

ISSUE 04

# THE **KMP** REPORT

NOVEMBER  
2012

THIS ISSUE ADDRESSES THE REMUNERATION OF:

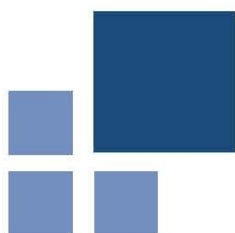
- NON-EXECUTIVE DIRECTORS

AMONG THE

**ASX TOP 300**

**&**

**NZ TOP 50**





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## Introduction

In the current era of heightened interest surrounding Director and Executive remuneration and accountabilities, Egan Associates has established the KMP Report as a forum for reporting on KMP (Key Management Personnel) issues and airing the diverse perspectives and debates that emerge.

As advisors who have enjoyed an intimate engagement with Boards since the late 80s, having executed projects for the majority of the ASX 200 as well as Federal and State governments, we offer significant experience and depth of understanding to the Board landscape.

Egan Associates' [Board Advisory services](#) fall under five broad categories:

<b>Capability</b>	Board Capability Assessments review the capabilities of Board members, ensuring Boards are hiring the right candidates and addressing members with the most efficient training.
<b>Evaluation</b>	Independent reviews of Chair and Director performance help companies develop strategies for effective stewardship and transform exceptional directors into cohesive, high performing Boards.
<b>Governance</b>	Board Governance services assist Boards to align themselves with best practice, meeting changing regulatory and shareholder expectations in an increasingly complex global landscape.
<b>Remuneration</b>	Independent advice on directors' retainer, committee and ad hoc project fees, equity participation and retirement provisions ensures that reward is both reasonable and evidence based.
<b>Strategy</b>	Scenario planning enables Boards to visualise alternative futures in which the organisation may find itself competing. These scenarios are used to create robust and flexible plans for the future.

We welcome your comments on the report and trust you will find it to be informative and thought provoking. For Board Advice, please call Egan Associates on 02 9225 3225 or [email us](#).

## The Setting

As stock markets continue to post muted or negative growth and the Australian resources industry enters a rough patch, focus has remained on cost cutting and efficiency, keeping the remuneration of Key Management Personnel in the spotlight.

New laws have increased scrutiny of executive pay, placing pressure on Boards to create reasonable remuneration policies, especially as the two strikes rule enters its second season. The new regulatory regime has also served to reinforce the link between Directors' continued Board tenure and their ability to transparently communicate these policies to shareholders.

Although we noted in our August [KMP Report](#) last year that this focus on Executive pay has taken the heat from Non-Executive Director (NED) pay – and indeed many Boards have continued to increase NED fees – a small number of companies, such as Perpetual and Pacific Brands, have extended Executive pay freezes to the Boardroom. Whether this trend will spread to a broader cross section of the market is yet to be seen. After Perpetual's lowering of Board Fees, the Australian Shareholders Association expressed a wish that more reductions occur.

Committee responsibilities and fees have also been of interest, as market turmoil reminded directors of their audit and risk assessment accountabilities, and the introduction of an ASX Listing Rule in July 2011, mandating that listed companies in the ASX 300 have a Remuneration Committee comprised solely of NEDs, created a new challenge.



In New Zealand, because companies have to specify the remuneration of each Director individually, while only reporting Executive remuneration in bands, there is more media and shareholder focus on NED increases. There had been a hold on increases after the global financial crisis first hit with New Zealand experiencing difficult financial conditions. Now numerous Boards of leading companies have moved to increase their fee pools to address member numbers and Board renewal.

## Key Findings

We have examined the remuneration of NEDs from Australia's top 50, top 100 and top 300 companies and New Zealand's top 50 companies over a five-year period, including data up to December 2011, the end of our 2012 analysis year.

The constituent companies of the ASX top 50, top 100 and top 300 vary each year based on movement in a company's market capitalisation. The data is therefore based on a different set of companies each year.

In considering NED pay, we have included retainer fees, committee fees, superannuation and the portion of fees set aside to purchase equity. All of these elements are considered appropriate for the remuneration of Non-Executive Directors under the ASX Corporate Governance Principles. We have excluded travel allowances, retirement benefit accrual, special exertion fees and the disclosed accounting value of equity granted as a performance measure.

Where a NED has worked less than 365 days but more than 183 days, they have been included with fees annualised where no other data was available. In the case that the company had separately disclosed the annual position data for the Non-Executive Chair, this data was used.

For further information, please visit the [methodology section](#).

