10 minutes on...

2023 Executive remuneration trends – Under the microscope

August 2024

Summary of 2023 executive remuneration practices

2023 was a paradoxical year – as cost-of-living pressure continued to grow, Australian wages rose and investor confidence was higher than the prior year.

While investor confidence grew in 2023 with the S&P ASX 100 Index increasing by 9.4%[1] (-4% in 2022), continued inflationary pressures (both cost of living and wages growth) with lower productivity created a paradox for companies as they considered pay for their employees and executives. Unemployment rose slightly to 3.8%[2], cost of living and wages were similarly matched (4.1% and 4.2%[3] respectively). Meanwhile GDP increased by only 1.5%[4], continuing a downward trajectory from 2021 (4.2 and 2.7% in 2022).

Against this backdrop, median CEO fixed pay moved 1.5% higher than last year and Executive fixed pay moved 3.3% higher, with over 60% of same incumbent CEOs and Executives receiving a fixed pay increase. While the median fixed pay movement was less than the growth in wages experienced by the broader population (4.3%[5] private sector), STI outcomes and LTI outcomes continued to recover.

[1] S&P ASX 100 Index value change from 1 January 2023 to 31 December 2023.

[2] Australian Bureau of Statistics, Labour Force, December 2023.

[3] Australian Bureau of Statistics, Selected Living Cost Index, December 2023.

[4] Australian Bureau of Statistics, December 2021 to December 2023.

[5] Australian Bureau of Statistics, Wage Price Index, December 2023.

Highlights

- While the prevalence of fixed pay increases for CEOs and Executives remained at levels consistent with FY22, the quantum of those increases were slightly down on last year.
  - **4%** for CEOs (with 61% receiving an increase).
  - **5%** for Executives (with 69% receiving an increase).
- Similarly, Board fee increases remain at elevated levels, with fee increases remaining steady for Board Chairs fees (median 4%), however median increases for NED base fees were lower at 3% (compared to 4% in FY22).
- STI outcomes have somewhat normalised off the back of the pandemic, with the median STI payments being around target again in FY23. Median CEO and Executive STI outcomes were 98% and 95% of target opportunity respectively, slightly lower than the prior year.
- There were fewer instances of STI adjustments in FY23. 19% of companies made adjustments to their STI outcomes in FY23, two thirds of which were downwards (vs 19% in FY22).
- There was a large uptick in LTI vesting prevalence in FY23, as pandemic LTI plans began to vest. 82% of CEOs with an LTI plan had a vesting event, with median vesting outcomes also higher at 72% (compared to vesting for 58% of CEOs in FY22, and median vesting outcomes of 58%).

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 2023. All data is presented in AUD (but where appropriate, individual year on year analysis has been completed in home currency). Data is based on 2023 Remuneration Reports and other publicly available sources. Company size and performance data has been sourced from CapIQ.

Fixed pay

While increases remain, the size of increases is lower

Prevalence of fixed pay increases stays stagnant

- 61% of same incumbent CEOs and 69% of Executives received a fixed pay increase (vs 57% and 68% respectively in FY22).
- Pay increases were varied by sector and by role (eg CEO v Executives). Executives within the communication services sector had the highest prevalence of increases, while 80% of CEOs of Materials/Energy/Industrial companies received pay increases.

Fixed pay movements driven by companies outside the Financial Services sector

- Where an increase was applied to fixed pay, these were slightly down on FY22 at median. Median increases of 4% for CEOs and 5% for Executives were observed in FY23, (vs 5% and 6% respectively in FY22).
- Notwithstanding this, there were a greater number of CEOs receiving a fixed pay increase of more than 10% this year (22% versus 18% in FY22).
- Within the Material/Energy/Industrials sectors, there was higher prevalence of increases relative to the ASX100 for both CEOs and Executives, with the median increase being 7%.
- Relative restraint was observed in the Financial Services (FS) sector, where median CEO and Executive pay increases were 2.1% and 4.2%. Where increases were provided, they were in part driven by pay mix changes for compliance with APRA's Prudential Standard CPS 511 Remuneration (which took effect from 1 January 2023, on a staggered basis.

