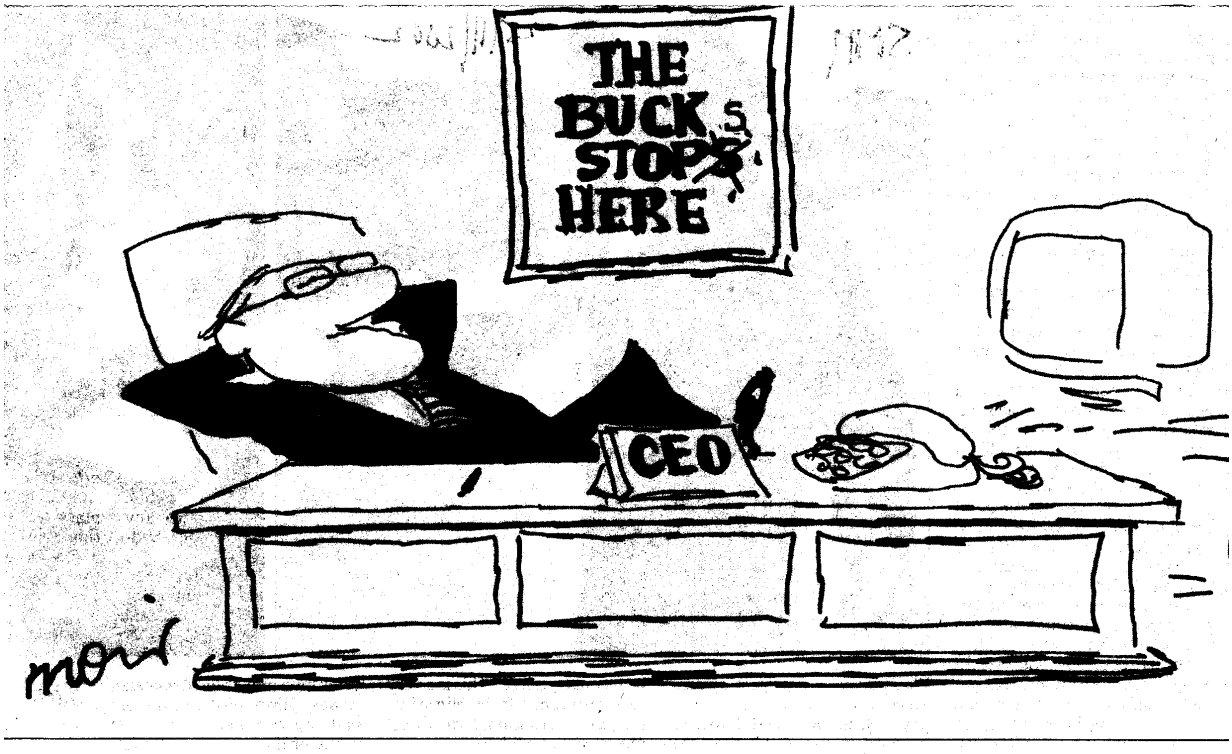
THE BUCKS STOP HERE: PRIVATE SECTOR EXECUTIVE REMUNERATION IN AUSTRALIA



A REPORT PREPARED FOR THE LABOR COUNCIL OF NEW SOUTH WALES

By John Shields, Michael O'Donnell & John O'Brien

THE REPORT'S AUTHORS:

Dr. John Shields
Senior Lecturer
Discipline of Work and Organisational Studies
School of Business
Faculty of Economics and Business
The University of Sydney
j.shields@econ.usyd.edu.au

Dr. Michael O'Donnell
Senior Lecturer
School of Management and Policy
Division of Business, Law & Information Sciences
The University of Canberra
Michael.odonnell@canberra.edu.au

Dr. John O'Brien
Senior Lecturer
School of Industrial Relations and Organisational Behaviour
Faculty of Commerce
The University of New South Wales
John.obrien@unsw.edu.au

EXECUTIVE SUMMARY.

The Labor Council of NSW commissioned the authors to look behind the current debate on executive pay levels to gauge whether Australian executives are delivering value for the ever-increasing investment from shareholders. In particular we were asked to consider the use of share options, ostensibly as a way of linking executive rewards more closely to growth in 'shareholder value'. This research fills a gap in existing understanding of executive remuneration by analysing the actual performance of executives and the organisations which they head in light of their salary and non-salary packages.

Our methodology has been to analyse existing data, particularly the *Australian Financial Review's* annual review of executive remuneration in Australia's largest 100-150 companies. We have applied this data to other publicly available information pertaining to corporate performance to obtain a stronger picture of the impact, if any, of high executive salaries and generous option packages.

The evidence presented in this report suggests that existing executive remuneration practices are defensible neither in terms of distributive justice nor organisational effectiveness. Key findings of the study are as follows:

- Executive Remuneration levels in Australia grew over the decade 1992-2002 from 22 times average weekly earnings to 74 times average weekly earnings. (Chapter 1)

- At the same time, executive option packages, with 'long-term incentives' (share bonuses, share purchase plans and share option entitlements) for Australian CEOs increased from 6.3 per cent of total remuneration in 1987 to 35.2 per cent of total remuneration in 1998. (Chapter 1)

- The often-stated link between high executive pay and company performance does not exist. Indeed, the evidence is that as an executive's pay increases, the performance of the company deteriorates. Against three criteria: return on equity, share price change and change in earnings per share, statistical analysis shows that high excessive pay levels actually coincide with a lower bottom line. (Chapter 3)

- Applying this analysis, the authors identify a performance-optimal range for executive remuneration of between 17 and 24 times average wage and salary earnings, beyond which the performance of a company begins to deteriorate. (Chapter 3)

- The finance sector emerges as a case study in corporate excess, with CEOs of the four major banks averaging 188 times the pay of their customer service staff. Substantial elements of executive packages are hidden from shareholders, and not withstanding the growth in bank profits in recent years, the accompanying increase bank CEO cash and equity-based remuneration has not been matched by sustained improvements in shareholder-focussed measures of financial performance. (Chapter 4)

The authors offer recommendations to address the current situation (Chapter 5), including:

1. Government use of purchasing policy to encourage firms with moderate executive packages. For example, executive pay levels could be considered when awarding government tenders and contracts, with recognition that executive pay levels in excess of the optimal performance level are less likely to deliver a good return for shareholders or the taxpayer.

2. The Australian Stock Exchange's (ASX) regulatory functions are compromised, as the ASX is itself a privately listed company. These functions should be transferred to a fully independent entity such as the Australian Securities and Investment Commission (ASIC).
3. Restrict the use and abuse of share options by means of a specified cap on the ratio of executive options to the company's total share issue and via the imposition of a minimum vesting period of three years.
4. End the taxpayer subsidy of executive pay and perks by placing an enforceable limit on 'reasonable business expenses' and requiring the payment of income tax on share grants.
5. Require that executive termination payments providing benefits in excess of those available to other company employees should be approved by shareholders within twelve months of hiring of the new executive.
6. Action, including legislation, to make superannuation funds more accountable for executive pay decisions, with nominees required to report to members on executive pay decisions.
7. Registration of all organizations providing commercial services in the field of executive remuneration, with annual reports required to a relevant statutory authority.
8. Corporate government requirements, including arms length-remuneration committees, and board independence should be enshrined in the Corporations Act.
9. Introduction of more stringent disclosure requirements, requiring formal shareholder approval for all executive salary decisions.

These recommendations involve significant legislative change and their implementation will therefore require considerable political and ethical will. They also highlight the limitations of 'self-regulation'. Executive pay is too important an issue to be left to corporate boardrooms, the remuneration consultants, and the self-regulators. If the level of wages paid to ordinary employees is rightly a matter of social and economic interest, then so too are the stratospheric sums paid to those at the top end of the corporate hierarchy.

CONTENTS

CHAPTER 1
The Rise and Rise of Executive Pay: Australian and International Trends.

Of all developments in reward and remuneration practice in Australia since the late 1980s, none have been more pronounced nor more controversial than those associated with executive pay. The two key trends in this regard have been:

1. An exponential growth in the absolute level of executive total cash remuneration.
2. A shift in the composition of total executive remuneration away from base salary and benefits to incentive pay and, in particular, long term incentives in the form of share options.

This chapter considers each of these two trends in more details and compares treads in Australia with those in other developed countries, particularly the USA and the United Kingdom.

1.1 Cashed Up: Base Salary, Benefits & Cash Incentive Payments

Each November since 1999 the *Australian Financial Review* has published an annual review of executive remuneration for Chief Executive Officer (CEO) and equivalent positions in Australia's largest publicly listed companies, based chiefly on information provided in company annual reports for the previous financial year. These annual data sets are reproduced with several corrections in Statistical Appendices 1 to 4. For all but the first year of survey data (that is, 1998-1999[1]), this annual data provides a relatively consistent and reliable gauge of top executive remuneration levels and trends.

Taking market capitalisation as a proxy for both organisational size the 'size' of the associated executive position, the *Australian Financial Review* data permits an analysis of executive cash remuneration levels and trends by position size. Exhibit 1.1 details the average levels of the cash component of total remuneration (i.e. base salary, benefits, bonuses and other cash incentives) for four categories of position size - from the largest 150 positions to the largest 20 positions. As these data indicate, the larger the company and the larger the position, the higher the level of cash remuneration. Executives in all categories also enjoyed sharp increases in total cash payouts over the three year period, with those occupying the 50 largest positions enjoying the highest growth. For the 1999-2000 financial year, the average annual cash remuneration of the largest 100 executive positions was $AU2.02 million. By 2001-2002, the comparable figure had risen to $AU2.61 million, or an increase of 29.2 percent in just two years. For the top 50 positions, average executive cash remuneration in 2001-2002 was $AU3.94 million (up 45 percent on the 1999-2000 figure), and for the top 20 positions in the highly capitalised firms the average was $AU5.9 million (up 33.8 percent on the 1999-2000 figure).

While these figures relate *only* to the cash component of total executive remuneration, they illustrate graphically the massive pay gap between Australia's top executives and ordinary wage and salary earners. As Exhibit 1.1 reveals, in 2002, average cash remuneration for the top 100 executive positions was 41 times the level of average annual full-time adult total earnings; for the top 50 positions it was 82 times higher; and for the top 20 positions it was 122 times higher.

