

the Oppeus Oracle



Strategic Leadership Advisors

Introduction

In this time of heightened concern about climate change, we draw our clients' attention to the ever increasing impact of the "Talent El-Nino". This growing "drought" is particularly starting to hit the senior executive and director ranks as the retirement phase of the Baby Boomers begins.

Even in this "Talent El-Nino" OPPEUS has been fortunate to secure some great talent and experience, which can only continue to benefit our clients. Our rapidly expanding firm has grown by over 60% in the past year.

As *Strategic Leadership Advisors*, we continue to develop our services in each of our primary domains of Talent, Organisation, Governance and now, Remuneration.

The **Governance** practice has been busy with key projects including conducting Fit and Proper Reviews of individual directors under the APRA rules and conducting Board Reviews.

The AICD's recent publication *Evaluating Board Performance – A Guide for Company Directors* adds to the body of work on the value of Board Reviews. The last edition of the OPPEUS ORACLE explained the value of external benchmarking as part of a comprehensive review process. Quantitative Board surveys, which enable the comparison with other relevant organisations, combined with qualitative insights, have been demonstrated to add value to Boards and to Directors.

Our **Remuneration** practice has been further strengthened by the addition of an astute remuneration expert, **Jasper Coghlan**, who spent 11 years as *Head of Remuneration for Asia Pacific* for **Ford Motor Company**. His wealth of knowledge in global remuneration practices is now available to benefit our clients.

Boards and Remuneration Committees seeking independent advice on Executive and Director remuneration will benefit from Jasper's objective insights. Some key Remuneration Governance issues are examined in this newsletter.

Significantly our **Talent** (Executive Search) practice continues to grow with many excellent appointments in recent months. Of particular note, OPPEUS was pleased to assist **Medibank Private** in the appointment process for the role of Chairman of the Board.

In our **Organisation** practice, we have recently been facilitating the feasibility study of another merger of two leading organisations.

Culture is a key component to any successful merger or acquisition. It is often overlooked – leaving parties wondering why they haven't realised their merger goals. It is important to understand the unique and the common elements of each culture and how to leverage these into a newly aligned culture consistent with the new entity's strategy.

We encourage you to review this informative edition of the OPPEUS ORACLE. Naturally, we would welcome a discussion about the possibilities of assisting you to achieve your future goals.



Peter Kronborg
Executive Chairman



Nick Varigos
Managing Director

Engaging New Talent in the “Talent El-Nino”

The “Talent War” was identified by McKinsey in the mid-1980s. In our view it is rapidly becoming the “**Talent El-Nino**” particularly at the Executive level.

Organisations are increasingly suffering severe performance restraints due to the shortage of skilled executives. When they do find a suitable candidate, organisations need to be mindful that engagement and retention begins during the appointment process.

Recent Australian research¹ has highlighted that:

1. The three most influential sources of information attracting candidates to an organisation are:
 - The organisation’s website;
 - Internet searches; and
 - The recruitment (or search) firm.
2. Surprisingly, **58% of new appointees decide within the first month whether or not to stay in a new role** for a reasonable length of time, with 22% deciding in the first week and 5% on the first day!
3. Employers secure a better outcome for their recruitment investment through having a comprehensive induction and on-boarding process in the critical first month.

Of the new employees making up their mind on a new role, a significant proportion will decide to remain. However, if they have decided not to stay long term - it could take another 6 months or more to secure the next role. In the meantime, the organisation has an unengaged and less than fully productive employee it is remunerating and training.

An engaging and relevant on-boarding process can help change a new employee’s mind about the role/organisation and convince them to become fully productive. It also ensures that those who have decided to stay continue to remain engaged.

Two of the most common reasons why new starters decide to leave are:

- The role does not meet expectations - it is different from that presented to them during the recruitment process; and
- Cultural fit – the organisation’s culture is not one they feel comfortable in.

