

## Case Study – Accessing Custom Data

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### Introduction

This is a case study examining the use of real external data by an internal remuneration expert. Some of the facts have been changed to protect the identity of the individual involved.

A newly appointed Remuneration & Benefits (R&B) Manager was asked to provide the Remuneration Committee Chair with information on a market competitive total remuneration package for the role of CFO. The current CFO was being replaced and a confidential search was being commissioned with one of the leading search firms. The Remuneration Committee Chair wished to be aware of relevant market practice so that an appropriate total remuneration package could be indicated to the search firm for discussion with candidates. Additional complexity arose because the company was pursuing an aggressive growth strategy which would mean that the size of the company and the accountability of senior executive roles would increase but there was no precision as to the amount of growth or the timing of when the growth would be achieved.

### Reference Group Selection

#### ASX Listed

As the company was listed on the ASX it was clear that the first criterion for inclusion of companies in the reference group was that they should be ASX listed companies.

Because of legal obligations all ASX listed companies need to disclose in their Remuneration Reports the actual remuneration paid to key management personnel (KMP) which includes: Managing Director, other senior executive and non-executive director roles. This legal obligation means that KMP remuneration must be disclosed on a complete and accurate basis according to relevant accounting standards. Further, companies do not need to agree to participate in a survey for them to be included in reference groups.

#### Broad Sector Group

The next broad criterion was to exclude companies in the resources and financial service sectors as the remuneration practices of these sectors can vary from those used by industrial and services companies. The company was in a specific industry within the broad industrial and service sector.

#### Company Size

As remuneration levels tend to increase as company size increases the R&B Manager realised that companies within an envelope of company size would need to be chosen so as to exclude data for companies that were materially larger or smaller than the company. Company size indicators considered included market capitalisation, revenue, assets, profit and employees. Of these, market capitalisation and revenue were seen as the most relevant indicators.

The company was not capital intensive, making assets less relevant. The company's profitability would suffer from funding expansion and delays in realising the potential from acquisitions, therefore profit was not a good size indicator. The company did not have a large number of employees and therefore employee numbers was not seen as a reliable indicator of size. The prospect of growth added to the challenge of selecting a reference group of companies.

Recognising that consideration would need to be given to the potential impact on remuneration of the expected growth in company size, a reference group was selected with a higher range of larger companies than would normally be seen as reasonable. It was composed of industrial and service sector companies in the range of 50% to 400% (200% would be a more normal upper limit) of the company's size in terms of either market capitalisation or revenue.

The high upside was selected to allow sub-sets of data to be analysed for two main comparator groups with one similar to and the other double the company's current size. These two comparator groups provided an indication of the amount of increase in remuneration and change in the mix of remuneration elements that such a change in size would warrant to remain market competitive.

### **Resultant Reference Group**

The resultant group consisted of 70 companies. To personally retrieve the relevant remuneration data from Remuneration Reports and then analyse it would have taken too much time given the R&B Managers' other commitments. Thus, it was decided to purchase the data from an independent supplier. An advantage was that the data contained in the custom database of 70 companies was not restricted to the role of CFO. It also covered all other KMP including: Managing Directors, senior executives and non-executive directors. Thus, if the package to be offered or agreed with the successful candidate triggered questions about market competitive remuneration for other roles, then the R&B Manager would be well placed to quickly respond.

### **Analysis Undertaken**

#### **Sample Alternatives Considered**

So as to be able to present clear information and advice to the Remuneration Committee Chair and to be well prepared for questions the R&B Manager undertook several sets of analysis in relation to remuneration for the CFO role from the reference group. These included:

<b>Sample</b>	<b>Comments</b>
Industry specific companies	<p>Although the sample was small and did not show any material difference from other data samples they allowed the R&amp;B Manager to evidence this fact to the Remuneration Committee Chair.</p> <p>Due to data being presented for each incumbent it was simple for the Remuneration Committee Chair to check on the remuneration of specific individuals to see if they are consistent with general market practice. Atypical examples are not good reference points when seeking to set a remuneration package that will be supported by proxy advisors and other stakeholders.</p>

Sample	Comments
Direct Competitors Sample	Remuneration data from these companies enabled identification of remuneration variances that were applied by direct competitors allowing consideration of the extent to which they would be addressed to ensure that the search consultants could approach competitors should they wish to do so.
Companies similar to current company size and in the same broad sector with an evenly balanced group (i.e. half smaller and half larger)	<p>A robust sample of 20 companies provided sound data on market practice in relation to:</p> <ul style="list-style-type: none"> <li>• Base Package (BP),</li> <li>• BP + short term incentive (STI), and</li> <li>• Total remuneration package (TRP) i.e. BP + STI + long term incentive (LTI).</li> </ul>
Companies of double company's current size and in the same broad sector with an evenly balanced group (i.e. half smaller and half larger than double the company's size)	<p>As above and allowed analysis of change in BP, TRP and mix of BP, STI and LTI as company size increased.</p> <p>As expected the increase in BP due to a doubling of company size was in the range of 15% to 20%. This knowledge was useful to the Remuneration Committee Chair in responding to questions about potential flexibility to increase the remuneration package to be offered.</p>
Adjusted samples being the foregoing samples adjusted by including and excluding some companies	Allowed R&B Manager to be confident as to the impact of such changes should they or others be required by the Remuneration Committee Chair.

## Data Sets Used

In addition to the typically used statistics (highest, P75, P62.5, P50/median, P25 and lowest) for BP, BP + STI and TRP, other statistics were used to provide guidance as to reasonable levels of STI and LTI award opportunity. STI award and LTI grant values expressed as percentage of recipients' BPs were used to help assess market practice for each of these incentive elements. These were considered in the light of the uplifts from P50 BP to P50 and P75 TRP for the relevant sample groups of companies. This allowed the R&B Manager to propose target STI and LTI award opportunities that were appropriate to the role, consistent with market practice, did not produce an excessive TRP and reflected the balance of focus expected for the role between short and long term objectives.

## **Indexing of Data**

As the remuneration data relates to a prior completed financial year it is necessary to index the data to bring it forward to the next remuneration year to which it will apply. The database included standard conservative assumptions and these were acceptable to the R&B Manager and the Remuneration Committee Chair. However, had they preferred different assumptions then the Database was sufficiently flexible, due to inbuilt features, to accommodate such preferences.

## **Source of the Database**

In this case the data and database were purchased from Godfrey Remuneration Group. The time when the database was acquired was driven by a specific need. In the future the R&B Manager will consider purchasing updated databases at the times when reviews of senior executive and non-executive director remuneration are scheduled to take place.

## **Feedback**

Feedback from the R&B Manager indicated that the GRG database was the easiest to use of all the other databases he had experienced over several years in similar roles. Because the data was transparent with each element of remuneration for each incumbent being shown the R&B Manager and the Remuneration Committee Chair were confident as to the veracity of the data and the statistical outputs. The R&B Manager also liked the ability to copy data from the database into an Excel spreadsheet for additional analysis. However, the presentation format in the database was suitable for presentation in reports prepared by the R&B Manager.

## **Trial a Customised Database**

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