



Because you're worth it?
Executive remuneration in the 2016/17
financial year

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Executive Summary

For the third year running, I am providing the first executive remuneration review for the current reporting period.

This is the most accurate review and assessment of executive remuneration in Australia.

All evidence has been sourced from ASX disclosures and annual report for the current corporate reporting period. Assessing the remuneration practices of the largest listed-corporations by market-capitalisation, this report is intended to provide clarity over the standards and activities of executive pay for analysts, investors and company decision-makers.

Throughout this report you will see the statutory remuneration for all reported executives in the ASX100, including CEOs, CFOs and chiefs of business units. Remuneration is broken down by salary and total pay - including short and long term incentives and other forms of remuneration provided by companies.

The report also covers remuneration for non-executive directors and chairs, insight into the national wage conversation and the gender diversity discussion.

I close with remarks and recommendations for companies, including urging a review of existing remuneration practices which seem to be out of date.

Key outtakes

- The average CEO remuneration is \$4,750,326.60
 - The average CEO salary is 33.86% of their total package
 - The highest paid CEO for the 2017 reporting period was Alan Joyce at Qantas, then Nicholas Moore at Macquarie
 - CEO remuneration is up 3.5 per cent since the 2015/16 financial year
- After the CEO the highest paid executive, on average, is the COO, then marketing director
 - The highest paid non-CEO was Shemara Wikramanayake at Macquarie, followed by Ben Brazil also at Macquarie
 - There are six executives from Macquarie in the ten highest paid non-CEOs, two from Qantas, one from Ramsay Healthcare, one from BT Investment Management
- The highest paid non-executive directors are at Westpac
 - The average non-executive director is remunerated \$176,749.47 per year
- The highest paid chair is Jan du Plessis at Rio Tinto
 - The average non-executive chair is remunerated \$524,917.10
- The average female CEO has a total package of \$3,705,009,83
 - The highest paid female CEO is Mirvac's Susan Lloyd-Hurwitz
 - The highest paid woman is Shemara Wikramanayake at Macquarie, followed by Jayne Hrdlicka at Qantas
 - Female CEO pay tends to be inline with or below the average CEO pay
- The average CEO is paid 78 times the average Australian worker
 - CEO pay has risen 3.5 per cent in the past 12 months which is 46 per cent higher the average Australian worker, which has had a 1.9 per cent wage increase
- It is recommended that companies review their remuneration policies and their effectiveness as a way to garner public trust

Understanding executive remuneration

Executive remuneration continues to be a litmus test for organisation, and a lightning rod for investors and the public.

However, there remains very little understanding of what executive remuneration really is, outside of exceedingly high packages for some.

Remuneration is governed by boards of directors, typically in a committee. Their approach is informed by internal human resources advice, external remuneration advisers and accountants.

The standard approach for companies over the past few decades, as advised by remuneration specialists and accountants, has been for executives to receive a salary, short-term and long-term incentives, with each having one-third weighting. For most companies, this is still the case.

Year-on-year remuneration grew strongest in the 1980s, 1990s and early 2000s. Since the 2007 financial crisis this has slowed, but still is higher than wage growth generally. It was the seeds of the decades previous that has led to remuneration levels being where they are today.

High remuneration levels now have three causes:

1. Unexpectedly high corporate performance;
2. Longevity of executives and CEOs; and,
3. A potentially distorted market.

The first two make a lot of sense, the third is more complex. As the Productivity Commission found in their 2009 report to the Commonwealth Government, they were concerned that incentive metrics were imported from the United States and introduced without adequate consideration. This led to significant increases in remuneration, often without scrutiny.

This is now a standard in the Australian market. Executive remuneration in Australia compares similarly to that of the US and the UK, when ranked against market capitalisation; however, Australian companies rarely serve the equivalently expansive and international markets that are seen in those economies.

Australian business is comparatively insular, however executive remuneration is noticeably global.

Chief executive remuneration

CEOs, with overall responsibility for the company, are the highest paid person in every company. The average CEO remuneration is as follows:

	Avg salary (AU\$)	Avg total remuneration (AU\$)	Difference between salary/total (AU\$)	Salary as % of total remuneration
CEO	1,608,791.01	4,750,326.60	3,141,535.59	33.86%

Compared with the 2015/16 financial year, total remuneration is up 3.5 per cent.

