

# CEO Remuneration Trends

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## Introduction

In this edition of GRG Remuneration Insights we have analysed median (50th percentile) remuneration practice for Chief Executive Officers (CEOs) of ASX listed companies with market capitalisations of between \$25 million and \$10 billion at the end of June 2011. The purpose was to identify any observations that may be made in relation to CEO remuneration trends on a whole of market basis. Of course, there are variations in market practice between industry sectors and for individual companies within those sectors.

## Data Analysed

The data was extracted from the 2012 GRG All Industries KMP Remuneration Guide. The data relates to the role of CEO and represents the 2012-13 year projected data i.e. 2010-11 actual data escalated by 4% to 2011-12 and by a further 5% to 2012-13. The escalation factors are GRG's conservative estimate of market remuneration movements. The data is for the 50th percentile or median of market practice.

Two measures of remuneration are presented being:

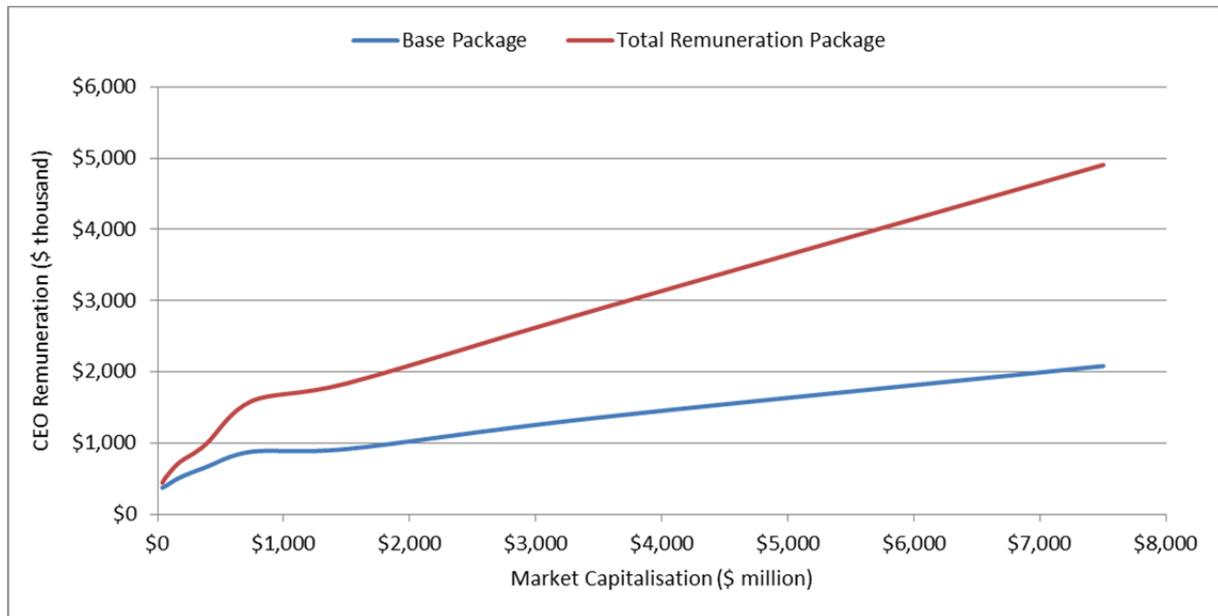
- Base Package i.e. the total of salary, benefits and fringe benefits tax, and
- Total Remuneration Package (TRP) which is the sum of the actual Base Package paid, the actual short term incentive (STI) paid and the amortised value of long term incentive (LTI) grants.

The table outlines the profile of the sample used to produce the graphs that follow: Range in Millions	Market Capitalisation Mid-point (in millions) Used for Graphing Purposes	Count of Companies
\$25 - \$50	\$37.5	216
\$50 - \$100	\$75	154
\$100 - \$250	\$175	171
\$250 - \$500	\$375	98
\$500 - \$1,000	\$750	60
\$1,000 - \$2,000	\$1,500	54
\$2,000 - \$5,000	\$3,500	45
\$5,000 - \$10,000	\$7,500	20

## Median Market Practice Graphs

The below graphs show the amounts of Base Package and TRP relative to the size of the companies in terms of market capitalisation.

