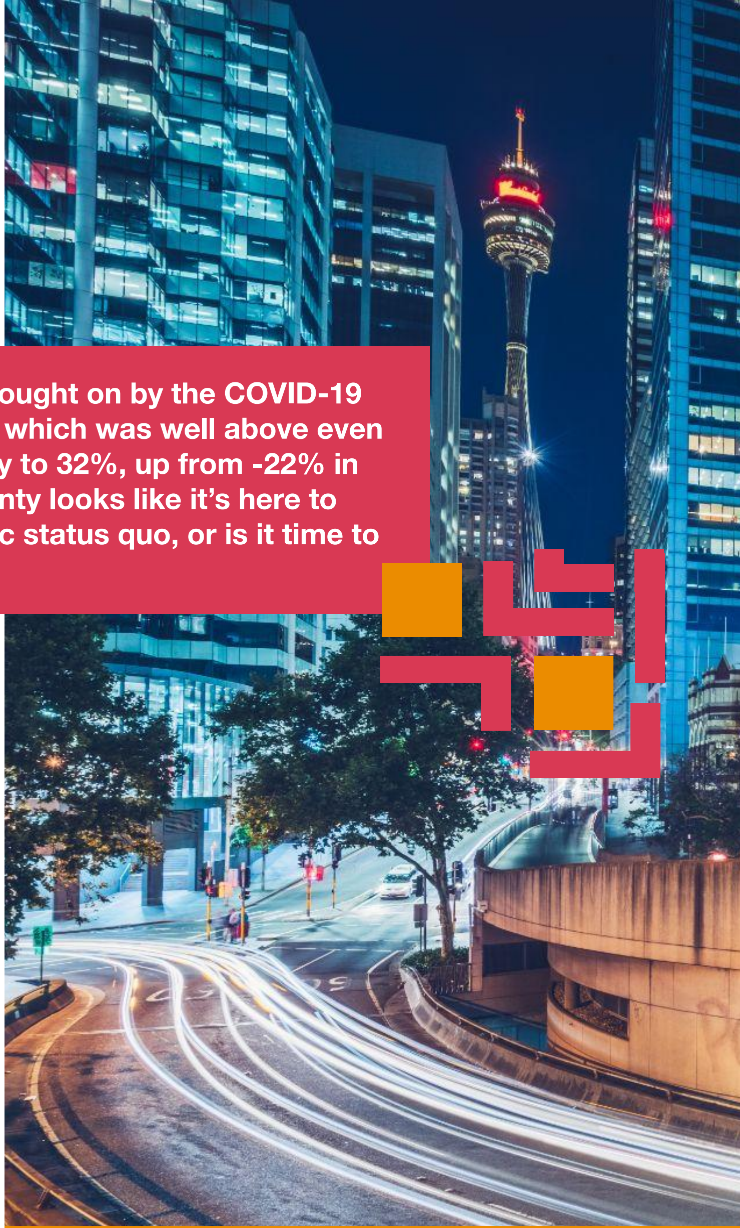
10 minutes on...

2021 Executive remuneration trends: **A familiar story, but is it time for change?**

August 2022

pwc

Summary of 2021 executive remuneration practices



The Australian market saw something of a return to normalcy after a volatile and uncertain period brought on by the COVID-19 pandemic. Despite the Omicron variant having begun its spread, Australian GDP increased of 4.2%[1], which was well above even pre-pandemic levels. All sectors saw TSR growth, with Financial Services making a startling recovery to 32%, up from -22% in 2020. Even so, wage growth remained slow, and with inflation and interest rates on the rise, uncertainty looks like it's here to stay, and in terms of remuneration practices begs the question: are we returning to the pre-pandemic status quo, or is it time to start charting a course towards a 'new normal'?

With 2020 firmly in the rearview mirror and an unexpected market recovery across FY21, executive pay in Australia is starting to shift away from crisis mode as companies chart a course back to business as usual. After fixed pay reductions, temporarily lowered short-term Incentive (STI) targets, and suppressed incentive outcomes, some Boards are now grappling with the effect of outperforming their conservative forecasts and the unexpected windfalls that may result for executives. The exercise of discretion to downwardly adjust incentive outcomes is on the rise, even as long-term incentives (LTI) awards increasingly fail to vest due to assessment lag, as Boards reassess their approach to target setting.

Despite recurring COVID-19 peaks, the reluctance for continued heavy lockdowns significantly improved Australian market performance in FY21, with a number of industries riding the wave of recovery. Median pay increases for CEOs and executives grew substantially on FY20 numbers in the Healthcare, Consumer Discretionary, and IT sectors, as demand for services trended upwards and wage pressures began to build. Financial Services and the Energy/Resources sector were the only groups where management wage growth fell from FY20 numbers.