Incoming CEOs receiving lower pay than their predecessors

- The trend of new incumbent CEOs typically being paid less than their predecessors returned in FY23, with 79% of new CEOs receiving lower fixed pay than predecessors (58% in FY22).
- New incumbent CEOs were paid 17% less than their predecessor at median.
- Historically, external CEO appointees have been paid higher, however in FY23 no external appointees were paid higher than their predecessors.

Fixed pay equity remains stable

- Similar to FY22, the few companies that provide unhurdled equity as part of fixed remuneration to KMP provide it to select KMP only.
- 3.7% of ASX 100 companies provided fixed equity to select KMP in FY23, similar to FY22).

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

	Median fixed pay movement		Median increases (increase >0%)	
	CEO	Execs	CEO	Execs
FY23	1.5%	3.3%	4.2%	5.2%
FY22	0.2%	2.9%	4.8%	5.6%

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

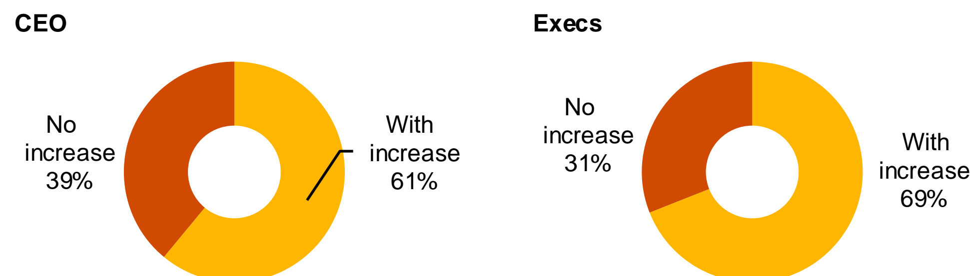
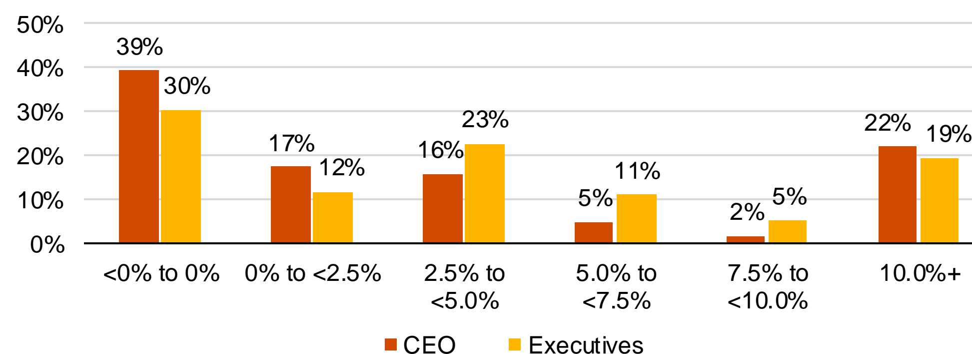


Figure 3 CEO and Executives fixed pay movements by percentage band



Short-term incentive practices and outcomes

Fewer instances of zero STI outcomes and STI adjustments in FY23

Median STI outcomes at target performance levels

- The median STI outcome being around target continued, with median CEO and Executive STI outcomes at 98% and 95% of target opportunity, slightly lower than the prior year (103% and 96% respectively in FY22).
- STI outcomes for all KMP were highest in the Communications sector (median of 130%) which saw a big increase from FY22 (when median outcomes were 85% of target), and lowest in the Healthcare sector (median of 67% of target for all KMP), albeit noting that there were materially different outcomes across companies within the Healthcare sector.