The remuneration of chief executives is inline with the standard model that companies are using - one-third salary, one-third short term incentives, one-third long term incentives.

The highest paid CEOs in the 16/17 financial year were, ranked by total remuneration:

CEO	Company	Salary	Total remuneration	Difference between salary/total	Salary as % of total remuneration
Alan Joyce	Qantas	2,105,000	24,584,000	22,479,000	8.56%
Nicholas Moore	Macquarie	818,804	18,713,863	17,895,059	4.38%
Richard Goyder	Wesfarmers	3,349,179	12,097,459	8,748,280	27.69%
Greg Goodman	Goodman Group	1,380,337	8,890,902	7,510,565	15.53%
Peter Coleman	Woodside	1,809,295	8,949,491	7,140,196	20.22%
Michael Clarke	Treasury Wines	2,180,384	8,853,451	6,673,067	24.63%
Paul Perrault	CSL	1,845,277	8,180,831	6,335,554	22.55%
Steven Lowy	Westfield	2,500,000	8,050,972	5,550,972	31.05%
Nev Power	Fortescue Metals	1,963,000	7,470,057	5,507,057	26.27%
Peter Lowy	Westfield	2,500,000	7,986,205	5,486,205	31.30%

Wesfarmers' Richard Goyder received the highest salary and Qantas' Alan Joyce received the highest total package and the single largest bonus set of all CEOs and executives.

The highest paid CEOs are being remunerated at this level due to long-term tenure, recently successful financial performance of their business, renegotiated packages or the confidence of the board in their performance.

Executive remuneration, excluding CEOs

Executive remuneration beyond that of CEOs is an insight into where the onus of performance lies for companies and the overall performance that is designated to roles.

After chief executives, group chief operating officers receive the largest remuneration packages, however this is almost half the average remuneration provided to CEOs (52 per cent). This is followed by group marketing and communications directors.

	Avg salary	Avg total remuneration	Difference between salary/total	Salary as % of total remuneration
CEO	1,608,791.01	4,750,326.60	3,141,535.59	33.86%
COO	718,231.41	2,472,936.28	1,754,704.88	29.04%
Marketing	602,660.31	2,382,698.30	1,780,038	25.29%
CIO	538,409.93	2,117,296.93	1,578,887	25.42%
CFO	757,885.80	2,060,465.87	1,302,580.07	36.78%
HR	585,178.80	2,038,935.45	1,453,756.65	27.87%
Business unit	676,387.97	1,930,061.00	1,258,876.01	35.04%
General counsel	479,810.59	1,187,482.67	707,672.07	40.40%

Business unit leaders take home the second lowest total remuneration. However, these are increasingly considered as litmus tests prior to assuming group CEO roles having overtaken prominence from CFO roles.

The highest paid non-CEOs in the ASX100 are as follows:

Executive	Company	Salary	Total remuneration	Difference between salary/total	Salary as % of total remuneration
Shemara Wikramanayake	Macquarie	722,474	17,339,653	16,617,179	4.16%
Ben Brazil	Macquarie	722,474	16,883,877	16,161,403	8.14%
Andrew Downe	Macquarie	936,281	15,445,732	14,509,451	12.34%
Gary Farrell	Macquarie	722,474	10,130,473	9,407,999	12.42%
Bruce Soden	Ramsay Healthcare	1,530,151	9,916,333	8,386,182	6.79%
Greg Ward	Macquarie	770,639	9,456,996	8,686,357	12.23%
Gareth Evans	Qantas	1,010,000	8,182,000	7,172,000	12.01%
Jayne Hrdlicka	Qantas	1,010,000	8,130,000	7,120,000	16.41%
Tim Bishop	Macquarie	722,474	8,068,025	7,345,551	30.08%
Gavin Rochussen	BT Investment Management	462,026	6,799,490	6,337,464	26.75%

Every single person in the ten highest paid non-CEO executives heads a business unit for their employer, thus not holding a support function or a traditional c-suite role, except Ramsay Healthcare's CFO, Bruce Soden.

There are six executives from Macquarie in the ten highest paid non-CEOs, two from Qantas, one from Ramsay Healthcare, one from BT Investment Management.

The remuneration of these executives is due to their longevity, performance of their business unit or the overall performance of the company.

Non-executive director remuneration

Non-executive director remuneration is increasingly in the purview of activist investors as they seek to target what they believe to be ineffective directors. NED remuneration is typically covered by a cap agreed at AGMs by shareholders, rather than a value on individuals themselves.

