GRG Remuneration Insight 141

Off-the-Shelf vs Bespoke Benchmarking (with Real CFO Data)

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Introduction

It is that time of year when most companies are reviewing remuneration for all employees, including KMP (executives and directors), to ensure the business can retain and compete for talent, while managing "Strike risks" (votes against the Remuneration Report) and complying with the Corporations Act requirement for executive and director remuneration to be "reasonable". One of the questions that is often left until the last minute is "do we need tailored advice or just an update of market data and movements this year?". In this Insight we explore this question with real/current market data to show the difference between the approaches, and how you might decide which approach is best for your business at any given time. While GRG's database is comprised of listed company market data, unlisted companies can still undertake benchmarking based on revenue or company valuation.

Example Scenario

In this fictitious example it is assumed that all directors and executives in a technology company, Exemplar Limited (market capitalisation of $480m at end of June 2022), are the subject of a remuneration review. However, we will focus on the Chief Financial Officer (CFO) only, to limit the scope of the discussion. In this scenario the Company is struggling to compete for talent in the technology sector, where peers are often offering equity as part of Fixed Pay. The Exemplar Limited CFO currently only makes a minimal strategic contribution because the CEO is an expert in financial strategy and the CEO role includes financial strategy under this Company's role and organisation design. The CFO is currently paid a package as follows:

1. $300,000 in Fixed Pay (Salary, Super, Allowances, Benefits, FBT and Fixed Pay Equity),
2. 20% ($60,000) in Short Term Variable Remuneration (STVR) at Target (Stretch/maximum of $67,500), and
3. 20% ($60,000) in Long Term Variable Remuneration (LTVR) at Target (Stretch/maximum of $60,000 at grant),
4. the Target Total Remuneration Package (Target TRP or TTRP) of the incumbent is therefore $420,00, and
5. the Company's remuneration policy, as per the Executive KMP Remuneration Policy & Procedure published on the Company website is to pay Fixed Pay at P50 of the market, and Target TRP at P62.5 subject to adjustment for role design and incumbent specific factors.

Graduated Approach to Reviewing Remuneration

Insight 136: 4-key-mistakes-in-benchmarking-to-avoid-in-2022 addresses typical statistical analysis and market relativity considerations when undertaking any kind of benchmarking. The three approaches or steps that would typically be considered in relation to benchmarking the market competitiveness of the CFO's remuneration in this example would include:

1. **Sense-checking with off-the-shelf market data:** GRG's annually published Remuneration Guide will be used in this example. This requires a standard market capitalisation range and market sector to be selected. In this case, the market capitalisation of interest falls closest to the middle of the $375m to $750m standard range. The data cut will be "All Industries", but broad pre-defined sub-sectors will also be shown and examined.
2. **Self-assessment with a deeper investigation using bespoke market data based on company scale ("data only"):** a comparator group of around 20 companies is typically selected to provide the most appropriate benchmark for executives possible. This typically involves setting a range around the target company value (usually half to double), ensuring the group is balanced so measures of central tendency are valid and reliable, and selecting companies with similar features to the extent possible.
3. **Tailored advice and recommendations:** under this approach, several of the foregoing methods may be combined to build a customised model of the market relevant to your business, and a customised model of your role designs, to provide adjusted recommendations specific to your organisation's design and context.

1 and/or 2 above are often critical steps to determine whether tailored advice may be needed and are not necessarily exclusive from 3. If steps 1 and/or 2 indicate that pay is high then strike risk management might need to be considered, and if remuneration is found to be low, role/organisation design may need to be considered.