Greater variability in same incumbent STI outcomes and fewer zero outcomes

- We observed more CEOs having greater variation in STI outcomes year-on-year with 62% of CEOs having a variation of more than 20% (compared to 50% in FY22).
- There were materially more CEOs with STI variation in the range of 20% to 40% in FY23, whereas variation was weighted towards the 0% to <10% range in FY22.
  - 31% of CEOs had a variability between 20% and 40% in FY23 (compared to 19% in FY22).
  - 24% of CEOs had a variation of 0% to <10% (compared to 31% in FY22).
- The prevalence of zero bonus outcomes decreased, especially for CEOs:
  - Only 3% of CEOs (8% in FY22) and 7% of Executives (9.5% in FY22) received a zero STI outcome in FY23.

Fewer STI adjustments

- 95% of companies operating STIs have a malus provision, and 53% have a clawback provision.
- Fewer companies adjusted STI outcomes in FY23, with 12% of companies making adjustments (versus 19% in FY22). The majority of STI adjustments were downwards.
- Although the reasons for downward adjustments were varied, themes continue to be for material adverse risk and reputation matters, and HSE related matters such as fatalities. Adjustments were observed both on an individual basis and to STI pools reflecting collective accountability for various issues.
- Two companies disclosed positive adjustments to individual Executive STI outcomes in FY23 in recognition of risk, compliance and/or reputation considerations.

Figure 4 Median STI payments FY18 – FY23 (% of Target)

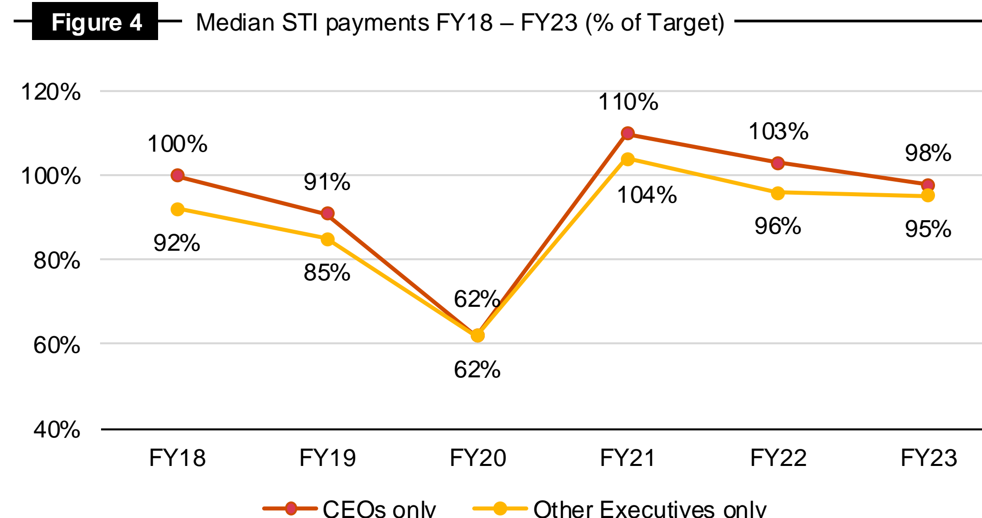
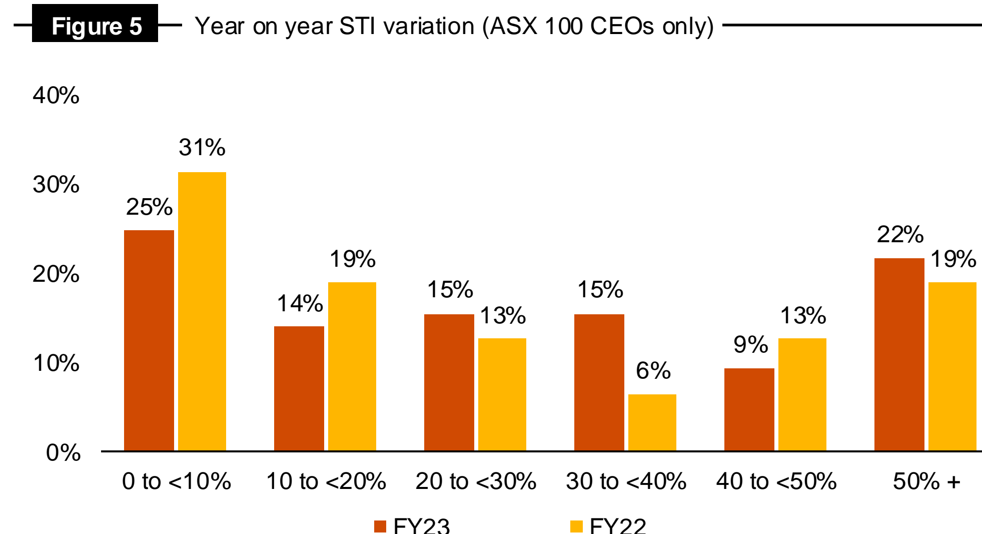


