# Top Executive Pay – Is Alignment Reducing?

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Every year, Freshwater Advisers review the disclosed remuneration of the top ranking executive director in Singapore's larger listed companies. These directors typically have the title CEO, Executive Chairman, Managing Director or a combination of these.

Our analysis of information disclosed for years ending in 2012 covers base salaries, short-term incentives (typically these are annual bonuses) and long-term incentives (equity based pay) in 295 companies with a market capitalisation of over S$100 million. The table below gives the headline numbers:

| Percentile | Base Salary | Directors' Fees | Short-Term Incentives | Long-Term Incentives | Other | Total |
|---|---|---|---|---|---|---|
| P10 | 175,000 | 0 | 0 | 0 | 0 | 175,000 |
| P25 | 287,600 | 0 | 38,500 | 0 | 0 | 326,100 |
| P50 | 423,883 | 0 | 297,500 | 0 | 15,500 | 736,883 |
| P75 | 719,600 | 0 | 871,250 | 0 | 52,500 | 1,643,350 |
| P90 | 1,055,250 | 42,500 | 2,479,644 | 517,500 | 115,000 | 4,209,894 |

Looking deeper into the data, we have found that short-term incentive (STI) payments to the top executive director have tended to be higher in 2012 than 2011. However, comparable financial measures are, broadly, slightly down. Many companies use profits before tax (PBT) as a performance measure for setting bonuses and we have looked at statistics that compare incentive payments to PBT. We have also looked at whether companies have increased or decreased STI when PBT is rising or falling.

| STI % of PBT | 2011 | 2012 |
|---|---|---|
| Median | 0.41% | 0.61% |
| Average | 0.41% | 0.43% |

| | STI Up | STI Down |
|---|---|---|
| PBT Up | 29% | 14% |
| PBT Down | 26% | 31% |

The key numbers are that 26% of companies have increased bonuses even though profits are falling and, on the other side of the coin, 14% reduced bonuses when profits were rising.

Although PBT is only one factor that could be considered in setting bonuses, seeing bonuses trending up whilst profits are trending down, does indicate an overall lack of alignment.

But what about long-term incentives?

For a variety of reasons, granting long-term incentive awards has not proved popular with smaller companies with less than 1 in 10 using them last year. Indeed, we find that despite [most] companies having an approved plan in place, over half of these never use their plan. Whilst we do not have data on these reasons, anecdotally these would include a lack of strategic rationale for the plan, not wishing to increase dilution and, most likely, that the senior management are already substantial owners.

For larger companies, the proportion granting some long term incentive was nearly 40% last year; a somewhat consistent percentage. However, the value of grants reduced significantly. This could be indication that this component is losing its impact. ■