Comparable data from other sources provides clear evidence of the growing gap between executive cash remuneration and that of ordinary employees. Data compiled by consulting firm John V Egan Associates Pty Ltd and reproduced in Exhibit 1.2 reveals that the average cash remuneration of the 50 highest paid CEOs in Australian companies rose by just under 400 percent in the decade to 2002. The average rose from $AU0.7 million to $AU3.5 million (or an average of $AU280,000 per

---

[1] Data for 1998-1999 (see Statistical Appendix 1) excludes non-resident executive chairpersons, including Rupert Murdoch, and is not therefore directly comparable with data for subsequent years.

year,) with the largest increases occurring in the last 5 years. Over the same decade, average annual full-time adult total earnings rose by just 49 percent (or an average of 4.9 percent per annum). In round terms, then, over the course of this decade, top CEO cash remuneration grow at eight times the rate of ordinary worker earnings. As a consequence, the average pay of the 50 highest paid CEOs rose from 22 times average annual full-time adult total earnings in 1992 to 74 times the latter in 2002. Significantly, over this period top CEO pay also increased at more than double the rate of share price appreciation of the largest 200 listed companies (see Exhibit 1.2). Exhibit 1.3 illustrates the extent to which CEO cash remuneration outstripped growth in both share prices and adult full time earnings over this decade.

This exponential growth in the cash component of executive remuneration since the early1990s has been driven primarily by a greater use of variable or performance-related pay in the form of cash incentives. This is illustrated by the data in Exhibit 1.4. Although this remuneration data (from consulting firm Mercer Cullen Egan Dell) covers a larger and more diverse cohort of executives than either of the data sets used in Exhibits 1.1 and 1.2, it demonstrates very clearly the growth in the relative importance of cash bonuses. In the decade to 1998, average cash incentive bonuses paid to executives included in this data set rose by 386 percent, whereas the fixed component of cash remuneration (i.e. base salary, allowances and benefits) rose by just 112 percent.

Exhibit 1.1
Average Cash Remuneration for Executive Positions in the Largest Listed Companies#, Australia, 1999-2002.

	Largest 150 Positions	Largest 100 Positions	Largest 50 Positions	Largest 20 Positions
	$AU million			
Base Salary, Super & Benefits				
1999-2000	N/A	1.18	1.50	2.10
2000-2001	1.09	1.33	1.94	2.70
2001-2002	1.22	1.50	2.20	3.42
Change 1999-2002	(N/A)	(+27.1%)	(+46.7%)	(+62.9%)
Cash Bonuses & Incentives				
1999-2000	N/A	0.84	1.23	2.32
2000-2001	0.86	1.18	2.09	3.16
2001-2002	0.78	1.10	1.73	2.48
Change 1999-2002	(N/A)	(+31.0%%)	(+40.7%)	(+6.9%)
Total Cash Remuneration				
1999-2000	N/A	2.02	2.72	4.41
2000-2001	1.98	2.54	4.08	5.91
2001-2002	2.00	2.61	3.94	5.90
Change 1999-2002	(N/A)	(+29.2%)	(+44.8%)	(+33.8%)
2002 Cash Earnings Gap+	41:1	54:1	82:1	122:1

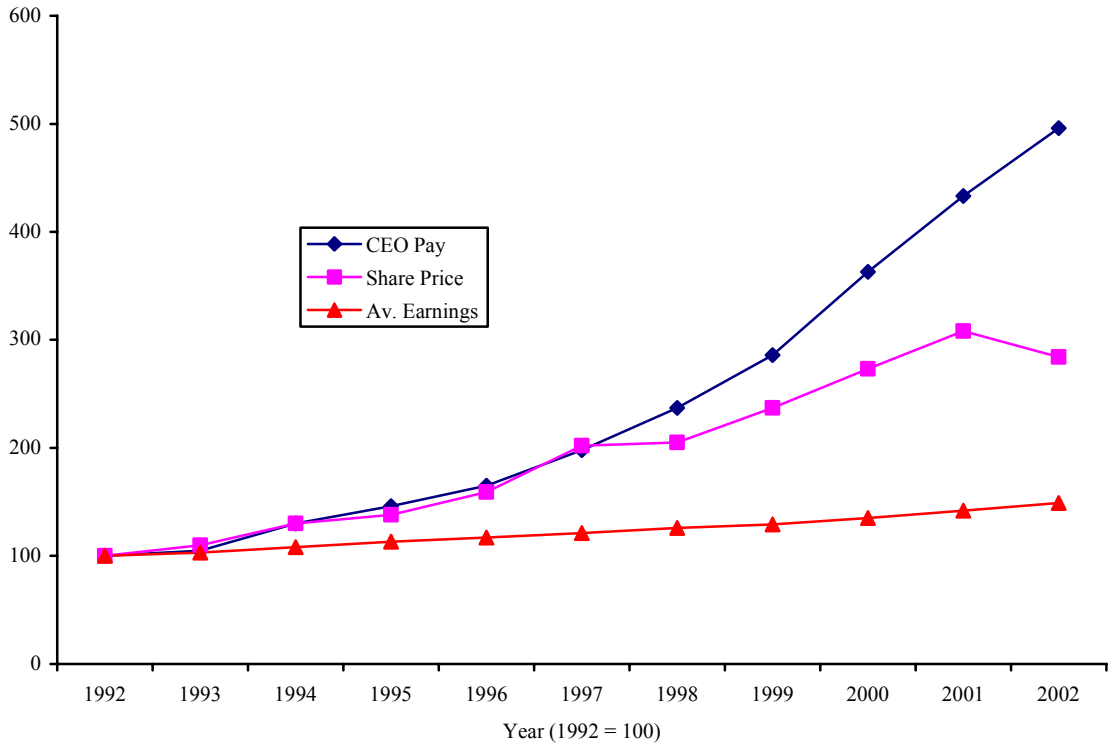
By market capitalisation, excluding property and other trusts.
+ Ratio of average executive cash remuneration to average annual full-time adult total earnings of $48,276 (annualised weekly earnings figure for November 2002).
Sources: *AFR*, 1 November 1999, 16 November 2000, 16 November 2001, 6 November 2002; Australian Bureau of Statistics: Average Weekly Earnings, Australia, Cat.6302.0 (data for November, 2002).

Exhibit 1.2
Growth in CEO Cash Remuneration, Share Prices and Adult Earnings, 1992-2002

Year	Average CEO Cash Remuneration* (ACR) ($AU million)	Share Price Change**	Average Annual Full Time Adult Total Earnings*** (AFTATE) ($AU)	Cash Earnings Gap (ACR:AFTATE)
1992	715,566	100	32,307	22:1
1993	752,791	110	33,399	22:1
1994	901,114	130	34,892	26:1
1995	1,045,122	138	36,446	29:1
1996	1,180,000	159	37,798	32:1
1997	1,421,915	202	39,166	36:1
1998	1,694,479	205	40,664	41:1
1999	2,048,673	237	41,672	49:1
2000	2,600,000	273	43,648	59.6
2001	3,100,000	308	46,020	67:1
2002	3,550,000	284	48,276	74:1
Change 1992-2002	+396%	+184%	+49%	

* Average CEO cash remuneration, 50 leading companies, John V Egan Associates Pty Ltd Data Base.
** Standard and Poors ASX200 Accumulation Index (data for month of June; 1992=100).
*** Based on Average Weekly Full Time Adult Total Earnings for November Quarter.
Sources: John V Egan Associates Pty Ltd; Reserve Bank of Australia - www.rba.gov.au/statistics; Australian Bureau of Statistics: Average Weekly Earnings, Australia, Cat.6302.0.

Exhibit 1.3
Growth Indices for CEO Cash Remuneration, Share Prices and Adult Earnings, 1992-2002



Sources: As for Exhibit 1.2.

Exhibit 1.4
Average Private Sector CEO Cash Remuneration in Australia, 1988-98.

	Base Salary	Allowances & Benefits	Total Fixed Pay	Incentive Bonuses	Average Cash Remuneration*
			$AU		
1988	112,104	59,912	170,016	12,207	184,263
1993	160,932	72,307	233,239	22,914	256,153
1998	237,476	91,046	328,522	59,533	388,055
% change 1988-98	(+112%)	(+52%)	(+125%)	(+386%)	(+111%)

* Excludes income from LTIs, including share options.
Sources: Kryger, T. 'Private Sector Executive Salaries', Research Note 24, Parliamentary Library, Parliament of Australia, 1999; CEO data from Mercer Cullen Egan Dell Ltd., Annual Salary Survey (n=c.170)

1.2 Optional Extras: Equity-related Wealth

The increases in the cash component of executive remuneration are only part of the story; indeed, compared to the astronomical levels of earnings and wealth accruing to the top executive echelon via executive share ownership and share option plans, the cash component is small beer. Until the 1980s, fixed pay (salary plus benefits) comprised the major element of executive pay in most Australian organisations. Over the last decade, however, the composition of executive remuneration has shifted radically away from cash remuneration and towards equity-based wealth creation. Until recently, this has involved a growing emphasis on the use of 'long term incentives' in the form of share option plans. Long term incentives cover three main types of remuneration: share bonuses, share purchase plans, and share option entitlements.

Share option plans give the executive the right to buy a specified number of company shares at a predetermined price at some point in the future. Options to purchase shares are granted to employees at 'nil cost'. The price payable to convert the option to a share is usually set at the market value of the shares at the time the option is granted. If the market price increases after the option is granted the executive stands to make a net gain by exercising the option to acquire the shares, then selling them in the general market. In theory, the incentive is to improve organisational performance so as to drive share price up.

Data complied for the Hay Group and the Australian Human Resource Institute in 1998 demonstrates very clearly the growing importance of option plans and other long-term incentives. As Exhibit 1.5 shows, between 1987 and 1998, the contribution of long-term incentives to the average total remuneration of Australian chief executive officers rose from just 6.3 percent to over 35 percent, while the contribution of short-term (cash) incentives increased from 3.2 percent to 14.5 percent. Over the same period, the contribution of base pay declined from 90.5 percent to 50.4 percent. Similar though less pronounced changes were also recorded for other executive level employees.

For executives in the largest companies, the value of share and option holdings is now many times larger than the cash component of the annual salary package. In 2001-2002, the average annual cash component of the remuneration of the largest 100 executive positions was $AU2.61 million. For the same group of executives, the estimated average gross value of share options held was $AU11.90 million, or more than 4 times the value of the cash component.[2] The estimated market

[2] The figures for gross option value are based on a very simple (start-of-year nominal present value) method of valuing unexercised options and take no account of future share price fluctuation, the purchase costs associated with exercising options or the effects of taxation.

value of shares held by these executives in the employing company was $AU160 million, or 62 times the value of the cash component. As Exhibit 1.6 indicates, in the years 1999-2001 the average estimated value of shares held executives in this category peaked at $AU191 million (or almost 80 times the cash component). For the top 20 executives, the peak value of shares held was over $AU770 million (or upwards of 130 times the cash component).

Exhibit 1.5
Composition of Total Executive Remuneration, Australia, 1987-1998.

