Foreword

For some years now the issue of executive pay has been the cause of considerable debate and disquiet within both the business world and the public domain, as the disparity between the salaries and bonuses of some corporate executives compared with other employees has shifted dramatically, and often for reasons that are neither well explained nor understood.

Despite the complex machinations within many organisations that result in executive and CEO remuneration decisions, the human resources profession has come under fire in some quarters for its role in top level remuneration. The current environment is more complex than any such simplistic view, and AHRI has sought the views of the profession “on what actually happens and why”, through this recently completed survey. Approximately 400 HR practitioners have participated in this survey and are all highly knowledgeable in the area, with 40 percent of that group having specialist leadership roles to play in overseeing and administering senior executive remuneration within leading ASX200 listed companies.

The findings in this study reveal that while HR is one of the principal sources of advice in decisions on executive pay, it does not have an exclusive position. Nor should it. These Australian findings reveal that, for the most part, boards of directors have relied on internal, external, and other independent advice, or indeed relied on their own views, to take decisions on CEO and executive pay.

The results from this AHRI study have provided a unique opportunity for the HR profession in this country to assist in rescuing the agenda so debate can take place on a more rational and less emotive plane, and indeed to set the record straight.

The Australian Productivity Commission has accordingly been called on to conduct an Inquiry into the issue. AHRI is basing its submission to the Commission on these and other research findings.

Peter Wilson AM
National President
Australian Human Resources Institute
This second AHRI HRpulse report for 2009 explores in some detail the highly specialist area of executive remuneration.

The survey on this issue was conducted during April and was in two parts. The first was a general section inviting non-specialist responses on the matter and the second invited specialists working in the area to indicate the typical practices that prevail in the course of their business.

Respondents answering questions from the second section especially would have found the exercise very demanding and time consuming, and I take this opportunity to thank them for so generously giving of their time. Not surprisingly, the sample group of respondents to this survey is smaller in number than our other HRpulse surveys. That was expected given the subject matter and the time involved in providing responses.

But we decided the issue is worth looking at and the only way to do that is to ask the people who have the knowledge and to guarantee them anonymity in providing answers.

We are very pleased with the findings, as I hope you are, and I commend the report to you. The third of our 2009 quarterly surveys will look at the transition from Work Choices to Fair Work Australia, and I trust you will find the time to let us know what you think on the matter when the questions arrive in your inbox.

Serge Sardo
Chief Executive Officer
Australian Human Resources Institute

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SURVEY OVERVIEW

BACKGROUND

During April 2009, the Australian Human Resources Institute (AHRI) surveyed its members on the issues surrounding executive remuneration. At the time the issue had become a focal point for public acrimony, especially in the US where it had been revealed that executives from companies such as AIG and Merrill Lynch, whose failures had been spectacular, were walking away with multi-million dollar bonuses and termination payments at the same time as employees across the country displaced as a result of those failures rose into the millions. In Australia the remuneration and unemployment ramifications were more modest, but isolated cases, such as the offshoring of 1500 Pacific Brands jobs following a hefty pay rise to the CEO, caused a level of public outrage.

AHRI’s questionnaire on this subject was by far the most complex of the surveys conducted to date in the HRpulse series. The covering note to prospective respondents invited responses to two sections of the survey. The first was a general section asking for respondent views on matters such as:

- sources of advice on executive remuneration
- the quality of advice on executive remuneration
- the extent to which boards of directors understand the advice provided
- the extent to which boards of directors are conflicted in the area
- the role of shareholders in approving executive contracts and remuneration
- the role of government intervention in the setting of executive remuneration thresholds.

The second section invited expert commentary on how the process for remuneration of executives actually operates within companies, including boards of directors. Only a limited number of professional specialists would have been competent to provide answers in this section, and the questions asked were accordingly detailed and comprehensive, demanding a considerable respondent commitment of effort and time. For that reason the return rate of 150 responses from specialists in the field was regarded as strong.

Specialist information sought by the survey related to matters such as:

- actual sources of advice and accountability for CEOs and board members
- how remuneration is structured, including items such as salary, superannuation, short-term and long-term incentives, share options, bonuses and termination clauses
- the likely effect of government establishing a threshold on CEO termination clauses
- responsibility for drafting CEO contracts
- retention payments to executives.

KEY FINDINGS AT A GLANCE

GENERAL RESPONDENT FINDINGS

The key findings from the 394 general responses to the survey are set out below.

