

CEO pay starting to unfreeze but a cold shower approaching for some

Niko Kloeten

Pay freezes for the chief executives of New Zealand's top companies are thawing as economic conditions improve but some are at risk of taking pay cuts this year.

About this time last year at least five major New Zealand companies announced that salaries would be frozen for some of their employees, mostly executives and senior-level management staff.

Westpac, ASB, Air New Zealand, Fonterra and Telecom all imposed some form of pay freeze in place between February and June 2009.

With annual salary reviews and collective bargaining season approaching, the *National Business Review* decided to survey these barometers of New Zealand's economic health to find out if salaries were still in a deep freeze.

And the news is positive – three of the five companies have confirmed to *NBR* that they will be lifting pay freezes and returning to normal salary review procedure this year.

Surveys by Moyle Consulting also show 2009 was a cold time for executives – only 48% of chief executives surveyed by the company got a pay rise last year.

"Overall, the most senior people in the organisation were less likely to receive an increase in 2009," Jarrod Moyle of Moyle Consulting said.

"The majority are planning increases in 2010 but not everyone will receive them."

Thaw at Westpac, Telecom

Westpac confirmed what a source had already told *NBR* – the bank has informed staff their pay will be unfrozen.

In May 2009 Westpac announced a zero increase in salaries from January 1 to December 31 this year for all employees on management contracts earning \$70,000 or more a year.

"As Westpac is now seeing improved performance, chief executive George Frazis announced to staff in March this year that the



REINING IN: Chief executives Andrew Ferrier of Fonterra, Rob Fyfe of Air New Zealand and Paul Reynolds of Telecom have all put pay freezes in place at their companies over the past year



bank would return to its normal salary review process," according to the bank's PR machine.

"The salary freeze was lifted and salary reviews will be conducted as part of the bank's year end performance review."

Despite its recent very public woes Telecom has also said it will take off its pay freeze, which it announced for its executives and senior management team in February last year.

Its recent profit downgrade resulted in the telco giving 200 unlucky managers a 100% pay cut but it has its work cut out to make sure it hangs on to the skilled people who are left.

"We need to make sure we can retain a workforce of talented people," the company said in a statement.

"The reality is that we still need to remain competitive in the employment market and fairly reward the contribution, performance and skills of our people – even as we retain a very tight focus on costs."

ASB, Fonterra mum

ASB Bank, which had the most wide-ranging pay freeze of any of the five major companies, wouldn't give an answer one way or the other

on whether the pay freeze is going to remain.

In April last year it froze pay for 3500 employees earning more than \$50,000 a year.

"At ASB we have individual employment agreements with all of our employees," said Rosalie Nelson, general manager HR services at ASB.

"Our normal annual salary review process begins shortly, with any changes being effective from July 1, 2010."

Fonterra, which last June announced a salary freeze above certain bands (depending on which country employees are in), also wasn't giving much away.

The giant dairy co-operative said it had not yet been through the salary setting process this year and will follow "market practice" when it does.

Air NZ's freezing flight

Air New Zealand announced a pay freeze for about 1000 employees earning more than \$80,000 a year last May.

In a memo to staff in March, chief executive Rob Fyfe told staff, "Air New Zealand is starting to see signs of a soft recovery in many of the markets we operate."

"This has given the board the confidence to lift the current pay

freeze for those on individual employment."

But he noted, "For some of these people it will be three years since they have had a pay increase."

Susan Doughty, director of remuneration consultancy firm Dsd Consulting, said surveys by her company showed that although there are far fewer pay freezes this year than last year they are still fairly common.

And the numbers show that, contrary to popular belief, chief executives are the employees most likely to suffer from pay freezes.

According to Dsd Consulting data for major New Zealand private companies more than two thirds (69%) of companies froze pay for chief executives last year.

Senior management staff didn't fare much better in 2009, with 50% of companies freezing pay for these employees.

However, only one quarter (26%) of companies froze pay for general staff.

Better year ahead

This year the numbers have dramatically improved for all types of employee: only 17% of companies are freezing pay for chief executives while only 6% are freezing pay for senior management and 3% are

FROZEN PAY – THE FAB FIVE

■ **Air New Zealand** – Froze pay for 1000 employees earning more than \$80,000 a year.

■ **ASB** – Froze pay 3500 employees earning more than \$50,000 a year.

■ **Fonterra** – Froze pay for chief executive Andrew Ferrier and eight employees directly below him; 5000 Fonterra staff had annual pay reviews pushed back from June to October.

■ **Telecom** – Froze pay for executives and senior management team.

■ **Westpac** – Froze pay for managers earning \$70,000 or more per year.

freezing pay for general staff.

But Mrs Doughty warned not to get too excited just yet.

Due to the timing of the financial year many companies that announced pay freezes last year will have them in place until the end of December.

And some executives may even take a pay cut despite their base pay being unfrozen due to the drop-off in bonuses and other parts of the pay packet, which were inflated last year by the early part of the 2008/2009 period.

Mrs Doughty said businesses that still have pay freezes in place are under extreme pressure

"In general as profits are starting to re-emerge it's a difficult sell to say we are going to freeze pay again."

She also said collective bargaining negotiations would put upward pressure on higher pay brackets.

"One of the big factors people aren't taking in to account right now is where the unions are coming from."

"They are going to come in from a catch-up perspective (due to last year's pay freezes) plus at least CPI which is about 2%. This could create compression between wages and salaries."

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