NED remuneration is not aligned to market capitalisation or organisational performance.

The average NED remuneration is \$176,749.47 per year, and the average chair takes home \$524,917.10.

The highest paid NED roles are:

Company	Remuneration
Westpac Banking Corporation	300,000
Ramsay Health Care Limited	284,066
QBE Insurance Group Limited	260,000
ASX Limited	254,616
Macquarie Group Limited	250,000
Origin Energy Limited	250,000
AGL Energy Limited	250,000
Goodman Group Stapled	249,000
Commonwealth Bank of Australia	242,000
Australia And New Zealand Banking Group Limited	240,000

The highest paid chairs are:

Chair	Company	Remuneration (AUD)
Jan du Plessis	Rio Tinto	1,235,000
Jac Nasser/Ken MacKenzie	BHP	880,000
Catherine Livingstone	Commonwealth Bank	870,000
Peter Warne	Macquarie	865,000
David Gonski	ANZ	825,000
Lindsay Maxsted	Westpac	810,000
Ken Henry	NAB	790,000
John Mullen	Telstra	775,000
Michael Chaney	Wesfarmers	770,000
Gerry Harvey	Harvey Norman	746,620

There is little variance in the pay of non-executive directors, with most erring around \$170,000-\$180,000 per year. However, larger and more established companies tend to remunerate their NEDs more, while some companies who are still emerging or have underperformed in the reporting year received lower income.

Chairs tend to be remunerated along market-capitalisation lines, except Gerry Harvey who is remunerated more inline with his shareholdings and stature as a founder.

Note: where there were varying amounts paid to non-executives, I took the average amount or most common compensation.

Male/Female comparison

The highest paid women in Australia are typically not group CEOs.

There are five female group CEOs* in the ASX100, and their remuneration is either inline with or below the average CEO compensation. All five female CEOs who held their role for the whole 2016/17 financial year were paid:

CEO	Company	Base	Total	Base/Total difference	Salary as % of total remuneration
Susan Lloyd-Hurwitz	Mirvac	1,464,997	5,307,919	3,842,922	27.60%
Alison Watkins	Coca-Cola Amatil	2,178,951	4,938,866	2,759,915	55.05%
Katie Page	Harvey Norman	2,064,922	3,336,177	1,271,255	61.89%
Kerrie Mather	Sydney Airport	1,780,538	3,325,634	1,545,096	53.53%
Tracey Fellows	Realestate.com.au	1,280,384	2,368,463	1,088,079	54.05%

The highest paid women in the ASX100, and reasonably, assumed in Australia overall, are:

Executive	Company	Base	Total	Base/Total difference	Salary as % of total remuneration
Shemara Wikramanayake	Macquarie	722,474	17,339,653	16,617,179	4.16%
Jayne Hrdlicka	Qantas	1,010,000	8,130,000	7,120,000	12.42%
Nicole Sorbara	Macquarie	698,713	5,813,557	5,114,844	12.01%
Susan Lloyd-Hurwitz	Mirvac	1,464,997	5,307,919	3,842,922	27.60%
Lesley Grant	Qantas	830,000	5,055,000	4,225,000	16.41%

The highest paid men in the ASX100 tend to be group chief executives, while women tend to lead business units.

There are two reasons why female chief executives tend to have lower remuneration than male peers. Firstly, there is some concern that female group CEOs are more likely to be the target of activist investors and that given that in this financial year there were only six women leading ASX100 companies they tend to receive more attention. Secondly, with this in mind, female CEOs are more conscious of the public discussion on executive remuneration and, given the requirements that executives voluntarily accept their remuneration on a typical quarterly basis, may be taking lower remuneration, compared to male counterparts, for the benefit of their shareholders and industry more widely.

There is no correlation between the lower pay female CEOs receive and the performance of their organisations.