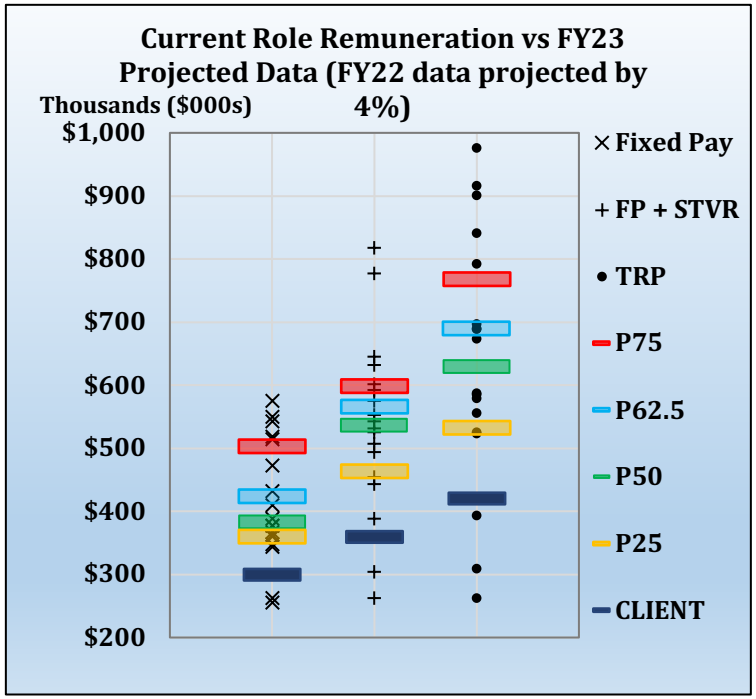
Off-The-Shelf "Data-only" Benchmarking (Note: this is real data from the GRG Guide):

Data Metrics	Guide				Role								Range			
	All Industries				Chief Financial Officer								$375 - $750 million			
Industry Group	All Sectors				Financial Services				Resources				Industrial & Services			
Sample Size	76				11				19				46			
Percentile	**P25**	**P50**	**P62.5**	**P75**	**P25**	**P50**	**P62.5**	**P75**	**P25**	**P50**	**P62.5**	**P75**	**P25**	**P50**	**P62.5**	**P75**
Actual FY21 ($'000)																
Fixed Pay (FP)	318	408	432	491	319	401	418	429	288	387	415	429	327	421	482	503
FP + STVR	404	488	559	629	430	524	540	562	382	456	497	561	421	523	583	746
Total Remuneration Package (TRP)	485	607	705	862	544	602	633	672	429	601	795	844	485	623	772	982
Forecast FY22 (+4%) ($'000)																
FP	331	424	449	511	332	417	435	446	300	402	432	446	340	438	501	523
FP + STVR	420	508	581	654	447	545	562	584	397	474	517	583	438	544	606	776
TRP	504	631	733	896	566	626	658	699	446	625	827	878	504	648	803	1021
Projected FY23 (+4%) ($'000)																
FP	344	441	467	531	345	434	452	464	312	418	449	464	354	456	521	544
FP + STVR	437	528	604	680	465	567	584	607	413	493	538	606	456	566	630	807
TRP	524	656	762	932	589	651	684	727	464	650	860	913	524	674	835	1062
STVR as % of FP	8%	26%	36%	45%	13%	26%	37%	43%	9%	19%	23%	32%	7%	31%	39%	47%
LTVR as % of FP	10%	26%	36%	46%	10%	14%	21%	23%	28%	41%	43%	50%	5%	22%	33%	44%
STVR + LTVR as % of FP	38%	58%	74%	86%	34%	49%	62%	75%	39%	61%	65%	73%	39%	59%	79%	96%
Uplift from P50 FP to P50 TRP	49%				50%				55%				48%			
Uplift from P50 FP to P62.5 TRP	73%				58%				105%				83%			
Uplift from P50 FP to P75 TRP	111%				68%				118%				133%			

Tailored, Peer Group-based Market Data (Data only) Result (Note: this is real data from the GRG database):

Market Data Sample Statistics: Reported Values (currency in $000's)						
Comparator Group	**Exemplar Limited**					
Incumbent	Ms Egg Sample					
Database Role Sample	Chief Financial Officer					
Sample Size	**18**					
Effective Date of Data	FY23 Projected Data (FY22 data projected by 4%)					
Client Market Cap	$480,000					
Sample Market Cap Analysis	Min	P25	P50	P62.5	P75	Max
	$339,779	$393,446	**$480,186**	$503,219	$769,513	$1,086,770

