

## **Performance pay to lead the way: new executive salary survey finds**

**Wednesday 9 July 2003:** With increases in guaranteed pay tipped to only marginally outpace the CPI, Australia's senior executives will be working hard in the new financial year to ensure they reap the rewards from short and long-term incentive plans, according to a new CSi report.

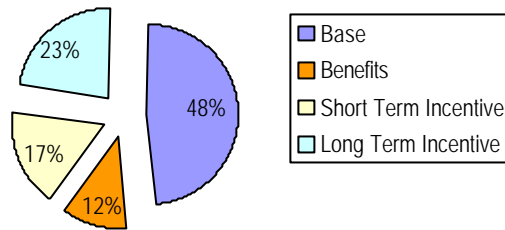
Base salaries are forecast to increase by 4 per cent in the 2003/2004 Financial Year, according to the July 2003 *Australian Top Executive Remuneration Report* – based on a survey of 375 organisations – while senior executives in the Banking and Finance industry will receive 0.5 per cent more than their counterparts in other industries.

As the level of inflation is expected to remain at the top end of the Reserve Bank's target range of 2-3 per cent, executives can expect only marginal 'real' increases in guaranteed pay.

Concurrently, pressure on boards to create shareholder value and the need for greater transparency and clearly defined performance criteria has led surveyed companies to review the structure of senior executive remuneration policies, placing more emphasis on variable pay than fixed salaries.

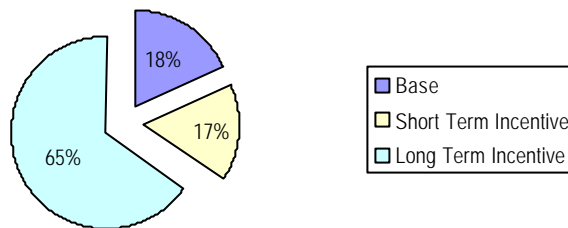
CSi's analysis of current market practice shows guaranteed pay (base salary) made up just 48 per cent of CEO and senior executive remuneration packages in the 2002/03 financial year, falling from 56 per cent in 2001/02. CEOs can now expect to have 23 per cent of their annual remuneration packaged through long-term incentives – up from 12 per cent in 2002.

### Compensation Mix: Australian CEO



Source: *The Australian Top Executive Remuneration Report (2003)*.

### Compensation Mix: United States CEO



Source: *Frederick W. Cook and Co, (2002)*.

"The compensation mix varies according to a number of factors," says CSI managing director Peter Barton. "For example, executives from large companies lured to small start-ups which have a more entrepreneurial focus will often have a more significant portion of their remuneration delivered through share options, restricted stock grants and the like."

In its analysis of 2,481 senior executive remuneration packages, CSI found CEOs and senior executives received average remuneration increases (fixed pay and incentives) of 5.0 per cent over the year to June 2003, with base salaries rising by 4.2 per cent over the same period. This compares to average total remuneration increases of 4.9 per cent in 2002 and 7.8 per cent in 2001.

Finance Directors/CFOs and Sales Directors were awarded the largest annual increases, with their total remuneration rising 7.2 per cent and 7.8 per cent respectively in the year to June 2003.

Chief Executive Officers at the 375 surveyed organisations were given pay rises above 2002 levels, with an average 5.4 per cent increase in the CEO total remuneration cost.

Manufacturing Directors received the lowest annual remuneration rises (just 1.1 per cent), while General Managers (Single-Function) also came in under the market average (3.0 per cent).

Levels of voluntary executive attrition (eg. early retirement, move to competitor) for the 2002/03 financial year were low at 2.6 per cent, which is no surprise given the stagnant job market. Involuntary staff attrition (eg. compulsory retirement, termination) was slightly higher at 4.4 per cent.

Seventy-seven per cent of executives received some form of short-term performance payment (bonus) during the past year, a figure unchanged from 2002. The number of organisations capping possible performance payouts has decreased from 80 per cent in 2002, to 52 per cent in 2003. Average cap amounts, as a percentage of the target incentive, have also increased significantly since last year, reflecting the need to increase the leverage of incentive plans to encourage above-target performance.

The decreased stringency associated with the capping of performance payments has been somewhat offset by companies introducing more rigid and measurable incentive schemes. When determining variable performance payments for both CEOs and senior executives, more prominence was given to overall company performance in the 2002/03 financial year: 68 per cent of CEO performance criteria was aligned with company performance (up from 50 per cent in 2002).

When asked to prioritise eight executive remuneration issues for the new financial year, 84 per cent of companies identified Performance Management as 'very important', followed by Short- and Long-Term Incentives (71 per cent) and Aligning Pay with the Market (62 per cent). Flexible Packaging was listed as 'somewhat important' by 67 per cent of organisations, followed by Flexible Working Conditions (somewhat important to 57 per cent of those surveyed).

**ENDS**

**The Survey represents data from 375 Australian companies with a vested interest in human capital, mostly employing workers at the professional or associate-professional level.**

**Note:**

*A note about survey data:*

The database for this report contains information from 375 organisations – most of which was obtained via data captured from 12 of CSI's industry-specific salaries and benefits surveys.

By their very nature, the remuneration disclosures in annual reports are biased towards the most highly remunerated officers in a company. There is also an issue with the reliability of data presented in this manner. As such, data gathered in this form has only been included in this Report where it has been verified in the same manner as all other data to prevent any distortions.

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, which monitors pay-market trends, in Australia and New Zealand, through one of the largest salaries and benefits databases in the Asia Pacific region.

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