Not unexpectedly, median STI awards were substantially higher than in FY20, as companies benefited from a combination of unexpected short-term performance, and in some cases, temporarily reduced targets to ameliorate the impacts of COVID-19 on their usual financial targets. Healthcare and Real Estate saw the greatest increases in FY21 for both CEOs and Executives. The converse was observed with total LTI vesting, which continued to slide from a median award outcome of 67% in FY19 to a slump of 29% in FY21, reflecting that long-term financial targets set prior to the pandemic had lost currency.

The instances of Board discretion being considered or applied continued to rise, as expectations from shareholders, proxy advisers and regulators for processes to be developed around overarching outcome adjustments saw broader uptake. The anticipated increase in the utilisation of non-financial and ESG metrics was less pronounced than expected, although with incoming legislation and regulations for Financial Services, it is expected that FY22 and FY23 will see a significant upshot in their usage, particularly in LTI.

Notes on methodology: Our market data provided in this publication covers Key Management Personnel (KMP) at S&P ASX 100 companies (excluding foreign domiciled companies) as at 31 December 2021. All data is presented in AUD (but where appropriate, individual year on year analysis has been completed in home currency). Data is based on 2021 Remuneration Reports and other publicly available sources. Company size and performance data has been sourced from CapIQ.

1. Australian Bureau of Statistics, December 2020 to December 2021 [link]

Summary of 2021 executive remuneration practices (cont'd)

Highlights

- Fewer CEOs and Executives received fixed pay increases in FY21, compared to FY20, as companies adjusted to operating in a pandemic-affected environment.
- Overall, median pay movements were as follows:
  - **1.8% for CEOs** (with 65% receiving no increase at all).
  - **2.2% for other Executives** (with 63% receiving no increase at all).
- For NEDs, we also observed similar restraint, with a fewer number of companies (15% of ASX 100) increasing base fees in FY21, versus 25% in FY20. Despite this, the median increase was higher (FY21: 5.1%, FY20: 4.1%), with this largely driven by a number of companies who experienced rapid growth and fees were increased to take into account the increased size and complexity of the business.
- Better-than-expected economic recovery resulted in mixed outcomes:
  - Actual STI outcomes sharply increased in FY21 for the first time in years and were 110% of the target at the median for CEOs and 104% for other Executives (vs. 62% for both cohorts in FY20).
  - **23% of companies made discretionary adjustments** to their formulaic STI outcomes (versus 27% in FY20). Adjustments were typically made by constraining maximum opportunities or funding mechanisms to reflect pandemic-related commercial difficulties or sentiment. As a number of companies revised down their FY21 STI targets based on expectations of continued low performance, discretion was applied to prevent problematic windfalls.
  - Median LTI vesting was 29%, vesting was achieved (all or in part) for 59% of CEOs (consistent with FY20). For CEO LTI awards which had a vesting event in FY21, the median vesting outcome was slightly lower at 74% of maximum (compared to 78% in FY20).
- The structure of executive pay frameworks remained largely unchanged with 91% of companies operating a traditional fixed pay / STI / LTI model. We did observe a minor increase in organisations utilising a fixed or service-based equity component in their framework with 5% of ASX 100 companies now including this feature.
- Some minor changes to traditional remuneration models were observed:
  - Pay packages were more highly leveraged in FY21, with fixed pay weighted at an average of 29% for CEOs and 35% for other Executives, with the proportion of LTI seeing a nominal upswing of 3% across both CEOs and other Executives. Health Care remained the most highly leveraged sector for CEOs, with Financial Services the least (with FS leaning on STI instead).
  - STI deferral continued to trend upwards, with 89% of companies utilising deferral in FY21 compared to 79% in FY20, with deferred portions delivered mostly in deferred equity.
  - Three years continues to be the most common performance period used within LTIs (71% of companies), however four year performance periods have increased their prevalence (up to 24%). Relative TSR remains the most commonly featured performance metric (75%) with performance rights also continuing to be the preferred reward instrument (89%).
  - The prevalence of non-financial measures in LTI plans has continued its positive trend, having increased considerably (at 39% versus 16% in FY20). Despite all the attention from the market, ESG metrics only accounted for a small proportion of the total increase (currently utilised in 9% of plans).
- The prevalence of mandatory shareholding requirements (MSRs) remained consistent with prior years with 71% of companies requiring CEOs to hold a minimum value of shares. The median MSR for CEOs is 100% of fixed pay (less than 150% in FY20).
- Consistent with increasing shareholder and proxy adviser sentiment around reinforcing accountability for management via remuneration, an uptick in disclosed malus clauses was observed with 81% of FY21 companies including a clause (compared to 75% in FY20).

