

FUTURE DIRECTIONS IN EXECUTIVE PAY – CSI TREND FORECAST

Wednesday 14th May 2003: Short-term incentives will be the focus of executive remuneration committees over the next year, though organisations will refrain from making innovative changes to the way they remunerate their most senior members, according to CSI professional services manager Jairus Ashworth.

“With hype surrounding the provision of long-term incentives to Australian senior executives coming to a climax in 2002, we are now experiencing a quietening of discussion about this element of executive remuneration,” says Jairus.

“Share-based rewards are going through a period of re-evaluation, so we don’t expect to see major activity in that area. The number of companies granting options and restricted stock to their executives will stagnate, which also relates to current flat economic conditions. Many organisations aren’t achieving their target returns, so senior executives can expect that to be reflected in their pay packages.”

“People (HR teams and remuneration committees) just aren’t doing innovative things at the moment. Everyone is very cautious and watching for new pay-market trends.”

“I think that internal equity, in addition to market pay issues, will increase in focus in the short term. Companies should be aiming to achieve a balance between internal (CEOs and their direct reports) and external pay relativities. This area has not received the attention it deserves over the past few years.”

"The average tenure of CEOs is quite short," says Jairus. "And those CEOs who are company-hopping are being recruited at higher rates than the previous CEO. Companies are adding 'golden hello'-type (or sign-on) premiums to already high salaries to attract the best talent. This has the effect of widening the gap between the new CEO and their direct reports and will continue to cause friction, within the upper echelons and inflate executive salaries, unless organisations begin to focus more on both internal equity and external relativities."

"With the market the way it currently is, there is more opportunity for executives to be gaining from short-term incentive plans," says Jairus.

"The 'best practice' that is emerging is that base salaries are set at the market median, with less emphasis on high base salaries and more on variable pay. And to achieve above-market variable pay, executives must give an above-market (not just above-budget) performance. We'd like to see pay set at the 75th percentile of the market equal a 75th percentile performance. This is already the principle for long-term incentive plans, but it should also be the focus of short-term plans."

In regards to salary packaging, Jairus believes this has been a feature of executive pay for quite some time, with most executives having access to it, rendering it a 'hygiene' issue rather than a way to attract and retain senior executives.

"There is little competitive advantage to be achieved through salary packaging," he says. "Companies will gain little by focussing their executive remuneration strategies on it. They really have two choices in relation to packaging: one being to package standard items such as the car and super. The other, more aggressive, way involves deferred payments and exotic financial strategies. So, the only way to get any real benefit from salary packaging involves a lot of risk."

CSI managing director Peter Barton agrees with Jairus's views. He expects greater involvement in the future by company boards in CEO performance management: "The payment of short-term incentives will be reliant on stricter measurements," says Peter.

"Changes to corporate governance rules will result in far less autonomy for CEOs, which will, unfortunately, result in less flair and entrepreneurship (or risk), but hopefully more stability and shareholder satisfaction."

"The bottom line is that people don't mind seeing CEOs being paid well if they deserve it," says Peter. "You can also bet that quantum amounts of bonus payments are likely to be capped."

CSi will be holding a Top Executive Remuneration Breakfast Seminar on Thursday 24th July 2003 at the Park Hyatt Sydney, to coincide with the release of the *Australian Top Executive Remuneration Report*. For more information, please contact Erica Holburn on (02) 9415 3455, email eholburn@classalinfo.com.au or visit the CSi website www.classalinfo.com.au.

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Note: CSi's *Australian Top Executive Remuneration Report* is the benchmark document for determining market competitive remuneration packages for Chief Executive Officers and Senior Executives.

Released annually in July, the *Report* scientifically examines the salaries and benefits of more than 2,300 senior executives in more than 500 Australian companies within a variety of industries. For further information about *The Australian Top Executive Remuneration Report* please see CSi's website (<http://www.classalinfo.com.au/Products/default.htm>).

Classified Salary Information Services (CSi) is an Australian-owned company that monitors pay-market trends, in Australia and New Zealand, through one of the largest salaries and benefits databases in the Asia Pacific region.

Our range of salary surveys provide organisations with the information they need to ensure their salary structures remain market-driven, while our Client and Professional Services teams help companies develop sound remuneration policies and practices.

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