- 80% of respondents believe HR should be main source of advice to the CEO, 63% to the board of directors
- 96% of respondents believe external consultants should not be the exclusive source of advice to the board of directors
- 78% of respondents believe HR advice on executive remuneration drawing on external expertise is the best model
- 92% of respondents believe boards should take a holistic view on executive remuneration, not simply rely on separate specialist reports
- 73% of respondents believe board members often have difficulty understanding the technical complexity of the advice they receive on executive remuneration
69% of respondents believe boards have a direct financial interest in decisions on executive remuneration.

63% of respondents believe boards should publish market data and rationale on executive remuneration decisions.

SPECIALIST RESPONDENT FINDINGS

Key findings from the specialist sample group of 150 respondents include the following:

Sources of advice

- 64% report that HR is the main source of advice to the CEO, 43% to the board of directors
- 27% report that an external consultant is the main source of advice to the board of directors
- 71% report that boards get external advice on executive remuneration via the internal HR department and using an accepted framework of operation
- 83% of respondents report using Hay, Mercer or John Egan as executive remuneration consultants

Remuneration structures

- 96% report that their company only offers executives salary and superannuation as fixed, while 80% add in other expenses
- 73% report that their company offers basic statutory superannuation, while another 20% offer up to 15% salary as superannuation
- 85% report that their company has cash-only short-term incentives, with the remainder including a shares component
- 73% report that the short-term incentive is up to 50% of fixed salary, 10% up to 75% of fixed salary, and 10% up to 100% of fixed salary
- 26% report that short-term incentives in their company have increased relative to long-term incentives in recent years
- 42% report that their company has excluded options from long-term incentives in recent years
- 68% of respondents report that remuneration is linked to organisation performance, 42% to individual performance, and 52% to organisation culture contribution
- 84% of respondents report that remuneration is linked to short-term KPIs and 78% to progress towards long-term KPIs
- 31% of respondents report their company has expatriate executives on salaries in a currency other than AUD

Executive incentives

- 93% of respondents report that short-term incentives are linked to internally set KPIs and 13% to external comparators
- 77% of respondents report that long-term incentives are linked to internally set KPIs and 37% to external comparators

Remuneration benchmarks

- 75% of respondents report their company benchmarks to the market annually and 15% every two years
- 65% of respondents report that their company links effective executives to market median fixed remuneration and 14% to Q3 fixed remuneration
- 52% of respondents report that their company links effective executives to market median total remuneration and 27% to Q3 total remuneration

Retention payments

- 51% of respondents report that their company applies retention payments to critical staff, and of those, 60% use them for 5% of the staff, and 23% use them for 10% of staff
- 63% of respondents believe use of retention payments will not decrease in the next 12 months
Executive termination payments

- 92% of respondents report their company offers 12 months fixed pay or less on termination for the CEO
- 98% of respondents report their company offers 12 months fixed pay or less on termination for general executives
- 75% of respondents report the termination cap proposed by Prime Minister Rudd will have no material affect on their capacity to compete
- Nearly half of the respondents found the Prime Minister’s statement on a termination cap confusing – i.e. what is the definition of pay?
- Of those affected by the Prime Minister’s proposed cap, most indicated they would find some other way of spreading the benefit into other remuneration elements either before termination or after termination

CEO contracts

- 69% of respondents report that boards take the responsibility for drafting CEO contracts, with 83% reporting their board seeks independent advice and 73% reporting their board consults with HR.

Shareholders and executive remuneration

- While only one in ten respondents (12.31%) believe that shareholders should not have an entitlement to further information on the board rationale for executive remuneration decisions, nearly half (41.39%) oppose shareholders having the capacity to vote down a remuneration report rather than express dissent.

DETAILED FINDINGS

DEMOGRAPHICS

The survey attracted a response rate of 394 individuals from the AHRI database over a two week period in April 2009. Respondents were contacted by email and completed the survey online.

Tables 1-5 give some indication of the status of the respondents with respect to the issue of executive remuneration.

