is involved with 50 to 80 organisations a year that undertake a process similar to that described above.

Translating Best Practice into Practice

16. The CEO job evaluations need to be validated, and a mechanism to do so needs to be established. To align with best practice, the CEOs may consider it appropriate to ask a sub-committee of their governing bodies (similar to FFA's sub-committee) to engage with the Consultants to validate the relativity of the CEO job evaluations. It would be preferable that this sub-committee represent all governing bodies.
17. Once the job points for each of the CEO positions have been finalised, these would be used as the "midpoint" and the monetary value of this mid-point would be assigned based on the average of the three reference markets (in exactly the same way as current practice). The upper and lower limits of the range, for each CEO position would be determined as +/- 20% of the mid-point. Thus, essentially, each CEO position would have its own salary grade.
18. The process of annual assessment of the salary scale to the reference market data would continue, and any recommendations to increase the CEO's salary scale, if necessary, would be put to the relevant governing body along with any recommendations regarding staff salary scales, in exactly the same way as is current practice.

19. The WG notes that the performance review process for the CEOs varies across the agencies. For example, most CEO review processes enable the CEO (or a representative) to present a summary of outcomes or results, but there is little opportunity for most CEOs for feedback from members. Since the agencies are looking to promote best practice performance management for their staff, it might be timely to do the same for the CEOs. The sub-committee (paragraph 15) might also provide the mechanism for performance review and feedback.

20. In summary, once the job size of each of the positions has been finalised, this would be used to fix a salary band for each CEO position which would be reviewed annually with the staff salary scales. The job description and job evaluation (and thus the “mid-point” for the salary scale) would be reviewed before recruiting a new CEO (it would be preferable for the same sub-committee to undertake this review).

Alternative 1

21. An alternative to the Consultants’ proposal could be to create two bands for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 and 18 would be reserved for the CEOs that would provide the opportunity for some differentiation recognising the discernable difference in job size.

22. This would ensure that agencies were well placed in the future to attract and retain the appropriate calibre of CEO with the appropriate skills and experience to meet those required to lead and manage the agencies. It would also provide opportunities for movement through the grades in order to reward individuals based on performance during the term of their contract.

Alternative 2

23. A third alternative to the Consultants proposal would be to create one band for the CEOs that would sit on top of the banding model proposed for staff. Thus, band 17 would be reserved for the CEOs although it would not provide the opportunity to differentiate due to the job size differences.

24. This may limit the agencies in the future in their ability to attract and retain the appropriate skills and experience for CEOs for some of the agencies. Alternatively, it may mean that salaries may need to be negotiated at the top of the band, limiting options to reward incumbents based on performance outcomes during the term of their engagement.

Summary of Alternatives

25. The WG have discussed the alternatives identified above with the Consultants. Both Strategic Pay and PwC stand by the recommendations of the 2009 Triennial Review Report and believe that each CEO should have their “own band”.

26. The 2009 Triennial Review recommendation is based on the principles of best practice - that jobs of a similar size should be paid at a similar rate in accordance with internal and external relativity. The recommendation also considers the principles of fairness and equity. In the case of the CEOs, these principles need to be considered in the political context.

27. The WG supports the Consultants recommendations because these recommendations reflect best practice. Of some concern to the WG, is the possibility that members perceive “salary blow-out” for the CEOs and this needs to be balanced against the political sensitivities.

28. One way of maintaining the principles of best practice while managing the political sensitivity would be to develop a benchmark for the CEOs salaries which is pitched against the lower quartiles of the reference markets rather than the medians as is the case for staff.

29. The WP recommends Alternative 1, as the most appropriate alternative to that of the Consultant’s proposal. This alternative follows best practice in so far as it provides some differentiation for the differences in job size.

30. The WG does not support alternative 2 because it does not represent best practice due to the discernable differences in job size of the positions under consideration.

Conclusions

31. It is unusual in human resource management terms for CEOs to have input into this level of detail regarding their remuneration. Generally, best practice would be for the Strategic HR Manager of an organisation to work closely with the board (or the board's sub-committee), perhaps in conjunction with a consultant, to determine the approach to take with respect to the CEO's salary structure. The agreed approach would normally be approved by the board **before** appointment of the CEO.

32. The CROP CEOs may prefer to suggest to their governing bodies that a governing body sub-committee be convened to assess the options presented in this paper. Representatives of the CROP Working Group could be nominated as a proxy for the "CROP Strategic HR Manager" to work with the sub-committee, supported by the Consultants as necessary. It is envisaged that this sub-committee be the same as that referred to in paragraph 15 above.

Other Observations

33. The WG has been progressing a number of the 2009 Triennial Remuneration Review recommendations. In doing so, it is obvious that the agencies have a number of remuneration policies and regulations which clearly apply to the CEOs, a number which the CEOs are clearly excluded from, and many for which no clarity exists. Few of the agencies have a consolidated, clear set of regulations relating to appointment procedures, remuneration, terms and conditions and other HR practices as they relate to the CEOs.

34. For clarity and transparency, the WG suggests that a set of regulations pertaining to the CEOs be developed. These regulations would in the first instance, be a collation all the current regulations, policies, procedures and governing body decisions pertaining to the CEOs' employment. If obvious differences between the agencies become apparent as a result of this process, this document could form the basis of a recommendation to governing bodies on where the governing bodies could harmonise with respect to their CEOs. The sub-committee mentioned above, may be useful in this respect.

Recommendations

35. The CEOs are invited to **discuss** the contents on this paper in closed session with Dennis and Jenny at the meeting in February 2010, and **agree** a way.

36. The CEOs are invited to **agree** that the WG progress development of a consolidated set of regulations pertaining to the appointment, remuneration, terms and conditions and other HR practices of the CEOs.