Key findings from our research include:

- The rate of growth in NED fees for the ASX 100 has been only slightly higher than the rate of growth in Australian Weekly Earnings (AWE) over the past five years, while the rate of growth in NED fees for the ASX 300 has been lower than that of AWE. Over the past year, AWE has had a higher rate of growth than NEDs across the board.
- The rate of growth in Chair fees has been higher than the rate of growth in AWE over the last year and the last five years.
- Although average NED and Chair fees for Australia's top 300 companies have risen more than 20% over the last five years, average market capitalisation for those companies has fallen by approximately 29%.
- New Zealand NEDs from leading companies still earn substantially less than their Australian counterparts, but the rate of growth in their fees roughly matches that of the Australian NEDs.
- Directors serving on or chairing Remuneration Committees have received substantial fee increases over the last five years, reflecting increased accountabilities and increased scrutiny. Audit Committee fees have increased in parallel with Director fee increases.
- NEDs and Chairs of companies that were part of the ASX 300 in 2007 have enjoyed greater increases in average remuneration over five years than constituents of the ASX 300 as calculated at 30 June each year, despite experiencing approximately the same average decrease in market capitalisation.

## Board Remuneration

The aggregate of Directors' fees is typically determined once every three years by shareholder vote. Three- to five-year data is therefore useful when reviewing fee levels for Board positions.

**Table 1: Average Chairmen and Non-Executive Director Fees Australia (\$)**

<b>ASX 50</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Chairman	421,943	420,795	457,691	519,306	497,505	527,323
Non-Executive Directors	177,591	187,092	206,079	226,955	225,399	219,276
<b>ASX 100</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Chairman	327,502	344,996	370,011	397,234	397,942	417,290
Non-Executive Directors	147,516	157,247	167,682	178,637	186,493	183,510
<b>ASX 300</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Chairman	210,916	224,176	237,437	241,687	238,938	266,289
Non-Executive Directors	109,089	111,624	120,334	124,985	128,676	131,058

Across the board, the average Chair and Member fees increased by a minimum of 20% over the five-year period. Year-on-year, Chairmen of the ASX 50 and ASX 100 experienced increases of 6% and 5% respectively, with an 11% increase for Chairs of the ASX 300 (the latter, admittedly, off a lower base). Meanwhile, NEDs experienced an average decline of 3% and 2% for ASX 50 and ASX 100 companies, while an average increase of 2% occurred for the ASX 300.

**Table 2: Median Chairmen and Non-Executive Directors Fees (NEDs) Australia (\$)**

<b>ASX 50</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Chairman	374,753	404,716	439,595	478,158	480,000	515,970
Non-Executive Directors	167,751	171,000	199,204	212,887	209,940	211,594
<b>ASX 100</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Chairman	305,000	327,911	358,954	369,008	393,792	382,586
Non-Executive Directors	141,685	149,900	164,549	169,674	179,217	181,009
<b>ASX 300</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Chairman	168,950	169,398	169,846	174,000	180,300	196,850
Non-Executive Directors	91,983	93,633	99,596	102,500	109,000	109,352

The median Chair fee for the ASX 50 recorded the highest increase (38%) over the five-year period ending 2012, whilst the median Chair fee for the ASX 300, despite its lower initial base, experienced the smallest growth, an increase of 17% over the period. Year-on-year, NEDs received minimal increases at the median point, ranging from 0% to 1% across the ASX 50, ASX 100 and ASX 300. Chairs experienced increases of 7% and 9% at the median for the ASX 50 and 300 respectively; however, there was a decline at the median for the ASX 100 of 3%.

