

Remuneration Reporting - Warrick van Zyl (UWA) and Marvin Wee (ANU)

Project Update

We were engaged to compile a literature review of the academic literature relating to remuneration reporting. The literature review is to include studies providing:

- a. Descriptive evidence about the current reporting requirements applying to entities in Australia;
- b. The costs and benefits of the current reporting requirements;
- c. The needs of information users in relation to remuneration reporting;
- d. The incentives for entities to provide useful information in remuneration reports and the way regulation can facilitate these disclosures; and
- e. The impact on preparers and users of changes in reporting.

Our initial focus has been on papers that describe manager incentives and how managers have reacted to these incentives. We have used these studies to determine the key information needs of users, i.e., items (c) and (d). The majority of the academic literature on remuneration reporting relates to these areas.

We have extended our work on incentives and remuneration disclosure to include a pilot study of remuneration reporting requirements and practices in Australia. This aims to address item (a). This has been drafted as a working paper on executive remuneration disclosure in Australia. The findings of the paper is summarised below.

Working paper summary

The purpose of the study is to provide preliminary evidence on current Australian executive remuneration disclosures. Based on our review of the executive remuneration literature and disclosure requirements in Australia, we produced a checklist of indicated disclosures. This checklist was used to assess the disclosure quality of an initial sample of 20 ASX listed companies.

We found that most of the currently required disclosure in Australia is supported by the literature. The literature does, however, emphasise the importance of explaining the links between firm strategy and executive remuneration. It also suggests that the reasoning behind choice of remuneration types and performance metrics are of interest to users. Generally the quality of disclosures in these areas is poor. The emphasis in current remuneration reporting is on the detailed remuneration outcomes. This is in contrast to what is advocated in the academic literature.

Our study suggests that regulators and standard setters should consider ways to improve companies' explanations on the links between corporate strategy and executive remuneration. In addition, companies should also provide disclosure of the factors leading to the choice of remuneration types, duration, performance metrics and overall remuneration levels.

Areas of suggested future research would be to extend the pilot study, examine a sample of not-for-profit entities, focus on entities that have experienced a "first strike" or present experimental or survey evidence on the disclosures users find informative.

Remaining areas to be addressed

We are presently completing our review of the remaining items (items b and e). We have found very little literature dealing with non-for-profit entities to date, but will continue to search for research in this area.