

Salaries in the spotlight: Board and Executive Remuneration Report released



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Aon and Governance Institute have today released the results of the 2020 Board and Executive Remuneration Survey which provides a snapshot of remuneration levels for directors and senior executives from 433 organisations.

The report found:

- Almost two thirds of ASX300 organisations did not increase board fees in FY19.
- Where there was an increase, the median increase for both chair and members was 4%.
- For senior executives within the ASX300, median salary movement was 2.4%.

The remuneration data captured in this survey covers both board and executives and is effective for FY20, except for the annual report disclosures for ASX listed organisations which are for FY19. The salary increase figures for the ASX300 above highlight salary movement in FY19 over FY18.

The volatile global economic environment is set to be reflected strongly in executive incentives this year, with signs of this already evident, Governance Institute of Australia CEO Megan Motto said, and some “difficult discussions” will currently be underway.

'The economic fallout of COVID-19 is impacting boardrooms across Australia as many businesses take drastic measures including widespread pay cuts and layoffs,' Ms Motto said. 'There is clearly no one-size-fits-all solution when it comes to managing the impacts of a pandemic on executive remuneration.'

Aon's Partner and Head of Rewards Solutions, Pacific, Simon Kennedy said: 'As boards will look to balance multiple stakeholder perspectives in determining executive incentive outcomes in FY20,

proactive and cogent communication of the rationale used in making this determination to investors, shareholders and the public will be extremely crucial.'

Survey snapshot

Board remuneration: A little over a third of the ASX300 provided some increase to board fees. However, in some of the large financial institutions, there were reductions in board fees in response to the negative investor sentiment towards their remuneration programs in addition to strong public disengagement particularly in the wake of some highly publicised corporate scandals and instances of malpractice.

The median increase in main board fees on a same-company basis for organisations which did provide one, being about a third of the total ASX300 sample was observed to be 4% for both chair and members.

Executive remuneration: The median same-incumbent salary movement for senior executives over a 12-month period was observed to be 2.4%. This represents the movement from FY19 to FY20, except where annual report disclosures were used to derive executive remuneration information. Median salary increase (fixed remuneration) for CEOs was recorded at a median of 1.8%. For the top ASX listed organisations, however the salary increases for CEOs were observed to be even more muted. The median CEO salary increase in the ASX50 was observed to be 0.2% while for the ASX51-100 it was 0.8%.

Board composition: Overall female representation on boards was observed to be 29% in the survey. Industries including Retail, Healthcare and Social Assistance, and Financial and Insurance Services are trending ahead of the overall survey median of 29%. The Metals and Mining industry fares the worst with a median female representation of 20%.

Board workload: The survey shows that at median, the ASX300 had 11 board meetings in FY19. However, the median for the Financial Services and Construction industries was observed to be slightly higher at 13 annual board meetings. For the Financial Services industry, while the median number of audit committee meetings recorded was five, in some of the large financial institutions, this figure was observed to be higher, as high as 19 in one instance. A similar observation was made with the meeting frequency of remuneration committees as well. While the overall median was again recorded at five meetings, remuneration committees of some of the large financial institutions met more frequently — as high as 22 meetings in one instance.

Aon's Partner and Head of Corporate Governance Services, Laura Wanlass said: "As investors look for more ESG context in the executive remuneration governance process, continued pressure on remuneration committees for increased meeting frequency and scope of coverage could be expected."

The impact of COVID-19 on salaries

Many organisations have announced short-term changes to executive and director remuneration to mitigate the impact of COVID-19. Aon have analysed the recent ASX disclosures of 226 organisations which revealed the following:

- 87% of companies announced they would reduce chair and NED fees by an average of 51%.
- 72% of organisations disclosed reduction in CEO fixed remuneration by an average of 37%.
- 85% of these announcements came from organisations outside of the ASX300 which appear to have been impacted more severely. Their pay reductions are also higher than others by approximately 10-15%.

'Setting goals for short-term and long-term incentives for 2021 and beyond will be extremely challenging given the uncertain recovery timeframe. For most companies the performance metrics and indeed the design and terms of the incentives may need a complete rethink. Early engagement with investors in this regard will be vital,' Aon's Mr Kennedy said.

The survey: Key details

- 433 organisations including 288 from the S&P ASX 300 Index are covered in the report
- For ASX listed organisations, the most recently available annual report disclosure (FY2019) was used to extract remuneration details, unless specifically provided in the Board and Executive Survey.

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