Fixed pay

Prevalence of increases remained stable, as Executive increases outpace broader employee wage growth

Temporary reductions in response to COVID-19 have mostly ceased

- 3% of ASX 100 companies temporarily reduced fixed pay to their executive group in response to the ongoing impacts of the pandemic (compared to 21% in FY20).
- While being considerably less prevalent than FY20, fixed pay reductions for CEOs were also more prevalent than for Executives. Of those that did experience a reduction, they ranged from 10-35%, and were typically applied at the start of the financial year when COVID-19 was still rampant.

Prevalence of CEO pay increases remained stable

- Pay decisions made in FY21 reflected that this was the first financial year in which decisions had been made in the midst of the pandemic.
- 65% of same incumbent CEOs did not receive a pay increase (compared to 40% in FY20), consistent with the Executive cohort where 63% also maintained their current levels of fixed pay in FY21 (down from 69% in FY20).
- Contrary to observed practice in FY20, pay movements were largely driven by companies outside of the Financial Services sector, with Healthcare and Consumer Goods sectors seeing a greater prevalence of increases which is unsurprising given the shifting priorities as a result of the pandemic.

Median pay increases mixed compared to last year

- The more targeted approach to CEO pay rendered increases being delivered in greater quantums in comparison to FY20, with the median fixed pay[1] (inclusive of changes to either base salary or fixed benefit values) increase being 1.8%, consistent with FY20.
- Increases for Executives, while more prevalent, were similar with the CEO cohort, with a median increase of 2.2% (down from 3.6% in FY20).
- This year, the medians of CEO and Executive fixed pay increases reported outpaced Australian employee wage growth (of 1.7%)[2], the first time this has occurred in a number of years.
- Consistent with the more targeted approach to pay, the number of significant increases in FY21 were more prevalent than the year prior, with 7% of CEOs and 6% of other Executives experiencing increases of greater than 10%.

Incoming CEOs continue to receive lower fixed pay than their predecessors

- The trend of new incumbent CEOs typically being paid less than their predecessors continued (at a median of 16% less). Internally promoted CEOs again typically received less in FY21 when compared to external hires (22% less compared to 14% less).

Figure 1: CEO and other Executives pay movements (ASX 100, same incumbent)

	Median fixed pay movement		Median increase (increase >0%)	
	CEO	Others	CEO	Others
FY21	1.8%	2.2%	4.0%	4.8%
FY20	1.8%	3.6%	3.4%	6.2%

Figure 2: CEO and other Executives % with no pay increase (ASX 100, same incumbent)

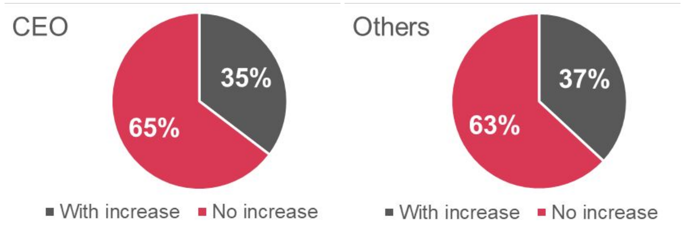
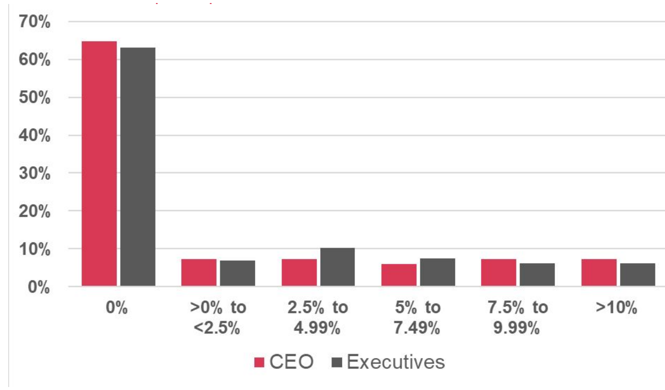


Figure 3: CEO and Executives fixed pay movements by



1. For the purposes of this analysis, we have excluded the impacts of temporary pay reductions such that the numbers reflect a full year's pay in order to provide a like for like comparison of movement of fixed pay in the market year on year.
2. Australian Bureau of Statistics, June 2020 to June 2021

Short-term incentive practices and outcomes

Median STI payments see a sharp increase, despite Boards continuing to consider and apply downwards discretion

Median STI outcomes buck downward trend and see sharp increase

- Actual STI outcomes were 110% of the target at the median for CEOs and 104% for other Executives (vs. 62% for both cohorts in FY20). This represents a recovery following the depressed achievement in FY20 (shown in Figure 7). While lower outcomes were not unexpected in FY20 following the impacts of COVID-19, the sharp rise in FY21 is representative of stronger than expected performance across the ASX 100 in FY21.
- STI outcomes in the Financial Services sector (median of 80% of target) were restrained in comparison to the broader market, where median achievement ranged from 110% of target in the Materials & Energy Sector, up to 135% of target in the Communications Sector.