One of the key parts of the *OPPEUS Executive Search* process is to conduct an **Organisation Scan** with the Chair, Board, CEO and/or senior executives before commencing any market-place research. This is not only to better understand the accountabilities, experience and skills required, but just as importantly, we also gain greater insight to the organisation’s values and culture.

OPPEUS often also uses behavioural profiling tools to better understand each final candidate’s preferred operating styles and thus how they are likely to engage with the organisation. Most importantly, both parties need ample opportunity to assess each other and judge the very important cultural fit, before final decisions are made.

In the times of “Executive El-Nino”, the partnership of the client and OPPEUS lead to better outcomes and performance for all parties.

¹ **Workplace Barometer - Employer of Choice: Reality Cheque** (Australian Human Resources Institute)

A Client's Perspective

"Thank you for your professional assistance in the Chairman search assignment for Medibank Private.

I would like to place on record how impressed I was with the quality of the engagement. OPPEUS was given a very tight timeline and produced an uncompromised, high quality engagement, on time and with an exceptional talent shortlist and assessment.

Your team certainly delivered and it was much appreciated."

George Savvides
Managing Director
Medibank Private

Governance and Managing Risk

Peter Kronborg, recently spoke at the **Centre for International Corporate Governance Research** on the topic of **Public Sector Governance**, including:

- Governance Archetypes in the Public Sector;
- Composition and Capability as Critical Success Factors; and
- The Future of Public Sector Governance Assessment.

Peter also spoke on **Effectively Managing Risk at Board Level** at the **Chartered Secretaries of Australia's Annual Corporate Update**, covering:

- Obtaining a complete organisational risk picture for the Board; and
- How leading Boards are managing and monitoring risks.

Contact either **Peter Kronborg** or **Geoffrey Williams**, for further information, their insights or assistance.

Evaluating Board Performance – Why, How, Who?

The issue around the boardrooms of Australia is no longer **whether** to review Board performance and effectiveness - but **how** and **who** should review it.

Recently the **Australian Institute of Company Directors (AICD)** issued a guide for Company Directors: *Evaluating Board Performance*. This short, but comprehensive guide drew on leading practice in conducting Board Reviews.

In particular, we fully concur with one of the key points made: **"improvement, not assessment, should be the primary reason to evaluate board performance"**. This is one of the fundamental principles of the **OPPEUS Governance Review®** methodology.

On the question of **how** to review the Boards, the AICD emphasises that the process needs to fit the purpose and role of the Board, and also actually work when the Board has a problem. The recommended approach includes a number of key stakeholders/executives and uses the combination of qualitative interviews and a quantitative survey.

Proven board surveys lead to valuable insights on Board functioning and performance, when combined with individual interviews with the Board as a whole, each of the Directors and other key stakeholders, such as key executives.

A well designed Board Review will cover strategy, structure, people, processes, dynamics and stakeholders. Consideration needs to be given to whether external benchmarking is beneficial and to the flexibility for tailoring the process to address the Board's specific area of concern.t

The next issue to address is **who** should assess the Board. Some believe only poorly functioning Boards need external review and that shareholders are best served by self-administered evaluations.

OPPEUS believes all Boards can benefit from periodic external review, even "well-functioning" Boards. An external reviewer adds objectivity, insight and confidentiality to the process.

It may not be necessary to have a full external Board Review each year. OPPEUS recommends Boards have a two year cycle (an external review alternating with an internal review); or possibly a three year cycle, with a review of Board Committees occurring in the third year. On the other hand, some organisations prefer an annual external review.

In summary, Boards need a review process tailored for their own particular circumstances. A "one-size-fits-all" approach does not meet the specific needs of every Board. Regardless of the approach used, openness and frankness will occur only when confidentiality and professionalism is assured.



A Client's Perspective

Feedback from a **Government Essential Services Organisation** following a review of internal remuneration relativities in early 2007:

"The exercise was conducted with a high degree of professionalism and thoroughness and we were fully satisfied with both the outcomes and the manner in which the exercise was conducted. The (OPPEUS) consultants were wise and insightful in their assessments and also added additional valuable observations outside their brief."