		1987	1990	1995	1998
Chief Executive Officer	Fixed Pay	90.5	81.7	62.0	50.4
	Short Term Incentives	3.2	5.0	10.1	14.5
	Long term Incentives	6.3	13.3	27.9	35.2
		100.0	100.0	100.0	100.0
Senior Executive	Fixed Pay	87.4	80.1	66.4	65.9
	Short Term Incentives	6.1	4.3	10.4	14.2
	Long term Incentives	6.5	15.6	23.2	19.8
		100.0	100.0	100.0	100.0
Executive	Fixed Pay	91.1	79.2	72.6	67.7
	Short Term Incentives	3.0	7.2	9.3	13.6
	Long term Incentives	6.0	13.6	18.1	18.7
		100.0	100.0	100.0	100.0

Source: O'Neill, G. (1999b), *Executive Remuneration in Australia: An Overview of Trends and Issues*, Australian Human Resource Management Institute/Hay Consulting Group, Sydney.

Exhibit 1.6
Average Value of Shares and Options Held By Executives in the Largest Listed Companies, Australia, 1999-2002

	Largest 150 Positions	Largest 100 Positions	Largest 50 Positions	Largest 20 Positions
		$AU million		
Value of Shares Held+				
1999-2000	N/A	190.91	363.57	771.11
2000-2001	133.92	190.18	321.73	773.70
2001-2002	108.65	159.67	272.60	316.16
Change 1999-2002	N/A	(-16.36%)	(-25.02%)	(-58.99%)
Gross Value of Options Held++				
1999-2000	N/A	14.89	24.98	53.39
2000-2001	9.15	9.91	16.69	31.17
2001-2002	8.53	11.90	20.34	39.84
Change 1999-2002	N/A	(-20.08%)	(-18.57%)	(-25.38%)

By market capitalisation, excluding property and other trusts.
+ Total share ownership as disclosed in most recent annual report multiplied by company's closing share price at end of year.
++ Total number of options held as disclosed in most recent annual report multiplied by company closing share price at start of year.
Source: *AFR*, 1 November 1999, 16 November 2000, 16 November 2001, 6 November 2002.

Exhibit 1.7 details the composition of the employment-related income, equity wealth and possible future equity-related wealth of the twenty most highly paid Australian executives. As the data shows, in most cases the estimated value of shares and share options held far outstripped the level of total annual cash remuneration. High earnings from option plans have ceased to be seen by top executives as an optional extra; they have come to be seen as a job entitlement.

Nevertheless, the gross value figures do signify the orders of magnitude of the potential wealth involved and enable meaningful comparisons between CEO positions.

Exhibit 1.7
Components of Remuneration of the Twenty Highest Paid* Executives, Australia, 2001-2

CEO	Company	Base Salary, Super & Benefits	Bonuses & Other Incentives	Total Annual Cash Rem.	Value of Shares Owned+	Gross Value of Options Held++
		$AU million				
1. P Chernin	News Corporation	14.68	16.97	31.69	0	215.62
2. R Murdoch	News Corporation	10.98	5.31	16.29	6,206.30	232.37
3. P M Anderson	BHP-Billiton	10.53#	3.51	14.04	18.62	0
4. F P Lowy	Westfield Holdings	0.98	10.94	11.92	2,373.19	0
5. W M King	Leighton Holdings	2.19	6.85~	9.04	0.069	6.75
6. M A Chaney	Wesfarmers	1.22	6.71	7.94	10.95	0
7. D M Murray	Commonwealth Bank	1.68	5.32~	7.00	3.50	57.63
8. D Eck (retired)	Coles Myer	5.46	0	5.46	0	0
9. A E Moss	Macquarie Bank	0.65	4.19	4.83	9.50	10.30
10. T J Degnan	Burns Philp	3.17	0.72	3.89	1.17	0.45
11. P J Smedley	Mayne Group	2.10	1.75	3.85	0	7.26
12. R L Clifford	Rio Tinto	2.70	1.08	3.79	0	0
13. P S Lowy	Westfield Holdings	1.50	2.21	3.72	2,373.19	18.70
14. J Strong	Qantas	3.65	0	3.65	0	0
15. D H Randall	Aristocrat Leisure	1.30	2.35	3.65	1.62	8.56
16. R Wilson	Rio Tinto	2.15	1.43#	3.59	3.77	22.61
17. P Kirby	CSR	1.51	2.00	3.51	6.93	4.31
18. I R Wilson	Tabcorp Holdings	2.37	0.98	3.35	46.58	37.50
19. P Batchelor	AMP	1.73	1.61	3.34	1.63	23.13
20. C K Chow	Brambles Industries	2.75	0.54	3.29	0	16.83
Average		3.67	3.73	7.39	552.80	33.10

* Based on total annual cash remuneration
\+ Total share ownership as disclosed in most recent annual report multiplied by company's closing share price at end of year.
++ Total number of options held as disclosed in most recent annual report multiplied by company closing share price at start of year.
~ Includes deferred cash incentive payment.
# Includes retirement/termination payment.
Source: *AFR* 6 November 2002.

Since the end of the 1990s share price boom, executive option plans have certainly lost some of their appeal to executives and company boards alike. The general downturn in share price has reduced the potential value of equity-based incentive plans. The share price has made many executive share options worthless. Several of the most highly paid Australian executives (for example, David Murray of the Commonwealth Bank) also appear to have had a change of heart about executive option plans. There are indications that Australian executives, like their US counterparts, are becoming less enamoured of long-term incentives and are beginning to demand a greater emphasis on more immediate rewards, particularly in the form of cash payments and share bonuses, to offset the lower returns currently available via options.

At the same time, the absence of down-side risk to executives, the lack of transparency in option grants, and the refusal by many companies to properly cost ('expense') executive options has aroused considerable anger among individual and institutional shareholders. C+BUS, one of Australia's largest industry superannuation funds, has decided to use its voting rights to oppose all proposals for further option grants by companies in which it invests (Cameron, 2002, 19). Shareholder pressure and closer media scrutiny have forced some company boards to reconsider the

practice. Over the past few years, it has become common for company boards to apply various performance hurdles to option entitlements (a point taken up in more detail in chapter 3). Moreover, some leading companies, including the Commonwealth Bank, Telstra, AMP, Western Mining Corporation and Qantas, option schemes have recently suspended further issues of executive options (Murray, 2002, p.49).

1.3 Golden Handshakes: Rewards for Executive Failure

One of the most controversial aspects of current executive remuneration practice is the provision of large termination payments to departing senior executives. The Australian corporate landscape is littered with examples of failed executives being paid multi-million dollar payouts to ease the pain of separation following poor performance. Exhibit 1.8 details termination payments made to some prominent Australian executives over the past 5 years by company boards. In many cases, these so-called 'golden handshakes' dwarf the levels of annual cash remuneration paid to such executives. In 1999 AMP paid departing CEO George Trumbull $AU13 million to smooth his exit following the company's disastrous takeover of GIO. Five senior executives and directors who left AMP in 2002, and who were responsible for one of Australia's largest-ever corporate losses, walked away with over $AU12 million in exit payments (*Sydney Morning Herald*, 27 February 2003, 33). Sacked Southcorp CEO Keith Lambert received a $AU4.4 million termination payment despite the company's shares losing 40 percent of their value during his 19-month tenure. Lambert, who had 18 months of his three year contract still to run, received $AU2.95 million in severance pay and $AU1.43 million in line with a non-complete clause in his contract (*Australian*, 26 February, 2002, 3). When Colonial First State CEO Peter Smedley left in 2000, he took $AU20 million in shares plus an annual pension of $AU837,000 payable not until his death but until that of his spouse (*Sydney Morning Herald*, 15-16 February, 32).

Exhibit 1.8
Termination Payments to Selected Australian Executives, 1998-2003.

Executive	Company	Termination Payment ($AU million)	Year of Payment
C Cuffe	Colonial First State	32.5	2003
B Gilbertson	BHP Billiton	24.0	2003
P Smedley	Colonial First State	20.0	2000
P M Anderson	BHP Billiton	17.0	2002
S Jones	Suncorp Metway	16.0	2002
S Presser	Lend Lease	15.0	
G Trumbull	AMP	13.2	1999
J Prescott	BHP	11.0	1998
T Park	Southcorp	10.0	2001
R. Wilson	Tabcorp	9.2	
D Eck	Coles Meyer	8.6	
J E Fletcher	Brambles	7.7	2001
K Lambert	Southcorp	4.4	2003
P Batchelor	AMP	1.4*	2003

* Batchelor has reportedly been expecting/demanding a payout of $AU18 million.
Sources: *Australian Financial Review*, 6 November 2002, S6; *Business Review Weekly*, 20-26 February 2003, 49; *Sydney Morning Herald*, 15-16 February 2003, 25, 14 March 2003, 1; *Australian* 26 February 2003, p.3.

Various justifications are offered for such stratospheric and frequently hidden payments. Defenders of the practice argue that they represent special recognition for good/long service and provide an incentive for the departing executive to do so 'quietly' and not disclose corporate information to competitors. To critics, however, such payments amount to rewards for executive failure, an exercise in boardroom featherbedding, and an abrogation of corporate responsibility. According to Dr Simon Longstaff, from the St George Ethics Centre:

> "There is a failure of moral courage of some Boards…They will agree among themselves that they shouldn't do it, but they still move with the market." (*Sydney Morning Herald*, 15-16 February 2003, 25).

Some departing executives, such as AMP ex-CEO Peter Batchelor, have clearly come to see a multi-million dollar severance payment as an entitlement. However, media, political and public outcry about the sums being demanded by ex-CEOs like Batchelor has forced company boards to rethink and, as in Batchelor's case, to radically reduce the level of the termination pay-out (*Sydney Morning Herald*, 14 March 2003, 1).

The nature and magnitude of these exit payments raise serious questions about corporate governance. Quite apart from the issue of pay equity, the phenomenon highlights a fundamental lack of procedural transparency. Few companies have mechanisms in place to calculate final payouts to departing executives and those that do, 'feel no need to disclose the scale of termination rewards awaiting their top tier of management'. Boards appear to believe that where termination payments are incorporated in executive contracts, they are subject to confidentiality and that "shareholders should only be informed of these afterwards" (*Weekend Australian*, 26-27 October 2002, 34).

1.4 Middle of the Pack: International Comparisons

While Australia executive remuneration levels remain below the levels reached in countries like the USA, they are being influenced increasingly by international trends. This section explores points of similarity and difference between Australian and international practice in CEO remuneration, with special reference to comparisons with the USA and UK.