### P50 CEO Remuneration Relative to Company Size – Range \$25m to \$10b



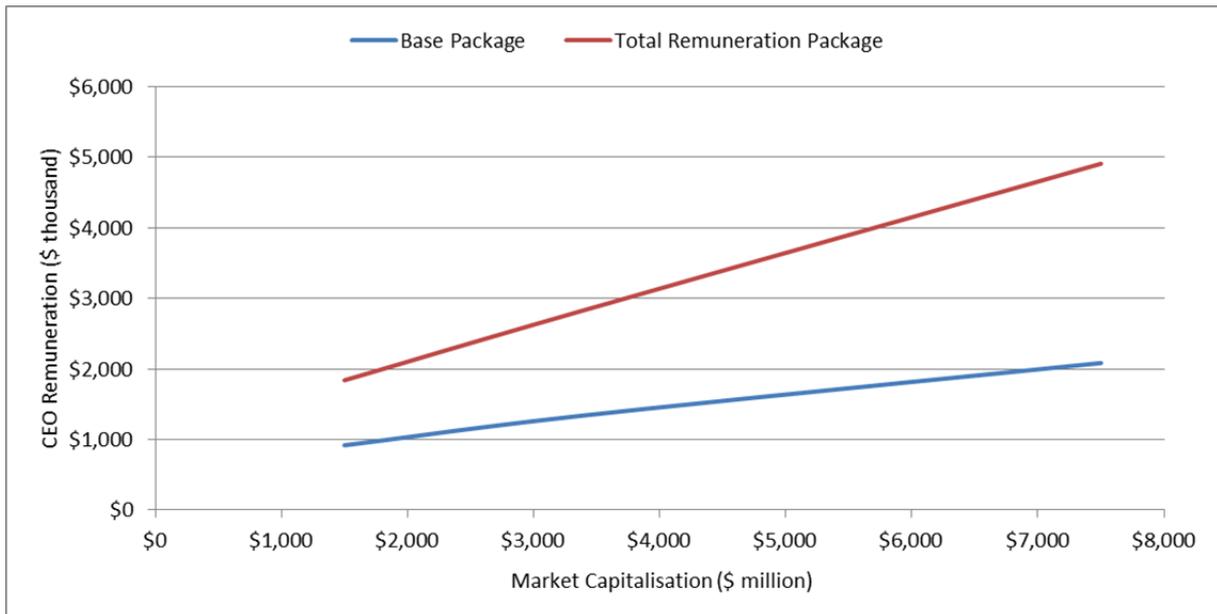
The data in the foregoing graph has been split into two graphs (which follow below) so as to avoid scaling distortions. However, the foregoing chart is useful in that it shows the rate of increase in Base Package per million dollars of growth in company size is much lower for companies with market capitalisations of more than \$1 billion (approx. \$194 p.a. per million) than it is for companies with market capitalisations of less than \$1 billion (approx. \$711 p.a. per million).

Both of the following charts show that there is a strong correlation between company size in terms of market capitalisation and the amount of remuneration paid to CEOs. This reflects the greater responsibility and often complexity that attaches to the CEO role as company size grows.