Where Yesterday Meets Tomorrow

The **AICD's National Conference was recently** held in *Shanghai, China* - the first time it has been held outside Australia. The conference theme was *Where Yesterday Meets Tomorrow*

Nick Varigos and Peter Kronborg attended and some highlights included learning more about:

- The process of the dramatic transformation of the Chinese economy and society;
- Australia's relative position in global economic development;
- Directors' involvement in cross-border governance issues; and
- Australia's engagement with China.

The conference was a wonderful opportunity for Australian and Chinese business leaders to form stronger relationships and gain a better understanding of each other's perspectives. If you are interested in finding out more **Peter Kronborg** or **Nick Varigos** will be happy to share their insights with you.

Executive Remuneration Governance – Risks & Rewards

Some key governance risks related to the Board's role in Executive Remuneration, particularly in listed companies, have been highlighted by recent market events and in Board Reviews conducted by OPPEUS.

Board Remuneration Committees play a key role in the determination of remuneration and incentives for CEOs and other key executives, and in the development of strategies to retain and motivate these executives. Given the increasing complexity in remuneration design, considerable judgment is required especially in setting short and long term targets; and for driving outcomes that are in the best interests of a widening range of stakeholders. Given this, Boards are increasingly seeking expert advice independently of management.

The requirement for a non-binding shareholder vote on the Remuneration Report at the AGM of listed companies has been handled reasonably well in most cases. However, it is clear that poor remuneration design can be a lightning rod for shareholder groups' reaction and activism. This situation was played out recently in a top ASX company when concerns about the design of the CEO's remuneration resulted in a majority "no" vote and the CEO exited the company shortly afterwards.

The executive talent "war", which is fast becoming a "Talent EH-Nino", is placing even more focus on the need for a highly effective range of remuneration practices, including a redesign of short term and long term incentive programs, in order to improve retention and engagement.

The **BRW** recently published the *Executive Rich List* of Australia's 200 wealthiest executives. The related editorial (*Cause for Celebration and Reward*) said that the system of hard work and reward is alive and well in Australian business, and investors are the better for it. It goes on to say that analysis of the list shows that companies in which the executives own a reasonable amount of shares outperform the market in terms of share price growth, total shareholder returns, return on shareholder's funds and return on assets. OPPEUS' experience is that companies are moving more towards performance share plans, with some retaining stock options.

Good governance principles suggest that Boards, through a Board Remuneration Committee, should seek expert advice on remuneration from a trusted independent source.

The risks of getting executive remuneration wrong, and the rewards of getting it right, are significant.

OPPEUS has a strong capability in **Remuneration Governance** and **Remuneration Design**. Our trusted advisors in this arena are, **Bill Patullo** (Practice Leader – Remuneration), **Jasper Coghlan** (Specialist Advisor), **Peter Kronborg** (Executive Chairman) and **Sue Hurly** (Senior Consultant).



OPPEUS Experience in M&A

OPPEUS consultants have had significant experiences in M&A and cultural change - both at OPPEUS and with prior organisations. Our M&A experience includes:

- Developed the concept and project managed the merger of **Melbourne Business School** and **Mount Eliza Business School**.
- Creation of significant new government owned businesses in the **water, gas and electricity industries**, including:
 - **Melbourne Water** and related retail businesses;
 - **Victorian Gas & Fuel Corporation** and subsequent business entities; and
 - **State Electricity Commission of Victoria**.
- Transformational change process – based around “business planning” – for a nation-wide **water utility** in Malaysia.
- Merger of **Volvo** into **Ford**; especially assessing Volvo remuneration integration into Ford global practices.
- HR due diligence leadership for the possible purchase of **Daewoo** by **Ford**.
- Creation of an integrated remuneration system for **Ford Japan** - from very different brand remuneration systems in **Ford, Volvo, Jaguar** and **Landrover**.
- Facilitating the merger process of **two leading independent schools**.
- Facilitated the structural design process for the support functions of a newly split **Victorian Government Department**, including HR, ICT and Finance.