The rate of growth of top CEO remuneration in Australian over the past decade has been very similar to that in the USA. In each case, the increase has been of the order of 400 percent. Each April, the magazine *Business Week* publishes a survey of the total remuneration of the most highly paid US CEOs. Compiled using the Standard and Poor's ExecuComp database, the *Business Week* survey covers remuneration for the top 365 US CEOs. The total pay figures include income from base salary, bonuses, 'other compensation', restricted stock awards, long-term incentive payouts, and the value realised from options exercised during year. The *Business Week* data (see Exhibit 1.9) reveals that between 1990 and 1995, the average total remuneration of the CEOs of these companies soared by 92 percent, from $US1.95 million to $US3.75 million. In 1996 alone, top CEO pay rose by an unprecedented 54 percent, to an average of $US5.8 million. In 1997 it rose a further 35 percent, to $7.8 million. In 1998 it rose a further 36 percent to $10.6 million. The ensuing two years brought something of a slow-down. In 1999 the average annual increase was 13 percent; in 2000, 7 percent. Since the end of the dot.com share boom, the average has actually declined. In 2001, the average fell by 16 percent; in 2002, it fell by 33 percent, with the decline being driven mainly by a reduction in earnings from long-term incentive plans as the option grants made in the last years of the bear market slip further 'underwater'. As a result, average top CEO pay in the USA is back to where it was in 1997. However, as *Business Week* cautions, 'averages can be deceptive'. While the average exec pay plunged by a third in 2002, the median pay of our 365 CEOs actually rose by 5.9%, to $3.7 million (*Business Week*, 21 April 2003). So, despite a scaling back of some of the most gargantuan pay packages, underlying growth continues, albeit at a more restrained pace.[3]

---

[3] Based on the experience of the 1990s, it is probable that Australian CEOs will experience a similar, albeit lagged trend involving a shake-out at the top, coupled with continued (though more modest) growth in the middle of the range.

As in Australia, the increase in top US CEO pay has far outpaced growth in ordinary worker earnings - in each case by a factor of ten. Between 1990 and 2001, when top US CEO pay surged by almost 500 percent, average US worker pay rose by just 42 percent (Klinger *et al*, 2002, 14). The effect has been to dramatically widen the pay gap between CEOs and ordinary employees. As the Exhibit 1.9 data shows, in 1980, average top CEO pay was 42 times that of the ordinary factory worker. By 1990, the ratio had doubled to 85 times average factory workers' wages. By 1996, CEOs made 209 times the average factory worker's pay. In 1997 they made 326 times more. In 1998, they made 419 times more. By 2000, the difference was over 500 percent. Since then, the gap has halved, but this still leaves the level of inequality far above that which applied at the beginning of the 1990s.

Exhibit 1.9
Growth of Average Remuneration of the Most Highly Paid US CEOs#, 1990-2002

Year	Av. Total Pay* ($US million)	% Increase
1990	1.95	
1995	3.75	
1996	5.80	+54
1997	7.80	+35
1998	10.60	+36
1999	12.40	+17
2000	13.10	+6
2001	11.00	-16
2002	7.40	-33

n=c.365.
* Annual gross cash income from base salary, bonuses, 'other compensation', restricted stock awards, long-term incentive payouts, and the value realised from options exercised during year.
Source: *Business Week* annual executive compensation survey data; Klinger *et al*, 2002, 14.

Exhibit 1.10
Ratio of Average Top CEO Pay To Average Blue Collar Employee Pay, USA, 1980-2001

1980	42 times
1990	85 times
2000	531 times
2001	411 times
2002	200 times

Source: *Business Week* annual executive compensation survey data, as reported in Klinger *et al*, 2002,1 & 15-16.

While Australia has experienced a similar growth in the absolute and relative levels of executive pay, on average, Australian CEOs occupy a middle-range position relative to counterparts in major western countries. In terms of the cash component, Australian CEO pay is only about half that in the USA (see Exhibit 1.11). It was also slightly lower than average rates in the UK. Yet the Australian average is above that for Japan (where long-term incentives are little used) and France, and well above that for Sweden and Germany.

However, in terms of *total* remuneration, inclusive of options and other long-term incentives, Australian CEOs lag some way behind their UK and US counterparts. Comparative data produced by global remuneration consulting firm William Mercer (see Exhibit 1.12) suggests that average total remuneration of Australian CEOs is around one quarter that of UK CEOs and approximately one-fifth that of US CEOs. There are many reasons for these differences. One has to do with the smaller size of the largest Australian companies compared to, say, the Fortune 500 firms in the USA. Another contributing factor is the fact that short- and long-term incentives continue to comprise a smaller proportion of Australian CEO remuneration than is the case in the UK and USA. As the Mercer data suggests, compared to the UK an the USA, base salary constitutes a higher proportion of Australian CEO total remuneration, and incentives, particularly long-term

incentives, constitute a significantly smaller proportion. In the USA, incentives comprise 70 percent of average total CEO remuneration; in the UK, 58 percent; in Australia, 48 percent.

Exhibit 1.11
International CEO Cash Remuneration, 2000-2001.

Country	Average Annual Pay* ($AU million)
USA	2.7
Britain	1.4
Australia	**1.3**
Japan	1.1
France	1.0
Sweden	0.8
Germany	0.8

* Includes bonuses and income from *exercised* options.
Source: *Sydney Morning Herald*, 20 August 2001.

Exhibit 1.12
Comparative Size and Composition of Average Total CEO Remuneration: Australia, United Kingdom and the USA, 2002

	Australia	United Kingdom	USA
Salary	52%	42%	30%
Short Term Incentives	17%	19%	24%
Long Term Incentives	31%	39%	46%
Av. Total Remuneration (Australia = 1.00)	1	3.82	4.85

Source: Cornish, G. (2003), 'CEO/Senior Executive Reward, Performance and Benefits: What's Happening?', William Mercer, http://www.ceoforum.com.au/200108_remuneration.cfm

The *Business Week* data illustrates graphically the centrality of long-term incentive earnings to the stratospheric levels of total remuneration received by top US CEOs down to 2001. Exhibit 1.13 provides a breakdown of the total remuneration of the 20 most highly paid US CEOs for 2001. On average, income from long-term incentives was 20 times that derived from base salary and cash bonuses: $US104.8 million compared to $US5.4 million. Despite the beginnings of the retreat from option plans, and the substantial fall in average top CEO pay in 2002, the 20 most highly paid US CEOs for 2002 still derived 14 times as much income from long-term incentives as from base salary and bonuses: $48.5 million compared to $US3.5 million (*Business Week*, 21 April 2003).

Legislation designed to limit the growth in US CEO pay may have unwittingly contributed to the greater accent on option-based wealth acquisition during the 1990s. In 1993, the Clinton administration responded to a growing public furore over run-away executive pay by implementing a series of legislative measures intended to rein in the growth. Cash payments to individual executives in excess of $US1 million cannot be claimed by companies as tax deductions. However, performance-related pay is exempted from this cap where the performance goals are explicit, established by an independent compensation committee, and approved by shareholders. The overall effect of the tax exemption limit has been quite perverse. While the intention was to rein in growth in executive pay, the effect has been to encourage a move to non-cash incentives, particularly share grants and share options. The move also lost the US government vast amounts of tax revenue.

Exhibit 1.13
Twenty Highest Paid US CEOs, 2001

CEO	Company	Salary & Bonus	Long-term Compensation*	Total Remuneration
			$US Million	
1. L Ellison	Oracle	0	706.1	706.1
2. J Straus	JDS Uniphase	0.5	150.3	150.8
3. H Solomon	Forest Laboratories	1.2	147.3	148.5
4. R Fairbank	Capital One Finance	0	142.2	142.2
5. L Gerstner	IBM	10.1	117.3	127.4
6. C Wang	Computer Associates	1.0	118.1	119.1
7. R Fuld	Lehman Brothers	4.8	100.4	105.2
8. J McDonald	Scientifica Atlanta	2.1	84.7	86.8
9. S Jobs	Apple Computer	43.5	40.5	84.0
10. T Koogle	Yahoo	0.2	64.4	64.6
11. T White	Applied Biosystems Group	1.7	60.2	61.9
12. D Rickey	Applied Micro Circuits	0.9	58.6	59.5
13. J Gifford	Maxim Integrated Products	0.3	57.7	58.0
14. P Folino	Emulex	0.9	55.3	56.2
15. D Daft	Coca-Cola	5.1	49.9	55.0
16. G Bible	Philip Morris	5.6	44.3	49.9
17. M Devlin	Rational Software	1.0	46.3	47.3
18. B Karatz	KB Home	7.5	36.9	44.4
19. S Weill	Citigroup	18.7	23.9	42.6
20. M Arison	Carnival	2.2	38.3	40.5
Average		5.4	104.8	110.2

* Inc. value of *exercised* share options, restricted share bonuses, and other LTI payments received in year but excludes value of *unexercised* option grants.
Source: *Business Week*, 15 April 2002.

1.5 Conclusions

While Australian executives are still well short of matching their US counterparts in the total earnings stakes, the long-term trends have been very similar. In both countries, the 1990s witnessed exponential increases in senior executive earnings, with overall growth averaging around 400 percent - or approximately 10 times the growth in ordinary worker earnings. The yawning pay gap between senior executives and ordinary workers makes a mockery of the employer insistence on wage restraint for the lowest paid workers and raises fundamental questions about both the social justice and the organisational worth of the multimillion dollar payouts being made. There is little evidence that the greater accent on share options and other long-term incentives has enhanced shareholder value. Until recently, senior executives have been able to command pay rises far in excess of improvements in key financial measures of organisational performance. Many have also received stratospheric termination payments when, on the basis of traditional accounting measures, they have clearly *not* performed. The end of the share price boom may have ended the worst excesses of unrestricted option plans and persuaded executives and company boards alike to rethink their approach to top executive pay but it remains to be seen whether the interests of other stakeholders will be taken into account in the process of reconfiguring executive remuneration levels and composition.

CHAPTER 2
Rewarding Excellence or Reward Excess? Debates About Executive Pay.

The growth in executive pay levels and the reliance on option plans as a form of executive reward have aroused considerable debate in recent years. This chapter examines some of the main arguments for and against these developments.

2.1 The Case For

Most justifications for the high and rising levels of executive total pay focus on one or more of the following points:

1. The 'size' and short tenure of executive jobs.
2. The scarcity of executive talent.
3. The globalisation of executive labour markets.
4. The need to treat the executive as an 'agent' of the organisation's shareholders.

