Board Leadership Centre

Executive Remuneration

Balancing performance, perception and purpose

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Boards and Remuneration Committees are being challenged to rethink traditional pay frameworks in an environment where global talent competition is fierce and top executive talent is becoming harder to attract and retain.

The question is no longer just how much to pay, but how far Boards are willing to flex remuneration practices to secure the leadership needed to deliver on strategy. At the same time, scrutiny from investors, regulators and the public is intensifying, particularly around pay for performance, gender equity and Board discretion. As Remuneration Committees set and carry out their agendas, they must ensure their remuneration framework is agile, transparent and aligned with both organisational performance and market realities.

KPMG Australia's Performance & Reward practice highlight five front-of-mind issues currently shaping executive and workforce remuneration.

- Competing for talent
- Total shareholder return (TSR) in a volatile results season
- Gender equity
- Pay compliance
- Transparent disclosure of Board discretion

Key issues informing remuneration committee discussions

Competing for talent

Recent executive remuneration packages have made headlines, highlighting the growing disparity between pay expectations for ASX-listed companies and those in North America or private equity-backed firms.

In North America, executive pay practices typically offer comparable levels of fixed remuneration and short-term incentives (STIs), albeit often without deferral. However, long-term incentives (LTIs) tend to be significantly higher, frequently comprising service-based awards in the form of restricted stock units (RSUs).

Locally, private equity-backed companies often structure incentives around a heavily leveraged, one-off LTI. These packages can far exceed those offered by ASX-listed companies.

> **"This gives executives a significant upside when they can deliver an exit event at appropriate investor returns."**
>
> ANDREW HOLLAND, KPMG AUSTRALIA PARTNER.

As global and private market practices continue to influence executive expectations, Australian companies are evolving their remuneration strategies to remain competitive.

It's critical that Directors understand these market dynamics when making decisions on pay and when communicating with investors and proxy advisors.

> **"We've seen examples of companies offering sizeable one-off awards, in addition to standard STI and LTI arrangements, to compete with non-ASX-listed packages or retain key talent."**
>
> ANDREW HOLLAND.

ASX-listed companies are also introducing out-performance elements into their LTI plans. This approach provides additional upside for executives when the organisation achieves very strong performance outcomes (supporting market competitiveness) while also driving performance in the current uncertain macroeconomic environment.

> **"We've begun to see ASX-listed organisations allow LTI awards to vest above 100% in exceptional circumstances, where very stretching targets are met. We expect this practice to grow, particularly where out-performance is linked to shareholder returns."**
>
> RACHEL TUCKER, DIRECTOR, KPMG AUSTRALIA.

Total shareholder return (TSR) in a volatile results season

FY25 was a particularly volatile results season, with many ASX50 companies experiencing double-digit share price movements in the 48 hours following their results announcements. Because these movements occur after the reporting period, they do not influence incentive vesting decisions that Boards have already made weeks earlier.

2025 Share price movements upon release of results

Change in closing price from day before to day after results release (48-hour window)

Company	Change	Company	Change
NEXTDC	▲ 19%	CSL	▼ -19%
Worley	▲ 16%	Woolworths	▼ -16%
coles	▲ 13%	wisetech global	▼ -14%
Brambles	▲ 12%	Sonic Healthcare	▼ -14%

Currently, around 80% of ASX200 companies use TSR as a measure in their LTI plans. In most cases, TSR is assessed over the company's financial reporting period (for example, from 1 July 2022 to 30 June 2025).

But is this the most appropriate approach? An alternative would be to measure TSR from post-results to post-results using, for example, a 10-day volume-weighted average price (VWAP) after the FY22 results through to a 10-day VWAP after the FY25 results.

"This method would better capture the market's full assessment of company performance, including the impact of results announcements."

ANDREW HOLLAND.

While this approach is not common, a small number of companies (for example, Dyno Nobel) have adopted it. Admittedly, it introduces practical challenges: LTI vesting outcomes would not align neatly with the current-year remuneration report, and TSR will always have limitations as a performance measure. However, aligning measurement windows with when the market has complete information arguably provides a more philosophically sound basis for assessing long-term performance.

Some companies have also adjusted their relative TSR peer groups to align more closely with their risk and return profiles.

"A challenge with peer groups (particularly broad indices like the ASX100 or ASX200) is that it can be difficult for some companies (such as annuity businesses) to out-perform. Reflecting this, we have seen some companies exclude more volatile sectors (such as technology) from their peer group or adjust their peer group towards companies with a more comparable volatility and return profile."

