

# Newsletter March 2016

Easter is upon us - if you've been as busy as we have at Egan Associates, you'll be looking forward to the break.

This month we've examined option use among the top 500 ASX companies and beyond by sector, provided selected examples from the market to demonstrate why Boards are using discretion in awarding pay outcomes, and discussed the relative difficulty of serving on audit and remuneration committees.

We hope you enjoy your break and return refreshed next week.



## The Importance of Discretion

It is unusual in current times to observe short or long term incentives where the award is determined solely at the discretion of the Board. However, discretion has far from lost its place in incentive payments and policy.



## Option Grants Over Time, Company Size and Sector

Egan Associates investigates the use of options among companies of varying size and sector as well as over time.



## Is Serving on the Remuneration or Audit Committee more Difficult?

The majority of ASX 100 companies disclosed a Board Skill Matrix in 2015, yet not all matrices revealed current Board member attributes.



## The Agenda

The Agenda highlights current issues or matters that may be under review by Government or under consideration by Boards of Directors, including those relating to superannuation, executive pay, the workforce and pay equity.

# The Importance of Discretion

It is unusual in current times to observe short or long term incentives where the award is determined solely at the discretion of the Board. However, discretion has far from lost its place in incentive payments and policy.

Formulaic incentives will never be able to provide the right remuneration result in every situation, leading to occasions where the incentive does not reflect true performance. It is at this point that discretion steps in, where the Board can adjust outcomes up or down.

Although discretion has not been well received in some settings where stakeholders considered payment adjustments to be underserved, proxy advisors generally approve a reasoned use of discretion as long as the explanation is disclosed.

Examples of situations where companies have used discretion include:



- **To respond to company performance and industry conditions**

MMA is a marine services company with a customer base of oil and gas companies. The commodities downturn resulted in difficult conditions for the company, where utilisation of its fleet dropped.

Given the “overall performance of the company and current market conditions”, the Board exercised its discretion not to pay the KMP any STI for 2015 and suspend STI for 2016 unless conditions improved. It also decided to defer the vesting of the 2012 LTI for another year contingent on service.

Seven Group also suffered from the commodity market downturn, with impairments leading to a substantial loss for the 2015 annual year. Although partial STI would have paid out under the plan as executives had met some performance conditions, the Board considered any vesting to be inappropriate.

“Under the design of the STI plan, performance against goals other than the corporate NPAT goal could trigger a partial award. However for FY15, while KMPs substantially achieved other goals, in light of the overall financial performance of the Group, the Board considered that the provision of STI payments to executives would not have been appropriate. As such the Board applied its discretion to determine that no awards be made under the FY15 STI plan. This exercise of downward discretion reflects the Board’s commitment to maintaining the link between executive remuneration and Group performance.”

- **To align outcomes with shareholder value creation**

In 2013, BHP’s Board exercised its discretion to reduce the vesting of 2008 LTI awards by 35% for all participants even though performance against the relative TSR condition would have led to 100% vesting of the awards. The Board stated that it considered a range of factors when making this decision, including that although BHP had performed well against comparator companies, the downward trend of mining shares meant that there had been a negative total shareholder return in absolute terms.

- **To respond to shareholder feedback**

Kathmandu encountered shareholder concerns following the release of the 2015 Notice of AGM. The issue was the degree of difficulty of the CEO’s disclosed LTI EPS performance hurdle. Given poor performance in the 2015 financial year, any EPS improvement would be off a low base, making the hurdle too easy in the eyes of a key stakeholder. The Board responded with a promise to exercise discretion to make the performance hurdle more difficult. When pushed for more details, the Board then provided a new vesting schedule.

- **To reflect milestone achievements or challenges**

Rio Tinto adjusted its 2013 STI award downwards by between 10% and 40% to reflect cost overruns in a project to modernise an aluminium smelter. Due to these overruns and other factors, the assets were impaired by around \$700 million.

In 2014, Wesfarmers used its discretion to increase the STI of the Finance Director to the maximum possible payment due to his work on the sale of its insurance business.

- **To reward executives for good performance despite hurdles not being met**

Seven West Media operates an STI bonus pool which only accrues funds if EBIT targets are met. In 2015, the group's Television, Newspapers and Magazines business met their EBIT budget but the overall result was pulled down by unbudgeted digital investments including Presto – outside the budgets of all the executives other than the MD.

Overall, the target was narrowly missed by 1.4%. The company noted that it was “the best recorded result against budget for the group in over four years”. The Board decided to use its discretion to award a reduced STI reward pool, representing 20% of target level. The MD and CEO elected not to be considered for an STI award.

