



CEO Pay in the Top 100 Companies: 2005

**Research Paper
Prepared by ISS Australia**

September 2006

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EXECUTIVE SUMMARY

ISS Australia was commissioned by ACSI to conduct an empirical analysis of CEO pay in the Top 100 listed Australian companies for the 2005 financial year. This paper reports the findings of the study. In several areas, the study revisits issues researched for ACSI for the 2001 to 2004 financial years,¹ and for the Conference of Major Superannuation Funds for the 2000 financial year.² Comparative statistics are provided.

Of the 80 CEOs included in the survey, average total pay was \$3.77 million in 2005, up from \$3.56 million in 2004. The median top 100 CEO pay also increased, from \$3.07 million in 2004 to \$3.09 million in 2005. While this increase in the median was only 0.6%, the increase in the median over the two years 2003 to 2005 was a substantial 33.9% (from \$2.31 million to \$3.09 million). (The numbers have been standardised for the departure of News Corp from the index.)

Average annual fixed remuneration for a top 100 company CEO increased again between 2004 and 2005, from \$1.42 million to \$1.53 million, or 8.2%.

The average short-term incentive (STI) received by a top 100 company CEO again increased substantially between 2004 and 2005, from \$1.29 million to \$1.41 million, a 9.3% increase. This followed a 17.3% average increase between 2003 and 2004. The median STI also increased sharply, from \$900,000 in 2004 to \$1,000,000 in 2005, an increase of 11.1%.

The changes in fixed and short-term remuneration reported here are broadly in line with the findings of a similar study by remuneration consultant Mercer, released in late August, which found that fixed remuneration for a CEO of a top 100 company is growing at approximately 10% per annum. The Mercer study, as reported in the Australian press, found that the average short-term incentive paid to a top 100 company CEO rose 15% in the 2004/05 financial year. This is slightly higher than the average STI found in the 2005 ACSI longitudinal study, although this difference may be due to different sample sizes and methodology.

The nature of the longitudinal study, which assesses the remuneration of CEOs of the top 100 companies, rather than the year-on-year changes of individuals' remuneration, may account for some of the differences between the Mercer and ACSI results. On a company-by-company comparison, of the 64 companies included in both the 2004 and 2005 longitudinal studies, 48 saw fixed remuneration for the CEO increase, 14 had lower fixed remuneration and two CEOs had the same level of fixed remuneration. A similar pattern is discernible in STI payments — 43 of the 64 CEOs included in the 2004 and 2005 studies received a higher STI in 2005 compared with 2004, 19 received a lower STI and two had no change in their STI. This suggests that the rises in fixed remuneration and STI would in fact be even higher but for the addition of new companies to the sample, usually at the lower end of the S&P/ASX 100, with lower overall levels of remuneration.

The 2005 study has also adjusted its overall findings to reflect the distorting effect of News Corporation on comparisons between remuneration of top 100 CEOs in 2004 and 2005: The departure of News Corporation from the S&P/ASX 100 Index between 2004 and 2005 means that the numbers for prior years, in particular for average levels of remuneration were inflated by the very large amounts received by the top-paid executive at News Corp. The report, when making comparisons between years, refers to numbers on an ex-News Corp basis. All tables in the report include both the ex-News Corp and including-News Corp average, median and maximum numbers, with the including-News Corp figures shown in brackets.

¹ ISS Proxy Australia, *CEO Pay in the Top 100 Companies: 2004* (Research Paper prepared by ISS Proxy Australia for ACSI, September 2005); IA Research, *CEO Pay in the Top 100 Companies: 2003* (Research Paper prepared for ACSI, June 2004); Institutional Analysis, *CEO Pay in the Top 100 Companies: 2002* (Research Paper prepared for ACSI, May 2003); Institutional Analysis, *Board Composition and Pay in the Top 100 Companies: 2001* (Research Paper prepared 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.

There was relatively little change in the CEOs who made up the top 10 highest paid CEOs in 2005 compared with 2004, especially when the departures of News Corporation from the sample and retirement of Michael Chaney from Wesfarmers are excluded. Of the eight CEOs in the 2004 top 10 who were still Top 100 company CEOs in 2005, six were again part of the top 10. The other two CEOs from the 2004 top 10 were ranked 11th and 14th in the 2005 study. Of the eight top 10 CEOs in the 2004 survey still part of the 2005 study universe, five saw their remuneration in 2005 increase, by amounts ranging between 4.4% and 55.1%. The three top 10 2004 CEOs who saw their remuneration decrease experienced falls ranging from -6.9% to -16.7%.

To be part of the top 10 CEOs in 2004, a CEO had to earn \$6.12 million or more; in 2005 the threshold for entry increased to \$6.49 million, although the remuneration of the highest-paid CEO of a top 100 company actually fell, from \$29.71 million to \$18.55 million (due to the departure of News Corp from the S&P/ASX 100). If News Corp is excluded from the 2004 sample, the total remuneration of the highest-paid CEO of a top 100 company rose between 2004 and 2005, from \$14.69 million (Westfield's Frank Lowy) to \$18.55 million (Macquarie's Allan Moss).