Figure 5 Year on year STI variation (ASX 100 CEOs only)



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

Key aspects of STI design remain consistent with prior years

Limited change to STI metrics

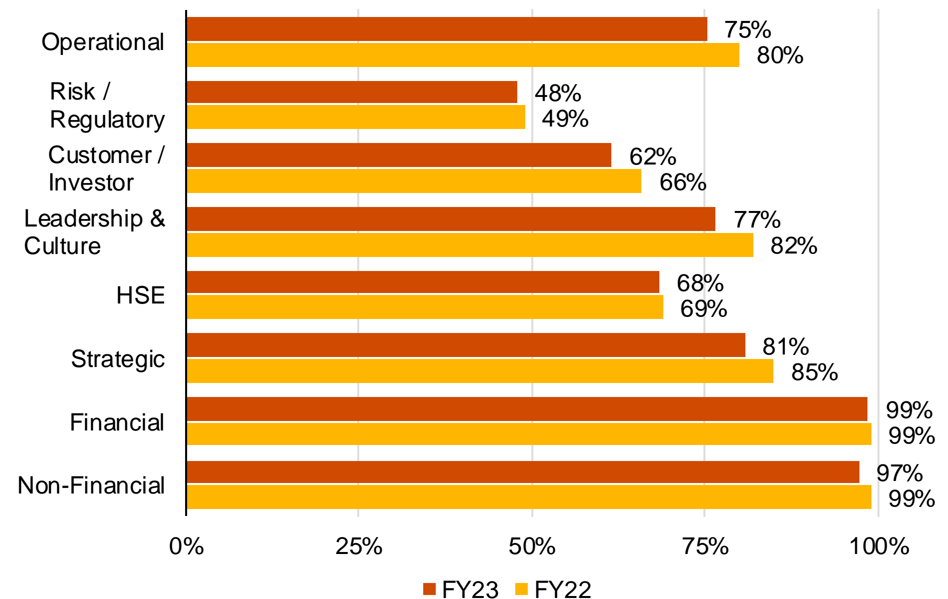
- For companies operating a standalone STI plan, almost all use a combination of financial and non-financial metrics, with financial measures tending to have a higher weighting (e.g. 60%/40%). Only one organisation used solely financial metrics.
- Similar to FY22, Strategic, Leadership & Culture and Operational metrics continue to be the most preferred non-financial metrics in the ASX 100, driving focus on organisation-specific growth objectives and talent attraction and retention.
- Compared to the ASX100, FS companies operating a standalone STI plan have a higher prevalence of Risk/Regulatory (85% vs 48% in the ASX 100) and Customer/Investor Relations (69% vs 62% in the ASX 100) metrics, and a lesser prevalence of Operational (54% vs 75% in the ASX 100) metrics.