Aspect	Fixed Pay (FP)		FP + STVR		TRP/TTRP	
	$	Compa R %	$	Compa R %	$	Compa R %
Incumbent Current Pay	$300	**n/a**	$360	**n/a**	$420	**n/a**
Maximum	$575	52%	$818	44%	$976	43%
P75	$504	60%	$600	60%	$769	55%
P62.5	$424	71%	**$567**	**63%**	**$690**	**61%**
P50	**$383**	**78%**	$537	67%	$630	67%
P25	$361	83%	$464	78%	$533	79%
Minimum	$236	127%	$263	137%	$263	160%



Company	Role Title	Incumbent	Fixed Pay (FP)	STVR Cash	STVR Deferral	Total STVR	Total STVR % FP	FP + STVR	Reported LTVR	Reported LTVR % FP	TRP	Total Variable % FP
EML Payments Ltd	Group Chief Financial Officer	R Shore	$400,000	$0	$184,500	$184,500	46%	$584,500	$148,425	37%	$732,925	83%
Data#3 Ltd	Chief Financial Officer	B Hill	$349,131	$142,536	$0	$142,536	41%	$491,667	$152,822	44%	$644,489	85%
Tyro Payments Ltd	Chief Financial Officer	P Pala	$475,219	$175,443	$105,414	$280,857	59%	$756,076	$146,738	31%	$902,814	90%
Appen Ltd	Chief Financial Officer	K Levine	$501,527	$0	$0	$0	0%	$501,527	$39,924	8%	$541,451	8%
Fineos Corp Ltd	Executive Director & Chief Financial Officer	T Wall	$508,204	$88,653	$0	$88,653	17%	$596,857	$41,147	8%	$638,004	26%
Nearmap Ltd	Chief Financial Officer	A Watt	$339,027	$217,341	$0	$217,341	64%	$556,368	$276,307	81%	$832,675	146%
Infomedia Ltd	Chief Financial Officer	R Leon	$332,769	$152,784	$0	$152,784	46%	$485,553	$0	0%	$485,553	46%
Audinate Group Ltd	Chief Financial Officer and Company Secretary	R Goss	$318,073	$92,238	$0	$92,238	29%	$410,311	$125,522	39%	$535,833	68%
Nuix Ltd	Chief Financial Officer	S Doyle	$436,695	$74,700	$0	$74,700	17%	$511,395	$125,259	29%	$636,654	46%
Symbio Holdings Ltd	Chief Financial Officer	C Last	$378,954	$90,456	$0	$90,456	24%	$469,410	$73,392	19%	$542,802	43%
Citadel Group Ltd/The	Chief Financial Officer & Head of Shared Services/	J Martin	$359,099	$0	$0	$0	0%	$359,099	$4,896	1%	$363,995	1%
Bravura Solutions Ltd	CFO and Executive Director	M Deda	$531,816	$0	$0	$0	0%	$531,816	$90,814	17%	$622,630	17%
RPMGlobal Holdings Ltd	Chief Financial Officer	M Kochanowski	$348,572	$108,500	$0	$108,500	31%	$457,072	$27,310	8%	$484,382	39%
Dubber Corp Ltd	Chief Financial Officer	P Curigliano	$242,900	$0	$0	$0	0%	$242,900	$0	0%	$242,900	0%
ELMO Software Ltd	Chief Financial Officer and Joint Company Secreta	J Haslam	$479,160	$239,580	$0	$239,580	50%	$718,740	$59,153	12%	$777,893	62%
Praemium Ltd	Chief Financial Officer & Company Secretary	P Gutteridge	$336,192	$211,840	$0	$211,840	63%	$548,032	$298,906	89%	$846,938	152%
Readytech Holdings Ltd	Chief Financial Officer	N Shah	$321,694	$98,400	$0	$98,400	31%	$420,094	$94,201	29%	$514,295	60%
Over the Wire Holdings Ltd	Chief Financial Officer	B Melville	$235,979	$45,055	$0	$45,055	19%	$281,034	$5,108	2%	$286,142	21%