“While the Group's FY15 financial results and remuneration outcomes reflect the challenging operating environment, they should be held in context of the hard work and dedication of our people and their continued commitment to strengthening the cost base and competitive position of the Group over the long term and to the benefit of Seven West Media shareholders.”

A similar situation occurred in 2011 to Pacific Brands. The Board decided to award STI payments despite an EBITA gateway not being met. The decision was made because the shortfall was modest and due to external factors, such as Kmart's decision to stop stocking Pacific Brands products and increased cotton prices. Stakeholders did not approve of the Board's decision and the company received a strike on its remuneration report.

- **To counteract market volatility**

In the wake of the Samarco disaster, BHP shares dropped significantly. The CEO was due to receive a grant of rights at that lower price, which would have resulted in more rights being granted than was originally intended. The Board exercised its discretion to vary its methodology for the allocations and use a higher price to determine the number of instruments to grant.

- **To reflect conditions outside the KMP's control**

Due to the impact of the Queensland floods in 2011, the Reject Shop decided to vest 50% of performance rights granted between 2008 and 2010 despite the original EPS hurdles not being met. Voting indicated that some shareholders did not approve of this decision.

- **To reward a good leaver**

Telstra's long term CEO David Thodey retired in the 2015 year. He joined Telstra in 2001 and was promoted to the top job in 2009.

The Board used its discretion to allow Mr Thodey to keep a proportion of the rights granted to him in the 2015 year, as well as all the rights granted to him in the 2012, 2013 and 2014 years. These remain on foot and continue to be subject to the original performance conditions. Unless Board discretion was exercised, the rights would have lapsed at the time of his retirement.

- **To retain executives**

Vocation had a challenging period post listing, with the loss of key government subsidies following a review of the organisation's practices and subsequent commentary. Reputation damage hit revenues, leading to a loss that had been unexpected at the time of publishing its prospectus. Its operations were subject to further audits and the company faced class actions.

STI payments were made on a discretionary basis during this time. Turnover at the executive level was high and the sale of certain businesses within the organisation was considered important. An

STI payment was made to a business group head as a retention incentive to facilitate the sale of one business, after which she departed the organisation.

- To reward an executive for extreme performance

Crown has a discretionary STI payment for its CEO Rowen Craigie though the maximum incentive should the company perform well above budget expectations is modest by market standards.

There are **many other situations** under which discretion may be exercised including:

- Early vesting of LTI plans in the case of a takeover
- Alteration of long term incentive plan hurdles or timelines to facilitate a remuneration framework change
- Cancellation of awards or exercise of malus given a major reputational issue or financial misstatement
- Reduction or cancellation of incentive payments to take a stance on work fatalities or major environmental incidents
- Adjustment for unexpected events
- Payment of awards in shares given cashflow issues, or cash given dilution concerns

### Getting it right

Although the application of reasonable discretion is acceptable, even desired, Boards do need to make sure they go about it the right way. It's particularly important that the Board's use of discretion is enabled by policy and contractual documentation.

Following a recent court case where Westpac was found to have breached its policies when it made a decision not to award a discretionary bonus, Herbert Smith Freehills [provided companies with a few pointers](#). It recommends organisations:

- *correctly apply criteria for determining employee eligibility for any bonus;*
- *comply with any procedural requirements relating to the bonus contained in the employment contract or under an applicable policy referred to in the employment contract;*
- *maintain evidence of decision-making procedures followed to determine the bonus payment or non-payment;*
- *ensure there is a sound business case to support [awarding or] not awarding a discretionary bonus; and*
- *have clear communications ready to address queries from employees, as this is often an issue of significant importance (particularly where employment is also being terminated).*
- *exercise caution when referencing policies in their employment contracts in relation to the payment of bonuses (or otherwise), given the risk that such policies may be found to have been incorporated into the contract.*

Another law firm, [SWAAB](#), notes that:

*The Courts want us to understand that – the decision to pay a bonus or not is not a completely free one.*

*Even where payments are stated to be at the employer's sole discretion, any decision on payment must be made on a reasonable basis.*

*If you are paying bonuses according to performance, it is worthwhile ensuring that the assessment of performance be carried out reasonably and in line with company policies.*

*If you want the freedom to withhold bonuses due to financial constraints or employee misconduct, the law requires that you include such requirement in your contracts / policies.*

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# Option Grants Over Time, Company Size and Sector

It has been over a year since the Australian Treasury [released draft legislation](#) to improve the employee share scheme provisions under the *Income Tax Assessment Act*.