STI gateways continue to be prevalent

STI gateway prevalence remains largely unchanged at 42% of companies. Similarly, the metrics used have remained fairly stable, with the following metrics featuring in those gateways, noting that many companies use more than one metric in their gate:

- Financial metrics (70%)
- HSE metrics (33%)
- Leadership and culture (23%)
- Risk and regulatory (17%)

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



Limited change to deferral practices, however cliff vesting more common

- The prevalence of STI deferral arrangements remained stable (84% of companies having standalone STI in FY23 vs 87% in FY22), as did the prevalence into equity (95% of companies having standalone STI in FY23 vs 97% in FY22).
- The quantum and nature of STI deferral arrangements remains consistent with prior years. The median portion of STI deferred is 50% (utilised by nearly half of companies that have STI deferral), and the median deferral period is 2 years (56% of companies that operate STI deferral).
- The most prevalent vesting approach is cliff vesting (64% of companies having STI deferral), and where cliff vesting is applied, the most common period is one year (51% of companies with cliff vesting).

Long-term incentive practices and outcomes

LTI design consistent, some increase in RSU plans, LTI vesting prevalence increases

Relative TSR is included as a performance measure in nearly all LTI plans

- Nearly all LTI plans have performance-based vesting (98% in FY23 vs 99% in FY22).
- TSR remains the most common performance measure (89% of companies, up from 84% in FY22), with one company using a sole absolute TSR hurdle.
- The prevalence of non-financial measures in LTI plans increased to 43% from a little over a third in FY22, primarily driven by regulation in the FS sector.

Performance periods

- The median LTI performance period continues to be three years (72% of companies, up from 66% in FY22), with limited change in the use of four year performance periods.
- Of companies operating 4-year performance periods, the majority (74%) were concentrated in the ASX50.
- Vesting arrangements remain somewhat similar, with 79% of companies operating cliff rather than tranche vesting in FY23 (down from 85% in FY22).

Figure 7 Prevalence of LTI hurdles across ASX 100 (either as a sole metric or in conjunction with another metric)

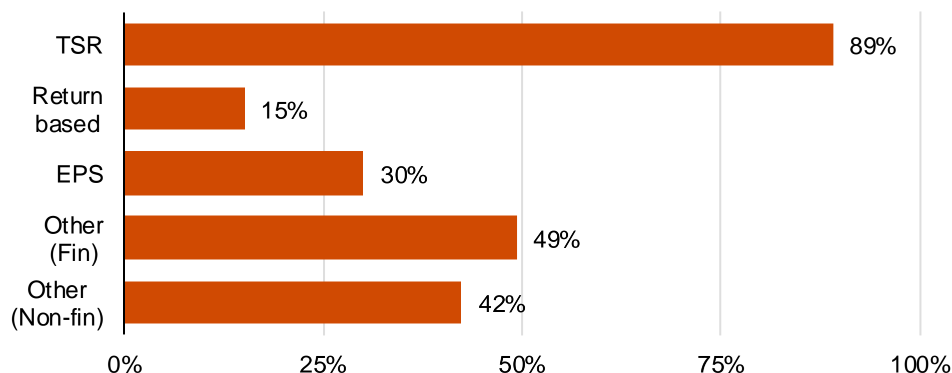
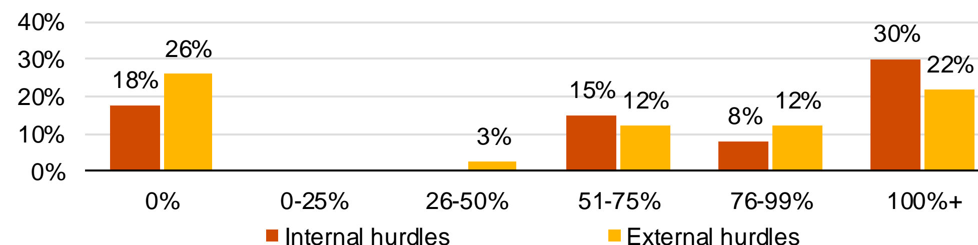


Figure 8 Distribution of vesting patterns for LTI hurdles



Large uptick in LTI vesting prevalence.