Job Size and Short Tenure

Defenders of high executive pay argue that the high and (until recently) rising levels of executive pay reflect the growing content and complexity of executive jobs. Three job factors are usually singled out for special mention here: 'risk'; 'responsibility'; and organisational size. Top management jobs are said to involve a far higher element of 'risk' than was previously the case. There is more risk in terms of the vast sums of money now involved in strategic planning and decision-making, and executives, it is argued, deserve to be compensated for shouldering that greater risk. Then there is the greater degree of 'responsibility' in the job - responsibility for people, resources, strategy, legal liability. Executive positions have a far wider span of responsibility, control and discretion than other jobs and, so the argument goes, should be paid a lot more. The fact that executives are now expected to be 'change agents' rather than just capable administrators has transformed the nature of executive responsibility. At the same time, executive tenure itself is more at risk. Appointments tend to be short term and continuity is far more performance dependent. CEO jobs are no longer for life. Average tenure for CEOs in large companies appears to be between three and five years. *Why, though, should special compensation for limited tenure apply only to executives and not to ordinary employees?*

A related job factor is organisational size. There is certainly a strong correlation between the size of the organisation and the size of the total executive pay packet. The bigger the organisation, the bigger the job size and the greater degree of risk and responsibility involved. These 'job' content factors would certainly justify a high level of *base* pay compared to that of ordinary employees. *The question is, how much more?*

Scarcity of Executive Talent

A second justification for high executive pay has to do with the scarcity of top executive ability. Not only is the total pool of talent available to fill top management posts relatively small; the supply of leadership competencies and experience for particular types of organisations is even scarcer. For example, the pool of individuals with the abilities and experience capable of leading a major corporate turnaround or a multi-billion dollar corporate merger is extremely limited. Attracting the right person for the job means paying premium prices. *Could it be, however, that the mantra of executive talent is little more than a self-serving myth - that senior executives command so much organisational power that they are capable of generating their own labour market supply,*

demand and, hence, price? If executive talent is the key to business success, why is it that the corporate world is littered with the wreckage wrought by such supposedly exceptional individuals?

Labour Market Globalisation
A third line of argument points to the fact that the labour market for executive talent is now a global phenomenon. If organisations are not prepared to pay at or above the high market rates applying in countries like the USA, they will not be able to attract or retain the world's best executive talent. The message to the boardrooms is simple and direct: if you want you firm to be lead by monkeys, then pay peanuts; if you want the best, then pay above market. Because Australia's pool of top managerial talent is supposedly so small, Australian companies have no choice but to fish in the big pond - and use very attractive lures. The 1990s certainly brought an increase in the number of imports amongst Australia's corporate high flyers: Bob Joss at Westpac, George Trumbull at AMP, Frank Blount at Telstra. What we have here, then, is a justification for high executive pay which emphasises the irresistible nature of global competitive pressure. *But how mobile are executives and is there just one world-wide market for executive 'talent'?*

Agency Theory
Many economists contend that the shift from base salary to incentives is justifiable in terms of Agency Theory. Agency Theory focuses on the distinction between owners and salaried managers. In large organisations, individual owners - or 'principals' - are incapable of exercising day-to-day control over organisational affairs. So they appoint salaried managers to act as their agents. However, the interests of the owner-principals and the manager-agents are not identical . Managers may well pursue activities which benefit themselves rather than the owners. For instance, in public companies, salaried senior managers may focus on personal gain rather than on shareholder gains, or on short-term goals which advantage themselves rather than on long-term goals which are more likely to advantage shareholders. This is know as the principal-agent problem. To minimise this problem, shareholders seek to negotiate executive contracts which minimise their loss of control and protect the company's competitive interests. One specific way to do this is to use pay methods which align managers' material interests more closely with those of ordinary shareholders. How? By making as much managerial pay as possible contingent on organisational performance and financial returns to the owners. This is undoubtedly one of the main reasons why organisations have, in recent years, altered the balance in executive pay away from guaranteed base salary and benefits and towards short-term and long-term incentives. *The question is, how effective are such incentive plans in aligning executive behaviour with shareholder interests? Moreover, who says that the only legitimate stakeholder interests here are those of executives and shareholders?*

2.2 The Case Against
Those who question current trends in executive pay generally point to one or more of the following concerns:
1. Distributive injustice
2. Poor corporate governance
3. Non-disclosure and non-expensing
4. Market manipulation
5. Rent extraction
6. Dilution of shareholder value

Distributive Injustice
Many critics contrast the 'top end' payola with what has been happening to ordinary employees. In an era of downsizing, slow wages growth, intensified workloads for those kept on, high executive pay-outs are almost bound to leave ordinary employees feeling more than a little dissatisfied and, perhaps, demotivated by perceptions of comparative pay inequity. Edmund Heery (1996) notes that

while the pay of ordinary employees is being put more and more at risk, the generous share option plans which have come to characterise the variable component of executive salary packages are virtually risk free.

Few companies have bothered to pay more than lip service to the notion of equality of effort or sacrifice as they strive to make their organisations leaner, meaner and flatter. Whilst ordinary employees are being asked to contribute more and more with little or no real increase in overall pay levels, top management pay surges ever upwards. In some cases, it seems that highly paid CEOs are almost oblivious to the hardships they are imposing on ordinary employees. Significantly, in the USA during 1996, the CEOs of the companies with the largest announced layoffs experienced the largest pay increase of all - an average of 67 percent. The more pain, the more gain - but not for the same people! The decade of the 1990s witnessed a transfer of wealth from ordinary workers to executives via a corporate focus on cost cutting via 'downsizing':

> Almost every wave of retrenchments translated into accolades from analysts, share price appreciation and hence greater rewards for the senior executives. (Cornell, 2002, 45)

Why should organisations be concerned about the issue of distributive justice within their pay structures? Because perceptions of distributive injustice can reduce employee commitment, increase turnover and compromise product an service quality. For instance, Cowherd and Levine (1992) have found that the wider the size of the pay differential between lower-level employees and senior managers, the greater the degree of lower-level dissonance and the lower the level of lower-level commitment, co-operation, effort and attention to quality. Byrne & Bongiorno (1997) report similar findings. The implication is that if senior management truly want employee commitment and involvement, then the trend to wider pay inequality between senior management and ordinary employees will have to be reversed:

> Our findings indicate that product quality may be diminished when high wages for the upper echelon are not matched by high wages for lower-level employees. Future studies of executive pay should consider not only the effects of top managers' pay on their own motivation but also how executive pay levels affect the motivation of lower-level employees (1992, 317).

So distributive justice is not just a matter of 'fairness' - it may also be an important determinant of organisational performance.

What, then, are the requirements for achieving greater distributive justice? In setting executive pay levels, company boards need to take into account the interests of other parties. As Carr and Valinezhad (1994) argue, this includes not only the interests of shareholders but also those of ordinary employees, customers and the general public. The interests of ordinary workers and consumers stand to be vitally effected by any redistribution of corporate wealth to top management.

Poor Corporate Governance

The procedures by which executive pay is determined have also been drawn into question. If company boards want ordinary employees and shareholders to believe that the pay of senior executives is fair, then they have to ensure that the procedures by which executive pay is determined are 'seen to be fair'. However, critics like Bud Crystal argue that the procedures by which CEO pay is determined have been anything but transparent and fair. Crystal (1988, 1991) argues that many company boards are little more than rubber stamps when it comes to CEO pay. He suggests that many boards of directors function like a closed club, with CEOs serving on each others' boards and approving each others' pay packages. In the USA in the early 1990s, it was standard practice for executive remuneration levels to be set by remuneration committees comprised of half a dozen or so non-executive or honorary directors. And who was it who usually

recommended the level of fees or honorariums to be paid to such directors? It was the CEO, who was often also the board chairperson. So the board of directors determined the pay of the CEO, and for all practical purposes, the CEO determined the pay of the board of directors.[4]

A related problem is the fact that many members of company boards are there at the behest of large institutional investors, such as banks, insurance companies and superannuation funds, the CEOs of which have a vested interest in maintaining high levels of executive pay. This is certainly a problem in Australia, where interlocking boards are very common. While there is as yet no formal requirement for Australian listed companies to establish remuneration committees (O'Neill, 1999b, n.p.), shareholder pressure and advocacy by bodies such as the Australian Institute of Company Directors has resulted in the practice being more widely adopted. Since the mid-1990s, there has been a significant increase in the proportion of Australian companies making use of specially constituted remuneration committees to determine executive remuneration levels and composition.[5] However, it is still rare for these committees to be fully independent from the executives themselves.

Crystal also points to the role of obliging remuneration consultants in pushing executive salaries ever higher. Because they depend for their livelihood on business thrown their way by senior managers, consultants are not predisposed to question executive pay levels:

> bucking a CEO and telling him that he ought to cut his bloated pay package can potentially cost a consulting firm not only the loss of executive compensation revenues but the loss of much larger revenues being generated from other services …. The problem here is that the consultant is ostensibly being hired by a company's shareholders to give his/her best advice, but is actually being hired by the CEO. And the CEO's interests are not always those of the shareholders. (Crystal, 1991, 13)

Crystal also highlights the corporate pride factor. There is a tendency to pay CEOs above the market average because it is thought that paying any less would be seen as an admission of corporate failure. This gives rise to what Crystal refers to (1991, 14) as 'survey ratcheting'. The more companies who pay above the existing market average, the higher the future average will be.

In 1988, Crystal published a now classic statistical analysis of the determinants of executive pay in 170 of the USA's biggest companies which compared the actual levels of total CEO pay with a notionally 'rational' level of remuneration based on a number of variables widely held to be legitimate determinants of senior management pay levels: company size, firm performance, level of business risk, location, CEO age, the amount of company stock held by the CEO, and the like. Crystal found that, in most cases, these firms paid above a 'rational' level and that only 39 percent of the variation was attributable to his so-called 'rational' factors. The remainder - 61 percent - he attributed to non-rational decision-making at board level (Crystal, 1988, 35-36).

These concerns have produced a series of initiatives designed to ensure greater objectivity and transparency in executive pay determination procedures. In the USA and the UK this has included the creation of remuneration committees which are either largely of fully independent from

---

4 Crystal's criticisms were first advanced in the early 1990s, prior to the introduction of legislation by the Clinton administration requiring US compensation committees to be constituted in manner detached from direct CEO influence. Just how effective this initiative has been is a moot point.

5 It has been reported that the proportion of major Australian companies using remuneration committees rose from 47 percent in 1995 to 66 percent just two years later (Cornish, 1998).

executive influence, and moves to compel companies either in law or via stock exchange listing rules to disclose in detail the pay packages of senior executives (O'Neill, 1999b, n.p).

Non-Disclosure and Non-Expensing

In Australia, disclosure provisions were introduced for the first time in 1995 and the current provisions are those specified in the *Company Law Review Act*, 1998. Under Section 300A of the Corporations Law, the annual Director's Reports of listed companies are required to include:

1. A discussion of the 'broad policy' for determining the nature and extend of executive and directors remuneration;
2. A discussion of the relationship between that policy and company performance; and
3. Details of the nature and extent of each element of the remuneration for each board member, and the five highest remunerated executives.

Schedule 5 of the Corporations Regulations requires public companies to list total cash and non-cash remuneration received by or due to executives in bands of $10,000 commencing at $100,000. Companies are not required to identify individual executives, only the number of executives in each $10,000 band (O'Neill, 1999a, 165-166).

