



Australian Council of Super Investors Inc.

# **Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2006**

**Research Paper  
Prepared by ISS Australia**

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Level 28, 2 Lonsdale Street, Melbourne, Vic, 3000  
Tel: (03) 9657 4375 Fax: (03) 9657 4378  
Website: [www.acsi.org.au](http://www.acsi.org.au)

## EXECUTIVE SUMMARY

ISS Australia was commissioned by the Australian Council of Super Investors (ACSI) to conduct an empirical analysis of several key corporate governance features in the Top 100 listed Australian companies for the 2006 financial year. This paper reports the findings of the study, which drew on data contained in S&P/ASX 100 companies' most recent annual reports. For the majority of companies, this was the annual report for the financial year ended 30 June 2006. For the remaining companies, the annual reports are mostly for the year ended 30 September 2006 or 31 December 2006.

The study revisits issues researched for ACSI for the 2001 to 2005 financial years,<sup>1</sup> and for the Conference of Major Superannuation Funds for the 2000 financial year.<sup>2</sup> Comparative statistics are provided.

The major conclusion from the results of the 2006 study is that the 'professional non-executive director' (NED) is a continually growing phenomenon. A 'professional NED' is defined as someone who holds two or more non-executive positions on S&P/ASX 100 boards. In 2006, 134 individuals were appointed non-executive directors of an S&P/ASX 100 company; of these, 94 already held or had in the past held an S&P/ASX 100 company directorship. Well over half of new non-executive director appointees in 2006 were therefore experienced large company directors. In 2005, 85 of the 134 new appointees were past or present S&P/ASX 100 company directors; whereas in 2004, 25 of the 93 new appointees were past or present S&P/ASX 100 company directors. It appears that in 2006, as seen in 2005, a major qualification for gaining entry to an S&P/ASX 100 company board was to already be or have been a company director, and thus, the professional non-executive director phenomenon has consolidated.

This trend was also reflected in the growing number of S&P/ASX 100 company directors holding multiple board seats within the top 100. This trend has been growing steadily since 2001, when 72 professional NEDs held 164 board seats (30.6% of all S&P/ASX 100 company board seats). In 2006, 123 professional NEDs held 283 board seats (45.1% of all non-executive board seats), a small increase on 2005, when 117 professional NEDs accounted for 42.8% of all top 100 non-executive board seats. The average female director is more likely than the average male director to hold two or more S&P/ASX 100 board seats. In 2006, women accounted for 11% of all directors, up from 9.2% in 2005, and these women held 12.6% of all board seats, up from 11% a year earlier. Of the 68 women on S&P/ASX 100 company boards, 40 (58.8%) held more than one board seat at an ASX-listed company, compared to 43.8% of male S&P/ASX 100 directors.

The most common age band for non-executive directors is 60 to 69. This reflects the fact that *retired* former executives make up a very significant proportion of non-executive directors serving on S&P/ASX 100 boards. Separate research by ISS confirms that 50% of S&P/ASX 200 non-executive directors were, as at 2006, retired former corporate executives. (The vast majority had not held an executive position at the company on whose board they now sit as a non-executive director; their executive careers were with other companies.)

In 2006, male non-executive directors were on average 7.4 years older than their female counterparts, and male executive directors were on average 2.3 years older than their female counterparts.

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<sup>1</sup>ISS Proxy Australia, Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2005 (Research Paper prepared by ISS Proxy Australia for ACSI, July 2006); ISS Proxy Australia, Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2004 (Research Paper prepared by ISS Proxy Australia for ACSI, September 2005); IA Research, Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2003 (Research Paper prepared by IA Research for ACSI, May 2004); Institutional Analysis, Board Composition and Non-Executive Director Pay in the Top 100 Companies: 2002 (Research Paper prepared by Institutional Analysis for ACSI, May 2003); Institutional Analysis, Board Composition and Pay in the Top 100 Companies: 2001 (Research Paper prepared by Institutional Analysis for ACSI, January 2002).

<sup>2</sup> Institutional Analysis, Board Composition and Pay in the Top 100 Companies (Paper presented to the CMSF Conference, March 2001).

Non-executive director pay again increased in 2006, however at slower rates than in 2005. In 2006, the average non-executive director (excluding the chairperson) received \$162,339, up by 5.3% from 2005 (NED pay grew by 7.1% between 2004 and 2005 and by 5.4% between 2003 and 2004). Non-executive chairpersons' remuneration has continued to increase, albeit at a decreasing rate — not even increasing in line with inflation over the period (the consumer price index increased 4.0% from 30 June 2005 to 30 June 2006).<sup>3</sup> The average S&P/ASX 100 non-executive chairperson saw their remuneration increase 2.5% in 2006 to \$372,793, which was a significantly smaller rate of increase than the 6.6% growth in average remuneration between 2004 and 2005 and the 9.9% growth between 2003 and 2004. The rate of increase in remuneration for non-executive directors however again outstripped inflation and growth in average weekly adult earnings, which grew by 4.2% between June 2005 and June 2006.<sup>4</sup>

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<sup>3</sup> Australian Bureau of Statistics, Key National Indicators: Consumer Price Index, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0> as at 20 June 2007.

<sup>4</sup> Australian Bureau of Statistics, Key National Indicators: Labour Price Index, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/263ECEDF77071502CA257211002042DC?opendocument> as at 20 June 2007.