Submission to the Productivity Commission
Executive Remuneration Inquiry

Production Commission
Locked Bag 2
Collins St. East
Melbourne
VIC 8003

By e-mail: exec_remuneration@pc.gov.au

This submission to the public inquiry on executive remuneration conducted by the Productivity Commission does not necessarily aim at answering most of the questions outlined in the issues paper produced by the Commission, but rather at attempting an answer to one question that is surprisingly not often asked and has yet to receive a more precise answer: considering that the Australian population generally agrees that company executives, especially CEOs and managing directors, are overpaid, what is the quantum or the relative level of this overpayment?

This submission is largely based on the work and methodology I developed in my research project on CEO remuneration, completed in 2007 for the attainment of a Masters degree in Applied Finance at the Financial Services Institute of Australasia (FINSIA; now dispensed by Kaplan Professional). I have updated the sample used in the analysis to include all ASX200 companies between 2000 and 2008.

While I refer to various results from my research project occasionally in this submission, I am focusing here on the methodology used to measure excess CEO remuneration and on the analysis of these measurements. For the interest of brevity, I chose not to include or attach to this document a copy of my report. Should the Commission be interested in the other results from my research project, I will obligingly supply a copy of the report on request.

Patrick Robitaille

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…but we must never forget that excellent leaders cannot be produced by rational methods, but only by luck.
- Karl Popper, The Open Society and Its Enemies, Volume One: The Spell of Plato (p. 171)

CEO compensation shows on average a significant pay for luck. […] Well governed firms display less pay for luck. […] Better governance means that there is more of an active principal and optimal contracting fits better. Worse governance means that there is less of an active principal and the CEO is more likely to set his own pay.
- M. Bertrand & S. Mullainathan, "Do CEOs Set Their Own Pay? The Ones Without Principal Do", working paper, January 2000

Lake Wobegon[1]

Ever heard of Lake Wobegon? Brainchild of 70's American radio personality Garrison Keillor, this fictional place is characterized by the fact that "all the women are strong, all the men are good looking and all the children are above average". In fact, almost everything from Lake Wobegon is above average, especially its population. Over the last 20 years, this charming location has experienced an influx of new inhabitants, attracted by the similarity between the town's characteristics and their own assessment of their abilities, achievements and worth. These new inhabitants are known as "executives" and originated in larger numbers from the United States, but also from most of the industrialised nations of the world, including Australia.

The initial pioneers from this influx visited Lake Wobegon at the beginning of the 90's, not long after the war cry voiced by Jensen and Murphy, that executives were paid like bureaucrats and that we should encourage them to have some skin in the game by inciting them to increase (or create) their shareholding in the firm. One helpful instrument to achieve was the executive stock option, a product that was available in great abundance in Lake Wobegon.

Some CEOs enjoyed their sojourn so much that they elected to stay permanently at Lake Wobegon and became company directors after retiring. After a few years, Lake Wobegon became quite popular, so much so that various governments showed interest and perhaps some concern, and required the inhabitants of the town to disclose some of their personal information, such as their level of remuneration and the composition of their packages.

At around the same time, the popularity of Lake Wobegon and the greater availability of information about their inhabitants incited many remuneration consultants to become official travel agents for the town. The brochures about the location were full of comparisons between selected inhabitants, never referred to the outside world and clearly

[1] I borrowed this idea from Bebchuk and Fried (2004), p.71.

identified the average and the median of all the remuneration components enjoyed by the inhabitants of Lake Wobegon.

These travel brochures were not only made available to aspiring and incumbent CEOs, but mainly to company directors, the majority of them having chosen Lake Wobegon as their new abode. These directors would generally welcome migrating CEOs by offering them packages above the average or the median advertised in the brochures, in order to ensure that they will stay longer and maybe settle permanently, in order to ensure the continuous growth of the town and of its wealth.

While Lake Wobegon prospers and prospers, the outside world is becoming increasingly unhappy with the privileges granted to the town's inhabitants. Further, a risky joyride from some of the CEOs, under the supervision of some careless directors, has led to a disaster named "credit crunch" or "global financial crisis", and has exacerbated the ill feelings of the outside world towards Lake Wobegon.

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While this introduction appears highly caricatural, it nevertheless reflects the current state of executive remuneration in industrialised countries, including Australia. There is a general outcry from the public and even from governments against the excessive levels of remuneration awarded to some CEOs and the hubris shown by some company directors and executives in trying to justify that these pay packages are fully deserved.

A lot of academic studies have been conducted on the current population from Lake Wobegon, mostly of American origin, and focusing mainly on identifying the main determinants of their remuneration. While this body of research has generated many interesting findings, there is one important question that has not really been examined: if CEOs and other executives are truly overpaid, what is the size of their excess remuneration?

To attempt at answering this question, I will draw from the analysis framework I have built in my masters' research project, which is based on the level of work theories of Elliott Jaques. The next section will outline the principles underlying the levels of work theories. The analysis methodology and the definition of the analysis sample will follow. The next three sections will present results from the analysis and supportive evidence for some of the elements of the Lake Wobegon caricature. I will then touch on briefly some of the results from my prior research project on CEO remuneration, before concluding with some commentary on a small number of topics related to the Productivity Commission inquiry.

The level of work methodology

Most of the literature about executive compensation in the last twenty years was derived from two main theories: the agency theory and the managerial approach theory. The latter approach gave rise to theories that were more "structural" in their expression and had for objective to achieve some equity between compensation levels both within and outside the firm. For example, Simon, in the 50s, postulated that the compensation received by the top rank individuals in a firm was a function of the number of individual organizational levels present in a firm. While these theories and the practices they engendered, such as job evaluations, salary surveys and points systems, have been much criticised for being too deterministic, they are still widely used by human resources and remuneration consultants, and most likely have gained in popularity during the 1990's.

The equitable payment theories developed by Elliott Jaques[2] in the 50's and 60's added more substance to the work of Simon and other earlier structural compensation theorists. Jaques' theories have been developed following research and observations made about employee remuneration at the Glacier Metal Company and five other companies in the UK. His theories go beyond the simple definition of remuneration scales, as they also dictate a whole organisational framework that Jaques has labelled "requisite organization".

Jaques' theories hinge on two main concepts: the *time span of discretion* and the *felt-fair payment for work* or *equitable payment*. The time span of discretion aims to define the level of work of an individual and is defined as "the longest period which can elapse in a role before the manager can be sure that his subordinate has not been exercising marginally sub-standard discretion continuously in balancing the pace and quality of his work".[3] In other words, it represents the estimated duration of the task with the longest target completion time over which the individual has complete responsibility in performance and outcome.

For example, in a general insurance company, we would most find at the lowest organisational level claims officers whose tasks can be roughly summarized as dealing with claims and enquiries from customers; managing paperwork and correspondence in relation to these claims; investigating, assessing and reaching decisions on these claims; in more complex cases, litigating and reaching settlement on these claims. While most claims could be resolved in a matter of days, the most complex case could require (for example) up to two months. Therefore, the time span of discretion for these claims officers could be about two months.

Jumping to the next organisational level, we can find the claims manager, generally responsible for a team of claims officers covering a defined geographical area. The claims manager could be responsible for the management and training of the claims officers; dealing with the most complex claims that can't be handled by the claims officers; manage the yearly expense budget allocated to her team; organise the team's workload in order to achieve yearly performance and budgetary targets. Based on these tasks, most of them being of a yearly nature, we could argue that this manager's time span of discretion could be up to 12 months.

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[2] Jaques is also famous for having studied and described the phenomenon he coined as "mid-life crisis".
[3] Jaques (1964) , *Time-Span Handbook*, p. 17

Then, at the top echelon, you have the CEO or Managing Director (MD), whose time span of discretion will be much longer and depend on the size and scope of the company's operations (e.g. is she leading a small, niche insurance operation in a defined market or a fully diversified general insurance conglomerate with overseas subsidiaries? Does she want to expand business in a new area of the local market or set up operations in a new country?) and can vary in the Australian context between 2 and 20 years.

The time span of discretion defines the level of work (LOW) of a role or, put differently, the size of the position or how heavy the responsibility is in a specific role.[4] The longer the time span of a role, the higher the level of work. Jaques has defined up to 8 LOWs based on work activity, complexity and time span of discretion. The table on the next page (Table 1) provides a description of each of the LOWs and their respective time spans, as proposed by Jaques.

The second concept underlying Jaques' theories is the concept of *felt-fair payment for work* or *equitable payment*. Jaques defines equitable payment as "the common norms of payment which have been discovered to be held by individuals in roles of the same time span, when asked under confidential conditions to state what they would consider to be fair pay".[5] He derived these common norms from his investigations at Glacier, whose results suggested the "existence of an unrecognized system of norms of fair payment for any given level of work, unconscious knowledge of these norms being shared among the population engaged in employment work".[6] In a nutshell, this means that different roles or jobs, however different, but having in common the same time span of discretion, should be rewarded with comparable levels of remuneration. This also implies that differential patterns of payment between different time spans or levels of work should remain constant over time. Based on Jaques' proposed LOWs and prior investigations, the table below (Table 2) provides an estimate of the pay differentials between each of the LOWs.