However, there is clear evidence that the spirit of these innocuous disclosure provisions is being widely flouted. As a consequence, ordinary shareholders are being kept in the dark. In 2002, accounting firm Ernst and Young found that only 12 percent of Australian companies surveyed believed that it was important to consult shareholders at all on remuneration issues (Hovy, 2003, 36). In earlier study of the top 100 Australian companies, the same firm found clear evidence of deficient and inconsistent disclosure, especially in relation to options. Companies were disclosing the number of options granted but not the estimated dollar value (O'Neill, 1999b, n.p.). A University of Melbourne survey of 2000-1 financial reports found that while almost half of the 100 largest Australian companies had offered option packages to executives and directors, only one in four had disclosed their estimated financial value (*Sydney Morning Herald*, 21 August, 2002, 2).[6]

The 1998 provisions do not require companies to include options as an income generating expense (i.e. to 'expense' options against profits). One of the attractions which options have to company boards is that, unlike salary or cash bonuses, they do not (yet) have to be recorded as an expense against annual income. As critics such as Bodie *et al* (2003) argue, however, share grants do have real cash-flow implications. This includes the opportunity-costs associated with the foregoing of alternative cash-flow possibilities, such as receiving cash from underwriters who could take the options and sell them to investors in the competitive options market (Bodie *et al*, 2003, 64). Such costs are real and could and should be reported. A US Federal Reserve study found that if options had been expensed in the period 1995-2000, annual corporate earnings would have been just 5 percent rather than the 8.3 percent reported. A Merrill Lynch study estimated that if options were expensed, earnings for US Standard and Poors 500 firms would have been 21 percent lower in 2001, and 10 percent lower in 2002. In the option-crazed information technology industry, expensing would have slashed reported earnings by 39 percent in 2001 and 70 pecent in 2002 (Klinger *et al*, 2002, 9). Investment bank JP Morgan suggests that expensing of options would have reduced the overall net profits of top Australian companies by up to 2 percent. In some cases, the impact on the corporate bottom line would have been dramatic. Cochlear would have lost 56 percent if executive options had been expensed; CSL 21 percent; Newscorp 14.8 percent; AMP 3.7 percent; NAB estimates that expensing would have reduced its 2000-1 result by $44 million (*Weekend Australian*, 24-25 August 2002, 36). In the absence of proper expensing, it is next to

---

[6] Major companies not costing options included: AXA, BHP Billiton, Billabong, Brambles, CBA, CSL, Harvey Norman, NAB, Orica, South Corp, Tabcorp and Woolworths.

impossible for shareholders and potential investors to gauge accurately the underlying financial performance of companies with generous executive option plans.

Options can involve substantial indirect costs to both the organisation and its ordinary shareholders. Three is no such thing as a 'free' share - somewhere, sometime, someone pays. The main sticking point here is that there is no agreed way of measuring the 'true' cost of options to the organisation. Until recently, companies simply pretended that option plans were cost neutral and made no provision for them in their annual accounts. Since 1996 US firms have been required to disclose the estimated cost of share option grants made during the year using one of two means of option pricing - 5 percent annual appreciation or the Black-Scholes method. There is as yet no formal requirement for Australian companies to expense options.

A related concern with executive options is the potential encouragement of dual accounting practices. As Klinger *et al* (2002, 8) report, this is a major problem in the USA:

> The cost of stock options does not appear on the accounting statements that companies show to shareholders, but these same options appear prominently on the different set of books that companies show Uncle Sam and the IRS. On the companies' tax books, companies take the gain on options, pocketed by the CEOs and others, as valuable tax deductions. Lower taxes translate into higher earnings per share and in most cases, higher stock prices, leading to still further option gains, more tax deductions and still higher earnings, in a spiraling cycle of earnings deception.

According to one estimate, exercised options may have reduced corporate taxes for US companies by as much as $US56 billion in 2000 (Klinger *et al*, 2002, 8). While this issue has been little researched in Australia, circumstantial evidence, including the extremely low level of corporate tax actually paid by large Australian companies, points to the existence of double bookkeeping practices here as well.

Market Manipulation

This can be a problem with both short term incentives and option plans. Executives can easily use their position to manipulate market place perceptions to their advantage. As we have seen, bonuses linked to annual financial results invite understatement of costs and overstatement of income. With options, the temptation to engage in market manipulation is two-fold: first, to release pessimistic information (e.g poor profit projections) which depresses the company share price just before the granting of an option; secondly, to release optimistic information (e.g. strong profit projections) in the run-up to an option entitlement reaching maturity. A study five year study of 570 US firms with executive option plans in place by David Aboody and Ron Kasznik of the Stanford Business School found that the pattern of share price movements, forecast revisions, and earnings forecasts around the time of option grants differed significantly from other times. They also found that before the grant date executives were more likely to disclose bad news and that they tended to withhold positive news until after the option grant date. Such actions, of course, amount to 'creative accounting' and book-cooking. Beyond a point, they are also tantamount to insider trading.

Rent Extraction

Researchers Bebchuk, Fried and Walker (2002) have challenged the validity of pay practices aimed at harmonising executive and shareholder interests (and, hence, at striking an optimal principal-agent bargain) by arguing that executive behaviour is essentially an exercise in 'rent-extraction'. Far from acting in shareholders' interests, and far from executive pay being the determined by

arms-length bargaining, executives use the power of their positions to extract an 'economic rent'[7], chiefly by influencing their own remuneration packages. The issue here is one of 'asymmetric information' - the 'agent' has greater knowledge and hence power than does the principal. As a result, they are paid more than is required to hold them in the job and to optimise shareholder returns. As such, executive incentive plans that purport to advance shareholders interests may be little more than devices to camouflage this wealth appropriation.

Dilution of Shareholder Value

When an executive disposes of exercised share options to make a capital gain, the sudden flood of additional shares onto the market is likely to have a downward effect on the company's share price. Some estimates put this 'dilution' effect as high as 10 percent. One the other hand, Cook (1998) argues that the dilution impact is much less than claimed, since share options dilute only earnings per share, not net earnings overall. One way for firms to minimise dilution is to engage in a share buyback in the general share market, which may boost share value and keep ordinary shareholders content. Steps can also be taken to minimise the risk of dilution by placing a cap on the use of executive share plans or by staggering exercise dates.

2.3 Conclusions

There may well be compelling arguments for relating the level of executive base pay to the 'size' of the organisation and the role. The tenets of Agency Theory also suggest the potential worth of configuring executive pay level and composition so as to link it more strongly to returns to ordinary shareholders. Moreover, while the mantra of a global scarcity of executive 'talent' may be a self-serving myth, no organisation to afford to ignore completely the forces of external labour markets. Yet there are also solid grounds for questioning current executive pay practice in Australian companies. The widening pay gap raises many problems relating to distributive injustice; problems which actually stand to impair both employee satisfaction and organisational performance. There are also shortcomings relating to corporate governance and the absence of transparency and disclosure. There are other concerns too: the failure to expense options, the potential for market manipulation and unethical behaviour, especially in relation to the use of financial performance hurdles, the abuse of executive power for self-serving ends, and the potential for options to dilute ordinary shareholder wealth. Such concerns raise serious questions about whether or not organisations and their shareholders are really getting value for money from the income and wealth that they lavish on their senior executives.

---

[7] Economic rent is the income an individual receives in excess of the amount that would be needed to retain them in the position.

CHAPTER 3
The Missing Link: Executive Pay and Organisational Performance

What evidence is there that executive remuneration practices, and, in particular, executive incentives, are effective in translating executive potential into improved organisational performance? Research in the USA and the UK indicates that the link between executive remuneration and organisational performance is either weak or non-existent. Weinberg (1995) correlated CEO annual bonuses to operating income as a percentage of revenue for some 400 firms and concluded that there was no significant link between company performance and bonus size. Mishra, McConaughty and Gobeli (2000) report that the benefits of executive incentives are limited by CEO risk aversion. When too high a proportion of CEO remuneration is at risk, firm performance suffers. A recent US meta-analysis of more then 200 studies over 30 years found no statistical relationship between the amount of equity executives own and their company's performance (Klinger *et al*, 2002, 9). A Columbia Business School study of 600 US companies over 20 years found that increasing an executive's stake in the company did not produce stronger earnings or higher share price growth; rather high performance appeared to be driven by factors such as the level of research spending (Klinger *et al*, 2002, 9).

Key economic indicators also point to a disconnect between executive pay and organisational performance. As we have seen (Exhibits 1.2 and 1.3), over the past decade the average cash remuneration of top Australian CEOs has grown at twice the rate of increase in share prices for the top 200 Australian companies. Likewise, between 1990 and 2001, when top US CEO pay grew by almost 500 percent, US share prices (as measured by the Standard and Poors 500 index) rose by 248 percent and US corporate profits by just 88 percent. As we have seen, over this period US CEO pay growth also outstripped that of ordinary worker by a factor of ten. According to the US magazine *Business Week*, there is no consistent correlation between the size of the total pay package and returns to shareholders and the organisation. In many cases, US CEOs on high packages have presided over mediocre results, while others on relatively low packages have evidently delivered quite impressive organisational outcomes. The implication is that executives are gaining at the expense of other organisational stakeholders, particularly employees and ordinary shareholders.

These arguments have not gone unchallenged. For instance, Kay and Robinson (1994, 26) criticise *Business Week* for failing to track the longitudinal link between executive pay and organisational performance: 'as profits and stock prices go up, compensation also goes up. When profits and stock prices decrease, compensation generally follows the downward trend' (Kay and Robinson, 1994, 26). Kay and Robinson (1994, 26) also contend that rather than measuring performance in terms of *percentage* returns to shareholders, attention should focus on the *total* dollars created for shareholders during the CEO's tenure. In defence of the proposition that executive share ownership does create meaningful gains in shareholder value, Kay cites a study of 261 US CEOs which reveals that CEOs in the highest performing companies owned twice as much company stock as CEOs in lower performing companies (Kay, 1999, 32-33). Significantly, Kay draws a strong distinction between share *ownership* and share options, with the latter being seen as an inherently inferior means of linking shareholder and executive interests.[8]

---

[8] Earlier US studies, including those by Gerhart and Milkovich (1990) and Leonard (1990) suggest a positive association between executive incentives and firm performance, although it should be noted that the evidence on which these studies are based predates the ascendancy of options over the last decade. Indeed, it is noteworthy that few exponents of executive incentive plans have been able to produce credible evidence of a positive link between option grants per se and organisational performance.

What does the Australian evidence indicate? This chapter provides a quantitative analysis of the strength and direction of the relationship between executive pay and organisational performance in Australian firms. While some use is made of evidence and findings produced by other researchers, the assessment draws mainly on the 1999-2002 *Australian Financial Review* data on executive remuneration and organisational performance in Australia's largest listed companies.[9]

3.1 Perverse Incentives: Less for More and More for Less

For each executive in the annual *Australian Financial Review* executive surveys, the data identifies six remuneration dimensions and four measures of organisational performance. The six main remuneration variables are:

1. Base salary, superannuation and benefits.
2. Bonuses and other cash incentives.
3. Total cash remuneration: The sum of 1 & 2.
4. Percentage change in total cash remuneration compared to the figure for the previous year.
5. Market value of shares in the company held by the executive: the number of shares multiplied by the company's closing share price at the end of the relevant financial year.
6. Gross value of unexercised options held: the number of unexercised options held multiplied by the company's closing share price at the conclusion of the prior financial year.