Table 1. Position in organisation of respondents

(394 responses)

- HR Administrator: 3.30%
- HR Advisor: 10.91%
- HR Manager: 24.62%
- Senior HR Manager: 16.50%
- HR Director/GM: 10.66%
- Consultant: 11.68%
- Supervisor/Team Leader: 0.76%
- Manager: 2.28%
- Director/GM/CEO/Executive: 4.57%
- Academic: 1.78%
- Accountant/Finance: 0.51%
- Administrator: 0.51%
- Recruiter: 0.76%
- Non-executive board member: 0.25%
- Other: 2.28%
Table 2. Industry of respondents

(384 responses)

- Agriculture, Forestry and Fishing: 2.34%
- Mining: 3.13%
- Manufacturing: 5.99%
- Construction: 1.56%
- Wholesale Trade: 2.08%
- Accommodation and food services: 2.08%
- Transport, Postal and Warehousing: 1.30%
- Information, media and telecommunications: 4.69%
- Financial and insurance services: 12.24%
- Rental, Hiring and Real Estate Services: 0.52%
- Professional, Scientific and Technical Services: 11.20%
- Administrative and Support Services: 1.56%
- Public Administration and Safety: 9.64%
- Education and Training: 8.07%
- Health Care and Social Assistance: 10.42%
- Arts and Recreation Services: 1.04%
- Other Industry - please specify: 17.45%

Table 3. Sector of respondents

(391 responses)

- ASX listed: 18.19%
- Privately owned: 38.11%
- Public: 30.43%
- Not-for-profit: 18.19%
- Global subsidiary: 11.31%
As indicated in tables 1-5, around 65% of respondents work in human resources at various levels, around 10% are CEOs or managing directors, another 10% are consultants and 7.6% are non-executive directors. Around 12% of respondents are from the financial services and insurance industries, with a spread of industries around the 10% mark in healthcare, education, scientific and technical services, and a combination of manufacturing, construction and utilities. Nearly 70% of respondents are either from ASX listed companies (18.93%), the private sector generally (38.11%), or with a global subsidiary (11.51%). Around three quarters of respondents are either responsible for the executive remuneration system in their organisation, contribute to it in some way, are actively interested in the area professionally, consult in the area, or identify with a combination of these options. A quarter or respondents (25.77%) identify as passively interested professionals in the area. A total of 38.93% of respondents identify as working in the area of executive remuneration in a private company or an ASX listed company. That cohort of respondents went on to answer the detailed questions in section 2 of the survey.
SOURCES OF ADVICE

The total sample group of 394 respondents were asked a number of questions seeking their views in this area, while the smaller group of specialists (150) were asked what actually happens in practice.

A majority of all respondents (80.46%) believe that HR should be main source of advice to the CEO on executive remuneration, and a smaller majority (63.96%) believe HR should be main source of advice to the board of directors.

As indicated in tables 6 and 7, a smaller majority of the specialist group of respondents (63.76%) report that HR is actually the main source of advice to the CEO, while fewer than half (42.95%) report that HR is the main source of advice to the board of directors.

Table 6. Is HR the main source of advice to the CEO?

![Chart showing 63.76% Yes and 36.24% No responses](chart6.png)

Table 7. Is HR the main source of advice to the board of directors?

![Chart showing 42.95% Yes and 57.05% No responses](chart7.png)
Of the total sample, 96% believe external consultants should not be the exclusive source of advice to the board, with 78% taking the view that the best model is one in which HR draws on external expertise. A hefty 92% believe that boards should not rely on separate external reports in this area but take a holistic view.

As shown in tables 8 and 9, the specialist respondents report that only one in five CEOs (21.92%) rely exclusively on external advice, whereas more than one in four boards (27.52%) rely mainly on external advice.

**Table 8: Are external consultants the main source of advice to the CEO?**

![Bar chart showing 78.08% yes and 21.92% no.](chart1.png)

**Table 9: Are external consultants the main source of advice to the board of directors?**

![Bar chart showing 72.48% yes and 27.52% no.](chart2.png)
Table 10 shows that when boards make decisions on executive remuneration, 71.33% rely primarily on external advice within a framework that has been set up in-house. Only 11.19% of boards rely on advice from a number of separate external consultant reports that they call for themselves, while 17.48% rely on one external consultancy that recommends an approach and guides the board in its decision-making.

**Table 10: On what approach does the board rely when deciding executive remuneration?**

![Bar chart showing the distribution of approaches used by boards.](chart10)

Table 11 shows that the specialist group of respondents report that the CEO is excluded from board deliberations on executive remuneration in 20.95% of cases.

**Table 11: Does the board exclude the CEO when determining executive remuneration?**

![Bar chart showing the distribution regarding CEO exclusion.](chart11)
To a question on whether boards have a direct financial interest in the remuneration levels of executives, table 12 shows that 69.67% of the total sample believe they have such an interest.

**Table 12: Do board members have a direct financial interest in the remuneration of executives?**

![Bar chart showing 69.67% Yes and 30.33% No responses](chart12.png)

Perhaps as a way of countering that perception, table 13 indicates that 63.4% of the specialist respondent group believe that boards should publish market data and the rationale they have used to determine CEO and other executive remuneration.