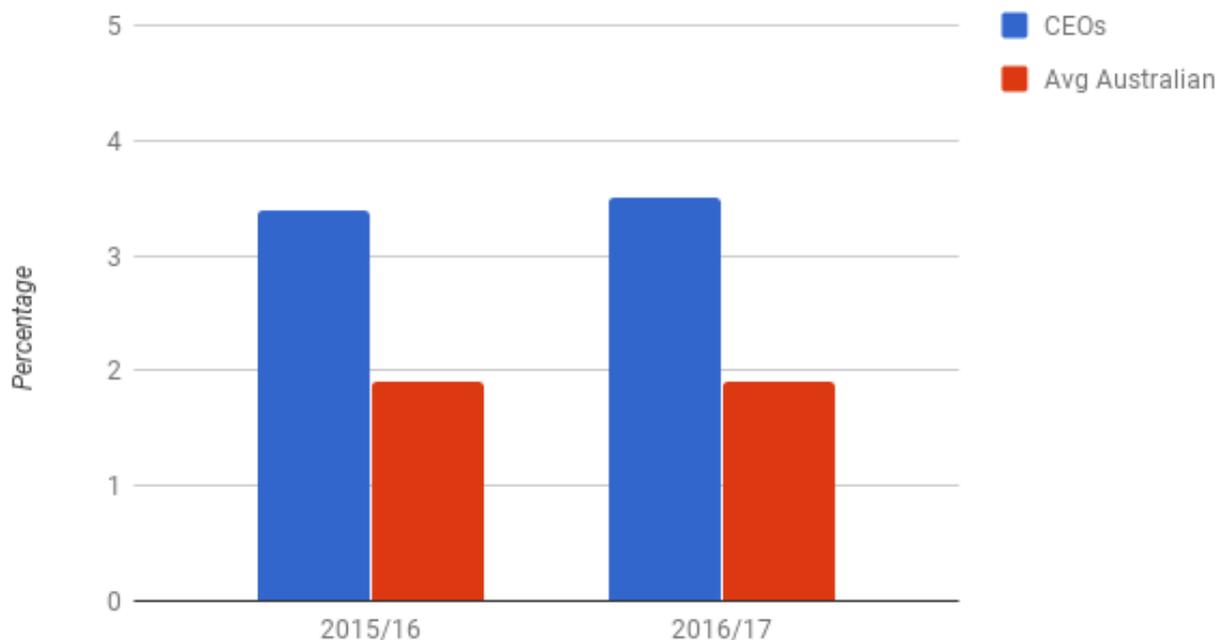
*There are seven female CEOs in the ASX100, one recent appointment and one incoming.

Comparison with the average wage

In total earnings, the average Australian earns, \$1,170.70 per week. The average CEO earns \$91,352.43 per week, as per total remuneration, or 78 times the average Australian.

Over the past year the average Australian working in the private sector has seen wages rise by 1.9 per cent, to compare CEOs have seen their pay rise by 3.5 per cent, and 3.4 per cent the year before. Chief executive remuneration increases are 46 per cent higher, year on year, than the average Australian.

Average pay increase, ASX100 CEOs and the average worker



As group CEO, and executives more broadly, are remunerated out of line with wages in Australia generally, and have been for a considerable amount of time, it suggests that remuneration governance practices have not kept up with business changes.

Growth in executive pay outside of the national average, has two reasons. Firstly, the market itself has been at the current level for a long time, since 2000. It is now standard for companies to offer starting salaries between \$500-\$800,000 for executives, and short and long-term incentive aligning with that. Secondly, as businesses undertake more substantive innovation process and technological adaptability the remuneration guidelines have not adjusted. Business units are creating serious value for companies, but with less staff and, more importantly, little understand of the how to assess where the contribution for this advancement lies. What seems to be happening is that the value contribution is not being spread across the organisation, but is being assessed on a macro level and thus credited to a limited number of people with companies.

Concluding remarks and recommendations

Fundamentally, executive remuneration practices are stale and incompatible with the modern economy.

This is not to undermine the contributions of executives and senior management to their organisations and the economy, however the current metrics are not fit for purpose. Hard evidence suggests that as business practices have developed, and technological advancement takes hold, remuneration policies have not.

Trust in business, especially the largest businesses, is not rock solid. Executive remuneration policies are central to that.

Based off observation, analysis and the evidence provided I recommend that ASX100 companies consider the following:

Align executive remuneration increases with the Wage Price Index

Better assess innovative business practices and the income they produce for business units and using these to more fairly remunerate all employees involved

Expand remuneration budgets through existing profits, and highlight the importance of well remunerated workforces to shareholders to the workplace, the organisation itself and the macroeconomy

As pressure builds on business to better align practices to community standards, remuneration is part of that discussion. While those recommendations are general in nature, business leaders, especially those with oversight of remuneration practices, need to consider whether the current approach is adequate.