Variable pay continues to be highly variable, zero outcomes less prevalent

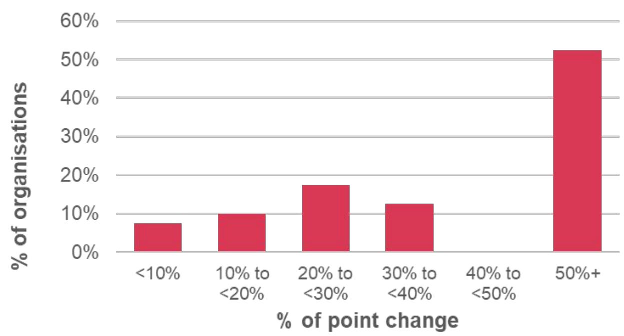
- We observed similar variation in CEO STI outcomes in FY21, with 83% of the same incumbents having a year-on-year variation of more than 20% in their payments (compared to 86% in FY20).
- The number of CEOs with greater than 50% variation in their outcomes has also remained similar (53% in FY21 compared with 52% in FY20). This further reflects the impacts of the pandemic in FY20 and the varied recovery experienced in FY21.
- Zero bonus outcomes decreased in FY21 to 7% across all KMP, down from 27% in FY20.

Increased transparency in assessment continues to gain momentum, as the number of adjustments to STI remained stable

- Almost one quarter (23%) of ASX 100 companies made an adjustment to their STI in FY21, which was typically and adjustment downwards, which is surprising given this still resulted in overall a sharp increase in actual STI outcomes across ASX 100.
- While the reason for the adjustments were varied, consistent themes that arose for Boards making adjustments included:
  - performance targets may have been set at conservative levels at the start of FY21 as future economic performance was uncertain and Boards undertook a qualitative ‘look-back’ to deliver an outcome they believed reflected executive performance within the context of the economic conditions that actually unfolded
  - for some companies that may have benefited from tail-winds as a result of the pandemic companies did not want to be seen as ‘profiteering’ from the pandemic and therefore exercised discretion to remove these impacts.
- The desire for increased transparency in the market continues to build momentum, with more and more companies who did not adjust outcomes providing explicit commentary relating to their active consideration of discretion. While guidance around enhanced disclosure was highlighted at the beginning of the pandemic from a number of industry and regulatory bodies, we expect that the emphasis on disclosure is sure to continue beyond FY21.

Figure 4: Median STI payments FY17 - FY21 (% of Target)

Figure 5: Year on year STI variation (ASX 100 CEOs only)



Short-term incentive practices and outcomes (cont'd)

Non-financial measures increase in prevalence, as assessment of ESG outcomes continue to gain traction

Focus on non-financial performance retains its importance

- While the use of financial metrics in STI plans remains ubiquitous, the prevalence of non-financial STI metrics has again increased slightly in FY21 (up to 95% of plans). This continues the trend from FY18, with the holistic assessment of performance retaining its importance. Further exemplifying this, only one company in the ASX 100 exclusively uses financial metrics to determine STI outcomes (down from four in FY20).
- 85% of companies utilise ESG metrics (Environmental, Social and Governance) measures in their STI plans, most of which are comprised of performance relating to people, safety or environmental KPIs.
- The increased focus in the market has seen a 6% increase in ESG metrics on the prior year (79% in FY20). This comes as we continue to observe metrics relating to environment and community impacts becoming increasingly prevalent in the priorities of Australia's largest companies.
- Unsurprisingly, following the impacts of the pandemic, we have observed an increase in 'Strategic' and 'Operational' metrics (increases of 9% and 15% respectively) as companies attempted to position themselves for an effective recovery or post-pandemic growth.