For the most part the changes, which were [passed by Parliament](#) and took effect on 1 July 2015, have been well received, particularly in relation to the more favourable treatment of options (now generally taxed on exercise rather than on grant).

As such, it was expected that options would increase in popularity among companies issuing securities to key employees as part of an incentive plan.

In 2014, Egan Associates examined the top 200 companies by market capitalisation at 31 December 2013 that disclosed LTI grants in their 2013 and 2009 annual reports and [determined the proportion that granted options or loan backed share plans](#) (which act like options).

The analysis returned the following results for all executives including the CEO:

Year	Top 100	Top 200
2013	12.8%	19.0%
2009	40.9%	43.0%

Egan Associates has run this analysis again for the top 200 companies at 31 December 2015, with the following result:

Year	Top 100	Top 200
2015	14.6%	21.0%

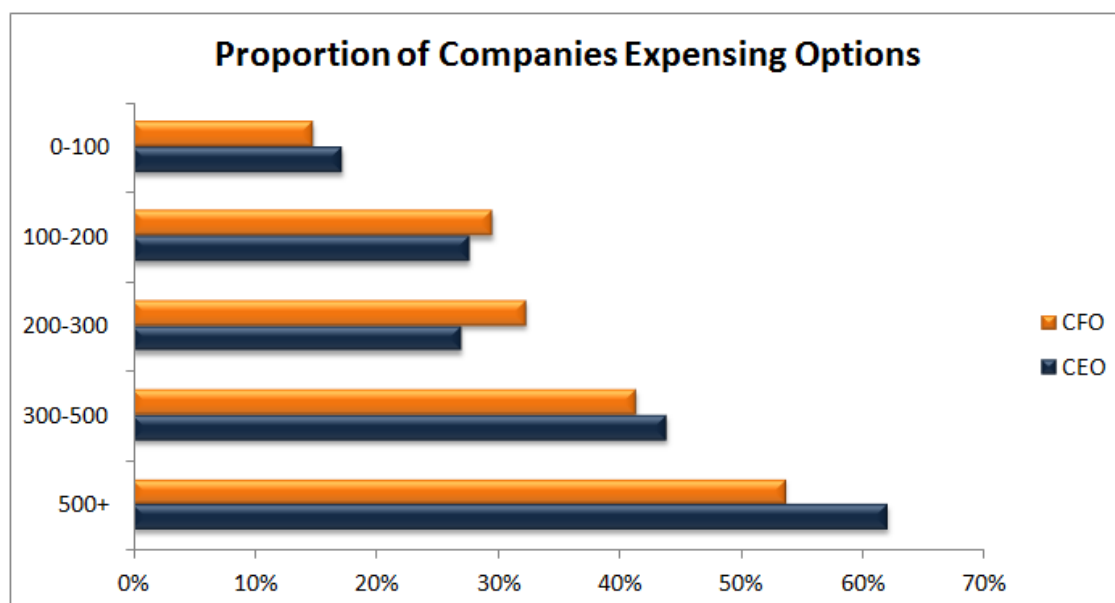
It appears that for this sample, the proportion of companies granting options or similar schemes remains approximately the same as it was before the share scheme rules were introduced. In addition, despite the legislation making it unnecessary to use a loan backed share plan to secure favourable tax treatment for an option like instrument, there are still a number in use. The 2015 result purely considering options is as below:

Year	Top 100	Top 200
2015	13.5%	16.7%

However, companies may not wish to change a plan that is in place if it is currently working as envisioned, and the ASX top 100 companies were not the intended target of the employee share scheme legislation, but rather the small cap companies and start-ups where there is a significant chance for share price growth to deliver considerable upside to employees.

To illustrate the relative prevalence of option use for companies of varying scale, we examined whether or not companies had expensed a value for options grants to the CEO or CFO in their statutory tables. This is not a perfect measure of whether these companies are granting options, as the statutory table does not reflect whether or not a grant has been made in the financial year – it will be the amortisation of a number of years of grants and may be zero. However, it does provide an indication for the purposes of comparison between company groups of different scale.