Note on methodology:

This a comprehensive review of the remuneration of ASX100 executives and non-executive directors as of November 30 2017 for the 2016/17 reporting season.

The review has sourced the remuneration of 548 executives, including the shareholdings of CEOs, all as disclosed in company annual reports for 2017.

It does not cover three companies in the listing due to how their disclosures are governed in other jurisdictions.

The data has been wholly sourced from ASX disclosures by the ASX100 companies and the Australian Bureau of Statistics, where required.

Companies included

1-20	21-40	41-60	61-80	81-100
Commonwealth Bank of Australia	Fortescue Metals Group LTD	Dexus Stapled	Ausnet Services Limited	CYBG PLC Cdi 1:1
Westpac Banking Corporation	AGL Energy Limited	APA Group Stapled	Incitec Pivot Limited	Janus Henderson Group PLC Cdi 1:1
Australia And New Zealand Banking Group Limited	Insurance Australia Group Limited	Cochlear Limited	Tatts Group Limited	Washington H Soul Pattinson & Company Limited
National Australia Bank Limited	Goodman Group Stapled	GPT Group Stapled	Coca-cola Amatil Limited	Adelaide Brighton Limited
BHP Billiton Limited	Cimic Group Limited	REA Group LTD	Seek Limited	Seven Group Holdings Limited
CSL Limited	Brambles Limited	Sonic Healthcare Limited	Bendigo And Adelaide Bank Limited	Whitehaven Coal Limited
Wesfarmers Limited	AMP Limited	Mirvac Group Stapled	Fletcher Building Limited NZX	Orora Limited
Telstra Corporation Limited	Resmed Inc Cdi 10:1	Santos Limited	Bank of Queensland Limited	Evolution Mining Limited
Woolworths Limited	QBE Insurance Group Limited	Caltex Australia Limited	Flight Centre Travel Group Limited	Link Administration Holdings Limited
Macquarie Group Limited	Aristocrat Leisure Limited	Medibank Private Limited	TPG Telecom Limited	Tabcorp Holdings Limited
RIO Tinto Limited	Origin Energy Limited	Boral Limited	The Star Entertainment Group Limited	Platinum Asset Management Limited
Woodside Petroleum Limited	Ramsay Health Care Limited	Computershare Limited	Harvey Norman Holdings Limited	Macquarie Atlas Roads Group Stapled
Transurban Group Stapled	Oil Search Limited 10T	James Hardie Industries PLC Cdi 1:1	Spark Infrastructure Group Forus	BT Investment Management Limited
Scentre Group Stapled	Qantas Airways Limited	Crown Resorts Limited	The A2 Milk Company Limited NZ	loof Holdings Limited
Amcor Limited	Stockland Stapled	Challenger Limited	Magellan Financial Group Limited	Worleyparsons Limited
SOUTH32 Limited	Lendlease Group Stapled	Orica Limited	Domino's Pizza Enterprises Limited	Ansell Limited
Suncorp Group Limited	Vicinity Centres Stapled	Fisher & Paykel Healthcare Corporation Limited NZX	Downer Edi Limited	Carsales.com Limited
Westfield Corporation Stapled	ASX Limited	Alumina Limited	Iluka Resources Limited	Mineral Resources Limited
Newcrest Mining Limited	Treasury Wine Estates Limited	Bluescope Steel Limited	Qube Holdings Limited	Northern Star Resources LTD
Sydney Airport Forus	Aurizon Holdings Limited	Spark New Zealand Limited NZX	Als Limited	Healthscope Limited

Disclosure:

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This is part of a periodic analysis of various workplace and economic issues of contemporary national and industry interest. All efforts are made to present the evidence as impartial, independent, fair and not misleading. These contributions are verifiable and are reviewed by experts prior to release.

The author, Conrad Liveris, is a corporate adviser on workplaces and risk. Lauded as one of Australia's leading employment and workplace experts, he is actively sought by Australian business leaders on matters of restructuring, general management, human resources and stakeholder relations. He is US State Department alumni, an affiliate of Catalyst Inc, New York City, and is an Associate Fellow of the Royal Commonwealth Society, London. He completed his Bachelor of Arts at the University of Notre Dame Australia, a Master of Commerce at Curtin University and has received scholarships for management education at the Governance Institute of Australia and the University of California, Los Angeles.