Figure 6: STI metric prevalence in ASX 100 year on year comparison

Deferral of STI payments increases for FY21

- 89% of companies in the ASX 100 utilised STI deferral arrangements in FY21 (79% in FY20).
- Consistent with FY20, the median proportion of STI payments deferred has remained at 50% (utilised by 47% of companies that defer), with the next most common deferred portion being 33% (18% of companies). Where payments are deferred, this is typically deferred solely into equity (95% of companies).
- Applying a phased approach to vesting, deferrals of up to two years were the most common approach (applied by one third of companies), followed closely by a single year deferral with cliff vesting (applied by one quarter of companies).
- The prevalence of companies deferring any portion of their STI for three or more years has increased slightly in FY20 (up to 22%), a combination of additional deferral as a (potentially) temporary response to COVID-19, coupled with the impending regulations in the Financial Services sector.
- Of the companies that defer, 12% placed an additional holding lock on the equity received, with the median period being a single year.

Long-term incentive practices and outcomes

Plan designs remained fairly consistent but vesting outcomes trended downward

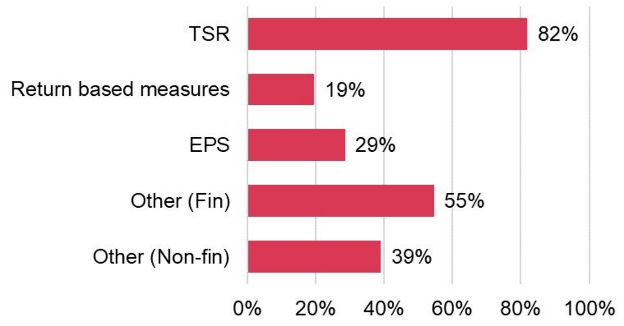
Relative TSR remains the most common LTI metric

- The use of performance based vesting in LTI plans remains ubiquitous, however the supplementation of these plans with that of instruments with time-based vesting has increased, up to 5% of companies.
- TSR (both absolute and relative) remains the preeminent measure of performance, with 82% of companies utilising in their LTI plans. 75% of these companies use solely relative TSR, with an additional 16% utilising a combination of both relative and absolute TSR.
- LTI plan designs comprise
  - 14% of companies use solely market hurdles (e.g. TSR / share price hurdles)
  - 18% of companies use solely non-market hurdles (e.g. EPS, other financial metrics)
  - Behind TSR, EPS is the next most common metric, utilised in 29% of LTI plans
- Where relative TSR is used as a performance hurdle, the majority of companies compare to an industry index (58%), while the remaining companies use a bespoke peer group of companies.
- The prevalence of non-financial measures in LTI plans has increased on FY20, with 35% of companies utilising a combination of financial and non-financial measures in their plans (up from 15% in FY20). Although continuing to gain traction in the market, this has not necessarily been strongly reflected in the use of ESG metrics, with them only contributing to 9% of these measures (up from 3% in FY20).

Three years remains the most prominent performance period, with a slight increase in four year plans

- The median LTI performance period continues to be three years (71% of companies[1]), with four years being the next most common (24% of companies[1]).
- This represents an increase in LTI plans with four year performance periods (from 18% in FY20). Within the ASX 25, almost half (44%) of LTI plans have a four year performance period, with this cohort largely driving the statistic in the broader ASX 100.
- Vesting practices remained consistent with the prior year, with a single testing point at the end of the performance period (84%) while pro-rata or phased vesting operated in 16% of plans.

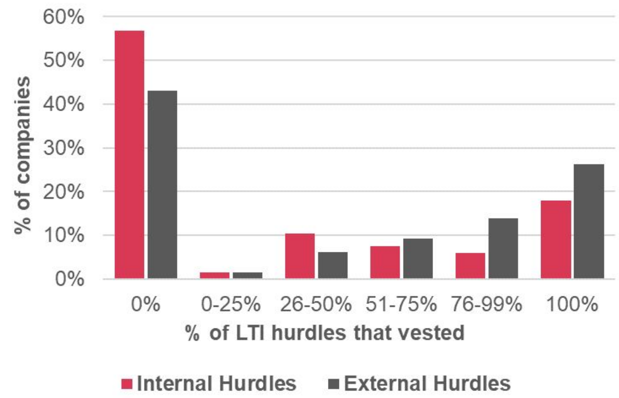
Figure 7: Prevalence of LTI hurdles across ASX 100 FY21 LTI plans (either as a sole metric or in conjunction with another metric), percentage of companies



Executive LTI achievement continues downwards trend

- Overall LTI vesting was achieved (all or in part) for 59% of CEOs (consistent with FY20). For CEO LTI awards which had a vesting event in FY21, the median vesting outcome was 74% of maximum (compared to 78% in FY20). 10 CEOs experienced 100% vesting in FY21 (versus 11 in the year prior).
- For LTI plans tested in FY21, companies were more likely to achieve against external market based hurdles than internal company hurdles.

