

New Index Justifies FTSE 100 Bonuses

The Swiss financial research firm Obermatt has measured management performance of the FTSE 100 companies relative to their global peers based on published half year reporting 2009. The surprising result: 70 per cent of UK listed companies have outperformed their international competitors. This means that, from a shareholder point of view, outperformance bonuses are justified for a majority of the top UK companies for 2009. "Our research indicates that FTSE 100 companies are far better than companies listed in Switzerland and Germany where we have conducted the same type of research", says Obermatt CEO Hermann Stern. Only 30 per cent of the SMI/SPI companies listed in Switzerland and of the DAX 100 companies listed in Germany outperformed their global peers.

Obermatt converts relative company performance into a bonus recommendation for top management, based on a bonus multiple. The current Bonus Index result means that 78 executive boards of the FTSE 100 companies have managed to beat their global competitors in the Obermatt Bonus Index. The Fine Chemical division of Johnson Matthey, followed by pharmaceutical company Shire, Aviva, Prudential and the software company Autonomy have performed best during the current economic downturn and Obermatt gave them a bonus multiple recommendation of 1.8 to 2.0. Top 10 rank was also achieved by publishing group Reed Elsevier, inspection company Intertek, construction and engineering company Petrofac, internet telephone provider Inmarsat and Vodafone with bonus multiples between 1.7 and 1.8. Other above average results were achieved by companies such as aerospace and defence company Rolls Royce (1.6), AstraZeneca (1.5), service group Serco (1.5) and BP (1.4). The best ranked banks are Standard Chartered and Barclays with bonus multiples of 1.5 each. To sum up, according to the current Obermatt Bonus Index, 70 per cent of all FTSE 100 companies delivered half year results which justify a bonus multiple of 1 or more. At the other end of the spectrum companies such as Cadbury Schweppes or BT (both 0.6) and British Airways (0.5) underperformed compared with their global peers in their respective industries in the first half of 2009.

This is the first time that Obermatt has published its bonus recommendation for the FTSE 100 companies. Manifest proxy voting agency CEO Sarah Wilson said: "We will be using the Obermatt Bonus Index in our voting recommendations and remuneration analysis because it allows us to objectively separate the good performers from the bad."

The advantage of this indexed bonus recommendation is that it also works in a recession. It shows, unaffected by economic cycles, how well the companies have performed.

"The Obermatt Bonus Index is fair for executives, but it is also fair for shareholders," says Obermatt UK representative Cliff Weight of MM & K, a UK remuneration consultancy. "It is fair because operating performance is measured independently from external factors. This prevents excessive bonuses, as well as insufficient bonus payments which often result from traditional bonus plans. This Index will improve the understanding between shareholders and executives - it is better to focus on performance than the current, increasingly sterile, debates of caps on executive remuneration."

How it Works and When it is Published

The Obermatt Bonus Index measures each company relative to a customised peer group of its competitors in a percentile rank calculation. This percentile rank is converted into a bonus multiple between 0 and 2. Thus, the multiplication factor for a given bonus target is defined. Median bonuses - or one times bonus target - are recommended for median performance. This is in the interest of shareholders who also base their investment decisions relative to alternative investments.

Obermatt will publish the UK Bonus Index twice a year, in February and September, so that executives and shareholders receive the same independent performance assessment. Obermatt also publishes a bonus multiple for companies listed in Switzerland and Germany twice a year.




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