HaRe Group newsletter: **5 December 2005**

Subject: **Update on Top CEO Pay**

Nobody will be surprised to read that chief executive remuneration rates are still increasing. However, you may not expect that the correlation between company size and CEO remuneration is improving.

In respect of larger listed companies, CEO remuneration is becoming more consistent with company share value. The following table presents the correlation of market capitalisation and total remuneration (including short-term incentives) amongst the Top 150 Australian companies:

Market Capitalisation (billions)	Total Remuneration trend (millions)	Annual incentive payments (% of TR)
$1.5 – 3.0B	$900,000 – $1.6M	25-30%
$3 – 5B	$1.6 – 2.3M	30-35%
$5 – 7.5B	$2.3 – 3.1M	35-40%
$7.5 – 10B	$3.1 – 4.0M	40-45%

In statistical terms, market capitalisation "explains" more than 80% of the total remuneration (TR) trend. This should give some comfort to the critics of CEO reward for performance. However, there are still many CEOs paid outside the above ranges. In some industries, the TR rates are higher (or, in other industries, lower) than the general trend.

In the November *AFR BOSS*, a sample of 20 CEOs and their remuneration levels are consistent with the above trend. The better paid exceptions include Chris Corrigan (Patrick) and Paul Little (Toll), whose companies' Total Shareholder Returns have exceeded 500% in the last five years (far above the sample median of 135%).

Measures for long-term incentives (LTIs) usually include TSR performance against a peer group. Depending on business strategy, some companies are replacing share option plans with performance-based plans where an executive only receives fully paid shares when specified performance hurdles are cleared.

In the largest companies, the annual incentives actually paid to CEOs are approaching half the value of their total remuneration. This trend is consistent with the global practice of rewarding CEOs in equal portions of base pay, annual incentives and LTIs. The trend in smaller Australian companies (under $3 billion MC) shows lower annual incentive payments of only a quarter of TR; however, these are actual payments, not "at-target" payments for meeting all objectives.

Payments of short-term incentives are becoming more dependent on behaviour. As reported in the *BOSS* story, NAB will only pay incentives if business results are achieved in accordance with the bank's values. Many employers are now aware that extracting a short-term profit at the expense of poor leadership behaviour will corrode teamwork and destroy business value.

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