Table 2: Remuneration differentials by level of work

Level	Time span	Remuneration
8	Lower bound: 50 years	Lower bound: 32X
7	Upper bound: 50 years Lower bound: 20 years	Upper bound: 32X Lower bound: 16X
6	Upper bound: 20 years Lower bound: 10 years	Upper bound: 16X Lower bound: 8X
5	Upper bound: 10 years Lower bound: 5 years	Upper bound: 8X Lower bound: 4X
4	Upper bound: 5 years Lower bound: 2 years	Upper bound: 4X Lower bound: 2X
3	Upper bound: 2 years Lower bound: 1 year	Upper bound: 2X Lower bound: 1X
2	Upper bound: 1 year Lower bound: 3 months	Upper bound: 1X Lower bound: 0.55X
1	Upper bound: 3 months	Upper bound: 0.55X

[4] Jaques (1990), *Requisite Organization*, page pair 37

[5] Jaques (1964), *Time-Span Handbook*, p. 7. Jaques received some criticism on the methodology he used to investigate the felt-fair pay concept. In Dornstein (1991; p. 24), it is reported that "the potential of interviewer bias is great in the absence of clear established criteria for perceiving an interviewee's 'system of unrecognized norms'", that "the definition, identity, and importance of the social referent and the pay-related dimension [of comparison] are not presented explicitly in Jaques' theory of equity", and that no measures of dispersion (variance or other) have been reported for Jaques' results.
Neverthless, discussions with compensation consultants seem to indicate that other compensation methodologies (such as job evaluation and the Hay points system) provide scales of pay that are similar to the model proposed by Jaques and that this pay hierarchy seems to happen "naturally".

[6] Jaques (1970), *Equitable Payment*, p. 146

	Lower bound: Less than 1 day	Lower bound: 0.31X

Source: Jaques (1991), page pair 41

Table 1: Levels of work – Time spans, themes and description

Level	Time span	Typical Title	Theme	Level of work – Definition	Likely company classification
8	Over 50 years	International Managing Director/ Chief Executive	Visionary	Anticipates the needs and trends of society globally and nationally and develops concepts and/or products that leave a profound imprint for current and future generations. Contributions to societal and cultural changes	Microsoft; General Electric; Wal-Mart
7	Up to 50 years	Managing Director/Chief Executive	Vision & Strategy	Judges the needs of society globally and nationally and determines the business entities to create to satisfy them. Relates society's culture to that of the corporation.	Rio Tinto; Telstra; National Australia Bank
6	Up to 20 years	Group Executive	Strategic	Develops concepts and judges corporate priorities. Networks globally. Understands and attempts to influence national and international activities in areas of responsibility. Balance sheet accountability.	Suncorp; Woolworths; Qantas
5	Up to 10 years	General Manager/Chief Executive	Planning	Determines and implements policy and direction for a business entity. Continuously monitors and anticipates changes that affect the entity (both internal and external) and makes appropriate adjustments.	David Jones; Bank of Queensland; CSL
4	Up to 5 years	Chief Manager	Organisational	Pursues composite goals by planning and implementing several projects at the same time. Adjusts the interaction of projects as required.	Cabcharge; Seek; GUD Holdings
3	Up to 2 years	Manager	Operational	Develops plans with several ways of getting the work done. Determines the best way and implements it. Anticipates problems and can switch to a better option if judged necessary.	Most companies outside ASX/S&P 300
2	Up to 1 year	Team Leader/Supervisor	Organising	Performs tasks where output cannot be fully anticipated. Able to reflect on events, anticipate problems and determines solutions. First level of supervision.	
1	Up to 3 months	Officer/Team Member	Actioning	Hands-on work at operating level. Performs tasks with prescribed outputs. Solves problems using previously learned methods or seeks further instruction.	

Sources: Robitaille (2007); adapted initially from material provided by Godfrey Remuneration (reproduced with permission) and Jaques (1991), page pair 41

While Jaques recommends that an organization should have as few organizational levels as there are LOWs present within the firm[7], the remuneration within each LOW should be subdivided into smaller strata or pay and progression bands, reflecting the exact nature of the role, its time-span of discretion and the achieved standard of effectiveness and competency of its incumbent[8].

In Australia, Jaques' theories have found a first direct application in the 80's and 90's at CRA (now Rio Tinto) under the then-CEO Roderick Carnegie.[9] More recently, the financial services conglomerate Suncorp has reviewed its whole organisational structure using the salient aspects of Jaques' theories, following the acquisition of GIO from AMP.[10] The theories have also triggered some interest within other financial services companies, such as Insurance Australia Group (IAG)[11] and Westpac[12]. While this does not constitute evidence of widespread application of Jaques' theories within Australian corporations, this model can still be applied to proxy or predict the level of CEO remuneration for specific companies, according to their estimated number of LOWs. From these predictions and the observed level of remuneration, we can derive a measure of excess CEO remuneration.

[7] Jaques (1991), *Requisite Organization*, page pair 41
[8] See Table 2.3 in Robitaille (2007).
[9] For an overview of the impact it had on CRA/Rio Tinto, see Botsman (1996) and Trinca (1997).
[10] I have witnessed and experienced first-hand these changes and their implementation, having been an employee at Suncorp at the time of the restructure.
[11] See Hall (2004).
[12] See Fox and Trinca (2001). We could probably also include Fairfax Holdings, as Fred Hilmer, CEO of Fairfax until 2005, was a consultant with McKinsey in the 80's and has had dealings with both Jaques and Rod Carnegie (see Trinca (1997)).

Sample and methodology

For the purpose of this analysis, I had to determine for each company used in the sample and each year the relevant level of work (LOW) applicable to the incumbent CEO. This was done first by using a few known benchmark companies from my exposure with Jaques' theories in previous work experiences and from the work performed by Godfrey Remuneration Group.[13] On the basis of these benchmarks, all the other companies and CEOs of the sample were allocated a LOW by subjective comparison, also taking into account the volume of their assets, the nature of their assets and activities, the volume of sales and revenue and, where the information was available, the number of employees. Therefore, two companies from different industries and with the same number of employees can be on different LOWs because of the nature of their activities; likewise, two companies from different industries with the same volume of assets might also have different LOWs.

The remuneration data used for this analysis has been sourced manually from the companies' annual reports[14] and market announcements[15]. Unlike the ExecuComp database from Standard & Poor's in the United States, there are no publicly and easily available database on executive remuneration in Australia. I will expand further on this information gap later on.

The sample used for the analysis comprises all CEOs or managing directors of companies included in the ASX S&P 200 index at any time between 2000 and 2008. Hence, if a company was included for even a limited time in the index over the whole period, the company data would be included for the whole period. This was done to minimise any survivorship bias. Further, this would also enrich the sample as it would include companies that have experienced strong and fast growth or rapid, sudden declines. This yielded an initial sample size of 2,604 company-years from a universe of 408 companies.

Were then excluded from the sample: 1- companies reporting in a currency other than Australian dollars; 2- companies (or years) where executive compensation disclosure was insufficient or inexistent; 3- companies (or years) that have changed their financial reporting dates and have had a reporting period different from 12 months; 4- companies (or years) where the CEO or Managing Director was not in place for a full 12-month period[16]. The companies in the sample have been grouped into industry blocks according to their GICS (Global Industry Classification Standard) classification, as shown in Table 3. The final sample contains 1,909 company-years from a total of 331 different companies (Table 4). A list of the companies included in the final sample can be found in Appendix.

[13] The Godfrey Remuneration Group acted as supervisor of my research project at FINSIA and provided precious advice in relation to executive remuneration generally and the application of the Jaques methodology specifically. Because of the commercial and confidential nature of the LOW determination made by Godfrey Remuneration Group for some companies included in the sample, it is not possible to divulge here the identity of the benchmark companies and their LOWs.

[14] From my personal archives, the firms' websites, the ASX website (www.asx.com.au) and the Aspect Huntley Annual Report Database.

[15] From the ASX website (www.asx.com.au).

[16] I have been here less restrictive with the exclusions than in my research project, as I am limiting my analysis on measuring excess remuneration and not trying to identify its determinants. This explains partly why the sample size for the years 2000 to 2005 is larger than in my research project. The other reason for this increase is the retroactive inclusion of the company-years for those firms that were included in the ASX200 since 2006.

Table 3: Industry blocks

Industry block	GICS classification
Consumers	Consumer Durables & Apparel; Consumer Services; Food & Staples Retailing; Food, Beverage & Tobacco; Media; Retailing
Financials	Banks; Diversified Financials; Insurance and Real Estate
Industrials	Automobile & Components; Capital Goods; Commercial Services & Supplies; Transportation; Utilities
Resources	Materials and Energy
Technology	Health Care, Equipment & Services; Pharmaceuticals, Biotechnology & Life Sciences; Semiconductors & Semiconductor Equipment; Software & Services; Technology, Hardware & Equipment; Telecommunication Services

Table 4: Final sample (number of companies, by financial year)

Industry block	2000	2001	2002	2003	2004	2005	2006	2007	2008
Consumers	40	40	42	40	39	44	41	38	34
Financials	32	26	32	36	39	41	43	35	34
Industrials	38	35	38	33	41	42	37	41	42
Resources	50	58	59	71	69	61	69	64	55
Technology	41	38	44	43	35	36	36	29	28
Total	**201**	**197**	**215**	**223**	**223**	**224**	**226**	**207**	**193**
Level of work	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
LOW 3	27	22	20	23	20	18	17	10	6
LOW 4	72	84	90	90	89	83	78	69	64
LOW 5	77	72	81	83	87	92	103	97	97
LOW 6	19	13	19	21	23	26	24	26	22
LOW 7	6	6	5	6	4	5	4	5	4
Total	**201**	**197**	**215**	**223**	**223**	**224**	**226**	**207**	**193**

The measurement of excess CEO remuneration involves two separate components: a measure of actual, observed CEO remuneration and an estimate of total CEO remuneration using Jaques' levels of work model.