Figure 8: Distribution of vesting patterns for LTI hurdles



Minimum shareholding requirements

The prevalence of mandatory minimum shareholding requirements (MSRs) has remained consistent with prior years, with 71% of companies requiring their CEOs to hold a minimum value of shares.

- 70% of companies also have a MSR requirement for other Executives, which is also consistent with prior years.
- 67% of companies require their NEDs to also hold a minimum value of shares.

1. Excludes bespoke incentive plans

Non-Executive Director fees

Temporary fee reductions less prevalent as broader fees remain flat

Temporary fee reductions decline, while base fees remain broadly consistent

- Whilst Non-Executive Directors (NED) fees have historically been fairly stable and consistent, in FY21, 4% of ASX 100 companies temporarily reduced NED fees in response to the pandemic. Fee reductions ranged from 10-20% (median 15%), for a period of three to six months, occurring in solidarity with the CEO and in most cases, the broader executive group. The median period of reduction was three months, and therefore in conjunction with the quantum of reduction, was not a material change to NED fees over the year.
- Outside of these temporary reductions, most NED fees remained the same. 14% of companies increased Board Chair fees, while 15% of companies increased NED base fees (down from 19% and 25% respectively in FY20).
- Of those companies that increased Board Chair fees, the typical increase was greater than last year, with the median increase at 11% (compared to 6% in the prior year).
- Companies that increased NED base fees applied a slightly larger increase compared to last year, with a median increase of 5% (compared to 4% in FY20).

Committee fee increases for FY21 were lower in prevalence but higher in quantum

- The majority of ASX 100 companies didn't increase committee fees in FY21 (~87%), however, those that did tended to grant increases in the realm of 10%.
- Following FY20, where we saw 37% of companies make changes to either their combined or standalone Audit and Risk Committees, prevalence has been considerably lower in FY21, with only 9% of companies increasing fees. While prevalence has been restrained, the quantum of increases has maintained the view of the ever increasing importance of governance and risk management in the Australian market.

Prevalence of fee pool increases remains limited and the median increase has slightly reduced

- 9% of companies increased their NED fee pool in FY21, consistent with the prevalence in FY20. Of the companies that increased the fee pool, the median increase of 28% was slightly higher than what was seen in FY20 (22.5%). A number of companies (16%) have flagged their intent to increase their respective fee pools in FY22, with the median increase expected to be ~29%.

Figure 9: Median NED fee increases received in 2021

	Median movement (all roles)		Median increase (increase >0%)	
	Chair	Other NEDs	Chair	Other NEDs
FY21	0.0%	0.0%	11.1%	5.1%
FY20	0.0%	0.0%	6.1%	4.1%

Figure 10: Median committee fee increases (increase >0%) received in 2021

	Chair	Member	Chair	Member
	Audit & Risk Committee (Combined)		Remuneration Committee	
FY21	9.5%	7.2%	9.5%	5.8%
FY20	2.8%	3.0%	14.3%	14.8%
	Audit Committee		Risk Committee	
FY21	14.8%	12.0%	12.5%	18.3%
FY20	16.7%	17.6%	14.3%	16.7%