The survey did not ask why they believe that or why 36.6% believe they should not publish such data. Whether that large minority believe that matters of privacy should over-ride transparency in the matter or that the data would run the risk of being misunderstood by shareholders is not revealed in the findings.

**Table 13: Should boards publish data and the rationale used to determine executive remuneration?**

![Bar chart showing 63.40% Yes and 36.60% No responses](chart13.png)
Further on the matter of transparency, the specialist group was asked whether the annual report should publish data on the imputed benefit of executive remuneration to the individual, the accounting cost to the organisation, or both.

Table 14 shows that more than half of the respondents (58.82%) believe both should be published, one in five (19.61%) believe that only the benefit to the individual be published, and one in ten (10.46%) that the cost the organisation only be published. One in ten (11.11%) believe that none of that information should be published.

**Table 14: Should simple tabular data on executive remuneration be published in the annual report?**

![Graph showing the distribution of responses to the question of publishing simple tabular data on executive remuneration in the annual report.](image)

The specialist group of respondents, as indicated in table 15, report that nearly seven out of ten boards of directors (69.01%) have responsibility for drafting CEO contracts.

A similar proportion of the sample group, as shown in table 16 (72.46%), consult with HR in the drafting process. Of those respondents whose boards have responsibility for drafting CEO contacts, more than eight out of ten (83.18%) report that the board members seek independent advice when drafting the contracts.

**Table 15: Does the board of directors have responsibility for drafting CEO contracts?**

![Graph showing the distribution of responses to the question of whether the board of directors have responsibility for drafting CEO contracts.](image)
Table 16: Does your board consult with HR in the drafting process?

(138 responses)

Table 17: Of boards that have responsibility for drafting CEO contracts, do those boards seek independent advice in the drafting process?

(107 responses)
As shown in table 18, almost three out of four of the total group of respondents (73.01%) believe that members of boards often have difficulty understanding the technical complexity of advice they are given on executive remuneration.

Table 18: Do board members often experience difficulty understanding advice on executive remuneration?

![Bar Chart](chart.png)

SAMPLE RESPONDENT COMMENTS

Around two out of three respondents gave written responses to a question following answers given in table 18 on views about whether board members experience difficulty understanding the complexity of the advice given them on executive remuneration.

They were asked on what evidence they based their answers. What follows is a sample of responses.

‘Most of them have worked years in executive management ranks and know very well the ins and outs of how remuneration at that level is put together’

‘The number of questions asked, the looks on faces, the attitude and then the inability to walk the talk’

‘Having consulted to boards and led internal remuneration function of major ASX listed company I have seen board members who are not au fait with the remuneration landscape and some technical and philosophical complexities. It is perhaps a generational issue, where those who were senior executives in a time of less complex practices have not immersed themselves in contemporary thinking on the issue’

‘They are usually executives themselves, so they understand the components of it, and understand market forces and trends’

‘The incidence of inappropriate executive remuneration, especially at termination indicates a lack of understanding of the consequences of particular remuneration frameworks’

‘Board members differ in their experience and knowledge of remuneration technicalities’

‘Our directors are very experienced in remuneration matters’

‘Previous experience as a remuneration specialist in a private company’

‘It has been my experience that board members are, for the most part, intelligent persons, often coming from financial backgrounds and with a high level of business acumen. They should therefore be able to understand this type of advice’

‘Many board members are retired or at senior levels of organisations that are stagnant and therefore may not be in the best position to compare competitive salaries for executive levels’
'At not-for-profits, they are on the boards to satisfy their egos, not apply appropriate governance or advice'

'Often directors of a board are not required to have any knowledge of or experience in the area of remuneration - other than their own'

'I have sat on boards (including with the MD of a major aircraft manufacturer) and my experience is that many directors obtain their appointments through nepotism, political appointment or are promoted far above their experience and skills level. I am qualified in HR / IR / accounting, health & safety, leadership, financial markets, global treasury, derivatives and other disciplines, after 37 years in the workforce reaching the position of CEO Australia for one of the top 10 companies in the world'

'Often they compare the figures to top tier positions and not necessarily in context of the organisation they work for'

'On my own consultancy role with private sector clients and on my own experience of being a member of government boards. I know how difficult it is to get advice. Also know how difficult it is for Boards to get the real information they require to do their job from within the company'

'It seems to be that you are only as good as your last quarter results. It doesn't really matter about the next 3-5 year just the immediate and short term ROI'

'Experience as an adviser to several boards where the directors had little appreciation of market pay dynamics and statistical techniques to explain these dynamics'