Discussion and Comparison of Data Only Approaches

The two approaches outlined display some markedly different features and may lead to very different outcomes with notably different costs to the Company:

1. **Off the shelf data (no recommendations):**
   a. Indicated at a high level whether or not the current packages are "in-the-ballpark". In this case, it showed that the incumbent was being paid substantially below the benchmarks (both the red and yellow circled values above) and should be the subject of a remuneration adjustment to around $456,000 Fixed Pay and $835,000 TTRP based on the Industrial & Service Sector data, which would appear to be most relevant (yellow circled values above). [Refer to the accompanying Guide order form for alternative industry cuts.]
   b. Covers all commonly disclosed executive roles and directors.
   c. Low cost: $3,500 + GST for a GRG Guide with two market capitalisation ranges.
   d. Immediate result: delivered within 24 hours.
   e. Provides a range of choices for benchmarking (all companies, or just industrial and services companies. Note the "I&S Guide provides further breakdown into industrials, services, etc. and other cuts are available).
   f. Not balanced, and could be "skewed" towards companies that are larger, smaller or otherwise not comparable.
   g. No transparency in terms of line-by-line source data: can't check for outliers or exceptional data points.
2. **Tailored market data (no recommendations):**
   a. Gave a much more precise indication of pay practices in the technology sector for comparably scaled businesses, including key peers, and showed that the broader Industrial & Services market data was over-estimating the benchmark. Instead, it appears $383,000 Fixed Pay (P50 FP) and $690,000 Target TRP (P62.5 TRP) would appear appropriate, saving the company around $73,000 in Fixed Pay and $145,000 in total cost in FY23 compared to using the broader market indicators.
   b. Higher cost: this example tailored data only report costs $12,000 + GST for 4 executive roles.
   c. Longer to produce: a data-only report typically takes around 2 weeks to produce at busy times of year.
   d. A balanced outcome that has been checked by analysts and consultants as being free from anomalous outcomes and a reasonable and appropriate indicator of market remuneration for the client. All tailored data sets undergo multiple levels of data checking and peer-review.
   e. Full transparency on line-by-line market data allows you to check not only for anomalies or companies you may wish to exclude, but also to examine the market practices of particular peers.

The Third Choice – Tailored Advice and Recommendations

While the foregoing examples are "data only" and can be provided to anyone, recommendations can only be given to non-executive directors in listed companies. In this example, after the client sense-checked their remuneration with the guide, and then obtained the bespoke data-only report, the board decided to engage GRG to provide tailored advice rather than a data-only report. This involved GRG building a tailored pay-banding model across the whole executive team, reflecting market-anchor points from the data-only report, and then building a customised model of the organisation design based on role descriptions, the organisation chart, and discussion. This results in "slotting" of roles relative to a) typical market positions and b) other executives inside the Company. In this case, the CFO role was identified as being "a step down" from a typical CFO role, because the CEO role had taken the financial strategy accountability from the CFO role and was slotted one position below the typical CFO position. This resulted in a recommendation for the incumbent to receive $330,000 in Fixed Pay, alongside a 35% Short Term Variable Remuneration target, and a 35% Long Term Variable Remuneration target expectation (note: target is not stretch/maximum). This produced a total package of $561,000 which fell low in the data range, but represented a significant increase on the current package, which retained the incumbent, and was appropriate to the industry, company scale, and the company's specific role design and role relativities. Further, GRG recommended that the 10% Fixed Pay increase be delivered in the form of 12-month-tested Service Rights (as part of Fixed Pay), to reduce cash-flow impact, support retention, and to compete with peers offering additional equity in the technology space. Similarly, it was recommended that 50% of the STVR be settled in Restricted Rights (no "risk of forfeiture" but subject to clawback and favourable tax treatment) to reduce the cash-flow impact of variable remuneration increases, while increasing "skin-in-the-game", without disadvantaging the employee, and offering favourabe tax.