**Figure 1: Average Total Fees for Board Members among the ASX 300 as at 30 June 2012**

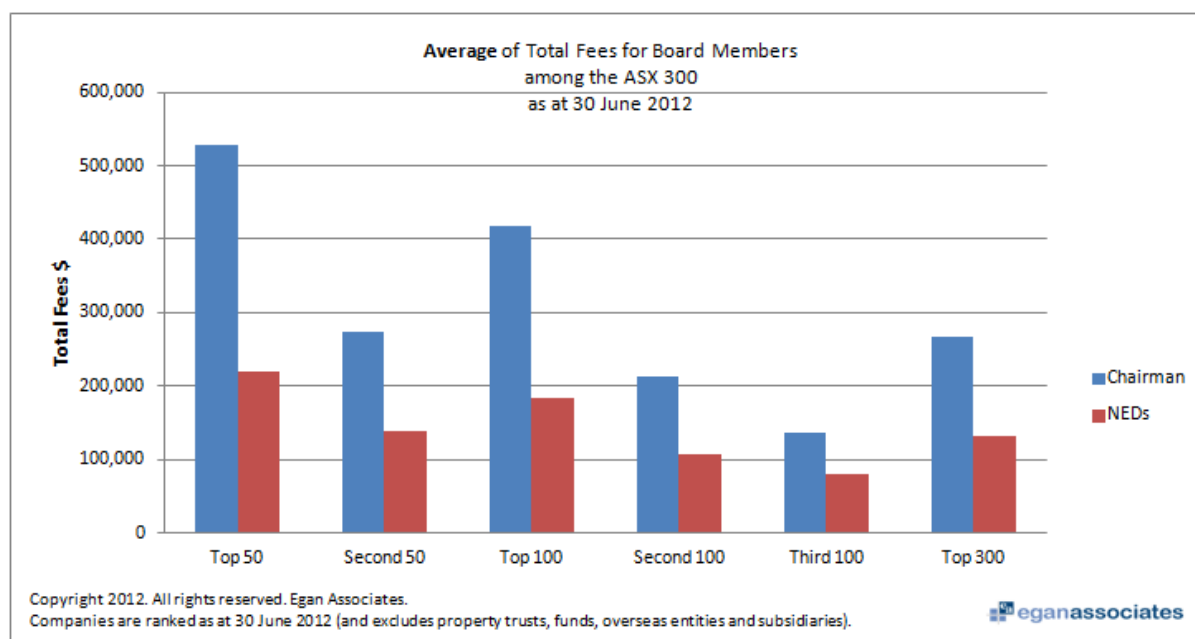


Figure 1 displays the ratio of Chairman to NED fees. The larger the company, the higher the premium the Chairman is paid for their Board leadership role. Chairs of the top 50 Australian companies receive on average over \$308,047 (140%) more than other Board members. For the top 100 companies, this difference drops to over \$233,780 (127%), for the second 100, approximately \$105,203 (97%) and for the third 100, approximately \$57,142 (72%).

**Table 3: Average Chairmen and Non-Executive Director Fees New Zealand (\$NZ)**

NZX 50	2007	2008	2009	2010	2011	2012
Chairman	116,181	108,631	121,598	130,637	131,818	140,335
Non-Executive Directors	61,340	63,472	73,201	73,395	77,206	78,980

**Table 4: Median Chairmen and Non-Executive Director Fees New Zealand (\$NZ)**

NZX 50	2007	2008	2009	2010	2011	2012
Chairman	90,000	86,500	94,491	101,000	108,901	120,000
Non-Executive Directors	54,474	51,500	64,822	63,000	65,000	70,000

The Chair and NEDs of New Zealand's top 50 companies experienced average fee increases of 21% and 29% respectively over the five-year period. While the median fee increase over the same time period for NEDs was approximately equal to the average, the Chair median increase was over 33%.

This puts NED fee growth in New Zealand at generally the same level as that in Australia, although the absolute fee amounts, and therefore the dollar value of increases, are still considerably lower in New Zealand because they start at a lower base. We note that New Zealand's market capitalisation is also lower, lining up roughly with Australian companies in the last hundred of the ASX 300. Over the five-year period, the average market capitalisation of the NZ top 50 companies has declined by 24% when measured in \$NZ. When converted into \$AU at the beginning and the end of the time period, it has declined by 35%.

## Board Committee Fees

Remuneration Committee Chairs and Members for Australian top 100 companies received average committee fee increases of 54% and 44% respectively from 2007 to 2012.

The increase follows a new focus on the Remuneration Committee. ASX Listing Rule 12.8, which came into effect on 1 July 2011, requires all listed companies in the ASX 300 to have a Remuneration Committee comprised solely of Non-Executive Directors. There has also been an increase in the amount of work required to effectively communicate remuneration policies. Due to the Remuneration Committee Chair's hands-on role addressing stakeholder concerns via AGMs and face-to-face meetings, the increase in Chair fees has been higher than that of the Members.

Audit Committee Chairs and Members, on the other hand, have only received increases of 25% and 24% over the same period, running in tandem with increases in overall NED pay. Although there has been more focus since the Global Financial Crisis on the ability of boards to detect and deal with financial anomalies, any increase in workload from this focus is being accepted as the fulfilment of long-standing duties, rather than additional hours that need to be addressed with more remuneration.

We have only captured committee fee statistics for the ASX 100, as its constituents are more likely to have an unbundled fee structure that rewards Directors for the extra work they do on Board committees. For many companies below the ASX 100, base Board retainer fees cover the work completed on committees.

