

Executive Reward in the Second 200 of the S&P/ASX

by John Egan

Our research over the past five years has clearly highlighted the difference in the reward mix and reward levels of executives managing Australia's largest listed entities, the majority of which have a significant international footprint, and those of the less substantial listed companies which traverse all sectors, though are less dominated by financial services, resources and energy companies than the ASX top 25.

In the smaller companies, while remuneration is substantially below reward levels of the most senior executives in Australia's largest companies, the level of incentive, either paid in cash or delivered by way of equity participation in terms of both proportionality and value is substantially less than the at risk reward among Australia's top 50 companies where to some extent practice is influenced by global trends.

Having regard to the CEO and top 5 executives reporting to the CEO among Australia's top 50 companies and those ranked between 200 and 400 on the ASX, both reveal a diminution in the underlying carried interest in equity arising from the sharp decline in share values at the end of the 2008 calendar year, but also reveal that indicatively base remuneration as a proportion of total reward in the second 200 companies is significantly higher than that of executives in Australia's leading companies where the value of their annual incentives substantially exceeds the total reward of their counterparts in the second 200 of the ASX.

The media and to some extent recent Government enquiry focus on Australia's largest companies has focused less on the relative scale of those companies compared to the several hundred companies listed on the S&P/ASX and the subsidiaries and branch operations of numerous international corporations employing thousands of managers in all industry sectors across Australia. By way of reference, the average market capitalisation at the end of calendar 2009 of Australia's top 50 companies approximated \$13.5 billion. For the second 200, that is the S&P/ASX 200 to 400 ranked companies, the average market capitalisation was \$111 million or less than 1% of the relative scale of Australia's largest companies.

With more than 20,000 directors as members of relevant professional bodies, including the Australian Institute of Company Directors, it would be our assessment that in a significant majority of cases governance in relation to reward has been well managed, with the vast majority of management in Australian enterprises being priced in a local market.

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