Conclusion

There will be times when each of the available benchmarking approaches will be appropriate to your circumstances. Typically, tailored advice is only sought every 2-3 years or if circumstances have changed substantially e.g. >25% change in market capitalisation, major change in organisation design or role design, or critical feedback from stakeholders is received. In between major reviews, off-the-shelf solutions like the Guide can tell you which way the wind is blowing, and if you might be materially out-of-the-market. While tailored advice can help get you to the right outcome faster and more efficiently than interpreting market data yourself, you may prefer not to receive recommendations or perhaps a data-only check will give you the comfort you need. In this case, data-only or off-the-shelf reports will be the best solution for you.

ORDER FORM FOR GRG KMP REMUNERATION GUIDES 2022

CONTACT DETAILS

Company Name/Licensee: _____ **ASX Code:** _____

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1) SELECT THE GUIDE/S YOU WISH TO ORDER:

Publication in Electronic Format	Tick to Order	Price excluding GST	Amount including GST
2022 GRG All Industries KMP Remuneration Guide License		$3,500.00	$3,850.00
2022 GRG Resources KMP Remuneration Guide License		$3,500.00	$3,850.00
2022 GRG Industrial & Services KMP Remuneration Guide License		$3,500.00	$3,850.00
Additional Market capitalisation range data		$1,500.00	$1,650.00
		TOTAL	

2) SELECT 2 RANGES FOR YOUR GUIDE/S (AND ADDITIONAL RANGES IF SELECTED ABOVE):

Instructions for selecting ranges: The data tables in each publication are designed to represent pay practices of companies that are similar in scale to yours, either by revenue or market capitalisation. *Your Guide will be customised to contain market practice remuneration data for roles in 2 market capitalisation ranges that you decide are the most relevant to your situation. If no selection is made then we will provide the range in which your company sits plus the closest adjacent range.*

MARKET CAPITALISATION RANGES (MARKET CAP.) – Ranges for all three GRG KMP Remuneration Guides

Market Cap. Ranges		Market Cap. Ranges		Market Cap. Ranges		Market Cap. Ranges	
Above $10 Bill.		$7.5 to $12.5 Bill.		$250 to $500 Mill.		$175 to $375 Mill.	
$5 to $10 Bill.		$3.5 to $7.5 Bill.		$100 to $250 Mill.		$75 to $175 Mill.	
$2 to $5 Bill.		$1.5 to $3.5 Bill.		$50 to $100 Mill.		$37.5 to $75 Mill.	
$1 to $2 Bill.		$750 Mill. to $1.5 Bill.		$25 to $50 Mill.			
$500 Mill. to $1 Bill.		$375 to $750 Mill.					

REVENUE RANGES – Ranges for the All Industries and Industrial and Services GRG KMP Remuneration Guides

Revenue Ranges		Revenue Ranges		Revenue Ranges		Revenue Ranges	
Above $4 Bill.		$2 to $4 Bill.		$50 to $80 Mill.		$5 to $10 Mill.	
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$300 to $500 Mill.		$200 to $300 Mill.		$20 to $30 Mill.		$0 to $5 Mill.	
$120 to $200 Mill.		$80 to $120 Mill.		$10 to $20 Mill.			

Signature: _____ **Date**: _____

METHODS FOR ORDERING THE GUIDES Please complete this form and return to GRG by email, online or post:

Email Order
info@grg.consulting

Internet Order
www.grg.consulting/data-products

Postal Order
Godfrey Remuneration Group Pty Ltd
Level 7, 75 Miller Street, North Sydney NSW 2060

PAYMENT: *An invoice will be sent along with your copy or copies of the Guide(s) if payment is not received at the time of the order. Payment is required within 21 days of the date of the invoice. Late payment attracts an additional charge of 2% compound for each 30 days or part thereof that payment is received after the date of the invoice.*

INFORMATION ON THE GRG KMP REMUNERATION GUIDES

The GRG KMP Remuneration Guides are an essential reference source for Remuneration Committees, Human Resources Professionals and Remuneration Professionals. They are a benchmarking reference point you can use to explore whether your KMP remuneration quantum and mix are industry competitive. Each Guide contains a series of data tables that provide analysis of an extensive number of executive and board roles.