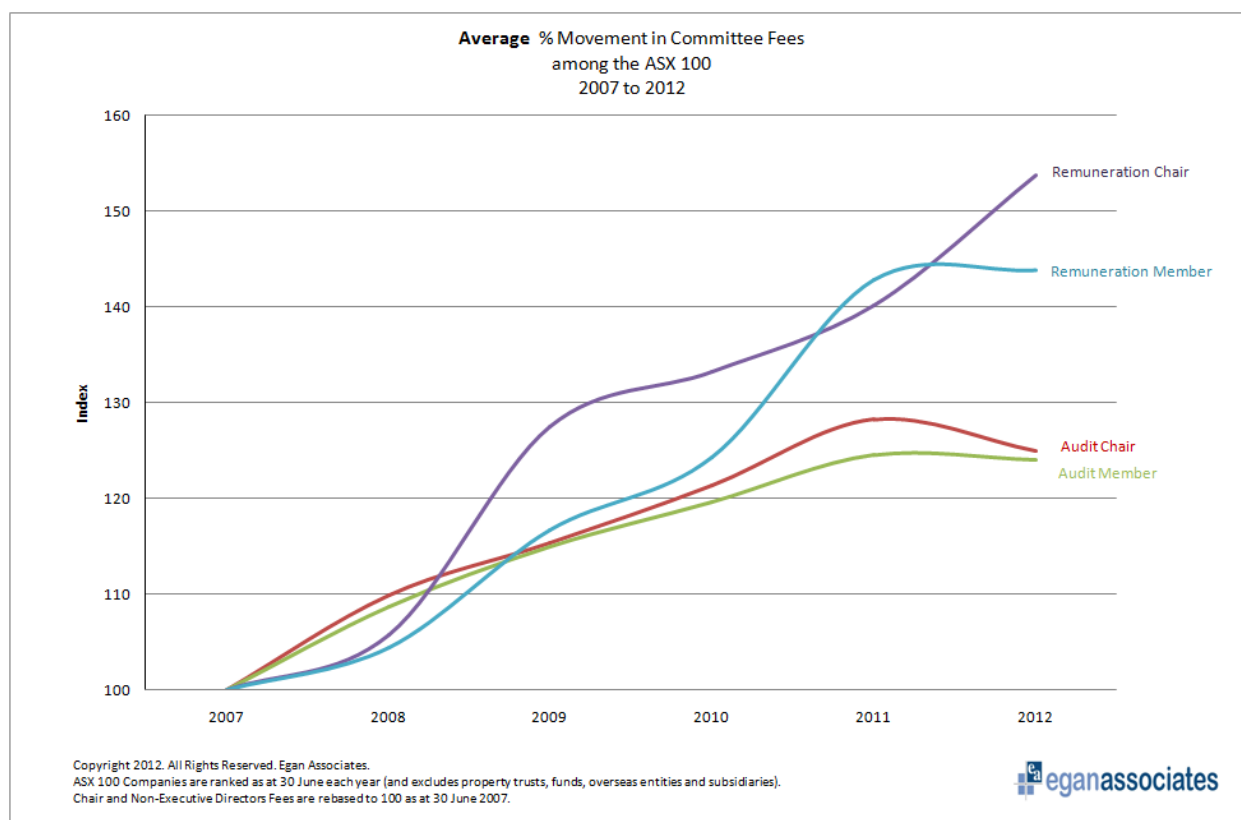
**Table 5: Average Chair and Member Committee Fees Australia (\$)**

Chairman	2007	2008	2009	2010	2011	2012
<i>Audit Committee</i>						
Average	30,028	33,003	34,638	36,435	38,512	37,520
Median	30,000	31,500	34,650	35,000	35,000	37,075
<i>Remuneration Committee</i>						
Average	21,494	22,729	27,409	28,643	30,133	33,035
Median	20,000	20,000	25,000	27,500	28,776	30,000

**Table 6: Median Chair and Member Committee Fees Australia (\$)**

Member	2007	2008	2009	2010	2011	2012
<i>Audit Committee</i>						
Average	15,552	16,908	17,886	18,606	19,365	19,284
Median	15,000	15,750	16,900	17,500	18,000	20,000
<i>Remuneration Committee</i>						
Average	11,348	11,854	13,248	14,105	16,202	16,319
Median	10,000	10,000	12,500	13,000	15,000	15,000

**Figure 2: Average % Movement in Committee Fees among the ASX 100, 2007 to 2012**



## Market Context

NED and Chair fees have been increasing in an environment of wage rises for the average Australian employee, in parallel with contractions in returns to shareholders and the market value of companies.

Figure 3 and Figure 4 (below) illustrate the average growth in the fees of Chairmen and NEDs amongst companies in the ASX 100 and ASX 300 over the period 2007 to 2012. This growth is charted against the average growth in Total Annual Remuneration (TAR) for the Chief Executive Officer (CEO) amongst companies in the ASX 100, the growth in Average Weekly Earnings (AWE) and the ASX 100 Total Shareholder Return (TSR) over the same period.

In Figure 3, it can be seen that TSR for the ASX 100 has declined by 18%. Over the same time period, market capitalisation has fallen by 25%. Meanwhile, average Chair and NED fees have increased by approximately the amount of these reductions, with the average growth in Chairmen fees exceeding that of the NEDs. The growth in fees for both Chairmen and Non-Executive Directors has been marginally above the growth in AWE.