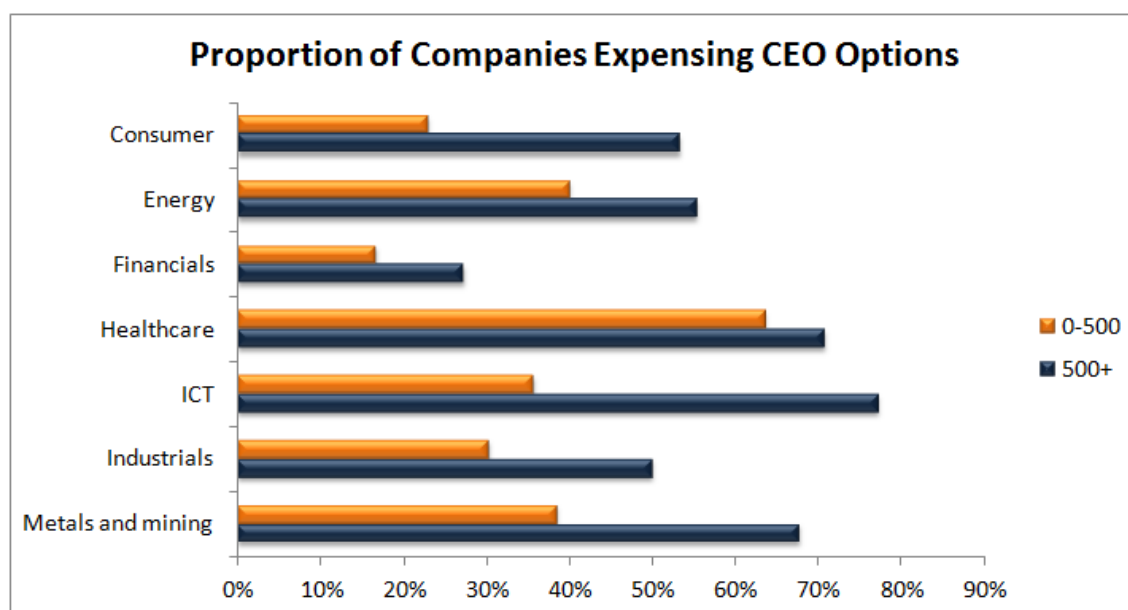
The figure below displays the number of companies that recorded an expense for option grants in their statutory table as a proportion of companies that recorded an expense for either option or share/right grants.

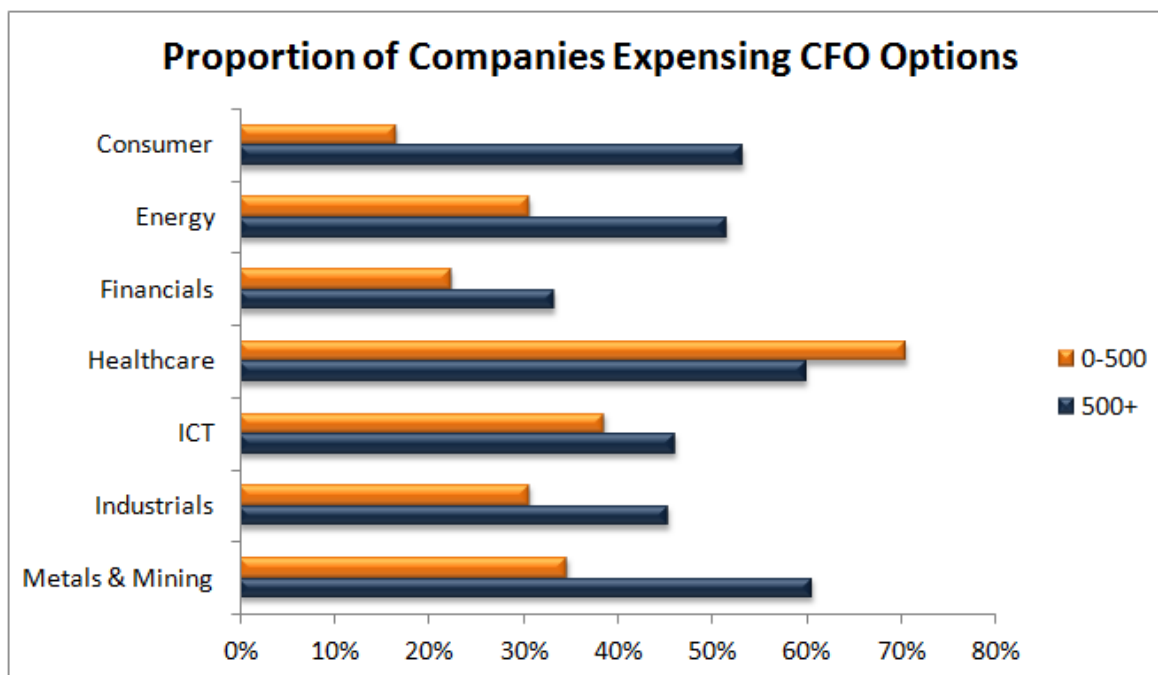


The figure reveals that option grants are typically more prevalent in smaller listed companies, which are usually in or entering the growth phase of the business life cycle. In these entities, it is particularly important that the Executive's incentive opportunity is closely aligned with the company's growth strategy. Options encourage necessary risk taking and entrepreneurial acumen by providing a higher upside from share price growth than rights, which in turn benefits the company's shareholders.