The four measures of organisational performance used in the data set are:

1. Market capitalisation.[10]
2. Return on equity (ROE): Profit, net of significant items, expressed as a percentage of shareholders' equity.[11]
3. Share price change: The percentage change in the company's share price over the course of the relevant financial year.
4. Earnings per share change: Diluted earnings per share, as stated in the most recent annual report, expressed as a percentage of the comparable figure for the prior year .

The nature of the data set permits both descriptive and inferential (correlation, regression) analyses of the statistical relationship between these reward and performance variables.

Exhibit 3.1 presents descriptive statistics comparing means/averages on a range of the above variables for the 20 best and 20 worst performing executives on each of three performance measures (ROE, share price change, and change in earnings per share) for the years 2000-2001 and 2002-2002. On all three measures, the results support the conclusion that less delivers more; that is, all other things being equal, more modest levels of cash remuneration and potential and realised equity wealth are associated with higher levels of organisational performance. In Exhibit 3.1 the data supporting this conclusion is highlighted in bold font. For ROE this conclusion applies across all remuneration variables. In relation to share price change it holds for all variables except value of share and option holdings for 2000-2001 and annual change in total cash remuneration for 2001-

---

9 The remuneration data is compiled chiefly from information provided in the latest company annual, while company performance data is based on market calculations plus information supplied by financial information services firm Bloomberg.

10 This is really a proxy measure for organisational size rather than performance per se and is regarded as such in this study.

11 ROE data sourced from Bloomberg financial services.

2002. In relation to annual change in earnings per share the only significant exception is market value of shares held in 2001-2002.

Exhibit 3.1
Executive Pay and Organisational Performance: Comparison of 20 Top and 20 Bottom Performers*, Australia 2000-2002

Return on Equity

	20 Best (Mean)		20 Worst (Mean)	
	2000-2001	2001-2002	2000-2001	2001-2002
Return on Equity	316.3%	50.3%	-129.4	-33.3%
Base Salary, Super & Benefits	**$564,209**	**$776,667**	**$1,191,356**	**$2,091,482**
Bonuses and Other Incentives	**$242,099**	**$394,684**	**$698,143**	**$1,195,084**
Total Cash Remuneration	**$826,308**	**$1,171,351**	**$2,106,559**	**$3,287,375**
Annual Change in Total Cash Remuneration	**+6.2%**	**+40.2%**	**+30.0%**	**+84.6%**
Market Value of Shares Held in Organisation+	**$35,875,514**	**$13,051,899**	**$554,482,760**	**$310,946,505**
Gross Value of Options Held++	**$2,098,722**	**$4,855,299**	**$16,230,808**	**$23,233,813**
Market Capitalisation	$1,427 million	$1,633 million	$4,184 million	$6206 million

Share Price Change (percent)

	20 Best (Mean)		20 Worst (Mean)	
	2000-2001	2001-2002	2000-2001	2001-2002
Annual Change in Share Price	+169.0	+87.2%	-43.7	-64.6%
Base Salary, Super & Benefits	**$655,947**	**$697,799**	**$1,022,782**	**$1,894,432**
Bonuses and Other Incentives	**$241,545**	**$149,942**	**$489,410**	**$1,188,737**
Total Cash Remuneration	**$899,442**	**$846,741**	**$1,512,193**	**$3,083,169**
Annual Change in Total Cash Remuneration	**+7.0**	+55.3%	**+51.4%**	+10.3%
Market Value of Shares Held in Organisation+	$16,843,077	**$19,799,200**	$14,169,693	**$323,353,168**
Gross Value of Options Held++	$5,786,991	**$1,550,900**	$1,207,754	**$24,072,401**
Market Capitalisation	$2009 million	$1,386 million	1,308 million	$6,183 million

Change in Earnings Per Share (percent)

	20 Best (Mean)		20 Worst (Mean)	
	2000-2001	2001-2002	2000-2001	2001-2002
Annual Change in Diluted Earnings Per Share	+335.9%	288.9%	-125.9	-86.2%
Base Salary, Super & Benefits	**$773,190**	$929,891	**$2,043,580**	$888,494
Bonuses and Other Incentives	**$232,373**	**$151,385**	**$1,512,960**	**$423,103**
Total Cash Remuneration	**$1,006,013**	**$1,081,276**	**$3,556,550**	**$1,311,597**
Annual Change in Total Cash Remuneration	+1.4	**+5.3%**	+0.5	**+26.6%**
Market Value of Shares Held in Organisation+	**$10,050,300**	$42,511,783	**$576,162,582**	$2,817,181
Gross Value of Options Held++	**$3,638,860**	**$3,638,150**	**$29,085,092**	**$7,133,339**
Market Capitalisation	$3003 million	$1,901 million	$6885 million	$4,955 million

+ Total share ownership as disclosed in most recent annual report multiplied by company's closing share price at end of year.

++ Total number of options held as disclosed in most recent annual report multiplied by company closing share price at start of year.

Source: *AFR*, 16 November 2002, 6 November 2002.

Could it be that this strong polarity is merely the outcome of a size effect; that is, that larger companies exhibit lower investment risk, and therefore lower financial returns, than smaller companies? It is the case that, in almost all cases, low performing companies have higher average market capitalisation than high performers, which implies the presence of an organisational size

effect for both pay level and performance outcomes. The correlation data in Exhibit 3.3 (relating to the largest 100 executive positions in the *AFR* data for 1999-2002) provides some evidence of a negative association between company size and financial performance but the correlation is neither consistent nor consistent. Moreover, the presence of a size effect does not negate the general proposition that, in relative terms, large companies and their shareholders are not obtaining value for money from the huge outlays they make to their top executives.

More sophisticated statistical analysis confirms the conclusion that the relationship between executive remuneration levels and organisational performance is anything but positive. Drawing on the annual *Australian Financial Review* executive remuneration survey data for the three years 1999 to 2002, the following analysis examines the relationship between pay and performance for two specific categories of executive: firstly, the 100 largest executive positions (in terms of company market capitalisation); and, secondly, the 20 most highly cash remunerated executive positions.

Exhibit 3.2
Executive Pay and Organisational Performance: 100 Largest Executive Positions# in Australian Listed Companies, 1999-2002 - Descriptive Statistics.

Executive Remuneration (average) $AU million		Company Performance (average) Percent	
Base Salary, Super & Benefits		Average ROE	
1999-2000	1.18	1999-2000	+22.8
2000-2001	1.33	2000-2001	+34.8
2001-2002	1.50	2001-2002	+11.9
Change 1999-2002	(+27.1%)		
Cash Bonuses & Incentives			
1999-2000	0.84		
2000-2001	1.18		
2001-2002	1.10		
Change 1999-2002	(+31.0%)		
Total Cash Remuneration		Average Share Price Change	
1999-2000	2.02	1999-2000	+19.2
2000-2001	2.54	2000-2001	+20.9
2001-2002	2.61	2001-2002	+7.5
Change 1999-2002	(+29.2%)		
Value of Shares Held+			
1999-2000	190.91		
2000-2001	190.18		
2001-2002	159.67		
Change 1999-2002	(-16.4%)		
Gross Value of Options Held++		Average Change in Earnings Per Share	
1999-2000	14.89	1999-2000	-4.2
2000-2001	9.91	2000-2001	+20.1
2001-2002	11.90	2001-2002	+22.1
Change 1999-2002	(-20.1%)		

By market capitalisation, excluding property and other trusts.
+ Total share ownership as disclosed in most recent annual report multiplied by company's closing share price at end of year.
++ Total number of options held as disclosed in most recent annual report multiplied by company closing share price at start of year.
Source: *AFR*, 16 November 2000, 16 November 2001, 6 November 2002.

Exhibit 3.2 summarises the relevant descriptive statistics for the 100 largest executive positions. The data indicates several opposing trends. On the remuneration front, the period 1999 and 2002 saw a sustained rise (totaling 29 percent) in average total cash remuneration, but significant falls in the value of shares and options held (totalling 16 percent and 20 percent, respectively). On the performance side, the period saw peaks in ROE and share price change in 2000-2001 but a continued improvement in earnings per share.

Exhibit 3.3
Executive Pay and Organisational Performance: 100 Largest Executive Positions# in Australian Listed Companies, 1999-2002 - Pearson Correlation Coefficients.

Remuneration Component	Company Performance Criteria			Company Size
	ROE	Percent Share Price Change	Percent EPS Change	Market Capitalisation
Base Salary, Super & Benefits				
1999-2000	-.049	.009	.074	.573**
2000-2001	**-.224***	-.178	-.162	.640**
2001-2002	**-.376****	-.192	-.007	.621**
Cash Bonuses & Incentives				
1999-2000	-.037	.061	**-.318***	.478**
2000-2001	-.122	-.134	-.130	.487*
2001-2002	-.171	-.186	-.083	.484**
Total Cash Remuneration				
1999-2000	-.047	.049	**-.208***	.583**
2000-2001	-.181	-.163	-.157	.611**
2001-2002	**-.297****	**-.210***	-.064	.610**
% Annual Change in Total Cash Remuneration				
1999-2000	-.056	-.065	**-.682****	-.035
2000-2001	.017	-.119	-.105	.047
2001-2002	.061	.200	-.240	.020
Number of Shares Held				
1999-2000	-.029	.138	.020	.310**
2000-2001	**-.395****	-.128	-.110	.358**
2001-2002	**-.215***	-.187	.123	.295**
Value of Shares Held				
1999-2000	-.019	.134	.007	.388**
2000-2001	**-.441****	-.126	-.105	.426**
2001-2002	-.199	-.143	.083	.308**
Number of Options Held				
1999-2000	-.084	.009	**-.686****	.193
2000-2001	**-.369****	-.126	-.144	.469**
2001-2002	**-.419****	**-.233***	-.039	.548**
Gross Value of Options Held				
1999-2000	-.035	.152	-.022	.611**
2000-2001	**-.441****	-.089	-.097	.619**
2001-2002	**-.370****	**-.240***	-.037	.691**
Market Capitalisation				
1999-2000	-.036	.057	.126	1
2000-2001	**-.240***	-.129	-.085	1
2001-2002	-.146	**-.206***	-.100	1

#By market capitalisation, excluding property and other trusts.
** Significant at $p < 0.01$
* Significant at $p < 0.05$
Source: *AFR*, 1 November 1999, 16 November 2000, 16 November 2001, 6 November 2002.