Figure 4 shows that the TSR for companies in the ASX 300 has declined by 20% (the fall in market capitalisation was 28%). Again, Chairman and NED fees have increased, with the average growth in Chairmen fees exceeding NED fee growth. Whilst the growth in Chair fees has marginally exceeded growth in AWE, NED fees have lagged this benchmark.

It is clear that movement in CEO remuneration has aligned more closely with underlying company performance and shareholder return than that of Chair and NED fees over the same period. The average TAR of an ASX 100 CEO has declined 14% over the five years.

This partly reflects the impact of market conditions on the 'at-risk' component of the CEOs' TAR over the period (TAR includes Base plus Superannuation plus Other Benefits plus Short Term

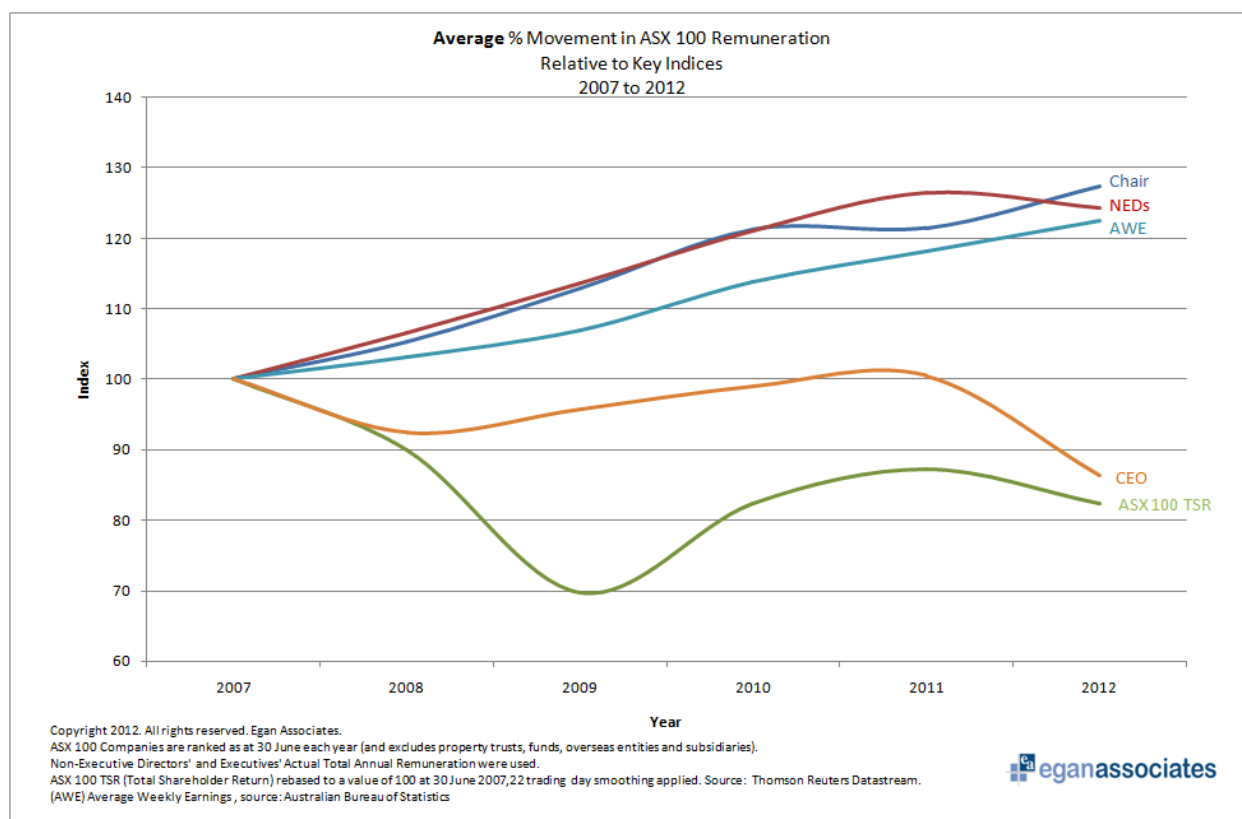


Incentives and Deferred Annual Incentives). ASX Corporate Governance Guidelines recommend that NEDs do not receive performance-based pay.