To determine the actual CEO remuneration under analysis, I only considered two components of the usual CEO pay package: first, the base salary, which will include the cash salary, contributions to superannuation, and any additional non-cash benefits[17], as disclosed in the annual reports; second, the short-term incentives (STI) or annual bonuses, regardless of the manner they have been paid (cash or shares). I deliberately left aside all long-term incentives or equity-based payments, for methodological reasons detailed in my research project, revolving around the lack of comparability caused by the use of different valuation assumptions and methods across companies.

Nevertheless, this omission should not impede the demonstration that CEOs are on average overpaid. If the data demonstrates that Australian CEOs are on average overpaid compared to the expected wages attached to their LOW, on the basis of the sole base salary and short-term incentives, we can conclude that long-term incentives just add to this overpayment and that the increasing trend in the use of option plans in the 90s and performance rights in recent years cannot be justified as an increase of the at-risk portion of CEO remuneration replacing a portion of cash

[17] The only non-cash benefit that has not been included is the value of the interest foregone on preferential or interest-free employee or executive loans. This was omitted for various reasons: first, the details of these loans have not always been fully disclosed (if disclosed at all); second, when disclosed, the assumptions related to the interest rate applicable varied greatly from one company to another, so much so that all amounts would have required recalculation using uniform assumptions; third, the exact purpose of these loans would have warranted in some cases (e.g. loans to purchase shares or options) a reclassification as long-term incentive costs rather than short-term. Therefore, the amount of foregone interest has been left out of the non-cash benefits unless it was impossible to isolate these costs from the overall amount of non-cash benefits.

salary, but rather as an incremental component of remuneration. Prior research efforts have led to the same conclusion. Goodwin and Kent (2004) showed that the level of remuneration paid to the CEO is significantly and positively related to the existence of an executive stock option (ESO) plan, which suggests that firms are using these plans as an additional component of remuneration rather than a replacement.

In order to develop an estimate of CEO remuneration using the pay differentials and the level of work theory proposed by Jaques, I have used a bottom-top approach where I first gathered wage information in order to define the upper and lower bounds of the first level of work (LOW 1). Once these bounds defined, I would then extrapolate these bounds for each of the LOWs, following Jaques' pay differentials. This "pay structure" would then be replicated at various points across the time period under examination to take into account wage inflation.

To define the LOW 1 bounds, I have used the data from the biennial wage survey *Employee Earnings and Hours, Australia* (6360.0), conducted and published by the Australian Bureau of Statistics (ABS). The surveys for May 1998, 2000, 2002, 2004 and 2006 were used. Specifically, the data from the table *Average Weekly Total Earnings and Hours Paid For, full-time adult non-managerial employees, detailed occupation*, was extracted and normalised onto a 40-hour week wage. The upper and lower bound were determined by selecting the occupations with the highest and lowest weekly wage whose duties corresponded to LOW 1. Those occupations were Hairdresser (lower bound) and Police Officer (upper bound)[18].

The data points from the surveys were interpolated across the whole period of this analysis using supplementary data on the evolution of specific occupation wage indices from *Labour Price Index, Australia, Total Hourly Rate of Pay Excluding Bonuses* (6345.0) by the ABS and by applying cubic spline interpolation techniques. Monthly interpolation has been performed to enable matching with the varying financial year dates adopted by companies. Table 5 below shows the lower and bounds for LOWs 3 to 8 for the month of June during the period under analysis.

Table 5: Estimated lower and upper bounds by level of work

Lower bounds	1999	2000	2001	2002	2003	2004	2005	2006	2007
LOW 3	$85,389	$87,630	$90,230	$93,068	$96,032	$99,182	$102,580	$106,184	$109,933
LOW 4	$170,777	$175,261	$180,460	$186,137	$192,065	$198,365	$205,159	$212,369	$219,866
LOW 5	$341,555	$350,522	$360,920	$372,273	$384,129	$396,730	$410,319	$424,737	$439,733
LOW 6	$683,109	$701,043	$721,841	$744,546	$768,259	$793,459	$820,637	$849,474	$879,465
LOW 7	$1,366,219	$1,402,087	$1,443,682	$1,489,092	$1,536,518	$1,586,918	$1,641,274	$1,698,948	$1,758,931
LOW 8	$2,732,437	$2,804,174	$2,887,363	$2,978,185	$3,073,035	$3,173,836	$3,282,549	$3,397,897	$3,517,862
Upper bounds	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
LOW 3	$168,114	$177,557	$180,505	$182,179	$187,280	$194,538	$202,134	$210,175	$218,944
LOW 4	$336,227	$355,114	$361,009	$364,358	$374,561	$389,075	$404,268	$420,350	$437,888
LOW 5	$672,454	$710,228	$722,019	$728,717	$749,122	$778,151	$808,537	$840,700	$875,776
LOW 6	$1,344,908	$1,420,457	$1,444,038	$1,457,433	$1,498,244	$1,556,301	$1,617,073	$1,681,399	$1,751,553
LOW 7	$2,689,817	$2,840,914	$2,888,075	$2,914,867	$2,996,488	$3,112,603	$3,234,146	$3,362,798	$3,503,106
LOW 8	$5,379,633	$5,681,827	$5,776,151	$5,829,734	$5,992,976	$6,225,205	$6,468,292	$6,725,597	$7,006,211

The excess CEO remuneration is simply the difference between the actual CEO remuneration and the estimated CEO remuneration using the LOW bounds. The LOW bounds chosen are the ones applicable at the beginning of the company's financial year (hence, 30/06/2007 for financial year ending 30/06/2008). Two measures of excess CEO remuneration (base salary only and base salary plus STI) will be used against the LOW bounds for the analysis. Therefore, the excess CEO

[18] It could be argued that the choice of these two occupations leads to a gender bias in terms of remuneration. This bias could lead to broader wage differential between the bounds compared to Jaques' model. The choice of two gender-neutral professions would perhaps have yielded a differential closer to Jaques' values.

remuneration will be expressed as a range, the lowest bound being the measure of excess CEO remuneration above the LOW upper bound (minimum excess) and the highest bound being the measure of excess CEO remuneration above the LOW lower bound (maximum excess).

The use of a range of excess CEO remuneration rather than an absolute figure is dictated by the fact that the measurement only takes into account the level of work applicable to the CEO and that the current analysis ignores other factors that could influence remuneration[19]. For example, has the company recently "graduated" to a higher LOW, with estimated remuneration closer to the lower bound, or is it close to move to a higher LOW, with estimated remuneration closer to the upper bound of the current LOW? Also, performance *might* also have an impact, especially in the case of the STIs received by the CEO. Finally, as implied from the agency theory propounded by Jensen and Meckling, CEOs are majority or substantial shareholders of their companies are expected to earn less than other CEOs with no shareholdings; hence, we should expect a lower excess remuneration.

[19] This is a different approach from the one I used in my research project, where I only considered the measure of excess CEO remuneration based on the lower bound of the LOWs. This earlier choice was necessary as I wanted to identify the determinants of excess remuneration

Main results and analysis

I will first present a relative measure of the excess CEO remuneration according to the respective LOWs. The results for the excess salary are shown in Table 6, while Table 7 contains the results for the excess measure including both salary and STI components. The tables are divided in two sections corresponding to the measures of minimum and maximum excess remuneration based respectively on the upper and lower bounds of the LOWs.

A first finding from Table 6 is that, in 2008, CEOs on average receive a base salary that is between 32.7% and 164.7% above what they should normally earn. These percentages have increased continuously since 2000 (except in 2004), from respective values of 10.8% and 118.9%. As the bounds of the LOWs follow the evolution of the Labour Price Index, it confirms irrefutably what has been reported over the years: CEO salaries are rising faster than the salaries of the rest of the population. Brown and Samson (2003) report that the ratio of CEO remuneration to the average weekly earnings varies from 27 to 50 times from the mid-90's to 2003. Shields (2005) estimated that this ratio increased from 18 times in 1990 to 63 times in 2005.

The percentages of excess salary vary in magnitude and over time from LOW to LOW. While the percentages have been generally above the average for LOW 3 companies, a different story emerges for the other LOWs. Companies in LOW 4 and 5 experienced a steady increase of the excess salary bounds, always around the overall average. The percentages for LOW 6 companies were well below average until 2005, after which they have been the highest of all LOWs. Finally, companies in LOW 7 appeared to have been underpaying their CEOs in 2000 with negative excesses, but have since caught up. The results for LOW 7 are harder to interpret because of the small number of companies in this sub-sample[20].

