

## TOP EXECUTIVE PAY ON DOWNWARD TREND - SALARY SURVEY FINDS

**Tuesday 29 October, 2002:** Senior executives have this year received pay increases **below 2001 levels**, attributed in part to an inability to meet performance targets in a depressed profit environment, according to **a survey of 526 Australian organisations**.

*The Australian Top Executive Remuneration Report*, produced by remuneration specialists Classified Salary Information Services (CSI) in July this year, found that total remuneration packages, which include fixed pay and incentives, increased on average by **4.9 per cent** (annualised to June 2002). This compares to an average increase of **7.8 per cent last year**.

According to the survey of 2,342 senior executives, **CEO remuneration** grew by 4.3 per cent on average. Companies are forecasting a total remuneration increase of 5.0 per cent for senior executives over the 2002-03 financial year.

More than 70 per cent of companies surveyed have some form of short or long-term incentive plan in operation for executives, though the **value of these incentives**, particularly in the Information and Communications Technology sector, has been **dramatically reduced**. Despite this, stock options remain the most common form of long-term incentive.

The survey found that for both CEOs and senior executives, performance payments were largely based on the achievement of financial targets, while a less significant portion (12-14 per cent) was based on reaching non-financial targets. The trend towards pay for financial achievement is concurrent to the increased stringency associated with **capping performance pay** for executives. Eighty-five per cent of surveyed organisations now cap payments, up from 51 per cent in 2001.

"It seems many organisations have learnt from the recent spate of corporate controversies, where senior executives received performance payments despite poor company performance," says CSi managing director Peter Barton. "This is reflected in the **introduction of more rigid and measurable executive incentive schemes.**"

The last year has seen the total proportion of executive pay delivered through **long-term incentives decrease on average**. While in 2001 the survey reported 17 per cent of CEO pay was based on long-term incentives, this year's proportion was down to 12 per cent.

77 per cent of executives received some form of performance payment in the last year. This represents a stabilisation from 79 per cent in 2001, which followed several years of steady growth in the overall incidence of performance pay: 73 per cent in 2000, 68 per cent in 1999 and 63 per cent in 1998.

Executive performance pay, as a percentage of base salary, has decreased over the past 12 months. The amount of performance pay received has dropped to 42 per cent of base salary for Chief Executive Officers and 27 per cent for other senior executives. The figures reported in 2001 were 51 per cent and 30 per cent respectively.

The rules and guidelines governing performance pay for executives have also tightened over the last 12 months. The **capping of possible performance payments** now occurs in 85 per cent of surveyed organisations, a marked increase from last year's figure of 51 per cent.

CSi found that noticeable premiums were paid to **executives with international responsibilities**. Executives with responsibility over both Australia and one other country (typically New Zealand) gain an average premium of 4 per cent, while those with multi-regional or global responsibilities receive an average premium of 29 per cent.

A key issue in executive remuneration this year will be the successful management of both short and long-term incentive payments. The need for greater transparency and clearly defined

performance criteria has been highlighted by a string of negative reports involving executive pay in poor performing companies.

"In Australia, the guaranteed component of executive base pay is much higher than in other countries," says Mr Barton. "This reduces the influence of performance or 'at risk' reward. That is, the component of pay that may lead to unethical, or at least questionable, business practices."

**ENDS**

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