'The discussions I have observed regarding the components of total remuneration packages, particularly when cars are part of the package'

'I am currently a director on a board and as a HR professional assist the board in deciding on remuneration, structure and HR strategy'

'Watching in meetings and seeing them struggle to understand the basics of a combined tier and matrix program'

'I think many have a tendency to view data in a light that supports their individual remuneration outcomes and desires'

'Seeing a CEO obtain the sixth highest remuneration in a sector of 38 whilst not performing in the top six on any indicator'

'Not evidence-based; simply my belief’

'I myself have served on a board of directors as the HR expert’

'Feedback from senior HR managers who have delivered papers to the remuneration committee and full board on various issues’

'Generally experienced board members occupy senior roles in industry and are familiar with executive remuneration advice’

'Boards can only make judgments and decisions based on information they are given to Review and approve from the CEO, senior management, HR advisor or external consultant. Information should be presented in clear, plain English with clear plain (formula) examples. Any members of a board that purport to not understand what they have approved, should be removed from the board for not seeking clarification. If boards approve senior executive salaries, they are deemed to know and understand what they are approving’

'Have experienced remuneration discussions lasting 1 hour only in relation to executive remuneration, where the research etc takes well over 1 hour to properly explain. They cannot or do not spend the time needed to fully understand the research and therefore the basis for the recommendations’

'Some board members have no relevant experience-base with regard to remuneration and rely on the views of fellow directors’

'The numbers of times they ask HR for clarification. The advice is written in industry jargon, which the board members do not understand. The board members are not necessarily in touch with staffing and IR matters (they should be)’

'They will often revert to a market rate when presented with the evidence’

'Board members often are elected with little or no knowledge of technical aspects’

'Many board members are executives in their own right and may ‘match’ against their own biases’
‘My experience shows that board members have a tendency to use their own experience as their knowledge base which is often limited to being a recipient of a remuneration package, not the architect or implementer of the framework. This can skew objectivity in either direction’

‘Remuneration is like data from any specialist area that the board considers; not just the numbers need to be fully explained. There are examples where executive remuneration has driven short term behaviours that are detrimental to the business in the long term. Often this has not been obvious until damage has already occurred’

‘The boards I have been involved with have all been quite experienced and in some cases members are sitting on a number of boards. This knowledge and experience often leads to a better understanding’

‘Board members are in the most part intelligent people and have a duty of care to the organisation. If executive remuneration advice is technically complex, it should be resubmitted so that it is not complex, or change advisers’

‘Anecdotal evidence based on the type of questions asked’

‘Just an assumption’

‘Our Remuneration Committee is experienced and intelligent - they ask questions if they do not understand’

‘My time working with boards on CEO and executive remuneration would suggest that the issue of long-term incentive valuations is poorly understood’

‘Members were voted to the board based on their industry knowledge and technical expertise, including being able to read financial reports’

STRUCTURE OF EXECUTIVE REMUNERATION

This section of the survey asked 150 specialist respondents to report on the operation of executive remuneration frameworks based on their experience in the field.

The great majority of that sample group report that their companies offer fixed remuneration comprising salary (98%) and superannuation (96%) with 79.33% adding in other expenses such as parking, car and club memberships.

As indicated in table 19, 72.67% of respondents report that basic statutory superannuation is offered, with 20% of respondent companies offering up to 15% of salary as superannuation.

**Table 19: What type of superannuation does your organisation provide?**

![Superannuation Chart](chart.png)
A total of 36.49% report a defined benefit superannuation scheme while 88.51% report a contributory scheme. Of those reporting a defined benefits scheme, 71% report the scheme is closed to new entrants.

**INCENTIVE STRUCTURES**

A total of 85.33% of respondents report that short-term incentives (STI) are cash-only with the remainder reporting share components. As indicated in table 20, nearly three out of four (72.87%) report that the short-term incentive potential is up to 50% of fixed salary, with 11.63% reporting from 50-75% and the remainder up to 100% or more of fixed salary.

**Table 20: What is the short-term incentive potential for senior executives?**

![Chart](image1)

In recent years, as indicated in table 21, the specialist respondents report that the STI component has not increased relative to the long-term incentive (LTI) component in three out of four cases (73.76%).

**Table 21: In recent years has the short-term incentive increased relative to the long-term incentive component?**

![Chart](image2)
Table 22 indicates that nearly half (42.25%) of respondents report share options have been excluded from the LTI in recent years.