TYPES OF KMP REMUNERATION & INCENTIVES GUIDES

There are three GRG KMP Remuneration Guides available:

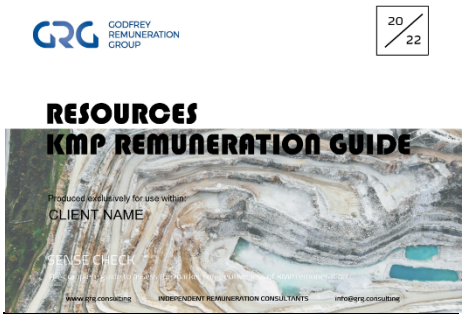
- All Industries KMP Remuneration Guide – by market capitalisation or revenue
- Resources KMP Remuneration Guide – by market capitalisation only
- Industrial & Services KMP Remuneration Guide – by market capitalisation or revenue

Each represents the pay practices of companies operating in major sectors and sub-industries that are competing for the same talent pool. The data tables in each publication are designed to represent pay practices of companies that are similar in scale to yours and are customised either in revenue position or market capitalisation range based on your request.

This Guide covers all industries in aggregate as well as sub-sectors *for:*

- ***resources,***
- ***financials,***
- ***industrial & services.***

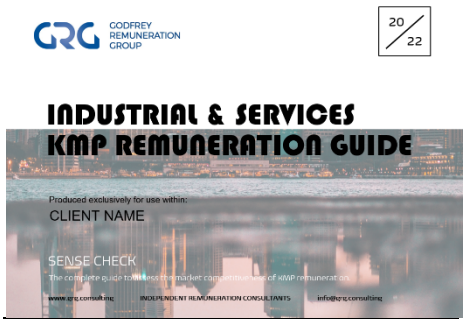
Your All Industries Guide can contain samples grouped by either **Market Capitalisation or Revenue** ranges.



This Guide covers the resources sector in aggregate as well as sub-sectors for:

- ***oil & gas,***
- ***other energy,***
- ***gold,***
- ***base metals,***
- ***diversified resources.***

This Guide contains samples grouped by **Market Capitalisation** ranges.



This Guide covers organisations outside of the resources and financial services sectors in aggregate as well as sub-sectors for:

- ***industrial,***
- ***services,***
- ***consumer,***
- ***health (healthcare, biotechnology & pharmaceuticals).***

This Guide can contain samples grouped by either: **Market Capitalisation or Revenue** ranges.

GRG KMP REMUNERATION GUIDE DATA OVERVIEW

Chair & Non-executive Directors

- Main Board Packages
- Aggregate Fee Limits
- Fee Movements
- Committee Fees
- Per Diem Rates
- NED Equity Plans

Top Executives

- Fixed Pay
- Short Term Incentives
- Long Term Incentives
- Total Remuneration Packages
- Market Movements

Data tables show actual, forecasted, and projected data at key statistical data points **P25, P50, P62.5 & P75.**

KEY MANAGEMENT PERSONNEL (KMP) ROLES PRESENTED IN THE GUIDES

Guides contain multiple Executive KMP and typically includes: CEO, CFO, COO, Business Unit Manager, Company Secretary, Sales & Marketing Manager, Corporate Development & Strategy Manager, Corporate Services Manager, HR, CTO, Project Manager, Other GM level roles, Exploration Manager* and Mine Manager*. (*Resources Guide only).

Non-executive directors (NED) KMP roles and data typically include: Board Chair, Non-executive Director (NED), Remuneration Committee fees (Chair and member), Audit Committee fees (Chair and member), Ratio of Board Chair to NED board fees, and Aggregate Fees Limits (AFLs).

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