- The prevalence of LTI vesting increased in FY23, with 82% of CEOs with an LTI plan having a vesting event, compared to 58% in FY22. Median vesting outcome increased to 72% in FY23 vs 58% in FY22. However, median vesting outcome for non-zero vesting events remained stable 84% (vs 85% in FY22).
- 27% of CEOs experienced full vesting in FY23 (20% of CEOs in FY22).
- For CEO LTI vesting in FY23, the prevalence of internal hurdle vesting (72%) was higher than the prevalence of external hurdle vesting (64%).

LTI adjustments

- 95% of companies operating LTIs have a malus provision, and 53% have a clawback provision.
- Adjustment of LTI outcomes is much rarer than STI, however FY23 LTI outcomes at one company were subject to a reduction due to lack of project progress, and for a separate organisation upward Board discretion to adjust LTI outcome to take into account impact of external and unforeseen circumstances

Minimum Shareholding Requirements stable

- The prevalence of mandatory MSR remains consistent with 79% of CEOs and 80% of Executives having with requirement (77% in FY22).
- Median timeframe to achieve (five years) and median quantum (100% of fixed or base pay) also remains stable.

Non-Executive Director fees

Increases in NED fees and fee pools continues to be prevalent, however Committee fee increases more targeted

Majority of companies continue to increase NED fee levels

- Last year we observed a large increase in the proportion of ASX 100 companies that had increased their Board Chair and base NED fees. While there were fewer increases this year, prevalence continues to be relatively high compared to prior years.
- 45% of companies increased their Board Chair fee and 49% increased their base NED fee (versus 56% and 53% respectively in FY22).
- Of those companies with an increase, more than 40% of these also applied an increase in FY22, albeit some of smaller value.
  - For these companies, the reasoning provided included annual review of board fees, increasing complexity of matters addressed by Boards, and increased governance requirements.
- The quantum of increase was 4% at median for Chair fees and 3% at median for NEDs (vs 4% for both in FY22)

Committee fee increases more targeted

- 40% of companies increased Committee fees for at least one Committee in FY23, noting some reflect increases in superannuation.
- Fee increases were targeted to Remuneration/HR committees and combined Audit & Risk committees, whereas standalone Audit and Risk committees saw lower increases at the median.

NED fee pool increases were higher in prevalence but lower in quantum

- 24% of companies increased their NED fee pool in FY23 (vs 18% in FY22), with the median fee pool increase being 20% (vs 33% in FY22).
- A further 14% of companies have indicated their intent to increase their fee pool in FY23 (20% in FY22), with a median increase expected to be 25%).

MSR requirements stable

- The prevalence of MSRs for NEDs has remained stable this year, with 81% of Chair and NEDs needing to hold shares (vs 82% in FY22).

Figure 9 Median NED fee increases received in 2023

	Median movement (all roles)		Median increase (increase >0%)	
	Chair	Other NEDs	Chair	Other NEDs
FY23	0.3%	0.2%	4.4%	3.3%
FY22	0.4%	0.5%	4.2%	4.4%

Figure 10 Median committee fee increases (increase >0%) received in 2023

	Remuneration/ HR Committee		Audit & Risk Committee (Combined)	
	Chair	Member	Chair	Member
FY23	5.5%	3.5%	5.0%	5.5%
FY22	10.4%	4.5%	19.1%	12.0%

	Audit Committee		Risk Committee	
	Chair	Member	Chair	Member
FY23	1.5%	1.4%	2.5%	1.5%
FY22	4.9%	2.0%	6.3%	7.7%