Table 6: Average excess CEO remuneration (salary only) by level of work, relative to the LOW bounds

Excess salary from upper bound	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
LOW 3	28.88%	30.17%	24.35%	33.62%	26.57%	41.46%	22.86%	46.12%	37.77%
LOW 4	6.60%	8.09%	12.81%	21.34%	22.56%	28.99%	28.54%	26.20%	34.56%
LOW 5	15.84%	14.87%	18.43%	18.57%	16.85%	20.71%	21.81%	27.45%	29.14%
LOW 6	1.07%	16.30%	10.58%	10.05%	8.93%	35.77%	44.93%	51.43%	48.92%
LOW 7	-53.08%	-48.17%	-43.25%	-40.92%	-33.10%	-31.60%	9.41%	-8.06%	-7.43%
All sample	**10.83%**	**11.86%**	**14.50%**	**18.84%**	**18.29%**	**26.02%**	**26.45%**	**30.09%**	**32.70%**
Excess salary from lower bound	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
LOW 3	154.52%	163.91%	148.63%	161.69%	147.24%	177.69%	142.10%	189.23%	174.78%
LOW 4	110.67%	119.14%	125.49%	137.68%	139.38%	153.32%	153.48%	150.08%	168.20%
LOW 5	128.63%	132.85%	136.78%	132.24%	128.29%	137.22%	140.49%	152.72%	157.59%
LOW 6	99.84%	135.73%	120.92%	115.63%	113.00%	166.84%	186.13%	200.33%	197.31%
LOW 7	-5.34%	5.50%	13.24%	15.89%	30.96%	34.80%	116.37%	82.66%	84.96%
All sample	**118.95%**	**126.79%**	**128.88%**	**132.78%**	**131.09%**	**147.59%**	**149.52%**	**157.89%**	**164.67%**

Fairly similar (but more spectacular) conclusions can be reached from the examination of Table 7, where the excess CEO remuneration now includes short-term incentives. The excess CEO remuneration would range in 2008 between 97.2% and 293.1% above what they would normally earn. In 2000, it was ranging from 48.5% to 193.1%. LOW 3 companies have been under the average and weakly increasing over the whole period, owing perhaps to their more limited capacity to pay

[20] On a very simplistic level, if we had a sufficient sample for each of the LOWs, if the companies within these LOWs fully represent on average these LOWs and if their CEOs were on average reasonably remunerated, the percentage of excess salary from the upper bound would be around -25% and the percentage of excess salary from the lower bound would be around 50%.

cash incentives. LOW 4 and LOW 7 were generally tracking below the average, but increasing at a reasonable trend. LOW 5 and especially LOW 6 companies have been the most generous towards their CEOs when it comes to short-term incentives, with their lower excess bound being in excess of 100% and their upper excess bound exceeding 300%.

Table 7: Average excess CEO remuneration (salary + STI) by level of work, relative to the LOW bounds

Excess salary + STI from upper bound	2000	2001	2002	2003	2004	2005	2006	2007	2008
LOW 3	32.30%	40.98%	31.74%	42.56%	32.41%	59.50%	34.83%	47.91%	37.77%
LOW 4	22.21%	22.74%	31.09%	47.02%	53.14%	66.45%	87.86%	107.88%	74.31%
LOW 5	84.07%	72.85%	78.48%	79.56%	70.41%	95.30%	108.15%	106.66%	102.75%
LOW 6	48.90%	60.47%	62.55%	101.00%	117.74%	157.48%	182.79%	207.78%	158.80%
LOW 7	-21.75%	-19.16%	-4.24%	1.54%	19.40%	38.36%	75.22%	85.50%	77.77%
All sample	**48.47%**	**44.30%**	**50.96%**	**62.53%**	**64.08%**	**87.68%**	**102.97%**	**116.42%**	**97.17%**
Excess salary + STI from lower bound	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
LOW 3	161.26%	185.83%	163.41%	179.18%	158.63%	213.09%	165.68%	192.76%	174.78%
LOW 4	141.39%	148.82%	162.06%	187.94%	199.02%	226.81%	270.39%	311.75%	247.36%
LOW 5	262.97%	250.33%	256.92%	251.61%	232.75%	283.53%	310.61%	309.50%	304.20%
LOW 6	194.01%	225.24%	224.89%	293.66%	325.19%	405.57%	457.78%	509.79%	416.14%
LOW 7	56.34%	64.29%	91.29%	99.00%	133.34%	172.01%	246.05%	267.84%	254.66%
All sample	**193.07%**	**192.52%**	**201.83%**	**218.30%**	**220.39%**	**268.53%**	**300.31%**	**328.76%**	**293.06%**

Even allowing for a certain portion of the excess remuneration to truly represent performance of some nature, the fact is that CEOs on average are earning almost twice as much as the amount they should be earning, including short-term incentives. And we won't even consider long-term incentives…

The next two tables present absolute measures of the excess CEO remuneration according to the respective industry blocks. The average absolute measures reflect the same values underlying the average relative measures of Tables 6 and 7. We can see, from Table 8, that the average excess CEO salary in 2008 is contained between $273,303 and $705,673. The averages are lowest for companies in the Technology and the Resources block. The average for the Industrial block generally tracked the overall average. The Consumers block had the highest averages until 2007-2008, when the Financials block took the mantle after years of catching up from an apparent situation of either CEO under-remuneration or reasonable remuneration in 2000.

Table 8: Average excess CEO remuneration (salary only) by industry block, relative to the LOW bounds

Excess salary from upper bound	2000	2001	2002	2003	2004	2005	2006	2007	2008
Consumers	$222,590	$241,519	$216,423	$220,292	$252,427	$283,872	$415,107	$409,929	$415,925
Financials	-$197,567	-$249,031	-$137,190	-$138,533	-$58,072	$126,106	$233,998	$271,403	$426,383
Industrials	$62,808	$68,323	$72,486	$157,470	$117,256	$210,992	$213,866	$243,861	$271,577
Resources	-$30,472	$8,782	$34,479	$71,161	$85,822	$106,057	$97,979	$224,779	$183,759
Technology	-$15,306	-$2,358	$67,832	$34,612	$8,553	$61,094	$134,661	$90,476	$92,714
Average	**$14,015**	**$30,442**	**$58,014**	**$69,784**	**$83,446**	**$157,104**	**$206,207**	**$251,615**	**$273,303**
Excess salary from lower bound	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Consumers	$545,296	$561,125	$568,382	$577,220	$609,574	$679,858	$824,823	$833,760	$911,867
Financials	$257,228	$299,048	$327,061	$350,285	$396,365	$651,043	$735,034	$887,733	$1,020,486
Industrials	$363,992	$356,066	$395,346	$497,953	$447,420	$563,581	$575,195	$652,546	$669,286
Resources	$211,297	$263,758	$295,324	$320,218	$342,619	$376,673	$408,450	$568,166	$546,692
Technology	$221,476	$238,987	$313,742	$279,450	$290,813	$345,189	$439,541	$424,795	$439,885
Average	**$316,021**	**$340,416**	**$374,837**	**$389,611**	**$409,843**	**$516,432**	**$578,376**	**$667,583**	**$705,673**

If we include the short-term incentives Table 9, the average excess CEO remuneration in 2008 would range from $936,255 to $1,368,625. These figures are lower than the 2007 averages, mainly due to

the removal from the Financials sub-sample of firms that were either affected by the global financial crisis (e.g. Babcock & Brown) or that changed CEOs during the financial year (e.g. Macquarie Group). Since 2000, the bounds of this range have more than tripled, as they were only respectively $295,319 and $597,325. We can isolate the contribution of short-term incentives to the excess CEO remuneration by simply subtracting the results of Table 8 from the results of Table 9. Hence, STIs have added an average of $281,304 to the average excess CEO remuneration in 2000; this amount has crept to $662,952 in 2008, while it peaked in 2007 at $832,848.

Table 9: Average excess CEO remuneration (salary + STI) by industry block, relative to the LOW bounds

Excess salary + STI from upper bound	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Consumers	$495,650	$434,590	$456,639	$537,325	$777,727	$753,926	$1,042,965	$968,672	$1,141,192
Financials	$496,736	$553,393	$680,595	$789,616	$767,160	$1,558,635	$2,029,913	$2,648,827	$1,487,398
Industrials	$253,167	$266,062	$376,778	$643,616	$389,905	$632,860	$690,237	$911,659	$946,769
Resources	$60,759	$124,681	$174,503	$259,749	$330,902	$375,279	$405,130	$638,800	$646,624
Technology	$267,785	$137,424	$184,589	$160,502	$247,129	$414,198	$447,083	$576,012	$571,304
Average	**$295,319**	**$271,764**	**$342,758**	**$432,746**	**$483,042**	**$720,804**	**$883,343**	**$1,084,464**	**$936,255**
Excess salary + STI from lower bound	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Consumers	$818,357	$754,195	$808,598	$894,253	$1,134,875	$1,149,911	$1,452,681	$1,392,503	$1,637,135
Financials	$951,531	$1,101,472	$1,144,846	$1,278,434	$1,221,597	$2,083,571	$2,530,948	$3,265,157	$2,081,502
Industrials	$554,352	$553,804	$699,638	$984,099	$720,070	$985,449	$1,051,566	$1,320,345	$1,344,477
Resources	$302,529	$379,657	$435,348	$508,806	$587,699	$645,894	$715,601	$982,187	$1,009,557
Technology	$504,567	$378,769	$430,499	$405,340	$529,388	$698,293	$751,963	$910,330	$918,475
Average	**$597,325**	**$581,739**	**$659,581**	**$752,573**	**$809,440**	**$1,080,132**	**$1,255,512**	**$1,500,431**	**$1,368,625**

Before moving on to further analysis, I would like to address here one great fallacy concerning executive remuneration, especially CEO remuneration: the concept of remuneration at risk. Since the introduction of disclosure requirements regarding executive remuneration and the greater desire expressed by investors and the population in general for a better relationship between performance and remuneration, most annual reports now state the percentages of executive remuneration allocated between base salary, short-term incentives and long-term incentives, often labelling the latter two as remuneration "at-risk"[21].

Over the years, a noticeable shift occurred from the percentage of base salary to the percentages of short-term incentives and long-term incentives. As noted by Brown and Samson (2003), in the mid-90s, a typical CEO pay package would have comprised 70% salary, 20% in annual bonus and 10% in long-term incentives. In 2003, it was estimated that the balance had become 52% salary, 17% short-term incentives and 31% long-term incentives. It is not infrequent now to see packages like "40% salary, 30% STI and 30% LTI" detailed in annual reports. For the average punter (and investor), it really looks like the poor CEO is putting a lot at risk, as he might end up with only 40% of what he could deserve if he fails to deliver.