**Table 22: In recent years have share options been excluded from long-term incentives?**

![Bar chart showing 42.25% Yes and 57.75% No (142 responses)](chart1.png)

Table 23 shows that only 23.94% of respondents report their organisation offering share options as the primary part of a LTI scheme exercisable after 5 years or more.

**Table 23: Does your organisation provide share options as the primary part of long-term incentive scheme exercisable after 5 years or more?**

![Bar chart showing 23.94% Yes and 76.06% No (142 responses)](chart2.png)
Determining remuneration

Respondents report on how executive remuneration is determined in the following proportions:

- 68.24% of respondents report that remuneration is linked to organisation performance
- 41.89% report that remuneration is linked to individual performance
- 52.03% report that remuneration is linked to organisation culture contribution
- 83.78% report that remuneration is linked to short-term key performance indicators (KPIs)
- 77.03% report that remuneration is linked to progress towards long-term KPIs
- 92.47% report that STIs are linked to internally set KPIs
- 13.7% report that STIs are linked to external comparators
- 76.55% report that LTIs are linked to internally set KPIs
- 37.24% report that LTIs are linked to external comparators

More than four out of five respondents (83.22%) report that their organisation benchmarks executive remuneration against other company data, using firms such as Hay, Mercer, Canberra Group or John Egan to provide the data.

Table 24 indicates that around three out of four companies (74.47%) benchmark external executive remuneration annually, with 15.6% doing so every two years.

Table 24: How often is external executive remuneration benchmarked in your organisation?
To what is fixed remuneration linked?

Table 25 sets out how the fixed remuneration of executives who are deemed effective in their role is benchmarked, with a substantial majority (65.71%) being linked to the market median and only 14.29% linked to the third quartile.

Table 25: Of executives deemed effective in their role, what is the company policy on benchmarking and linking their fixed remuneration?

To what is total remuneration linked?

Table 26 sets out how the total remuneration of executives who are deemed effective in their role is benchmarked, with a little more than half (52.55%) being linked to the market median, and nearly a third (27.01%) linked to the third quartile.

Table 26. Of executives deemed effective in their role, what is the company policy on benchmarking and linking their total remuneration?
EXECUTIVE PAY ON TERMINATION

The respondents were asked to report on the extent to which executives were remunerated on termination. Table 27 sets out the spread of fixed pay on termination for CEOs, and shows that less than one in ten (8.03%) is entitled under contract to 12 months or more pay.

Table 27. On termination, what is the CEO’s entitlement with respect to fixed pay?

Table 28. On termination, what are executive entitlements with respect to fixed pay?

Table 28 demonstrates that only a very small minority of executives (2.16%) at one level from the CEO are entitled to more than 12 months pay on termination. The proportion is less than that for executives at a greater remove from the CEO.
Proposed government cap on termination pay

Prime Minister Kevin Rudd was reported calling for a cap of 12 months pay on termination for CEOs and executives, and indicated that he would legislate accordingly in due course. As shown in table 29, less than one in four respondents (23.24%) believe that such a cap would have a material effect on their organisation.

Of that small sample of 37 respondents, most (97.3%) thought the CEO or managing director would be affected, two thirds (67.57%) thought CEO direct reports would be and a quarter (27.03%) thought executives at two removes from the CEO would be.

Table 29. Do you think a cap of 12 months on executive termination pay would have a material effect on your organisation?

On the question of whether such a cap would materially affect a company’s capacity to attract appropriate executive staff, around a quarter of respondents (24.11%) believe it would as indicated in table 30.

To further questions about whether, in the event of government legislating a cap, would the company consider moving its executives or the parent company offshore, to each question the affirmative answers amounted to fewer than 10% of respondents.

Table 30. Would a government cap on termination pay affect your company’s capacity to compete for staff?
CEO CONTRACTS

In nearly seven out of 10 respondent companies (69.01%), the board of directors bears responsibility for drafting contracts for the CEO, as shown in table 31.

Table 31. Is the board of directors responsible for drafting CEO contracts in your organisation?

Of the respondents whose boards are responsible for CEO contracts, table 32 shows that eight out of 10 boards (83.18%) seek independent advice on the matter.

Table 32. In cases where the board is responsible for CEO contracts, does the board seek independent advice?
Around seven out of 10 boards (72.46%) consult with HR in the drafting of CEO contracts as shown in table 33, indicating that many boards seek in-house advice as well as independent advice on the matter.

**Table 33. Does your board consult with HR in the drafting of CEO contracts?**

![Survey Results](image)

**Retention payments**

Around half the respondents (51.37%) report that their organisation offers retention payments as a way of keeping critical staff, as shown in table 34.