### P50 CEO Remuneration Relative to Company Size – Range \$25m to \$1b

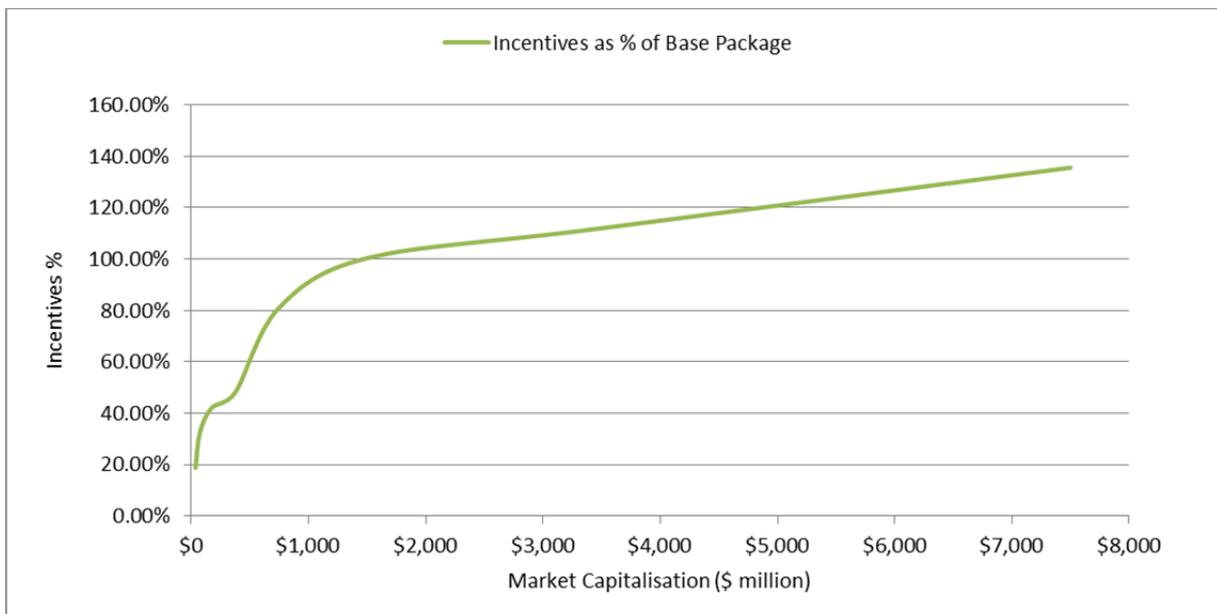


### P50 CEO Remuneration Relative to Company Size – Range \$1b to \$10b



The following chart shows that incentives (STI and LTI) - taken as the excess of the median TRP over the median Base Package - increase in significance as company size grows. Incentives start as a low percentage of Base Package and grow rapidly to around 100% of the Base Package for companies with market capitalisations of around \$1 billion. Thereafter they continue to grow at a modest rate.

### Incentives as % of Base Package



## Conclusions and Observations

Following are conclusions and observations in relation to the foregoing analysis.

1. Given that the vast majority of companies have market capitalisations of less than \$1 billion it is GRG's view that median market practice for Base Packages and TRPs reflect a conservative approach in that significant growth in company size (as a percentage of market capitalisation) is required to justify a relatively small increase in remuneration for a CEO. For larger companies significant growth in the market capitalisation of the business on an absolute (dollar) basis appears to be required to justify a relatively small increase in the remuneration for a CEO.
2. Smaller companies tend to structure TRPs so that they mainly consist of Base Package. For the majority of CEOs this would be driven by the need of individuals for adequate cash flow.
3. As companies grow, increases in CEO TRPs tend to be dominated by increases in incentive opportunities and therefore make the TRPs more performance related. This trend indicates that Boards are acting responsibly when setting CEO remuneration packages. As a company's market capitalisation increases and the economic resources under management grow, there appears to be an increased focus on performance-linked remuneration.
4. Media criticism of CEO remuneration tends to focus on:
  - a. the higher paying companies which tend to be the 140 (119 shown in the foregoing table plus 21 with market capitalisations of more than \$10 billion) companies with market capitalisations of more than \$1 billion, and
  - b. situations where anomalies appear to exist between the CEOs pay and the company's size and/or performance.
5. This investigation for GRG Remuneration Insights does not analyse the split of incentives between STI and LTI. Of course, for CEO roles LTIs should be the dominant form of incentive as they are responsible for the longer term health and growth of their companies.