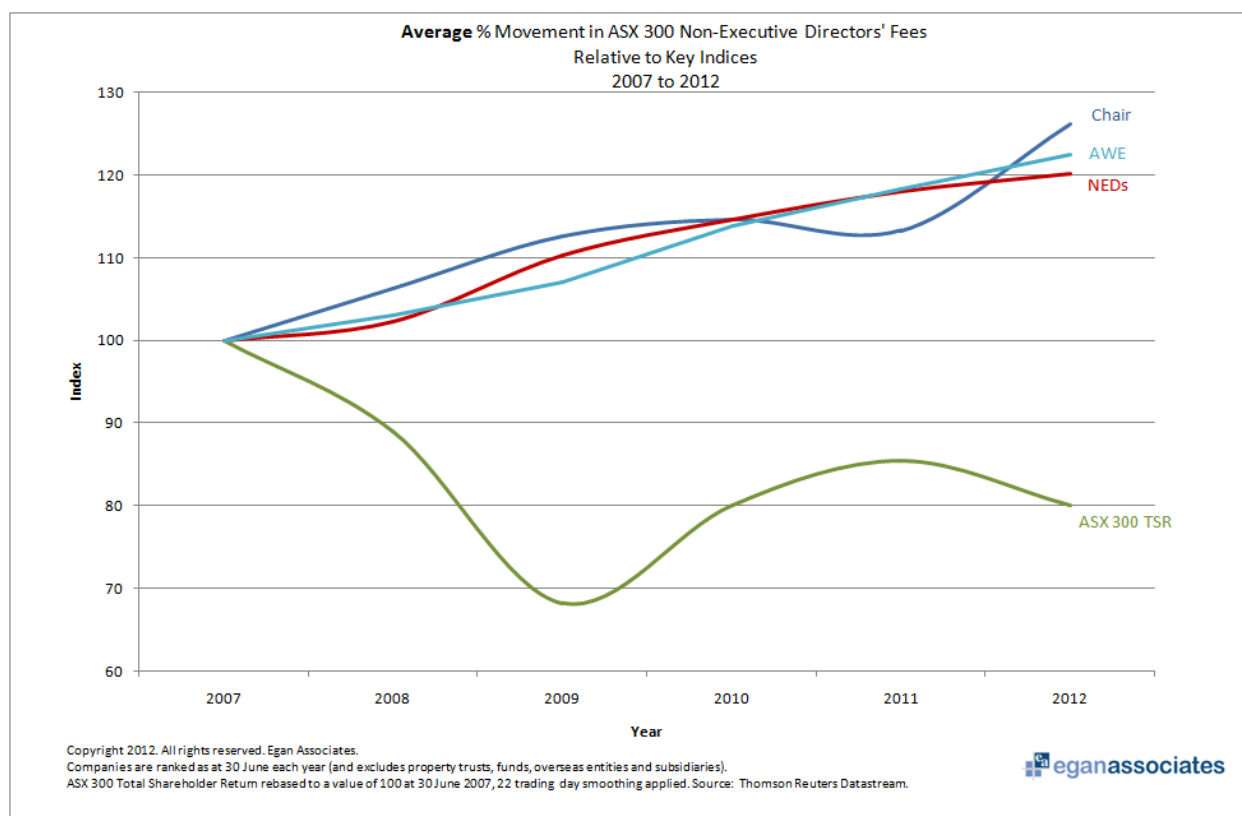
It is necessary also to note that although it is not in line with adjustments in CEO pay, the rate of increase in NED pay has slowed in recent years. In the five years prior to the GFC, the annual rate of increase in NED fees was closer to 8%, well above current annual growth. These increases reflected a combination of factors including growth, geographic diversity and the removal of deferred retirement benefits, which had been in place prior to the introduction of the Australian Superannuation Guarantee Scheme.

In addition, because of the GFC, the commitment demands on Directors, Chief Executives and their leadership team have increased as they have dealt with the consequences of the crisis. These have included the re-positioning of companies, a significant level of acquisitive and divestment initiatives, pressures on share price, an increased level of international competition and the growing globalisation of Australian enterprise. We also note that over the last five years, additional committees have been formed to focus on company-specific matters, and many NEDs now also serve on the Boards of key subsidiaries, including international entities or joint venture organisations.

**Figure 3: Average % Movement in ASX 100 Remuneration Relative to Key Indices, 2007 to 2012**



**Figure 4: Average % Movement in ASX 300 NED Fees Relative to Key Indices, 2007 to 2012**



## Market Pressures

As mentioned above, the constituent companies for the top 50, top 100 and top 300 companies change each year as the companies' market capitalisation fluctuates.

At 30 June 2012, of the top 300 constituents in our 2007 dataset, over 29% (84 companies) had dropped out of the ASX 300 and an additional 3% (25 companies) were no longer listed.

We followed the fate of the companies in the 2007 dataset – excluding those that had delisted – tracking market capitalisation and Board remuneration over the five years to 2012. We then compared the performance of this group to the top 300 constituent lists of each year, which include growing companies.