**Table 34. Does your organisation offer retention payments to keep critical staff?**

![Survey Results](image)

Of the sample whose organisations apply retention payments, table 35 shows that seven out of 10 offer the payments to less than 10% of staff, with more than half (58.67%) offering them to less than 5%.
Table 35. If your organisation offers retention payments, what percentage of staff receive them?

Table 36 indicates that nearly two out of three organisations (63.33%) that are offering retention payments to critical staff are likely to continue to do so over the next 12 months.

Table 36. Will your organisation be likely to reduce retention payments over the next 12 months?

Other executive remuneration components

Executive loans
Respondents report that great majority of companies represented in the survey do not offer recourse loans (93.48%) or non-recourse loans (96.38%) to executives. Of the few companies that do, more than half (56.25%) have no caps other than a subjective assessment of the board or CEO. The remainder are roughly evenly divided between caps ranging from 25% to 100% of fixed remuneration.

Expenditure assistance for executives
Survey respondents report that less than half of the organisations represented offer assistance for housing (40.74%) or other living expenses (40%). However, more than half the executives (57.78%) are reported as receiving assistance for other expenses.
EXECUTIVE REMUNERATION AND SHAREHOLDERS

As shown in table 37, the great majority of respondents (87.69%) believe shareholders should be entitled to receive explanatory information by the board on the rationale for executive remuneration decisions prior to voting on a remuneration report.

Table 37. Should shareholders be entitled to receive further information on the rationale behind executive remuneration decisions?

![Bar chart showing 87.69% yes and 12.31% no] (390 responses)

However, table 38 shows that only a little more than half of the respondents (58.61%) believe shareholders should have the capacity to vote down a remuneration report rather than record a dissenting vote.

That difference is probably because a remuneration report sets out what has happened, namely that the executives have already been paid, and a retrospective vote in the negative is thus problematic for all concerned.

Table 38. Should shareholders have the capacity to vote down a remuneration report rather than simply express dissent?

![Bar chart showing 58.61% yes and 41.39% no] (389 responses)
SAMPLE RESPONDENT COMMENTS

On this contentious issue of shareholder participation in the board’s decision making on remuneration, respondents were invited to comment. A sample of comments is set out below:

‘The directors are meant to represent the interests of the shareholders, therefore the shareholders’ interest when tacitly expressed through a vote, must always override any decision of directors. That is, the shareholders own the company and as the owners the final control of the company should always be with them’

‘Shareholders are an integral aspect of an organisational ethics. They are the ones who are providing the financial capital and should have a say in the remuneration entitlements of the board’

‘Too complicated’

‘No - I believe any contract should be binding and not subject to disgruntled shareholders with axes to grind, BUT common sense should prevail’

‘I answered no due to the possibility of shareholders consistently voting a remuneration report down. This leaves too much power in the hands of the shareholders, if they have the option to express dissent then they also have the option of selling out their shares if they disagree with the remuneration report’

‘The management team should be able to run the business’

‘As a shareholder I really have very little chance to question the operation of the company. If I am lucky I may be able to ask a question at the AGM. Unlike the public sector which is open to scrutiny, listed companies have very little interaction with shareholders’

‘Shareholders are not responsible for attracting and maintaining high level talent within an organisation. The process will become too drawn out and problematic’

‘Opinions have merit and should be taken into consideration; however, the final decision on remuneration should not solely be based on a shareholder vote’

‘If they are sufficiently well-informed of the nature and terms of the remuneration then I think the answer should be ‘yes’. The CEO and board are accountable to shareholders, the public and customers. Voting on directors’ remuneration is part of that accountability’

‘Shareholder majority should take precedence over executive preferences as the latter tends to suit one or several individuals rather than the many who, collectively, own the company. The shareholders own the company, not the board’

‘Shareholders have a vested interest, and I believe a right to know, in the determination of salaries of executives whom the board have placed in positions of trust for those same shareholders’

‘Running a company is not a democracy. I believe shareholders can often make decisions based on personal best interests and not necessarily the best interests of the company’

‘Ultimately shareholders own the company and should have the final say’

‘It is up to the board to make such decisions, as the board is responsible for the governance of the organisation. The board should be held accountable by the shareholders for making appropriate decisions around executive remuneration’

‘The board of directors are there to represent the interest of shareholders. That is their function and they should be allowed to get on with the job’

‘Shareholders want a long term progression of performance. Staff want stability and structure. Remuneration schemes are paid on short term gain. CEOs and executives have no one to answer to and should be accountable for their performance. Golden handshakes should go. Why provide the ability to input views without a voting system’

‘What is the point of shareholders expressing an opinion if it is ignored?’