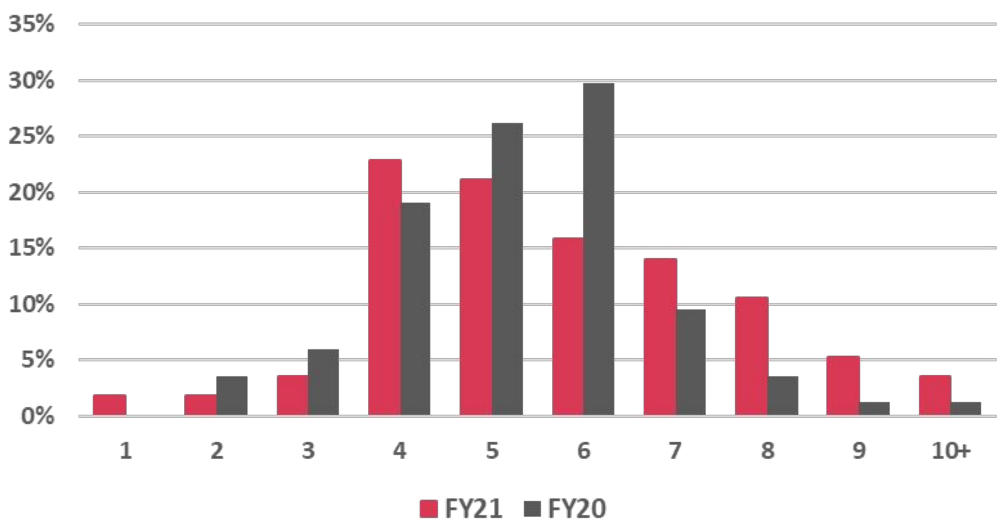
Non-Executive Director meetings

FY21 brings an increase to the number of RemCo meetings once again

Remuneration Committee meetings: The number of meetings continuing to increase

- In FY21, the vast majority of companies held between four to eight RemCo meetings (84% of companies), with five meetings at the median. The number of companies that saw RemCos exceed six meetings increased on last year from 13 in FY20 to 19 in FY21, reflective of the complex operating environments and exceptional commercial circumstances experienced by many companies, with a commensurate rise in the effort Boards and Committees were required to put into their decision-making. Financial Services (FS) companies recorded a slightly higher median number of RemCo meetings (six) than non-FS organisations (five).
- The rise in workload did not see a commensurate increase in NED or Committee fees, with fewer companies increasing base fees than in FY20.
- In line with Financial Services regulator guidance[1], in FY21, six companies in the ASX 100 Financial Services sector disclosed holding formal joint Remuneration and Risk Committee meetings.

Figure 11: Number of RemCo meetings disclosed in FY21 and FY20



1. APRA guidance (CPG 511) sets an expectation for the assessment of performance and risk would include direct input from senior risk management personnel, with good practice including the use of joint meetings of the RemCo with the Board Risk Committee. Both APRA and ASIC have specifically noted that relying upon cross-membership of committees only is not sufficient (APRA CPG 511, ASIC INFO 245).

Remuneration trends that we expect to continue

Boards will continue to take action to address pay pressures

- Last year we anticipated that increases to fixed pay were likely to be less restrained following a period of fixed pay freezes and reductions following the pandemic. FY21 reporting revealed this to be true for CEO's in particular and given the mixed approaches applied to Executive pay, we expect this trend to continue in the coming period.
- Heightened levels of inflation and the subsequent increased cost of living being felt universally are placing further pressure on pay. Coupled with the backdrop of low unemployment, talent shortages and increased retention risk, we expect Boards will consider more consistent incremental increases to Executive fixed pay to avoid making large re-adjustments in a couple of years' time.
- Proxy advisors in particular have traditionally been skeptical of CPI-style increases for executives, and it has been rare to see increases across the board for executive teams (as opposed to a targeted few), however there may be greater scope for acceptance of such practices given the changing context.

Reviewing the mix between fixed and variable remuneration

- With increasing pressure on fixed pay which, when increased, has a compounding effect on incentive opportunity (and therefore total reward opportunity), we expect Boards may also take the opportunity to re-evaluate what is the right 'mix' between fixed and variable remuneration. Additional consideration will be given to whether the balance is driving the right behaviours and is delivering a remuneration framework that is valued.
- FY21 reporting revealed that CEO packages may be becoming more leveraged with LTIs incrementally increasing in representation.
- However, where successive non-vesting or low vesting of LTIs occur, this can then give rise to retention issues as a significant portion of the remuneration framework is not being valued during a time when competition for executive talent is high.
- This may prompt consideration as to whether there is sufficient retentive value in existing frameworks, and if not, what 'tweaks' could be made (e.g. shifting the balance between STI and LTI, introducing restricted shares) or incremental elements could be added.

Striking the balance between financial and non-financial measures and the role of ESG

- The great debate will continue as to what is the ideal mix between financial and non-financial measures in executive remuneration frameworks. As companies in the FS sector are caught by the requirements of APRA's CPS 511 regulations, we expect non-financial measures will play a greater role in incentive plans for companies moving into FY23, especially in LTI which has historically been heavily geared towards financial measures.
- Noting that the FS regulation is typically seen as the gold standard in Australian remuneration practices, this has already opened up scope for Boards outside of the sector to be more creative with non-financial strategic measures to form part of the LTI, particularly where there is a strategy transformation or major project that can be readily dovetailed into the LTI.
- We expect to continue to see more companies incorporating a non-financial ESG component into their remuneration design. Historically these have been introduced into STIs, however this balance is shifting with more companies looking at either the STI and/or LTI as the preferred structure depending on the specific objectives, and the expected timeframes for delivery.