It should be noted that as the ASX rank declines, the number expensing any value for equity grants reduces. Only approximately 40% of companies included in the sample that were ranked 500 or lower recorded grants in their statutory table for the CEO or CFO. Where 2015 data was unavailable (some organisations with December year ends have not yet released their remuneration reports), 2014 data was used.

The figures below examine the relationship between sectors.





Companies in the healthcare sector expense the highest proportion of options in total (>50%), reflecting biotechnology and pharmaceutical organisations.

In the ASX 500, expensing CEO and CFO option grants is more common in the energy, metals and mining, industrials and information and communication (ICT) sectors (>30%), and less common in the consumer and financial sectors (<25%).

In companies ranked below the ASX 500, options comprise more than 50% of all expensed grants to both CEOs and CFOs in each of the metals and mining, consumer and energy sectors. The proportion is marginally lower for industrials companies (47% for CEOs and 46% for CFOs) and lowest for financial companies (27% for CEOs and 33% for CFOs).

The low proportion of option grants in the financial sector could either be the result of decisions to limit risky behaviour and/or high dividend yields.

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# Is Serving on the Remuneration or Audit Committee more Difficult?

The accountability of the remuneration committee and the regulation and shareholder scrutiny of remuneration matters have been increasing in recent years. Has the role of the remuneration committee become as onerous, if not more so, than that of the audit committee?

One consideration that may affect a response to the above query is whether an organisation has separated the challenging and involved work of risk and compliance from the audit committee into a committee of its own.

Where this is the case, the audit committee is left primarily with the (still difficult) duty of challenging and reviewing the organisation's financial accounts and supervising the organisation's internal audit function.

In such situations, Directors serving on remuneration committees may experience a heavier burden than those serving on an audit committee due to the following considerations:

## 1. Remuneration advice now comes from three separate sources

The remuneration committee must consider various and at times conflicting sources of information including advice from lawyers, accountants and remuneration consultants.

- Lawyers look at remuneration from a compliance perspective – do policies, contracts and incentive plans meet legal requirements? Do they contain the correct clauses for the company's situation? Is the company meeting its disclosure and shareholder approval obligations?
- Accountants consider the effect on the profit and loss statement of remuneration and advise on the tax implications of different remuneration options.
- Remuneration consultants consider what quantum and form remuneration should take in order to best reward and retain employees to drive long-term stakeholder value.

Without being incorrect, the advice may at times be at odds due to the different starting point for analyses chosen to fit the motivations of the source.

The remuneration committee must understand the differences and integrate the advice into a meaningful remuneration strategy that best meets the organisation's situation.

## 2. Directors serving on multiple Boards have a collection of remuneration precedents

Directors may sit on as many as five Boards and will be familiar with the remuneration practices in each of those companies. These varying practices will be referenced in any discussion, at times leading to disagreements. For example, a Director may be sitting on Boards of companies that use fair value for the allocation of equity instruments while another may only sit on Boards of companies that use face value. Some Directors may be familiar with selecting a small per sample of companies for benchmarking, while others have experience with the use of a broad church. Some Directors may prefer to task management with providing information for benchmarking, while others will be used to having the Board source and direct the provision of that information.

## 3. Directors are *setting* policies and reviewing them

The remuneration committee is accountable for the *creation* and review of remuneration policies, rather than purely reviewing them. It is the Board, not management or an auditor, that “carries the can” for directions taken.

## 4. There is often conflict between shareholders and the Board on a number of remuneration issues.

A recent US [survey by Heidrick and Struggles and Stanford University](#) has highlighted this issue. It surveyed 107 CEOs and Directors of Fortune 500 companies to uncover perceptions of CEO pay practices. Based on expected value of pay at the time of grant, 76% of CEOs and directors



surveyed believed CEOs were paid correctly. Based on realised pay, this fell to 65%. In comparison, another [Stanford University study](#) released at the same time found that only 16% of the US public surveyed believed CEOs were paid correctly. Although shareholders will generally be savvier on remuneration matters than the general public, the surveys do provide illustration of the problematic dichotomy.

In Egan Associates' view, one particularly problematic area in Australia where there is a difference of opinion between shareholders and the Board is retention payments. This is often overcome with clear and transparent disclosure of the organisational setting which led to the initiative.

#### **5. Setting performance hurdle parameters and weighting requires significant research**

Choosing the correct performance conditions and their relative importance requires a firm grasp of the company's core mission and strategy as well as the accounting knowledge to grasp the benefits and pitfalls of each condition and how they will work in practice.

