



Australian Council of Super Investors Inc.

Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2002

**Research Paper
Prepared by Institutional Analysis**

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INTRODUCTION AND EXECUTIVE SUMMARY

ACSI commissioned Institutional Analysis to conduct an empirical analysis of several key corporate governance features in the Top 100 listed Australian companies for the 2002 financial year. This article summarises findings of the study. In several areas, the study revisits issues researched for the 2001 financial year,¹ and the 2000 financial year.² The key findings are as follows –

Board composition

The features of board composition are:

- Board size. The average number of directors per board was 8.5, a slight decrease on last year's 8.7. Board sizes ranged from a minimum of four, to a maximum of 15.
- Proportion of non-executive and executive directors. The average board composition was 77.4% non-executive and 22.6% executive (compared to 77.1% non-executive and 22.9% executive a year earlier).
- The independence of non-executive directors. About 48.5% of all board seats are held by independent non-executive directors. Focusing just on board seats held by non-executives, about 62.6% of these are held by independent non-executives and the other 37.4% by affiliated non-executives. The two most common reasons why a non-executive director's independence is impaired are (i) he / she has been on the board for more than 10 years; and (ii) he / she is a substantial shareholder in the company (i.e. owns 5% or more of the stock), or is linked to a substantial shareholder.

Board structure

The features of board structure are:

- Incidence of audit, remuneration and nomination committees. All of the sample companies surveyed had an audit committee. 92.6% of the sample companies had a remuneration committee – a significant increase from the position in 1995, when 66% of Top 100 companies had a remuneration committee. By way of comparison, among the S&P 500 companies (broadly speaking, the 500 largest United States companies), 99% have a remuneration committee. 51.9% of the sample companies had a nomination committee – up considerably from 19% in 1995. By way of comparison with the US, 87% of the S&P 500 companies have a nomination committee.
- Composition of audit, remuneration and nomination committees. Taking audit, remuneration and nomination committees together, executive directors made up 8.9% of committee places, affiliated non-executive directors made up 33.1%, and independent non-executive directors made up the remaining 58%. The main corporate governance guidelines in Australia (those of the ASX Corporate Governance Council, the Investment and Financial Services Association (IFSA) and ACSI) recommend that the audit committee should consist *solely* of independent non-executive directors, but that the remuneration and nomination committees should include merely a *majority* of independent non-executives. In contrast, the listing rules of the New York Stock Exchange, NASDAQ and the American Stock Exchange now require that each of these three key governance committees consists only of independent non-executives.

¹ Institutional Analysis, Board Composition and Pay in the Top 100 Companies: 2001 (Research Paper prepared by Institutional Analysis for ACSI, January 2002), Section 9.

² Institutional Analysis, Board Composition and Pay in the Top 100 Companies (Paper presented to the Conference of Major Superannuation Funds, Gold Coast, March 2001), Sections 7 and 8.

- Incidence of companies with an executive chairperson. Most chairs were non-executive directors – with 45.6% of the sample being independent non-executives, and 40.5% being affiliated non-executives. The positions of CEO and chairperson were combined in only 6.3% of sample companies. And there was a CEO and a separate Executive Chairperson in 7.6% of cases. These figures demonstrate a significant increase in the incidence of an independent chair (and corresponding decrease in the incidence of an affiliated non-executive director serving as board chair) between 2001 and 2002. In 2001, only 36.7% of companies had an independent chairperson, while 48.1% had an affiliated non-executive director serving as chairperson.

Age of directors

The age of directors ranged from 29 to 77, with an average overall of 57.1. A majority of boards have an average age of between 50 and 59. On average, male directors are significantly older than female directors, and non-executive directors are significantly older than executive directors.

Gender of directors

The present study confirms the continuing, and significant, imbalance in the proportion of board seats held by women. The change between this study and the 2001 and 2000 studies undertaken by Institutional Analysis for CMSF and ACSI, respectively, is small.

Of the 557 individuals who held one or more Top 100 board seats at the date of the study, 91.0% were men and only 9.0% were women. The 9% figure for women is up from 8% in 2001, 7.2% in 2000, and 3.9% in 1995.

One company had four women on its board. Elsewhere, the maximum number of women on a board was two (which was the maximum a year earlier). In addition, 25 companies had no women on their boards.

Multiple directorships

The issues are:

- Incidence of executive directors holding multiple directorships. In contrast to the situation in the US and the UK, the incidence of executive directors also holding *non-executive* directorships in the Top 100 companies is reasonably low. Only 7.2% of executive directors also held at least one non-executive directorship (up from 6.3% a year earlier).
- The prevalence of professional non-executive directors. 201 non-executive board seats (38.7% of all non-executive positions) were held by a person who held two or more Top 100 non-executive directorships. The figure a year earlier was 30.6%. These 201 positions were held by 85 individuals. However, a considerable majority of the Top 100 non-executive directorships (61.3%) were held by an individual who held only one Top 100 board seat.
- Remuneration of professional non-executive directors. One person held five Top 100 board seats, and was paid \$380,661 in total. Two people held four Top 100 board seats, and received on average \$655,174 in total. Twenty-four people held three Top 100 board seats, and received on average \$447,149 in total. This was higher than the average a year earlier (\$366,919).
- Incidence of multiple listed company directorships in the sample of companies. A significant proportion of people who sit on the board of a Top 100 company (49.4%) do not hold any other listed company board seats. Another significant proportion (24.8%) hold one additional board position, and 14.1% hold two additional listed company board seats.