

HaRe Group newsletter: 21 February 2005

Subject: Executive & professional pay update

From time to time, there are media reports that provide worthwhile information on executive and professional remuneration. This newsletter summarises and comments on selected articles in recent business papers.

Order your Maserati (AFR, 10 Feb.)

Investment bankers are enjoying one of the best bonus seasons. Performance payments have been generous across all divisions of corporate advisory, including stockbroking, capital markets and mergers & acquisitions. While no confirmed data is available, bonuses are believed to range from tens-of-thousands to millions; eg. a chief of an investment bank may be on a base of only \$600,000 but total pay with bonuses could be \$6 million; a divisional head may have a base of \$250,000 but total pay could be \$2-3 million; a 3rd year "star" analyst may have a base of \$80,000 but total pay more than twice this amount.

The shortage of quality people has prompted concerns about paying mediocre performers too much. The stellar performers are being more clearly differentiated and they receive the lion's share of the bonuses. Poor performers can be shown the door in the weeks before bonuses are paid.

Readers of "Alex" will be appreciating the recent series. For example, Clive's efforts to outflank the competition when they say they are cutting bonuses by 30% - a ploy to make Clive follow suit, then poach his team. Instead, Clive increases bonuses by 10%, only to have his bonus cut by Rupert because Clive overpaid his staff (AFR, 21 Feb.).

Professional salaries boom (AFR, 28 Jan.)

This year, professional services workers are likely to receive the benefits of greater workplace reforms, corporate governance and company mergers & acquisitions. Internal auditors and compliance professionals will be in high demand and enjoy the biggest pay rises - about 10% on average. Independent HaRe Group research indicates that the general market is budgeting for an increase of around 4-5%. During the year to November 2004, private sector wages grew by just 3.4%.

Concerns about key staff retention may cause remuneration & benefits staff salaries to grow by 5-7% in 2005. IR and OH&S professionals are also in demand.

Nortel executives repay bonuses (NYT, 12 Jan.)

After the manipulation of 2001-03 financial results that inflated executive bonuses, about 12 current executives (who played no part in the manipulation) will repay US\$8.6 million. (10 other executives, including the CEO & CFO, were dismissed following an independent review).

US remuneration experts cannot recall another case where executives had returned bonuses because they were based on misstated financial results. While Sarbanes-Oxley requires US CEOs and CFOs to repay bonuses in these circumstances, some companies are considering new provisions that require bonuses to be returned by other executives.

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