But I believe that this is, knowingly or not, another trick of spin designed by the travel agents to Lake Wobegon. First, these percentages hide the reality of the exaggerated monetary quantum of each of the components of remuneration. So, for example, a base salary of $1,000,000 might become more acceptable to the masses because it only represents, say, 40% of the overall package and that the other 60% is supposedly "at risk". Second, as I have demonstrated above, Australian CEOs earn on average a base salary that is at least 32.7% in excess of what they should be earning. Since they are already earning what they should be worth, none of their remuneration is actually at risk. At worst,

[21] Rather than using "performance-based", which is an equally dubious term, especially in instances where the performance benchmarks do not really set meaningful challenges to the executives, for example, when executive share options were not benchmarked against any neutral indicator or group of companies.

there is nothing more; otherwise, it is all upside, regardless of the percentage "at-risk". Finally, it is quite ironic that the word "risk", defined in most dictionaries as "a chance or probability of danger, loss, injury, or other adverse consequences", is used in executive remuneration as something that is only upside or nothing, rather than a loss.

If remuneration consultants and company directors were truly serious about including some elements at risk within executive remuneration packages, they would probably design packages using the following logic:

- Determine the equitable level of annual remuneration for the executive/CEO, in consideration with the overall company's organisational structure and remuneration policies
- Set the base salary portion at 75% of this equitable level
- Set the short-term incentive portion at a maximum value of 60% of this equitable level, so that the maximum annual remuneration does not exceed 135% of this equitable value
- Choose a suitable set of benchmarks and, upon achievement of an average performance equal to the benchmarks, award 41.6% of this amount (that is, 25%/60%) as STI; the "average" performing CEO would then earn 100% of the equitable level of his remuneration; the badly performing CEO could earn as little as 75% of this value and the high performing one would earn at most 135%
- Upon hiring (and only once), award long-term incentives for a present value equal to a maximum of 100% of the current equitable level of remuneration, vesting only after at least five years, with suitable relative benchmarks and exercise scale; these incentives lapse if the CEO leaves the company before the end of the vesting period

Such a package would ensure that there is some downside in case of bad performance, while offering a reasonable relationship between performance and remuneration. Further, the single allocation of long-term incentives instruments aims at curbing the overuse of this type of instrument (why do some CEOs get performance rights allocations every year?), while offering some incentive for the CEO to build long-term value for the company[22].

[22] I have to admit that I did not spend much time thinking about or researching the long-term incentive aspect of this proposed package. Perhaps the value of the single allocation might be greater. Nevertheless, the three principles around LTIs should remain: 1- one allocation only; 2- a reasonable present value to motivate the CEO; 3- adequate relative benchmarks in order to foster long-term value building.

The survivors

Of the overall sample used, only 30 CEOs or managing directors have remained at the helm of their companies for the nine years under analysis. Their identity and base salary over the last nine years are shown in Table 10. This table also displays as a comparison the evolution of the average weekly earnings over the same period.

If we compare the average base salary increase for this sub-sample against the growth of the average weekly earnings for the whole period, we can see that the average CEO base salary has grown around 3.5 times faster than the average weekly earnings. While some of this above-average growth can be legitimately attributed to the company's growth (e.g. the meteoric rise of Paladin Resources (PDN) from a small uranium explorer to a global uranium supplier explains a major part of the increase of CEO Borshoff's base salary), it provides yet another proof of the ever increasing excess CEO remuneration we have shown in the preceding section. Only four CEOs have received a total increase in base salary that is lower than the growth of the average weekly earnings, while one saw his base salary decreased over the period (Blackman from Institute of Drug Technology (IDT)).

I have italicized the CEOs whom I believe were reasonably paid over the whole period, that is, CEOs whose base salaries were contained within the bounds of the LOW applicable to their companies. Only seven CEOs fitted this criterion. However, it should be noted that three of them (Page from Harvey Norman (HVN), Tudehope from Macquarie Corporate Telecommunications (MAQ), Abedian Snr. from Sunland Group (SDG)) are either related to or one of the founders and majority shareholder of their company, while a fourth one (Tan from Autron (AAT)) is a substantial shareholder of his company. According to the tenets of the agency theory, these CEO-principals, due to their related interest in a substantial shareholding, would normally earn less than other CEO-agents. This leaves three CEOs (Simmons from Hills Industries (HIL), Dixon from Healthscope (HSP), Goldschmidt from Sonic Healthcare (SHL)) receiving a reasonable base salary without having strong connections to a substantial shareholding.

Twelve CEOs have enjoyed increases greater than 200%, that is, their base salaries have more than tripled over the nine years under observation. The application of the level of work methodology on my sample led me to observe two approximate rules of thumb to justify an increase of 100% of base salary: either the number of employees has increased tenfold or the volume of assets of the company has grown tenfold. This means that we would expect these CEOs with tripled salaries to be at helm of companies that have grown 100 times the size they were in 2000. With the exception of Paladin Resources (PDN), none of the other eleven companies can claim to have experienced this type of growth. In fact, there is even one company (Toll Holdings (TOL)) that has shrunk in size by about a third in 2007 after a spin-off (Asciano (AIO)), yet its CEO's base salary increased by 10% in 2008…

Table 10: Evolution of CEO base salary compared to average weekly earnings

Code	CEO/Managing Director	2000	2001	2002	2003	2004	2005	2006	2007	2008	Increase
AAT	*Tan*	*$159,222*	*$242,177*	*$346,010*	*$411,393*	*$426,814*	*$430,537*	*$363,014*	*$492,675*	*$461,494*	***189.84%***
ARG	Patterson	$344,944	$364,875	$400,909	$458,920	$464,512	$503,480	$535,124	$593,385	$666,788	**93.30%**
AUN	Porter	$602,405	$1,075,025	$1,156,451	$1,665,983	$1,115,961	$1,110,130	$1,296,015	$1,344,195	$1,447,796	**140.34%**
BEN	Hunt	$433,500	$433,500	$502,328	$642,460	$800,143	$761,480	$983,502	$1,107,321	$1,263,173	**191.39%**
BLD	Pearse	$813,333	$1,319,737	$1,480,333	$1,618,070	$1,854,170	$2,024,835	$2,263,209	$2,510,492	$2,763,959	**239.83%**
BPT	Nelson	$297,142	$352,803	$388,746	$356,731	$399,602	$453,136	$736,637	$764,328	$1,046,239	**252.10%**
CAB	Kermode	$380,368	$122,884	$188,721	$1,150,000	$1,150,000	$1,561,760	$1,325,988	$1,600,000	$1,750,000	**360.08%**
CEY	Cameron	$302,014	$407,722	$474,826	$613,196	$743,465	$796,725	$897,600	$1,150,000	$1,422,000	**370.84%**
CSL	McNamee	$635,000	$872,809	$1,279,733	$1,103,830	$1,071,096	$1,366,873	$1,602,129	$1,819,393	$2,148,741	**238.38%**
FWD	Tate	$227,122	$306,208	$392,138	$481,255	$527,941	$527,579	$536,410	$586,696	$632,084	**178.30%**
GNS	Gay	$326,613	$364,663	$686,833	$692,540	$689,150	$717,071	$884,980	$1,124,962	$1,002,067	**206.81%**
GUD	Campbell	$526,664	$540,652	$558,578	$566,588	$571,369	$566,007	$725,315	$898,854	$922,907	**75.24%**
HIL	*Simmons*	*$243,197*	*$267,900*	*$278,362*	*$280,850*	*$300,364*	*$327,709*	*$453,859*	*$508,658*	*$634,291*	***160.81%***
HSP	*Dixon*	*$275,000*	*$290,000*	*$300,000*	*$350,000*	*$392,000*	*$392,000*	*$750,028*	*$776,647*	*$855,899*	***211.24%***
HVN	*Page*	*$195,931*	*$264,352*	*$264,352*	*$267,397*	*$500,000*	*$530,487*	*$500,102*	*$500,000*	*$750,000*	***282.79%***
IDT	Blackman	$421,656	$427,375	$459,522	$517,845	$547,504	$591,418	$588,316	$553,015	$416,821	**-1.15%**
IRE	Dunai	$187,470	$319,530	$389,100	$418,647	$445,640	$541,426	$597,121	$670,261	$766,393	**308.81%**
LEI	King	$1,681,510	$1,741,117	$2,190,564	$2,293,211	$2,477,582	$2,641,000	$4,203,000	$3,122,000	$3,457,908	**105.64%**
MAQ	*Tudehope*	*$331,144*	*$290,895*	*$291,016*	*$321,241*	*$350,519*	*$376,928*	*$384,130*	*$395,033*	*$435,341*	***31.47%***
MTS	Reitzer	$650,000	$733,335	$832,807	$958,036	$1,122,660	$1,239,156	$1,388,519	$1,461,146	$1,582,183	**143.41%**
NRT	Naughton	$293,058	$370,706	$451,581	$479,190	$547,865	$607,063	$666,249	$701,812	$860,835	**193.74%**
PDN	Borshoff	$150,000	$165,000	$159,375	$165,500	$130,017	$282,746	$500,000	$1,001,000	$1,600,000	**966.67%**
QBE	O'Halloran	$831,400	$1,014,000	$1,181,000	$1,252,000	$1,526,000	$1,485,000	$1,922,000	$2,305,000	$2,656,000	**219.46%**
RHC	Grier	$482,467	$545,254	$477,901	$519,622	$603,231	$695,602	$993,765	$1,047,675	$1,112,244	**130.53%**
SDG	*Abedian*	*$491,193*	*$490,912*	*$527,518*	*$529,390*	*$530,764*	*$548,717*	*$566,828*	*$644,424*	*$705,359*	***43.60%***
SHL	*Goldschmidt*	*$327,578*	*$333,299*	*$390,389*	*$345,056*	*$732,235*	*$750,000*	*$750,000*	*$750,000*	*$750,000*	***128.95%***
SLX	Goldsworthy	$333,515	$382,134	$408,660	$434,757	$451,485	$452,424	$455,203	$597,661	$541,403	**62.33%**
TNE	Di Marco	$369,202	$281,778	$305,734	$363,826	$400,023	$393,061	$405,009	$421,503	$444,299	**20.34%**
TOL	Little	$650,020	$680,001	$800,000	$1,150,000	$1,500,001	$1,750,000	$1,837,000	$2,000,000	$2,200,000	**238.45%**
VRL	Burke	$1,741,587	$1,724,758	$1,491,702	$1,430,647	$1,457,340	$1,864,105	$2,047,701	$2,022,674	$2,066,835	**18.68%**
Average base salary		$490,142	$557,513	$635,173	$727,939	$794,315	$876,282	$1,038,625	$1,115,694	$1,245,435	**154.10%**
Average weekly earnings (annualized)		$41,158	$43,321	$45,391	$48,032	$49,665	$52,572	$54,122	$57,013	$59,706	**45.07%**