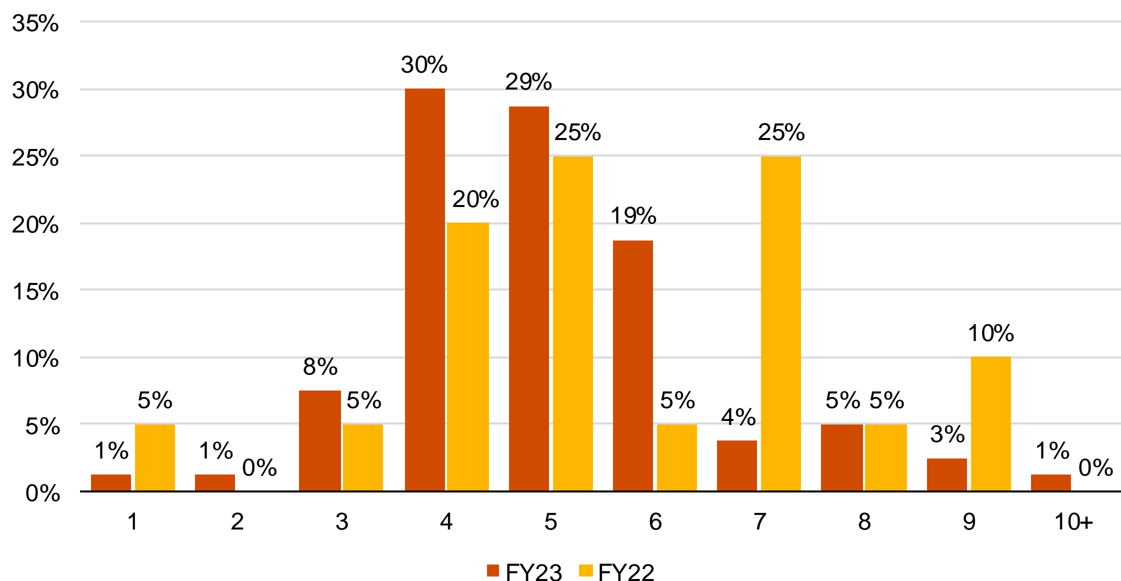
Remuneration committee meetings

Reduction in number of RemCo at the upper end

Greater variation in the number of meetings

- While the median number of RemCo meetings held remained the same year-on-year (5 meetings), there was a greater variation in the number of meetings with fewer companies having 7 or more meetings.
  - **78%** of companies held between four and six RemCo meetings in FY23 (vs 50% in FY22).
  - **13%** of companies held 7 or more RemCo meetings in FY23 (vs 40% in FY22).
- The FS sector recorded a higher median of RemCo meetings at 6 compared to the non-FS organisations with a median of 5.

Figure 11 Number of RemCo meetings disclosed in FY23 and FY22



Remuneration trends – what we expect

FY23 remuneration structures did not materially shift relative to prior years with stabilisation in the categories of metrics used, performance periods, and deferral. With 12.5% of ASX 100 companies receiving strikes in 2023, this may provide the catalyst for more change during the next reporting year and places continuing emphasis on the impact of perceptions of pay quantum including fixed pay and performance outcomes on AGM voting outcomes.

Focus on executive vs employee pay quantum

We expect there will be greater pressure on companies to be more transparently and publicly communicate their approach in relation to pay quantum for all employees (not just executives) with impetus from:

- Inflation continuing to outstrip wage increases and cost of living pressures
- Growing wealth inequality in Australia
- Increased transparency on pay fairness via gender pay gap reporting by WGEA, and proposed requirement to have regard to interests of a broader stakeholder group from the ASX Corporate Governance Council

There is a continuing expectation of differential treatment of employee and executive pay increases to address lower paid employee inflationary concerns, notwithstanding some easing of inflation in 2023. While there is no specific public reporting required on employee pay increases (relative to Executives), or CEO to employee pay ratios (like in the UK and US), addressing such themes may support companies to engender trust and build a positive reputation for how it treats its staff.

Boards should also be aware of the higher focus on remuneration mix changes, in particular increases in incentive opportunities so these are not seen as an alternate mechanism for increasing total remuneration through incentives.