Setting the parameters for each performance condition requires engagement with the business, analysis of the probability of targets being met and an understanding of peer group practices. It is also necessary to understand market analyst expectations of the organisation, as institutional shareholders and proxy advisors will often reference these when considering the appropriateness of performance hurdles.

#### **6. Disclosing and defending the remuneration framework takes time to do correctly**

In the words of AMP Capital in its 2015 annual report:

"Executive pay is inevitably one of the most controversial aspects of the proxy voting season."

The topic not only gains attention from proxy advisors and institutional shareholders, but also mainstream media outlets.

The first step in avoiding controversy is ensuring the remuneration framework is correctly communicated via the annual report. Directors must aim for concise, clear disclosure that demonstrates to stakeholders the framework is fair, reasonable and aligned with shareholder interests.

This is not only important for managing the vote on the remuneration report, but also for ensuring there is a clear record of what is expected of management to receive performance pay, in case later disagreements arise. For this reason, it is important that remuneration committees carefully proof all sections of the remuneration report themselves.

The second step is managing the response from stakeholders to the disclosed remuneration framework. Different parties will hold varying opinions on the correct remuneration for the organisation's situation. The remuneration committee and especially the Chairman will spend time liaising with key institutional shareholders and proxy advisors to defend and discuss the remuneration framework.

#### **7. Exercising discretion opens the Board to potential criticism**

No remuneration framework can achieve the correct level of remuneration for every outcome. Where unintended outcomes occur, discretion may need to be exercised. Shareholders will generally accept reasoned discretion, but can be critical of discretion that is not well reasoned or disclosed. Directors must engage with shareholders to understand their views, as well as communicate clearly with executives to ensure they are not surprised by discretionary changes to awards.

Egan Associates recently completed some research on example situations where discretion may be required, which you can access [here](#).

#### **8. The role of the remuneration committee has expanded**

Many remuneration committees have expanded their duties to include a nomination and broader HR function, where the committee will be accountable for succession planning and people management. This may lead to a deep involvement in the areas of company culture, gender pay, diversity as well as training and development. When becoming involved in these areas, remuneration committees must be cautious to be a helpful advisor to management without directing management.

## Analysis

One method of testing the hypothesis that the duties of the remuneration committee have become at least as onerous if not more so than those of the audit committee is to examine the number of meetings recorded by companies for each committee.

The average and median number of remuneration and audit committee meetings for the latest disclosures among top Australian companies where the companies have been ranked based on market capitalisation as at 31 December 2015 can be found below:

Rank	Remuneration		Audit	
	Average	Median	Average	Median
0-100	4.8	5	5.0	5
100-200	3.7	4	4.8	4
200-300	3.4	3	4.3	4
300-500	2.7	2	3.3	3

In terms of number of meetings, for Australia's top 100 companies, and top 200 if only the median is considered, the remuneration committee appears to be as onerous as the audit committee. However, this does not remain the case for smaller companies. This may be a function of reduced scrutiny of remuneration while the audit requirements remain the same.

In the broad audit committee definition, the categories of audit and risk management; audit and compliance; audit, risk management and compliance; and standalone audit committees have been considered. In the remuneration committee definition, the categories of human resources; nomination and remuneration; and standalone remuneration committees have been considered.

Egan Associates would note that the number of meetings a Committee holds does not necessarily equate to the amount of preparation time involved in meeting their obligations. In our view, where audit and risk functions are combined into one committee, this will be the most onerous committee. However, where the audit committee is standalone, the factors listed above lead to the work of the remuneration committee (particularly where it incorporates a broader organisational brief) becoming as onerous, if not more onerous, than that of the audit committee. This is particularly the case for the Chairman of the committee.

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# The Agenda

## Australian workforce

- The Australian Bureau of Statistics recently updated its [Average Weekly Earnings](#) and [Wage Price Index](#). AWOTE (average weekly ordinary time earnings) increased by 1.7% for the year to November 2015 while the Wage Price Index increased 2.2% (the lowest rate of annual increase since the records began in 1998). Inflation was 1.7% for the year to December.
- The [unemployment rate](#) fell in February to 5.8% because fewer people were looking for work.