Culture in Mergers and Acquisitions - Does it matter?

Financial viability, increasing market share and improving profitability are the most common drivers for merging or acquiring organisations. It is well recognised that a large number of M&As fail to deliver expected benefits as the cultural aspects are often overlooked in the rush for gold.

The word “culture” has different meanings to many people. OPPEUS defines culture as “*the way we do things around here*” – it is the *systems, symbols and behaviours* which exist within an organisation. It includes elements such as the:

- Style of leadership, people management and decision making processes;
- Behaviours driven by the internal systems and processes (e.g. financial and HR systems);
- Symbols of differentiation or equality (e.g. office type; access to benefits and ‘perks’); and
- How staff deliver the products/ services to their customers.

In a M&A situation, organisations need to develop an understanding of the *unique* and the *common* elements of each culture; and consider how to leverage these in the new organisation.

A cultural audit tool, combined with qualitative techniques, such as staff focus groups and interviews, will give a clear picture of the significant strengths, weaknesses and differences in the cultures.

It is the leaders of the new organisation who must decide what culture the integrated entity will have. The approach taken should depend on the rationale for the merger and the new business strategy.

Organisations typically follow one of three approaches to cultural integration:

- Create a new culture based on combining the “best” elements from both organisations;
- Maintaining separate cultures in different parts of the new organisation;
- Deciding which one of the two cultures will be predominant.

Regardless of the approach used, a strategy is required to manage the transformation. In particular, if the first two approaches are to be adopted then communication and transparency are keys to success.

Unless a well considered and proactive cultural integration strategy is developed, the least attractive elements of both cultures will emerge as predominate in the merged entity.

OPPEUS consultants have expertise in measuring culture, as well as developing and implementing strategies to manage the introduction and embedding of the desired cultural norms.

OPPEUS is also conscious that culture is one of a number of important enablers of a successful merger or acquisition. Our experience also includes strategy development, structure design, process alignment, talent retention, remuneration integration, HR due diligence and project office management. We tailor our approach and service offerings to suit the particular circumstances of each client

Talent Growth within OPPEUS



Jasper Coghlan
Specialist Advisor

BEcon. (Monash),
CAHRI

Jasper is an international specialist in remuneration strategies and programs. As former *Head of Remuneration Asia Pacific for Ford Motor Company*, he is an acknowledged specialist in the development of best practice remuneration and benefits strategies. He also has specific skills in the design of worldwide short term incentive programs and has guided the restructure of superannuation plans in Australia. He has developed remuneration practices in start-up operations, joint ventures and mature operations in Australia and in Asia Pacific.



The Yellow Ribbon Programme

Amanda Earle, Principal Consultant, holds the voluntary position of *National Program Manager for the Yellow Ribbon Programme*, a not-for-profit youth suicide prevention charity.

The programme is committed to the empowerment of young Australians through promoting positive life skills and help-seeking behaviour. It is a peer support programme, with a very simple aim: *to create an environment which encourages and empowers young people to ask for help in a time of need.* **Lifeline** and **Kid's Help Line** support and endorse the programme. For more information and to support **Yellow Ribbon** please visit <https://www.yellowribbon.org.au>

Amanda has a Masters in Psychotherapy & Counselling and completed her thesis on Adolescent Suicide. She has been involved with the programme for 6 years.



Sue Hurly
Senior Consultant

BSc. MBA (HRM),
Chartered FCIPD,
CAHRI

Sue works across the OPPEUS business and clients benefit from her broad HR knowledge and strong analytical and project management skills. She has held both consulting and line management roles in the UK, NZ and Australia for companies including **PwC, Amcor, Mercer** and **Right**. Her specialisations include:- organisation structure & role design, HR system and process design, performance management, strategic workforce planning, talent retention, remuneration strategy and performance-reward linkages.

An Australian Citizen at last...better late than never



On Australia Day this year **René Johnson**, Principal Consultant, became an Australian citizen – 42 years after emigrating from England as a 'wee lad'. To complete his naturalisation, OPPEUS staff "inducted" René into a number of Australian traditions! However, we are still uncertain if he has changed his cricket team allegiance from England to Australia!