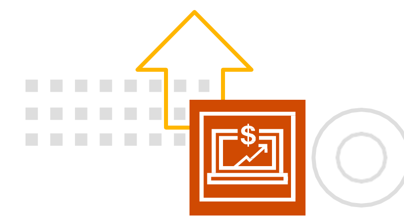
No framework is a 'safe harbour'

- With limited material change in remuneration structures and metrics coupled with a significant number of strikes, the focus on how decisions are made within a framework continues. While strikes may be a catalyst for framework change, Boards may tread lightly within an environment of higher scrutiny. Increased use of non-financial measures in LTI (43% of companies) heavily driven by FS companies response to CPS 511 may redefine what is 'common market practice' although not without resistance from some quarters.
- We expect continued focus on the level of STI outcome awarded particularly where this is perceived as not commensurate with financial or organisational performance – in some respects agnostic to the STI plan metrics composition.
- As pandemic LTIs are beginning to be tested and vest, the same sentiment applies – that is, irrespective of the metrics and targets (e.g. for internal financial hurdles), Boards should take care to avoid windfall gains and review the LTI outcome in the context of holistic performance over that period.

ESG – Mandatory climate reporting creates a new dynamic

- ESG and sustainability in its broadest sense continues to gain momentum on shareholder, government and regulator agendas. This has translated to some change in remuneration frameworks (e.g. greater incorporation of customer and reputational measures for financial services and retail entities, climate metrices into mining/energy companies). However, there is still limited change on other metrics such as diversity and inclusion notwithstanding proxy advisor voting guidelines indicating shifting expectations of for example Boardroom and workforce diversity, human capital practices etc.
- The introduction of a bill relating to climate related financial disclosures in March 2024 that requires mandatory climate-related disclosures including information relating to metrics and targets may further hasten focus on the climate related aspects of ESG, with reporting requirements commencing from 1 January 2025 for the largest listed companies.
- For those organisations with greenhouse gas emissions directly included in current incentive plan metrics, this provides additional data for shareholders to assess performance, and for those organisations that do not have this included another measure of performance that may be expected by shareholders to be considered in a holistic assessment and/or application of discretion to any incentive outcome.

Key actions boards and reward leaders should be discussing as a result



Consider impact of other mandated disclosures and shifting expectations of company to anticipate points of sensitivity and prevalence of voluntary disclosures

- Proactively seek quality data across all areas of metrics within your remuneration framework as well as data on metrics which may otherwise need to be considered as part of a broader assessment (e.g. WGEA Gender Pay Gap reporting, climate/sustainability performance, disclosure of consequence management outcomes as proposed in the ASX Corporate Governance Council's Principles and Recommendations and CPS 511).
- Engage across the organisation with relevant SMEs to understand the drivers of the performance and anomalies.
- Consider reward decisions in the context of broader societal/market expectations e.g. executive pay increases vs employees vs inflation/wages growth.

Continue to refine and nuance the narrative regarding the link between performance & reward, including around ESG/climate change

- Engage widely internally so there is a consistent narrative on pay and performance noting different stakeholders in different parts of the organisations – across Boards and management and in both written and verbal format, and including sustainability representatives.
- Prepare a consistent narrative relevant to your organisation that acknowledges different stakeholder nuances, and consider where more targeted communication strategies are approach (e.g. large security holders).
- Reward isn't the sole tool to drive business performance. Where relevant, de-emphasize reward and be clear where reward is not the mechanism the business is intending to drive particular outcomes (and why), for example why some dimensions of performance are appropriate not to be rewarded for as it is a key expectation or already ingrained.

Stress test existing remuneration frameworks to account for the unforeseen and misaligned

- Stress test/scenario model the remuneration framework ecosystem including the governance processes, adjustments/discretion for unforeseen circumstances. While many organisations already have discretion in place, or discretion principles, stress testing against possible scenarios before an example arises provides greater comfort that the governance processes and decision-making frameworks are sound.

How can PwC help?

To have a deeper discussion, please contact your PwC specialist

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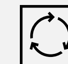
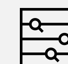
- **Transactions and deals** 
- **Incentive plans (local and global plans)**
- **Performance metric selection and calibration** 
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