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Aligning incentive compensation to shareholder wealth creation and the two strikes policy

by Justin O'Brien

Over the past 10 years, both executive base salaries and total executive compensation (including short and long-term incentives) in Australia have grown at a compound rate of 10% p.a.

In contrast, the ASX200 (price and dividends) has grown at only 3% p.a - well below the equity cost of capital.

The recently introduced 'two strikes' policy (whereby shareholders can now vote to spill a Board if the remuneration report receives a "no" vote from more than 25% of shareholders two years in a row) is forcing many Australian companies to re-examine how aligned their incentive plans are to shareholder value creation.

Value Adviser Associates has developed an offering to help support clients better align their compensation schemes. Right alignment requires understanding wealth creation targets, a long-term value creating strategic plan, detailed knowledge of shareholder embedded expectations, and how key value drivers should be cascaded through the organisation.

As well as a clear understanding of benchmark practices for how compensation is split, what the short and long-term measures should be, and other considerations including form (performance rights, shares), vesting, tax, and ease of implementation for fair value accounting.

We have developed a short-form diagnostic that can quickly assess likely areas of concern for shareholders, and potential sources of misalignment.

Contact Justin O'Brien to discuss how Value Adviser Associates can help. 



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