Remuneration trends that we expect to continue (cont'd)

Continuing debate on use of restricted equity in remuneration frameworks

- While common in US and European executive remuneration frameworks, Australia continues to lag in the use of restricted stock (a grant of equity subject to service only) as an ongoing feature of an executive remuneration framework. While some companies have incorporated it into their frameworks on an ongoing basis, it remains a point of contention for proxy advisers who prefer such grants to include performance considerations.
- With retention remaining a live issue for many Boards, a number of companies have offered one-off grants of restricted equity (retention awards) to continue to engage and retain key talent.
- Despite the challenges to engender support as an ongoing feature of an Executive remuneration framework, we expect a number of Boards will continue to reconsider how restricted equity could supplement increases to fixed pay, to help solve for retention challenges, as the difficulties of a highly competitive labor market remain.

Ongoing enhancements to disclosure and transparency

- Proxy advisors have been very vocal in demanding companies increase the level of detail in remuneration reports, particularly in relation to how incentive targets are set, what the targets are and the performance assessment process. It is becoming increasingly common for companies to retrospectively disclose the respective threshold, target and maximum financial targets that need to be achieved to deliver the corresponding incentive opportunity. Within the ASX 100, it is also becoming a common feature to include a realised pay table despite this being a voluntary disclosure.
- We expect the call for heightened transparency to continue, with Boards providing more detail to shareholders to give comfort that there is both rigor and objectivity in assessing performance outcomes for executives.

Changing legislation will impact the use of equity based incentives

- The removal of the taxing point on equity based incentives upon termination will free up companies to consider how best to structure the treatment of incentives without the need to overlay any tax impacts.
- FS remuneration regulation also restricts a Boards ability to accelerate vesting of equity for certain roles, once employment has ceased. And larger FS institutions must be able to apply clawback even after employment has ceased. As such, we expect to see a revising of good leaver/ bad leaver termination provisions in equity plans.
- Separately, new securities law effective in October will require a review of all current incentive plans to ensure the offer process (including plan documentation, invitations and communications) will all fit within the new regulatory framework.

Key actions Boards and Reward leaders should be discussing as a result

1

Understand and address pay pressures to motivate and retain key talent

- Actively consider the role of financial reward in attracting and retaining talent, review inflationary pressures and other economic factors that have seen depressed pay increases in recent years.
- Ensure a market lens is applied to ensure ongoing competitiveness, particularly for functional roles, or roles with skills that may be considered to be easily transferable across sectors. A robust and structured approach to Executive succession planning will also be key to ongoing success.
- Seek out and collate objective data regarding executive turnover and mobility to support any required rationale for pay increases.
- Consider ‘alternative’ approaches to rewarding Executives, such as whether bi-annual pay reviews may assist with keeping pace with market pressure, or how non-financial rewards may be utilised to bolster a holistic total reward framework.

2

Identify retention risks, either in terms of individuals or reward framework features

- Explore mechanisms (such as restricted equity or temporarily increased LTI opportunities) and the motivational and retentive benefits they may provide, particularly where incentive outcomes or fixed pay increases have been constrained in recent years.
- Applying an individualised approach is essential, with an assessment of retention risks and potential impact to business a key determinant in the rationale for applying, as a blanket approach may not necessarily be favourably viewed in the market.

3

Bolster the rigour in performance assessment and transparency in disclosures

- Consider where additional rigor and objectivity can be incorporated and/or disclosed in relation to the assessment of performance. This will likely continue the trend of companies disclosing above and beyond what has been typically expected in an attempt to appease evolving market expectations.
- This will require a more active consideration and application of discretion to ensure pay outcomes are appropriate and commensurate with company performance, and enhanced disclosures regarding principles and ‘triggers’ for the application of discretion. This is particularly pertinent where windfall gains may occur following mixed levels of recovery from current market conditions.
- Be proactive in the ongoing monitoring and assessment of performance, ensuring that measures of performance remain suitably relevant and motivating, and do not stand to inappropriately benefit or detriment Executives in the event of ongoing volatility.

4

Incorporate ESG into pay to drive ESG agenda, provided there is clarity on ESG strategy and priorities

- As ESG continues to gain traction, the challenge for Boards is to consider how it can be incorporated into longer term strategy. While a number of companies currently include a measure in their STI, focus continues to shift towards longer term strategy and how tangible, forward thinking outcomes can be executed.
- This focus is spanning beyond the typical industrial or commodities sectors, with a greater light being shone on not only the environmental impacts of operations, but also the broader community in which an organisation tangibly impacts.

How can PwC help?

To have a deeper discussion, please contact your PwC specialist

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Our Reward Advisory Services

- Reward strategy
- Transactions and deals
- Incentive plans (local and global plans)
- Performance metric selection and calibration
- Reward modelling and valuation
- Tax, regulatory and accounting advice
- Employee Share Trusts
- Performance management
- Research, data analytics and benchmarking
- Design and implementation for AU companies
- Board Advisory and corporate governance
- Remuneration reports, disclosure and communications