Sources: Annual reports; *Average Weekly Earnings*, 6302.0, Australian Bureau of Statistics; the series used is the Ordinary Time Earnings, Persons, Full Time; the August value was chosen and annualized; CEOs in italics are deemed to be reasonably paid over the whole period

Spot the difference

Table 11 presents the evolution of CEO base salary for a selected company subset that experienced all their CEO changes at the beginning of a financial year (or within a few days of the date). These companies have had one or many CEO changes over the period under analysis. They all display the same pattern except for one company. What seems to be the pattern and which company differs from the others?

Table 11: Evolution of CEO base salary for selected companies

Year	CEO	ASX Code	Base Salary	CEO	ASX Code	Base Salary	CEO	ASX Code	Base Salary
2000	Clarke	ALS	$469,800	McFarlane	ANZ	$1,200,000	Kirby	CSR	$1,356,300
2001	Clarke	ALS	$499,703	McFarlane	ANZ	$1,500,000	Kirby	CSR	$1,426,600
2002	Clarke	ALS	$523,894	McFarlane	ANZ	$1,500,000	Kirby	CSR	$1,505,567
2003	Clarke	ALS	$550,059	McFarlane	ANZ	$1,500,000	Kirby	CSR	$1,655,115
2004	Clarke	ALS	$606,226	McFarlane	ANZ	$2,390,493	Brennan	CSR	$1,155,806
2005	Clarke	ALS	$600,000	McFarlane	ANZ	$2,303,971	Brennan	CSR	$1,197,935
2006	Clarke	ALS	$600,000	McFarlane	ANZ	$2,719,312	Brennan	CSR	$2,288,035
2007	Ryan	ALS	$700,000	McFarlane	ANZ	$3,624,446	Brennan	CSR	$2,404,235
2008	Ryan	ALS	$791,666	Smith	ANZ	$3,566,567	Maycock	CSR	$1,236,520

Year	CEO	ASX Code	Base Salary	CEO	ASX Code	Base Salary	CEO	ASX Code	Base Salary
2000	Newman	FCL	$1,204,365	Emery	LYC	$232,744	Switkowski	TLS	$1,000,909
2001	Newman	FCL	$1,270,537	Emery	LYC	$258,054	Switkowski	TLS	$1,150,832
2002	Newman	FCL	$1,381,182	Curtis	LYC	$282,680	Switkowski	TLS	$1,245,850
2003	Newman	FCL	$1,277,076	Curtis	LYC	$278,222	Switkowski	TLS	$1,363,051
2004	Wozniczka	FCL	$1,216,800	Curtis	LYC	$350,487	Switkowski	TLS	$1,439,142
2005	Wozniczka	FCL	$1,257,719	Curtis	LYC	$400,000	Switkowski	TLS	$1,957,107
2006	Wozniczka	FCL	$1,324,360	Curtis	LYC	$339,988	Trujillo	TLS	$5,745,011
2007	Wozniczka	FCL	$1,444,301	Curtis	LYC	$416,715	Trujillo	TLS	$3,621,275
2008	Wozniczka	FCL	$1,653,523	Curtis	LYC	$432,640	Trujillo	TLS	$3,324,201

If we examine these companies one by one and hide the CEO column, you would see an almost continuous trend of base salary increases for five of these companies, as if there had been any change in CEO. The exception is CSR. It has reduced significantly the base salary of every new CEO incumbent[23]. The other companies either reduced only slightly the base salary on appointing a new CEO (ANZ, FCL) or increased it, sometimes quite substantially (ALS, LYC, TLS).

There is definitely something wrong with this type of practice. In general, for any type of role in a company, from a clerk to a divisional manager, a new incumbent is expected to earn less than his/her predecessor, especially if his/her level of experience for the role is lesser than his/her predecessor. The same rule does not seem to apply to the majority of CEOs, even though new incumbents never had any experience as CEOs. This truly is a Lake Wobegon effect, whereby you should expect to treated as above-average because you have attained an above-average (if not the highest) position.

[23] It must be said though that Brennan was appointed in 2003 just after the demerger of Rinker (RIN), which further justifies the reduction in base salary.

Other findings from research project

As mentioned previously, my 2007 research project not only purported to measuring excess CEO remuneration, but also to identifying the determinants of CEO remuneration. In summary, here are some of the other findings made:

- After splitting the sample between overpaid CEOs and more reasonably paid CEOs, a statistically significant difference could be found in terms of tenure (overpaid CEOs have longer tenures) and of the proportion of non-executive directors (NEDs) on the board (overpaid CEOs deal with greater proportions of NEDs)
- Regression on excess remuneration measures yielded: significant relationships with firm size, even after controlling for the LOW as a proxy for size; little or no relationship with various performance measures; governance and ownership variables (especially proportion of NEDs, tenure and CEO shareholding) provide some explanatory power to the models, but of fairly small magnitude, and sometimes in contradiction from one model to the other
- The influence of firm size on excess remuneration of overpaid CEOs is five times stronger when only base salary is considered and 2.27 times stronger when STIs are included; it also appears to be growing when CEOs reach higher levels of work; its influence also increases with the passage of time
- The best regression fit was obtained on the Resources block sub-sample. The model showed positive and significant relationship between excess CEO remuneration and firm size, CEO tenure, board size and the proportion of busy directors (sitting on three boards or more); a significant negative relationship was found with leverage (gearing)

Because firm size was revealed as the most significant variable explaining excess CEO remuneration and most governance variables had practically no impact, I made the hypothesis that these results were the sign of a systemic effect across all companies; that is, regardless of other company fundamentals and of the corporate governance environment, directors seem to be mesmerised by firm size when they make decisions on executive pay. This hypnotic state has been further fuelled by the greater amount of information available on executive compensation following the introduction of greater disclosure requirements.[24] Armed with all this information, these directors indulge into comparisons with other similarly sized companies when setting the terms of executive pay package. On the other hand, some have advanced the existence of a global market for corporate talent, pushing the price tag up for quality CEOs. However, Chaudri (2003) provides anecdotal evidence that seems to define the boundaries for movement of human capital within the local and regional markets and that boards of our major companies are almost entirely comprised of former Australian senior executives, with little international representation. Also, as Kerin (2003) noted, “Australian executives care much more about getting paid 5% less than the person down the hall than they do about getting paid a small fraction of what they could get paid overseas”. Therefore, it is conceivable that the firm size effect is a symptom of systemic “ratcheting”, where boards will offer to the CEO a pay package that is at least equal to the median of a group of comparable companies. Such “ratcheting” behaviour in the US is also reported in Bebchuk and Fried (2004).

If the problem is systemic, it is proof that not only corporate governance is failing, but that a whole chain of agency links is broken. While the agency theory focused mainly on the obligations between the owners and the managers, other agent-principal relationships are often forgotten when corporate governance is examined. The board directors act as agents for the shareholders, some of

[24] This does not mean that disclosure must be avoided. Nevertheless, there is evidence that greater disclosure has caused a substantial increase in executive pay packages. See Craighead et al. (2004) for evidence in the Canadian context.

whom are institutional investors. These investors (managed funds, superannuation funds, etc.), through fiduciary duty obligations, are in turn agents of their beneficiaries. There are many claims made to the effect that board directors do not adequately represent the views of the shareholders and are more likely to side with the CEO; that institutional investors aren't putting enough effort to represent the interests of their beneficiaries; and that the minority of engaged shareholders aren't able to make itself heard.

The easy way out, as proposed by many, would be to regulate executive remuneration and, for example, provide a binding nature to the votes of the remuneration reports and on CEO contracts. I do not subscribe to this point of view, as ill-advised regulation is likely to cause more problems than resolve any. The Americans remember too well the effect of the tax deductibility limitations on executive remuneration and, more recently, the limited effectiveness of the Sarbanes-Oxley Act. Further, I don't think that too much regulation would fix the heart of the problem: average-to-bad corporate governance and limited shareholder involvement.