## International competitiveness and taxation

- The Business Council of Australia released a tax directions discussion paper, noting that focusing on the effects of a comprehensive tax package rather than the effects of selected reforms would better sell the case for tax reform. It argues that Australia's tax rate is not globally competitive and that reducing the company tax rate would stimulate investment and jobs. It recommends exploration of a number of tax reform options, such as tightening superannuation caps, tightening work related expenses, reducing the capital gains discount, broadening the base of land and payroll taxes and phasing out stamp duty. The complete paper can be found [here](#).
- The government has [tasked the Productivity Commission](#) with conducting a study to develop criteria to assess the efficiency and competitiveness of the superannuation system and an inquiry to develop alternative models for a formal competitive process for allocating default fund members to products. The Commission has released issues papers and is asking for submissions by April.
- The Switzer Super Report has [compiled a list of potential superannuation tax changes](#) that could appear in the budget in the order of their likelihood.
- A global taxation study conducted by accounting firm association UHY Haines Norton notes that Australia [compares](#) unfavourably to New Zealand in terms of employment taxes – based on the organisation's analysis, compulsory on-costs such as payroll taxes, superannuation and compensation premiums make up 15% of gross salary costs in Australia as compared to 4.5% in New Zealand.
- China's Finance Minister has [criticised the restrictiveness of the country's labour laws](#), saying that increases in wages without requisite productivity gains and the difficulty of firing non-performing workers was leading to employment heading to lower cost nations.
- The European Commission has [proposed](#) that workers posted from a low cost to a high cost nation within Europe should be entitled to the same pay as employees in the destination country and not the departure country. "From now on, all the rules on remuneration that are applied generally to local workers will also have to be granted to posted workers," the Commission said. To become law, the proposal requires majority support from EU governments and the backing of the European Parliament.

## Board Governance

- The Financial Services Council and Australian Council of Superannuation Investors have launched an updated [ESG \(environmental, social and corporate governance\) guide for Australian companies](#), outlining a framework to disclose the information to shareholders. The original guide was created in 2011. "We have developed the ESG reporting guide for Australian companies to help them disclose any ESG risks in a consistent way so investors and analysts will have better information to help them make measured investment decisions," CEO of the Financial Services Council Sally Loane said.

- At the recent AICD summit, AICD Chief Executive John Brogden and ANZ Chair David Gonski [advocated a new focus on long term goals for Boards](#), asking them to say no to the short term fixation of some shareholders. ASIC Chairman Greg Medcraft meanwhile warned Boards that the “bad apples” defence would no longer be considered valid, so they should focus on improving company culture.
- The AICD has released its annual Directions survey, which canvasses the views of over 300 Australian Directors on a variety of topics. The two topics the respondents believed the Board should be spending more time on were understanding IT risks and fostering innovation, while financial reporting and audit was still identified as the most time consuming task. The greatest areas for concern of the Board were maintaining a focus on strategy, properly assessing and identifying opportunities and the capacity of the organisation to adapt. The greatest challenges to Directors fulfilling their role were “group think”, the demands of compliance oversight and keeping abreast of the business environment. The greatest inhibitors to growth in the organisation were considered to be a lack of capital to invest, aversion to risk taking and management’s short-termism. Other results of the survey examined succession planning, digital disruption and culture.

### Research, reports and surveys

- AMP Capital has released its [2015 report](#) summarising issues it encountered during the reporting year. In the preamble, it states that CEO pay should reflect the value of the executive to the organisation and not how much their peers are being paid. After analysing pay data, it found that over 50% of CEOs were being paid more than twice the pay of the next highest executive. It questioned this premium, especially as it varied considerably from sector to sector. It also noted its support of gender diversity on the Board. AMP Capital summarised its voting results for the season, noting that it had voted this season against remuneration reports where there were overly generous retention benefits, low performance hurdles, retrospectively changing performance hurdles or start dates, the use of Board discretion to vest incentives where hurdles have not been met, overly complex remuneration structures, and Boards’ unlimited discretion to allow incentives to vest on termination.
- Wall street bonuses have fallen for the second year in a row, according to [data released by the New York State Comptroller](#). The average bonus paid in the securities industry fell 9% to US\$146,200 last year, while the overall bonus pool fell 6% to US\$25 billion. 2016 was also likely to be a difficult year, according to the Comptroller, which has estimated that bonus pools for employees working in the finance industry will drop by 2.5%.
- Heidrick & Struggles and the Rock Center for Corporate Governance at Stanford University surveyed 107 CEOs and directors of Fortune 500 companies. The survey covered a broad range of incentive matters.

It found that Directors attributed 40% of a company’s results to the CEO’s performance, noting that this explained the willingness of Directors to pay a premium for the right CEO. 76% of CEOs and Directors believed that CEOs were paid correctly based on the expected value of awards at the time of grant and they also overwhelmingly believed that CEO pay is aligned to performance.