A Test of Engagement

Executive Candidate's view

"Changing jobs is one of the most important times in a career. I changed jobs recently, and had the chance to experience a couple of different recruitment consultancies. The difference was significant.

The first firm left a great deal to be desired. At the interview the consultant showed up more than acceptably late, and the "interview" lasted 15 minutes. The only questions were all about metrics. The consultant said I was an "excellent fit" – and that was all I ever heard.

On the other occasion I dealt with OPPEUS. From the first telephone discussion their professionalism was very evident. Their process covered the basic metrics, but it also had depth, instinct, rigour and some art.

They wanted to make sure that the DNA felt right, on both sides of the desk. *Throughout the process, they were extremely responsive.*

They were always prompt but never rushed. I was briefed in advance of every meeting and was always kept in the loop. I really appreciated the manner in which I was kept informed and not fed the usual clichés. Importantly, they ensured that there was total discretion the whole way through.

Overall, it was a very positive experience, and I would not hesitate to do business with them in the future."

Richard Hill
the newly appointed
Chief Technology Officer
St Vincent's Health
Melbourne

OPPEUS - Strategic Leadership Advisors

Our Services

Talent

From finding talent and holistically assessing their capabilities, OPPEUS delivers:

- Senior Executive Search
- Non-Executive Director and Chair Search
- Management Assessment of Executives
- Executive Remuneration Advice
- Performance Management and Executive Coaching

Organisation

OPPEUS brings specialised expertise to your organisation through:

- Strategic Organisational Advice
- High Performance Team Development
- Strategic Talent Management
- Merger Integration and Change Management Planning

Governance

Our specialist Governance practice has the proven advisory skills and experience in:

- Board Reviews
- Governance Development Programs
- Board Reporting and Processes
- Board and Executive Remuneration Advice
- Short and Long Term Incentives Design
- Board Retreats and Strategic Reviews
- Fit and Proper Reviews

For further information visit www.oppeus.com

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Recent Assignments of Interest

Talent

Our Talent practice has been rapidly expanding, including some intriguing assignments.

Our extensive international search, led to the appointment of an outstanding candidate as CEO of a significant **mining company**, with significant operations in South East Asia including a \$1.5b development project. This was a very challenging assignment, as we required a unique individual with knowledge of the mining industry, Australian investment markets and how to conduct business in Asia.

OPPEUS also assessed the experience and skill sets of nominated director candidates (from a **membership organisation**) standing for election to several commercial Boards. We provided direction to the organisation's proxies regarding these candidates.

Other recent successful appointments include:

- Chairman of a **multi-billion** dollar **Insurance Company**.
- Chief Executive Officer of a **major Agricultural Group**.
- Chief Technology Officer and General Manager Human Resources for a **large Public Health organisation**.

Organisation

A recent assignment in our expanding Organisation practice was the facilitation and provision of structure and process for the merger discussions of two **leading independent schools**.

Governance

Our Governance practice continues to grow soundly. Assignments include:

- "Fit and Proper" Review of a **Financial Services** organisation Board in accordance APRA Regulations and a search for new, suitably qualified non-executive Directors.
- Board Review for a leading not-for-profit **Disability Support Services** organisation and working with the Board on an ongoing Board Development program.
- Appointment of three Advisory Board Members to the Australian business of a significant **multinational technical consulting company**.
- Board Review using the benchmarked Leblanc Board Effectiveness Diagnostic, for a significant **Commonwealth Government Agency**.

Remuneration

The recently expanded OPPEUS remuneration team has undertaken a number of challenging assignments:

- Executive remuneration advice and incentive plan design for a growing **Aged Care provider**.
- Advice concerning the appropriate remuneration for Advisory Board members for a **multinational consulting company**, taking into account differences of role versus Directors in publicly listed companies.
- Review of internal remuneration relativities of a **Government Essential Services Organisation**.