The average market capitalisation at 30 June 2012 of surviving companies from the 2007 dataset was \$4,198 million, a decline of 29% from the average market capitalisation of those companies at 30 June 2007.

For comparison, on 30 June 2012, the average market capitalisation of the 2012 top 300 was \$4,269 million, a decrease of 28% over five years.

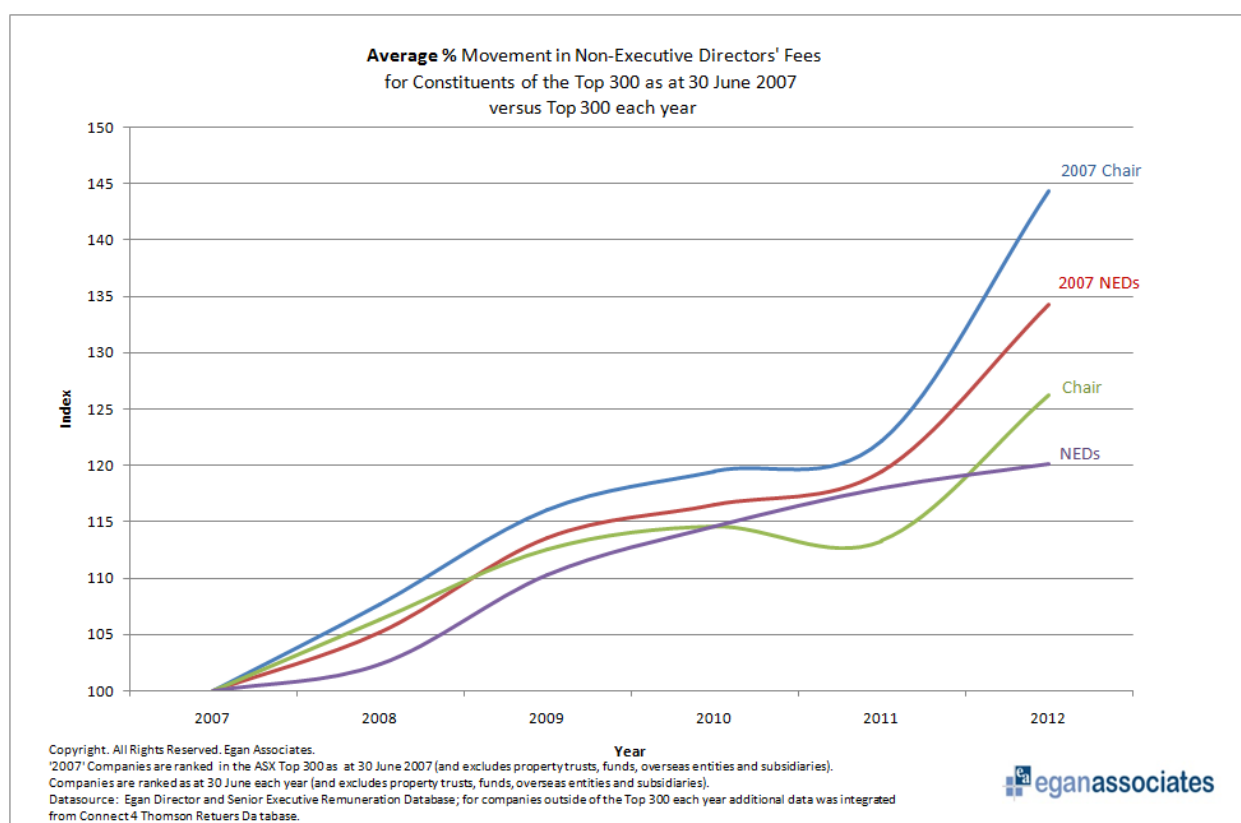
Therefore, surviving companies who were in the ASX 300 in 2007 have performed in a similar fashion to the ASX 300 as taken at 30 June each year.

However, Chairs of the surviving companies of the ASX 300 as at 30 June 2007 received an average increase in fees of 44% over the last five years, while Chairs of the ASX 300 constituents as at 30 June each year received an average increase of only 26%, as can be seen by comparing Table 6 (below) with Table 1. Over the same time period, NEDs of companies in the ASX 300 in 2007 also received a higher average increase (32%) than directors of the ASX 300 as measured at 30 June each year (20%).