The survey compared Director and CEO opinions on CEO to that of the American public, finding that while the majority of the public thought there was a problem with CEO pay, the opposite was true for CEOs and Directors.

To read more, the survey can be found [here](#).

- A recent ISS study into US CEO pay found that CEOs whose Board was headed by an independent Chairman were paid 20% less than their peers. Further results of the survey are detailed [here](#).
- A [survey by Korn Ferry Hay Group](#) into executive satisfaction found 47% of respondents valued “workplace relationships with co-workers and clients”, 21% named “company

culture/values” as a factor and 18% valued growth opportunities. Only 4% mentioned pay. When naming frustrations, the order was turned around, with lack of growth opportunities noted as a frustration by 61% of executives, followed by relationship with management, not fitting into the company culture/values. Pay was again lowest on the list.

### Gender pay

- Curtin University has released a detailed report using data from the Workplace Gender Equality Agency, which collects data from 12,000 employers on 4 million workers. The report had a number of findings including that full-time women KMP earn \$100,000 per annum less than male KMPs, with the gap growing as seniority increases. Men are more likely to receive a higher level of extras such as bonuses in addition to their salary than women. Interestingly, the pay gap is less likely to be marked if the woman works in a male dominated industry. It is also less prominent for organisations with equal gender representation on Boards. Over time, the difference in salaries leads to \$600,000 in lost earnings for women. The report can be downloaded [here](#).
- Advocates believe that removing pay secrecy will reduce the gender pay gap. Submissions closed last month on a [Greens-initiated Senate Bill](#) that allow workers to discuss their pay if they chose to, without risking a breach of gag clauses that may be written into their contract. Employer groups do not support the Bill.
- Australian organisations are voluntarily addressing gender inequities. Aurizon has [introduced a scheme](#) where mothers can stay at home for six months on half pay, then be paid 150% of their pay for six months while their partner takes leave to look after the child for six months. REA Group meanwhile has [introduced a scheme](#) where mothers receive six months paid maternity leave and partners receive three months. The company will also pay superannuation for the entire period of leave, paid and unpaid, for up to 12 months.
- Glassdoor has released a [global survey](#) of 8,254 adults in Canada, Switzerland, Germany, France, Netherlands, United Kingdom and the United States, which found that seven out of ten employees believed pay was equal at their organisation. Three out of five said they would not work at an organisation where a pay gap existed.
- The UK has released [draft regulations](#) to implement its proposed gender pay disclosure rule, where organisations with over 250 employees would need to calculate and publicly disclose their pay gap by April 2018 on an annual basis. Employers must disclose:
  1. The mean and median pay gap
  2. The mean bonus gap
  3. The proportion of men and women receiving bonuses
  4. The proportion of men and women in each pay quartile

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# About us

For more than 25 years, Egan Associates has advised leading organisations and emerging enterprises in Australia and New Zealand on the remuneration of Board Directors, executives and key staff members, as well as performance management, corporate governance and Board effectiveness.

Our Services include:

- **Remuneration reviews and benchmarking** for Boards, CEOs, executives, senior management and professional positions, including specialist roles
- **Corporate transactions / IPOs:** assistance transitioning pre-IPO reward arrangements into the listed company environment with considerations including escrow provisions
- Advice on **annual incentive plan structures**, performance criteria, target and maximum payment levels including deferral and clawback provisions
- Advice on **long term incentive plan structures**, participation, performance hurdles, equity instruments, valuation and allocation, as well as monitoring
- **Government pay reviews:** assistance at both Federal, State and local level in administrative, policy and corporatised environments on reward for senior executives, professional and administrative staff and governing Boards
- **Online human capital solutions:** online resources to assist organisations manage position documentation, work value, internal relativity, market competitiveness and performance.
- **Board effectiveness:** assistance with Board reviews, Board skills matrices, scenario planning and Board documentation.

## John Egan



John's early career was with Cullen Egan Dell (now Mercer Human Capital), which he chaired from 1983 to 1989, when he formed Egan Associates. John has been an advisor to Boards and senior executives on organisation, governance and reward issues over many years. He has assisted a significant majority of Australia's top 200 companies as well as a myriad of entrepreneurial organisations and government entities across a wide range of industries.

John has been actively involved with Universities, chairing Sydney University's Board of Advice for its Faculty of Economics & Business (2001 – 2010). John is an Honorary Fellow of the University and an Adjunct Professor in the School of Business.

His personal interests are in cool climate gardens – [www.thebraesgarden.com](http://www.thebraesgarden.com) – and he served as a Trustee of the Sydney Royal Botanic Gardens & Domain Trust from May 2010 to June 2014.