While the following solution might not be the panacea, it might be worth giving some thought. For most publicly listed companies[25], a shareholder council should be formed in addition to the board of directors. This shareholder council should comprise 3 to 5 members, all of whom are obviously shareholders, but neither a director, nor an executive or an employee of the company. The council's main responsibilities would be to undertake the responsibilities of the nomination and remuneration committees, with representation from one non-executive director on each committee. The council members should be elected at the annual general meeting and would be remunerated with the existing committee fees. With respect to the remuneration committee, the council would be responsible to obtain the relevant advice with respect to executive remuneration, with no specific budget restriction from the company's management. The non-executive director attending the council's meetings would then report to the board any decision taken.

This mechanism would certainly create an avenue through which shareholders, especially institutional investors, can become more active and can have some of their concerns better heard by the board. It would remove some of the influence, if not all, that the CEOs have on decisions regarding remuneration. Finally, it can create more opportunities for new directors to join the board, other than the usual board-backed (and perhaps management-backed) nominations.

[25] I would probably exclude any company where a controlling interest greater than 40% exists.

Other aspects to consider

In this final section, I will cover other aspects relative to the current inquiry, some of which evoked in the Issues Paper. These are not presented in any particular order.

The ASX Corporate Governance Principles

On page 10 of the Issues Paper, questions about the relationship between executive remuneration and other company employees are being raised. While most of this submission hinges on the demonstration of a model where this relationship is crucial, I would like to expose a subtle change made (inadvertently or not, I do not know) to the ASX Corporate Governance Principles which proves to some extent that this relationship is relatively unimportant for the members of the ASX Corporate Governance Council.

The previous version (2003) of the corporate governance principle on remuneration read like this (bold characters are my emphasis):

> Principle 9: Remunerate fairly and responsibly
>
> Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.
>
> This means that companies need to adopt remuneration **policies** that attract and maintain talented and motivated directors and **employees** so as to encourage enhanced performance of the company. It is important that there be a clear relationship between performance and remuneration, and that the **policy** underlying executive remuneration be understood by investors.
>
> How to achieve best practice
>
> | | |
> |---|---|
> | Recommendation 9.1: | Provide disclosure in relation to the company's remuneration **policies** to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance. |
> | Recommendation 9.2: | The board should establish a remuneration committee. |
> | Recommendation 9.3: | Clearly distinguish the structure of non-executive directors' remuneration from that of executives. |
> | Recommendation 9.4: | Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders. |
> | Recommendation 9.5: | Provide the information indicated in *Guide to reporting on Principle 9*. |

The current version (2007) of the same principle has been somewhat streamlined and morphed into the following:

> Principle 8: Remunerate fairly and responsibly
>
> Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.
>
> The awarding of remuneration is a key area of focus for investors. When setting the level and structure of remuneration, a company needs to balance its desire to attract and retain senior executives and directors against its interest in not paying excessive remuneration. It is important that there be a clear relationship

between performance and remuneration, and that the policy underlying executive remuneration be understood by investors.

Recommendation 8.1:	The board should establish a remuneration committee.
Recommendation 8.2:	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
Recommendation 8.3:	Companies should provide the information indicated in *Guide to reporting on Principle 8*.

The difference? The old version referred to many possible remuneration policies applicable to directors and employees. It implied that the principle of remunerating fairly and responsibly covered all employees, not only the executives, and that, by extension, the policies needed to be inter-related and to consider the different types of employees. The new version refers only to one policy, the executive remuneration policy. Other employees are not mentioned anywhere in the new principle, nor is the existence of other remuneration policies. Therefore, one can only assume that directors need not worry about creating a fair and equitable remuneration structure covering all employees, including executives. I cannot believe that some members of the ASX Corporate Governance Council missed this disappearance…

Perhaps the Commission should suggest to the ASX Corporate Governance Council to reintegrate the employees into their remuneration principle. Also, it could suggest that companies should not only report on their executive remuneration policy, but also its relationships with the other existing company policies on remuneration.

<u>The use of derivatives and financial engineering services by CEOs</u>

In recent years, there were a few examples reported in the press (see MacFarlane (2002), West (2006)) of executives entering into complex derivative transactions in order to protect or improve any possible upside arising from their long-term incentives. While companies have been encouraged to voluntarily outlaw these types of transactions, very few are actually actively enforcing such restrictions.

As mentioned above, I am not an advocate of regulatory solutions to resolve all problems. However, in this case, I believe that this type of transactions should be forbidden by law, not only on derivatives involving the company's shares, but also on any benchmark (or companies included in such benchmarks) used to assess entitlements to long-term incentives. ASIC should also be given some power to fine the companies or individuals who have advised on and facilitated such transactions.

I would also support any regulation limiting the use of margin loans for executive desiring to buy their own company's shares. The recent global financial crisis has provided many examples showing us the disadvantages of allowing such a practice.

<u>Ethics courses</u>

Since executive remuneration is intimately linked to corporate governance, I was surprised to see that the issue of director and executive education has not been mentioned in the Issues Paper. More specifically, I am more concerned that most executives, whether or not they have an MBA, and directors might not have, one day or the other, taken a course in ethics, considering the findings exposed in this submission.

I took some time to check in some Australian MBA programs and some courses provided by professional institutions whether ethics are being taught as a specific subject or just a topic of secondary importance. The results are interesting, even though my sample is quite small.

The MBA program at Melbourne Business School has a "Management and Ethics" subject which is optional and requires the completion of the "Managing People" subject as a pre-requisite (?!?). At AGSM (UNSW), there is also a "Business Ethics" subject offered as optional, but I fear that it might not be so popular, as there are 41 optional subjects available, with students having to choose only 7 from these. MGSM's program does not offer any specific subject on ethics, but it is included as a specific topic in a compulsory subject (Organisational Behaviour). Kaplan Professional (ex-FINSIA) offers one topic dedicated to ethics (out of seven) in its subject "Law, Regulation and Ethics". Finally, the Australian Institute of Company Directors (AICD) makes mention of ethics in two modules of its Company Directors Course (The Role of the Board and the Practice of Directorship; Decision Making), but I cannot ascertain from the information available on their website what proportion is actually devoted to the topic of ethics.

While this might be outside the scope of the current inquiry, I still believe that the Commission suggests a greater coverage of ethics in MBA programs (maybe a compulsory course) and other professional courses, including the AICD (maybe a full module).

Data sources and research on executive remuneration

I share the same feeling as the Commission when it wrote "Data sources?". Upon beginning my research project at FINSIA three years ago, this was one of the disappointing aspect of the task ahead: dealing with the absence of an existing, easily available database on Australian executive remuneration. I ended up having to build my own personal database, limiting my capture of information on the cash remuneration (base salary, non-monetary benefits, retirement benefits, short-term incentives) of all directors and executive directors of the ASX 200 companies, plus a few variables on corporate governance and director shareholdings. I am not the only student who faced this predicament: Wright (2005), while completing her doctoral thesis at the University of Technology in Sydney (UTS), participated with others in the development of a similar database on Australian executive remuneration.

In the United States, Standard & Poor's offers the ExecuComp database covering the details of executive remuneration for all the S&P 1500 companies. However, the database has been criticised by many scholars for providing data on some variables that can be hard to compare across companies.

Perhaps it should be suggested that ASIC be given the mandate (and the budget) to build a comprehensive database on executive and director remuneration that could be made available to institutions and the public in general for a reasonable fee.

Appendix A: Companies included in the sample

ASX Codes	Company	ASX Codes	Company
AAC	Australian Agricultural Company	BLD	Boral Limited
AAP	AAPT	BLY	Boart Longyear
AAT	Autron	BNB	Babcock & Brown
AAX	Ausenco	BOL	Boom Logistics
ABB	ABB Grain	BOQ	Bank Of Queensland Limited.
ABC	Adelaide Brighton Limited	BPC	Burns Philp & Company Limited
ABP	Abacus Property Group	BPT	Beach Petroleum
ABS	ABC Learning Centres	BRL	BRL Hardy
ADB	Adelaide Bank Limited	BRS	Bristile
ADZ	Adsteam Marine Limited	BRZ	Brazin Limited
AED	AED Oil	BSG	Bolnisi Gold
AEO	Austereo Group Limited	BSL	Bluescope Steel Limited
AFI	Australian Foundation Investment Company	BTA	Biota Holdings
AGL/AGK	Australian Gas Light Company (The)	BWA	Bank of Western Australia
AGO	Atlas Iron	CAA	Capral Aluminium Limited
AHD	Amalgamated Holdings	CAB	Cabcharge Australia
AIO	Asciano Group	CBA	Commonwealth Bank Of Australia
ALH	Australian Leisure & Hospitality Group	CCL	Coca-Cola Amatil Limited
ALL	Aristocrat Leisure Limited	CDO	Colorado Group Limited
ALN/AAN	Alinta Gas	CDR	Commander Communications
ALS	Alesco Corporation Limited	CEU	Connecteast Group
ALU	Altium	CEY	Centennial Coal
ALZ	Australand Property Group	CGF	Challenger Financial Services
AMC	Amcor Limited	CIY	City Pacific
AMP	AMP Limited	CLH	Collection House
ANM	Australian Magnesium/Advanced Magnesium	CLI	Challenger International
ANN/PDP	Ansell Limited/Pacific Dunlop	CML/CGJ	Coles Myer Limited/Coles Group
ANZ	ANZ Banking Group Limited	CMQ	Chemeq
AOE	Arrow Energy	CMR	Compass Resources
AOR	Aurion Gold	CNP	Centro Properties Group
APA	Australian Pipeline Trust	COA	Coates Hire Limited
API	Australian Pharmaceutical Industries	COH	Cochlear Limited
APL	Australian Plantation Timber	CPU	Computershare Limited
APN	APN News & Media Limited	CRG	Crane Group Limited
AQA	Aquila Resources	CRS	Croesus Mining
ARG	Argo Investments	CSL	CSL Limited
ARQ	ARC Energy	CSM	Consolidated Minerals
ASB	Austal Limited	CSR	CSR Limited
ASX	Australian Stock Exchange Limited	CTL	Citect Corporation
AUD	Ausdoc Group	CTX	Caltex Australia Limited
AUN	Austar United Communications	CWN	Crown Limited
AUW	Australian Wealth Management	CWO	Cable & Wireless Optus
AUY/FLX	Auiron Energy/Felix Resources	CXP	Corporate Express Australia
AVO	Avoca Resources	DGD	Delta Gold
AWB	AWB	DJS	David Jones Limited
AWC	Alumina Limited	DOW	Downer Group
AWE	Australian Worldwide Exploration	DRT	DB RREEF Trust
AXA	AXA Asia Pacific Holdings Limited	DVC	DCA Group
AXN	Axon Instruments	ECP	Ecorp
AZZ	Antares Energy/Amity Oil	EDI	Evans Deakin
BAM	British American Tobacco Australasia	EHL	Emeco Holdings
BBG	Billabong International	EML	Email
BBI/PIF	Babcock & Brown Infrastructure Group	ENE	Energy Developments Limited
BBP	Babcock & Brown Power	ENV	Envestra Limited
BBW	Babcock & Brown Wind	ERA	Energy Resources of Australia
BCA/VEA	Baycorp Advantage Limited/Veda	ERG	ERG Limited
BCM	Babcock & Brown Capital	ETR	Etrade Australia
BDG	Bendigo Mining	EXL	Excel Coal
BDL	Brandrill	FCL	Futuris Corporation Limited
BEN	Bendigo Bank Limited	FGL	Foster's Group Limited
BIL/BXB	Brambles Industries Limited	FHF	FH Faulding