RACHEL TUCKER.

Gender equity

The next stage of workplace gender equality reporting requirements begins in 2026. All companies with 500 or more employees in Australia will be subject to a target setting obligation commencing from the 2026 reporting period.

When lodging their annual submission to the Workplace Gender Equality Agency (WGEA) in April/May 2026, those companies will need to choose and commit to achieving 3 gender equality targets, chosen from a list of 19 targets published by WGEA.

WGEA targets that relate to remuneration include increasing representation by pay quartile, reducing the gender pay gap across the organisation, or for managers or non-managers and making specified enhancements to gender pay equity policies. There are a range of other 'action-based' targets which include improvements to policy, training and reporting practices, amongst other things.

Companies will have three years to achieve each target, or at minimum demonstrate improvement towards each of their 3 chosen targets. Non-compliant companies may be named in Parliamentary reports and may not be eligible for government contracts or relevant grants.

> **"Bringing the right stakeholders to the discussion when selecting targets is critical, as is taking a pragmatic view about what can be achieved within three years."**
>
> MELANIE SMITH, SENIOR MANAGER, KPMG AUSTRALIA.

Pay compliance

Recent Federal Court proceedings that involved the Fair Work Ombudsman highlighted two key challenges for companies engaging salaried staff who are covered by an award or enterprise agreement (EA).

First, employers who pay an annualised salary to staff who are covered by an award or EA must ensure that the amount paid is no less than the individual would be entitled to earn under the award or EA *in each pay period* (not just across the course of the year). It is not possible to 'offset' amounts paid during quiet periods against busy periods.

The expectations on employers' record-keeping in respect of hours worked and amounts paid are high, and likely exceed the approach taken to record keeping by the majority of employers.

The Fair Work Act requires employers to maintain time and wage records, such as details of amounts paid, the number of overtime hours and the time those overtime hours started and finished each day. These records must be maintained in a way that is 'readily accessible' to a Fair Work Inspector or an employee, should they request them.

Despite the employers maintaining details of employee rosters and clock in/clock out data, this was not viewed as sufficient to meeting the stringent record-keeping obligations, as the relevant information was not readily accessible (e.g. significant data analysis and manipulation of these 2 sources of information was required to understand when overtime may have been payable).

> **"The onus is on the employer to maintain sufficient records to justify amounts paid and explain how they satisfy award entitlements. If no such records exist and an underpayment claim is made, the employer will bear the onus of disproving the claims."**
>
> MELANIE SMITH.

Given the serious nature of these findings and the financial implications for the companies involved, the decision may be appealed. This is an incredibly complex regulatory environment with the possibility of significant penalties on top of the financial impact of rectifying any underpayments.

Transparent disclosure of Board discretion

There have been several instances in recent years of Boards exercising downwards discretion in respect of executive pay for regulatory issues, other non-financial risk events (e.g. cyber breaches) as well as fatalities or safety issues.

We've seen some listed companies receive remuneration strikes for not being seen to have applied a sufficient downward adjustment or not clearly disclosing the impact of Board discretion.

"Where possible, Boards should be explicit about the dollar impact of the decision on executive incentive outcomes. External stakeholders want to understand how decisions flow through to pay."

ANDREW HOLLAND.

There may also be a smoother path with stakeholders in the long-term if those discretionary decisions are applied within the same year as the breach occurred.

However, it is acknowledged that this is not always possible. Tucker says where matters are under investigation, it may be prudent for Remuneration Committees and Boards to withhold or defer vesting of variable pay outcomes (which is common practice in financial services) until the investigation is complete and Directors are sufficiently informed to make an assessment of the reward consequences that should be applied.

Companies should also be cognisant of the culture within the organisation towards the application of consequences including to remuneration.

"As part of the process of applying consequences, companies should consider how to support a learning culture in relation to incidents to help support prevention in future. This may include, for example, considering the learnings from matters before consequences are applied."

RACHEL TUCKER.

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About the KPMG Board Leadership Centre

KPMG's Board Leadership Centre is a global program connecting and supporting non-executive directors in facing today's challenges, anticipating emerging threats and harnessing new opportunities.

Members gain access to exclusive tools and resources as well as an extensive network of other non-executive directors to help navigate the ever-changing demands of society and the business world.

Directors have the opportunity to trade insights, share ideas and support each other in tackling today's boardroom issues.

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