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A Comparison of Remuneration Databases: Navigating Executive Compensation Trends with GRG

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Remuneration databases have undergone, and continue to undergo, significant changes in the market as suppliers strive to fragment what was once a homogenous market and associated demand into a diverse range of data sets with differing drivers. The concept and importance of using data to drive business decisions influences many companies and suppliers recognise its value and power resulting in many commoditised products flooding the market, some with questionable motives and concerning findings.

Databases covering director and senior executive remuneration practices have undergone the most significant change due to legal requirements to disclose key management personnel (KMP) remuneration information in Remuneration Reports of ASX listed companies (from 2001). More recently, the depth of such disclosures has declined as companies adopt a minimal compliance approach which has resulted in fewer executive roles being disclosed.

To combat a shrinking database, Executive Remuneration Consultancies have adopted more complex analyses and models to produce meaningful, market-related recommendations for clients for their executive populations. Such models are based on historical market practices and may not indicate market premiums or current nuances/trends.

For a company to have complete confidence in any data or recommendations for their entire executive group's remuneration, there is now a need to seek alternative sources of current remuneration data beyond the 'disclosed' to include the ever-growing population of non-disclosed executive data. Given this development, it seems timely to conduct a comparison of remuneration databases; to discuss the various approaches to populating remuneration databases, and inform and educate the market on the alternative sources available in the market and their associated purposes. The five main approaches are:

- Remuneration Report Retrieval,
- Professional Remuneration Surveys,
- General Interest Surveys,
- Recruiter Salary Databases, and
- Online Portals.

Each of these is now discussed below.

Remuneration Report Retrieval

Remuneration Reports are required to be produced by ASX listed companies and included in their Annual Reports. Information extracted from Remuneration Reports and supplemented with information extracted from notice of meeting resolutions relating to key management personnel (KMP) remuneration is the most accurate source of remuneration data and therefore the best source of information for boards to make informed remuneration decisions. Key benefits include:

1. **Company Participants:** It is a legal requirement that all ASX listed companies complete a Remuneration Report disclosing their KMP remuneration data annually.
2. **Data Quality:** The Corporations Act requires consistent disclosure of KMP remuneration and the auditing of Remuneration Reports resulting in high quality data reporting. The subsequent creation of a quality database of all ASX KMP information requires trained professionals to interpret and conduct quality checks to validate.
3. **Information in the public domain:** all details are available to the public and can be closely scrutinised to determine actual market practice and relativities.

The deficiencies of Remuneration Report disclosures are:

1. Only a limited number of the executive group (including roles in the senior leadership team) are disclosed in Remuneration Reports omitting a large number of company executives creating difficulty in determining market rates of pay for an entire executive team via this method, and
2. Disclosures in relation to performance metrics for incentive plans, particularly short term incentives (STIs) is less than optimal.

These issues need to be addressed via Professional Remuneration Surveys.

Professional Executive Remuneration Surveys

Professional Executive Remuneration Surveys are those conducted by consulting firms with the specific aim of being able to provide participants with remuneration information that can be relied upon to formulate remuneration recommendations for board approval. Participants in these surveys pay a fee to participate and must supply their data for inclusion in the database. In return they gain access to quality market remuneration practice data.

The advantages of Professional Remuneration Surveys include:

1. Wide scope of executive roles covered, not just KMP, resulting in advice for potentially a company's entire executive population (and beyond)
2. Details of variable remuneration performance metrics may also be covered although this is rarely thorough or complete,
3. Tried and tested methodologies employed by reputable consulting firms ensure consistency of data reported, and
4. Quality checking of data inputs through direct engagement with clients provides confidence in the data. Additional scoping information and further incumbent profile details provide a richer context to collected data.

The disadvantages of Professional Remuneration Surveys include:

1. Fluctuations in database composition both in terms of listed vs unlisted and survey participants as a whole can create some level of doubt or uncertainty in the validity of the outputs as:
 - a. Remuneration practices of unlisted companies are often lower than for listed companies and may not contain all the remuneration elements provided by listed companies.
 - b. Reported changes in remuneration levels can be due to changes in samples where there is a lack of consistency in survey participants year on year,
2. Whole market statistics cannot be produced because these surveys are a representative sample only, not whole of market data.
3. Many databases reflect the whole employee population and therefore don't focus on the nuances of Executives and their specific remuneration practices.
4. In many surveys the participating companies delegate the completion of data submissions to junior staff who do not have complete information or understanding of the complexities of executive remuneration.

Ideally, the discerning remuneration professional will use a blend of Remuneration Report and Professional Executive Remuneration Surveys conducted by a reputable organisation to compile board recommendations for its executive population.

General Interest Surveys

These surveys are operated on a low-cost, non-targeted approach. They use brief questionnaires to encourage data submissions with minimal instructions and methodology descriptions. These questionnaires are broadly distributed with a view to maximising potential participants. The data collected is analysed and the outputs are often made available to participants for nil cost and to non-participants for a small cost.

The advantages of General Interest Surveys include:

1. Low or nil cost for participants, and
2. Indicative data is received by participants without the need to undertake detailed data submissions.

The disadvantages of General Interest Surveys include:

- Lack of quality assurance in relation to data inputs and questionable methodologies raise concerns about associated data output validity,
- Supporting database statistics relating to the market are also cast into doubt given the lack of transparency over data collection methodologies and close scrutiny must be applied to the type of statistics reported. For example, average (versus median) should never be utilised as a valid statistical measure.

As a result, great caution should be taken by any remuneration professional using such data beyond 'information only' and has no validity as a base for recommendations to boards.

Recruiter Salary Databases

These are publications produced by recruitment firms that tend to provide salary (not total package) ranges for different roles. It is not clear whether they collect actual salaries of candidates or only the salaries of successful candidates. While such information can be useful in recruitment situations for general employee level jobs, such data would be of little use in setting remuneration packages for senior executives. Their lack of reputable methodologies and robust data collection techniques make their findings more of 'general interest'.

Online Salary Portals

These are online portals that provide market data in response to those who submit their own salary information. These portals tend to be used by general employees rather than being specific to executives resulting in general outputs with little validity or depth. Caution should be exercised using such outputs for anything more than 'general interest'.

A Comparison of Remuneration Databases: Which Source do you Choose?

It is important to understand that each data source serves its own particular purpose according to the supplier's business intentions. As a remuneration professional, discerning such drivers helps inform your choice of provider and any associated limitations and uses of the information obtained.

In addition to data provenance, consider if the source provides:

- **Role Matching:** a title of the role and or job description to allow remuneration for like roles to be analysed and compared.
- **Role Size Grouping:** can you compare jobs of a similar size such as by company size as measured by market capitalisation or revenue.
- **Industry Sector:** can you compare data for your industry sector to allow industry specific influences to be recognised.
- **Balanced Groups:** choosing a group of companies evenly balanced with the same number of companies smaller and larger than the client company leads to a more robust statistical analysis. As a general rule, executive and director remuneration increase as company size increases.

GRG has developed its Executive Remuneration Survey (ERS) to provide the Australian market with a combined database of both Remuneration Report Retrieval and company collected data. Designed to provide data on a company's entire executive population, both remuneration quantum and variable plan metrics are reported allowing remuneration professionals to make informed decisions about an executive's total package based on robust and respected methodologies. Additional features available to the ERS member ensures the large database can be further customised to meet the specific needs of your company based on filters such as industry and market capitalisation maximising data relevance to the company.