BIR	Burswood	FKP	FKP Property Group
BJT	Babcock & Brown Japan Property Trust	FLT	Flight Centre
BKN	Bradken	FMG/AMS	Fortescue Metals/Allied Mining & Processing

ASX Codes	**Company**	**ASX Codes**	**Company**
FNC	Foundation Health Care	MIM	MIM Holdings
FWD	Fleetwood Corporation	MLB	Melbourne IT
FXJ	Fairfax (John) Holdings Limited	MMX	Murchison Metals
GAS	Gasnet Australia	MND	Monadelphous Group
GBG	Gindalbie Metals	MRE/ANL	Minara Resources/Anaconda Nickel
GCL	Gloucester Coal	MRL/SFH	Miller's Retail/Specialty Fashion Group
GGL	Gribbles Group	MTS/MTT/DVD	Metcash Limited/Davids
GHG	Grand Hotel Group	MXG	Multiplex Group
GNF/GFF	Goodman Fielder	MYO	Myob Limited
GNS	Gunns	NAB	National Australia Bank Limited
GPT	GPT Group	NCM	Newcrest Mining Limited
GRD	GRD Limited	NDY	Normandy Mining
GTP	Great Southern Plantations Limited	NEV	Neverfail Ltd
GUD	GUD. Holdings Limited	NFD	National Foods Ltd
GWT	Gwa International Limited	NLX	Nylex Ltd
HDR	Hardman Resources	NRT	Novogen Limited
HFA	HFA Holdings	NUF	Nufarm Limited
HIH	HIH Insurance	NVS	Novus Petroleum
HIL	Hills Industries	NWH	NRW Holdings
HPX	HPAL	NXS	Nexus Energy
HSP	Healthscope	OEC	Orbital Engine Corporation
HTA	Hutchison Telecommunications Australia	OMP	OAMPS
HVN	Harvey Norman Holdings Limited	ONE	OneTel
HWE	Henry Walker Eltin Group	OPS	OPSM
HWI	Housewares International	ORG	Origin Energy Limited
IAG	Insurance Australia Group Limited	ORI	Orica Limited
IDT	Institute Of Drug Technology Australia Limited	OST	OneSteel
IFL	IOOF Holdings	OTT	Open Telecommunications
IFM	Infomedia Limited	OXR/OZL	Oxiana Resources/Oz Minerals
IGO	Independence Group	PAS	Pasminco
IHG	Intellect Holdings	PBB	Pacifica Group Limited
ILU	Iluka Resources Limited	PBG	Pacific Brands
ION	ION	PBL/CMJ	Publishing & Broadcasting Limited
IPG	Investa Property Group	PCO/NMB/LIC	Pracom/Namberry/Lifestyle Communities
IPL/ICT	Incitec Pivot/Incitec	PDN	Paladin Resources Limited
IRE	Iress Market Technology Limited	PEM	Perilya
IVC	Invocare	PHY	Pacific Hydro
JBH	JB Hi-Fi	PLA	Platinum Australia
JBM	Jubilee Mines NL	PMM	Portman
JFG	James Fielding Group	PMN	Promina Group
JHX/HAH	James Hardie Industries N.V.	PMP	PMP Limited
JST	Just Group	PMV	Premier Investments
JUP	Jupiters	PNA	PanAust
KAR	Karoon Gas Australia	PPH	Pan Pharmaceuticals
KAZ	Kaz Computer Services	PPT	Perpetual Trustees Australia Limited
KCN	Kingsgate Consolidated	PPX	Paperlinx
KYC	Keycorp	PRK/LAC	Patrick Corporation/Lang Corporation
KZL	Kagara Limited	PRT	Prime Television
LEI	Leighton Holdings Limited	PTD/AAH	Peptech Limited/Arana Therapeutics
LLC	Lend Lease Corporation Limited	PTM	Platinum Asset Management
LNC	Linc Energy	PWR	PowerLan
LNN	Lion Nathan Limited	PWT	PowerTel
LYC	Lynas Corporation	QAN	Qantas Airways Limited
MAH	MacMahon Holdings	QBE	Qbe Insurance Group Limited
MAQ	Macquarie Corporate Telecommunications	QGC	Queensland Gas Company
MAY/SYB	Mayne Group/Symbion Health	QRL	QCT Resources
MBL/MQG	Macquarie Bank/Macquarie Group	RCD/AFG	Record Investments/Allco Finance
MCC	Macarthur Coal	RCL	Repco Corporation Limited
MCR	Mincor Resources	REL/SAE	Renewable Energy Corp/Salinas Energy
MGM/MGQ/GMG	Macquarie Goodman Management	RHC	Ramsay Healthcare
MGR	Mirvac Group	RIC	Ridley Corporation Limited

MGW	McGuigan Simeon Wines	RIN	Rinker Group
MGX	Mount Gibson Iron	RIV/WAV	Riversdale Mining/Wave Capital
MIA	MIA Group	ROC	Roc Oil Company Limited

ASX Codes	**Company**	**ASX Codes**	**Company**
SBC	Southern Cross Broadcasting Limited	TEM	Tempo Services
SBM	St Barbara	TEN	Ten Network Holdings Limited
SDG	Sunland Group	THG	Thakral Holdings Group
SDL/SFG	Sundance Resources/St Francis Mining	TIM	Timbercorp Limited
SEK	Seek Ltd	TLS	Telstra Corporation Limited.
SEV	Seven Network Limited	TMN	Telemedia Networks International
SFE	SFE Corporation Limited	TMS/GTV	Television & Media/Global Television
SGB	St George Bank Limited	TNE	Technology One Limited
SGN	STW Communications Group	TOL	Toll Holdings Limited
SGP	Stockland	TPI	Transpacific Industries
SGW	Sons of Gwalia	TSE	Transfield Services
SGX	Sino Gold Mining	TSI	Transfield Services Infrastructure Fund
SHL	Sonic Healthcare Limited	TTS	Tattersalls Ltd
SIG/SIP	Sigma Company Limited.	UEC	UEComm
SKE	Skilled Group Limited	UEL	United Energy
SLX	Silex Systems Limited	UGL	United Group Limited.
SMI	Howard Smith	UTB	UniTAB Limited
SMS/SGM	Sims Group Limited	UXC/DVT	UXC/Davnet
SMX/SAS	Sms Management & Technology Limited.	VBA	Virgin Blue Holdings
SMY	Sally Malay Mining	VCR/MMD	Ventracor/Micromedical Industries
SNX	SecureNet	VNA/AFT	Voicenet (Australia)/AFT Corporation
SOH	Solution 6 Holdings	VPG	Valad Property Group
SPC	SPC Ardmona	VRL	Village Roadshow Limited (PA)
SPN	SP Ausnet	VSL	Vision Systems
SPP	Southern Pacific Petroleum	WAN	West Australian Newspapers Holdings Limited
SPT	Spotless Group Limited	WBC	Westpac Banking Corporation
SRL	Straits Resources	WDC	Westfield Group
SRP	Southcorp Ltd	WES	Wesfarmers Limited
SSX	Smorgon Steel Group Limited.	WMR	WMC Resources
STO	Santos Limited	WOR	Worleyparsons Limited
SUN	Suncorp-Metway Limited.	WOW	Woolworths Limited
SWS	Simeon Wines	WPL	Woodside Petroleum Limited
SYM	Symex Holdings	WSA	Western Areas
TAB	TAB	WSF	Westfield Holdings
TAH	Tabcorp Holdings Limited	WTF	Wotif.com Holdings
TAL	Tower Australia	WYL	Wattyl Limited
TAP	TAP OIL Limited	ZFX	Zinifex Limited
TCL	Transurban Group		

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