‘There have been too many examples of shareholder dissent being ignored by boards. More power to the people and keeps things in perspective’

‘Because the board is ultimately responsible for running the company and making these Decisions. They can take consideration of the views of shareholders, but have to be operating at a higher level with a bigger picture’

‘Because boards have ignored shareholders’ views in regard to executive remuneration’
‘To allow the power to veto could cause the total failure of an organisation’s remuneration structure and severely hamper its ability to attract talent’

‘This could leave an organisation exposed as shareholders may not be in the best position to judge what is a competitive salary for an executive level. There would be a danger that shareholders would vote based on comparisons to their own personal situation which is not fair and could lead to issues of being able to attract suitable candidates at the higher end of the business’

‘They (the shareholders) are the owners of the company and their opinion should impact upon the operation of the company’

‘Shareholders of publicly listed companies should have no part in the management of a company, if they do not like the management, they have the right to sell their shares’

‘They elected directors - their dissatisfaction should be directed at them and not the CEO’

‘Shareholders ultimately own the company and bear the cost of poor decisions. Shareholders are often interested in the longer term prosperity of a company rather short term gains that make a CEO eligible for incentive payments’

A ROLE FOR AHRI IN EXECUTIVE REMUNERATION

Respondents were invited to suggest whether AHRI had a role in executive remuneration, and if so, what that role should be. The comments that follow are a sample of responses.

‘Lobby for greater shareholder input and the reduction of power of boards to make decisions of great magnitude without prior shareholder notification and approval’

‘I believe AHRI should use it extensive membership database to put forward actual market Information’

‘Provide an assistance framework for setting CEO and executive remuneration to observe rules of proportionality’

‘As a peak professional body it should set up and provide research data, as well as set the strategic direction for this issue’

‘Informative - provide quality specialist contacts’

‘AHRI should be a consultant to the Productivity Commission in this matter and provide research that helps informed decision making regarding executive remuneration packages and especially any efforts to legislate Inquiry findings’

‘Provide market data from members. Be the voice of ‘the reasonable person’

‘Provide a broad submission outlining the key elements of a desirable remuneration framework’

‘Play an active role, together with peak employer associations, in informing and influencing government to take a balanced response’

‘A very vocal one’

‘Lobby for best practice’

‘Limited involvement’

‘As a representative of HR professionals, a collective voice with practical experience and to keep members informed of progress and where they may want to contribute, either as an separate organisation or as part of a sector’

‘Advice, research results shared, examples of structures, sharing experience’

‘Highlighting the need for HR units to play a strategic organisational role within companies and particularly with setting and negotiating executive packages and contracting same’

‘Provide advice on what actually occurs in industry and what impact proposed legislation will have on attracting and retaining talent’

‘Ensuring we end up with a fairer and more equitable remuneration system - the balance has tipped way too far in favour of excessive executive remuneration’
‘Inject common sense into remuneration discussions. Expose the myth of justifying extraordinary executive salary arrangements on so-called market drivers. Australia has excellent employees at all levels. The current market crisis is in most part due to greed and exploitation in an unregulated environment that has cost and will cost current and future generations dearly.’

‘As the central HR authority in Australia, AHRI should take the lead on these types of matters and provide expert advice and assistance to members’

‘Stakeholder - nothing more!’

‘AHRI should play an active specialist role in the Productivity Commission Inquiry’

‘To be an additional voice’

‘Only comment at this stage was your survey was way too long’

‘An active advisory role to ensure that the Productivity Commission understands the ramifications of wage disparity in the current workplace’

‘Provide a paper detailing HR views by industry on executive remuneration practices’

‘The focus of the discussions and survey relates to executive remuneration for ASX and global multinational companies. There are also private company executives who may be impacted by any changes to legislation or rules. AHRI has the breadth of members to address all sectors in Australian businesses and ideally position themselves as independent advisers to any committee or review board. Note: In forming the survey responses it assumes we are the internal HR manager. I am an HR consultant to the private and public sector and have little direct input into the board or CEO recommendations. My previous life was as the remuneration director for an ASX top 50 company’

‘It has a legitimate role in at least submitting a position’

‘AHRI should take a prominent role in this matter as the peak HR body’

‘It should serve as a reality check. It is difficult for government to understand the workings of private enterprise’

‘Be an advocate for fair and transparent executive remuneration practices’