**Table 6: Average Pay for Board Members of Companies in the ASX 300 as at 30 June 2007**

Average pay	2007	2008	2009	2010	2011	2012
<i>Chairman</i>						
Top 50	421,943	467,614	488,127	501,640	530,665	539,777
Top 100	327,502	369,035	395,199	400,789	415,296	435,850
Top 300	210,916	227,206	244,889	251,995	257,574	304,501
<i>Non-Executive Directors</i>						
Top 50	177,591	195,945	219,496	222,642	226,674	228,852
Top 100	147,516	160,651	177,990	180,248	186,204	195,919
Top 300	109,089	114,754	123,881	127,035	130,312	146,471

**Figure 5: Average % Movement in Remuneration for Constituents of the Top 300 as at 30 June 2007 versus Top 300 each year.**



An examination of a subsection of the companies that have dropped out of the ASX 300 since 2007 shows no trend towards a reduction in director's fees to reflect the companies' smaller size. Instead, either the directors' fees have remained stagnant or have received increases. For example, UXC has raised its NED fees from \$45,000 in its 2006 Annual Report to the current \$70,000, despite UXC's lower current market capitalisation.

One exception to this observation was Paperlinx, which has battled with a significant change in fortunes, being now outside of Australia's top 500 companies. It has reduced the remuneration of its NEDs twice recently, once this year and once in 2010. This has seen the Chair fee drop



from \$330,000 to \$240,000 and the NED fee drop from \$125,000 to \$100,000. We note that this fee is still higher than average fees paid to Chairs and NEDs of the third 100, cf. Figure 1.

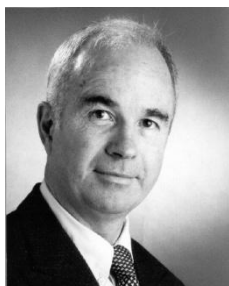
We note that market capitalisation is only one of a number of attributes that should be considered when determining NED fees. Other attributes that are worthy of consideration include the workload, the company's relative rank, the skill sets required to serve shareholders, as well as the complexity and geographic diversity of the company. If a company has undergone a significant change affecting a number of these factors, there are genuine cases where NED fees would require an adjustment either up or down to reflect the new reality of the company.

## Methodology

ASX 50 ASX 100 ASX 300	The largest 50, 100 and 300 companies by market value listed on the ASX as at 30 June each year, excluding companies that are foreign registered companies, externally managed funds and investment trusts where KMPs are employed by the responsible entity for the trust. To illustrate, this year's dataset uses the companies in each group based on market capitalisation at 30 June 2012.
NZX 50	The largest 50 companies by market value listed on the NZX as at 30 June each year, excluding companies that are foreign registered companies, externally managed funds and investment trusts where KMPs are employed by the responsible entity for the trust.
Fees	Fees include base or retainer fees, committee fees, contributions to superannuation and fees set aside for the purchase of acquiring shares in the company. Fees exclude travel allowances, disclosed retirement benefit accrual, 'special exertion' fees and the disclosed accounting value of equity granted as a performance measure.
CEO Total Annual Remuneration	CEO Total Annual Remuneration is calculated as Base plus Superannuation plus Other Benefits plus Short Term Incentives and Deferred Annual Incentives.
Data Sources:	2011 Annual Reports lodged with the ASX and NZX respectively. The Egan Director and Senior Executive Remuneration Database, Thomson Reuters DataStream and the Australian Bureau of Statistics.
Additional Notes:	Excluded Executive Chairmen, overseas based incumbents, expatriates and individuals whose position changed within the company during the reporting period. Where individuals held a position for less than 365 days and a minimum of 183 days, they have been included with their Fees annualised where no other position data was available. In the case that the company had separately disclosed the annual position data for the Non-Executive Chair, this data was used. Where we have referred to NEDs, we have included the five top paid NEDs from each company, excluding the Chair.

## About Us

### John Egan



John has been an advisor to boards and senior executives on organisation, governance and reward issues for over three decades, having assisted more than 80% of Australia's top 200 companies as well as a myriad of entrepreneurial organisations and Government entities across a wide range of industries over his career.

John's early career was with Cullen Egan Dell, a company of which he was Chairman from 1983 to 1989 when he formed Egan Associates.

John has served on the Federal Council of the Institute of Management Consultants, the National Board of Advice for AIESEC and the University of Sydney's Board of Advice of the Faculty of Economics and Business, including a period as the Chairman or National President of each body. John was made an honorary fellow of the University in 2009 and retains his Adjunct Professorial appointment. John was also appointed a trustee of the Royal Botanical Gardens and Domain Trust in 2010.

### Vince Murdoch



Vince has over 30 years experience in consulting on strategy, leadership and change, bringing a thorough and discreet approach to Boards that explores board performance issues and how to address them successfully.

He has helped Australian and international Boards, CEOs and executives across numerous industries to create strategic direction in the face of uncertainty and change, ensure robust talent succession, resolve discord or conflicts of interest, and deal with stakeholder expectations. Vince has also served on the Federal Council of the Institute of Management Consultants.

## Contact Us

We welcome your comments on the report and trust you will find it to be informative and thought provoking. For Board Advice, please call Egan Associates on 02 9225 3225 or [email us](#).