Exhibit 3.3 presents a bivariate correlation matrix for eight remuneration variables and four organisational performance variables for the 100 largest executive positions. As could have been expected, for this group, there are positive and statistically significant correlations between the

remuneration components and company size (as measured by market capitalisation). Conversely, the correlations between the remuneration components and the three main measures of organisational performance are either negative and statistically significant, or statistically insignificant.[12] In particular, for the two years 2000-2002 base pay level had a strongly negative association with ROE, as did the number of shares held and the number and gross value of options held. Moreover, for 2001-2002 total cash remuneration correlated negatively with share price change, as did the number and gross value of options held. In short, these data provide little support for the proposition that higher levels of executive remuneration, whether in the form of base pay, short term cash incentives or long-term equity-based incentives, are associated with higher levels of financial performance.

Exhibit 3.4
Executive Pay and Organisational Performance: 100 Largest Executive Positions# in Australian Listed Companies, 1999-2002 - Multiple Regression Results

Return on Equity

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
1999-2000	.003	0.0650	-.057	-.292	-.016	-.113	.012	.052	.009	.026
2000-2001	**.207**	**6.134****	-.031	-.232	-.006	-.053	-.236	-1.164	-.216	-1.022
2002-2002	**.174**	**4.750****	-.286	-1.887	.159	1.253	-.004	-.032	-.252	-1.497

Percent Share Price Change

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
1999-2000	.069	1.606	**-.403***	**-2.077**	-.010	-.071	-.092	-.387	.569	1.719
2000-2001	.044	1.052	-.168	-1.138	-.015	-.108	-.231	-1.042	.196	.845
2002-2002	.060	1.528	-.009	-.056	-.063	-.477	-.016	-.129	-.187	-1.066

Percent Change in Earnings Per Share

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
1999-2000	**.187**	**5.018****	.358	1.973	**-.524****	**-4.012**	**-.270***	**-1.224**	.169	.545
2000-2001	.030	0.708	-.123	-.820	-.041	-.300	-.091	-.403	.048	.203
2002-2002	.025	0.505	.034	.292	-.146	-1.152	.146	1.181	-.027	-.238

#By market capitalisation.
* Significant at p< 0.01

[12] A correlation coefficient of +1 indicates a perfect positive association between the two variables; a correlation coefficient of -1 indicates a perfect inverse or negative association between the two.

** Significant at $p < 0.05$.

Exhibit 3.4 presents the results of multiple regression analyses of each of the three main organisational performance variables (assumed here to be dependent variables) against a set of four predictor (or independent) variables (base pay, bonuses and cash incentives, value of shares held, and value of options held) for the three years 1999-2002. In general, the low R-square, Beta and t values[13] confirm that these remuneration predictors explain very little of the inter-organisational variation in performance within this group of executives. At best, the four predictors explain no more than 20 percent of the variation in ROE within the group and here, again, the statistically significant results are negative rather than positive. Overall, these regression results support the conclusion that for the top 100 executive positions remuneration levels and composition made very little positive contribution to organisational performance over the three years 1999-2002.

Exhibit 3.5
Executive Pay and Organisational Performance: 20 Highest Paid# Executives in Australian Listed Companies, 1999-2002 - Descriptive Statistics.

Executive Remuneration (average) $AU million		Company Performance (average) Percent	
Base Salary, Super & Benefits		Average ROE	
1999-2000	2.44	1999-2000	+8.56
2000-2001	3.20	2000-2001	-89.56
2001-2002	3.67	2001-2002	+12.50
Change 1999-2002	(+50.4%)		
Cash Bonuses & Incentives			
1999-2000	3.17		
2000-2001	4.66		
2001-2002	3.73		
Change 1999-2002	(+17.7%)		
Total Cash Remuneration		Average Share Price Change	
1999-2000	5.60	1999-2000	+41.40
2000-2001	7.87	2000-2001	+17.04
2001-2002	7.39	2001-2002	-6.79
Change 1999-2002	(+32.0%)		
Value of Shares Held+			
1999-2000	780.06		
2000-2001	661.18		
2001-2002	552.80		
Change 1999-2002	(-33.0%)		
Gross Value of Options Held++		Average Change in Earnings Per Share	
1999-2000	52.25	1999-2000	-127.44
2000-2001	22.08	2000-2001	-2.13
2001-2002	33.10	2001-2002	+15.04
Change 1999-2002	(-36.7%)		

[13] The F statistic is the regression mean square divided by the residual mean square. A high and statistically significant F value indicates that the selected predictors collectively account for most of the variation in the dependent variable. The Betas, or standardised coefficients, indicate which individual predictors contribute most to explaining the variation in the dependent variable. The 't' values can also be used for this purpose. If a coefficient has a t value well below -2 or above +2 this signifies that the relevant predictor does have a significant influence.

By market capitalisation, excluding property and other trusts.
+ Total share ownership as disclosed in most recent annual report multiplied by company's closing share price at end of year.
++ Total number of options held as disclosed in most recent annual report multiplied by company closing share price at start of year.
Source: *AFR*, 16 November 2000, 16 November 2001, 6 November 2002.

Analysis of the data set relating to the 20 most highly paid executives suggests similar conclusions. Exhibit 3.5 summarises the key descriptive statistics for this group. For this elite group, total cash remuneration peaked and gross option value bottomed out in 2001, while value of shares continued to fall throughout the triennium. Overall, this category of executives experienced a 32 percent cumulative rise in total cash remuneration but a decline of over one-third in the value of shares and options held. In the companies headed by these executives, ROE declined dramatically in 2001, and share price rises fell away, while earnings per share recovered from a slump in 2000.

Exhibit 3.6
Executive Pay and Organisational Performance: 20 Highest Paid Executives in Australian Listed Companies, 1999-2002 - Pearson Correlation Coefficients.

Remuneration Component	Company Performance Criteria			Company Size
	ROE	Percent Share Price Change	Percent EPS Change	Market Capitalisation
Base Salary, Super & Benefits				
1999-2000	-.007	.359	.185	.575**
2000-2001	-.410	-.371	-.436	.759**
2001-2002	**-.575****	-.314	.136	.803**
Cash Bonuses & Incentives				
1999-2000	-.073	-.061	-.320	.502*
2000-2001	-.067	-.260	-.297	.509*
2001-2002	**-.508***	-.198	-.082	-527*
Total Cash Remuneration				
1999-2000	-.064	.108	-.181	.650**
2000-2001	-.253	-.358	-.416	.720**
2001-2002	**-.732****	-.295	.024	.767**
% Annual Change in Total Cash Remuneration				
1999-2000	-.433	-.136	**-.795****	-.285
2000-2001	.194	-.210	-.121	-.285
2001-2002	.302	.196	.214	-046
Number of Shares Held				
1999-2000	-.095	.040	-.020	.452*
2000-2001	**-.965****	-.236	-.297	.567**
2001-2002	**-.530***	-.243	.168	.465*
Value of Shares Held				
1999-2000	-.026	.064	.035	.511*
2000-2001	**-.978****	-.240	-.302	.577**
2001-2002	**-.471***	-.200	.169	.412
Number of Options Held				
1999-2000	**-.485***	-.042	**-.769****	.124
2000-2001	**-.957****	-.321	-.275	-601**
2001-2002	**-.871****	**-.479***	-.250	.762*
Gross Value of Options Held				
1999-2000	-.069	.087	.018	.751**
2000-2001	**-.988****	-.241	-.243	.642**
2001-2002	**-.872****	**-.456***	-.103	.815**

** Significant at $p < 0.01$
* Significant at $p < 0.05$
Source: *AFR*, 1 November 1999, 16 November 2000, 16 November 2001, 6 November 2002.

As the correlation coefficients in Exhibit 3.6 indicate, for this group there was an extremely strong and statistically significant *negative* relationship between all components of remuneration and ROE in 2001-2002. Regression analysis (Exhibit 3.7) indicates that, for this group, the number and value of shares and options held had a strongly negative impact on ROE and share price change in 2000-2002. Comparable evidence points to similar conclusions. According to Way and Heathcote (2003, 45), of the 20 highest paid executives, only 5 have increased shareholder wealth since July 2002. Although the share market has been falling since then (the Standard and Poors/ASX 200 has fallen 12%), nine of these executives have presided over larger falls in their companies' share prices.

Exhibit 3.7
Executive Pay and Organisational Performance: 20 Highest Paid Executives in Australian Listed Companies, 1999-2002 - Multiple Regression Results.

Return on Equity

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
1999-2000	.022	.083	.231	.439	.052	.136	.228	.340	-.479	-.479
2000-2001	**.987**	**291.126****	-.018	-.475	.042	1.217	**-.400****	**-3.547**	**-.599****	**-5.085**
2002-2002	**.783**	**12.654****	-.229	-1.171	-.004	-.026	.005	.030	**-.669***	**-2.786**

Percent Share Price Change

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
1999-2000	.297	1.582	**1.070***	2.391	.139	.432	.328	.577	-1.147	-1.352
2000-2001	.162	.678	-.291	-.873	-.104	-.356	-.288	-.303	.173	.173
2002-2002	.227	1.099	.102	.285	.110	.392	.141	.481	-.678	-1.484

Percent Change in Earnings Per Share

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
1999-2000	.198	.927	.339	.711	-.446	-1.300	-.310	-.512	.182	.201
2000-2001	.311	1.583	-.481	-1.592	-.030	-.122	-1.269	-1.470	1.193	1.319
2002-2002	.085	.280	.139	.463	-.173	-.549	.276	.879	-.056	-.192

* Significant at $p < 0.01$
** Significant at $p < 0.05$.

It is, of course, necessary to exercise caution in making use of cross-sectional data of the above type, since it is only by means of longitudinal (i.e. time series) analysis that the direction and strength of causal association between executive pay levels and organisational performance can be fully gauged and explained. However, the above findings are supported by a number of other recent

Australian studies (O'Neill and Iob, 1999; Holland *et al*, 2001) which do make use of data covering a longer-time frame.

Holland, Dowling and Innes (2001) have recently published the findings of a composite longitudinal study of executive pay and organisational performance in 24 large publicly listed Australian companies[14] over a twelve year time period (1988-2000). The study uses correlation and regression analysis to ascertain the strength and significance of the association between CEO *base salary* and three measures of organisational performance, namely annual gains in sales, assets and shareholder equity. While the data for the period 1988-93 indicates a weak but positive relationship between pay and net assets and a stronger relationship with shareholder equity, for the period 1993-2000 the relationships were non-linear and not statistically significant. During the 1990s, growth in CEO base pay far outstripped growth in all performance measures. The study's overall finding is that 'the relationship between CEO compensation and organisational performance of these Australian companies is not statistically significant' (2001, 50-52). While it could be argued that these findings are weakened by the exclusion of cash incentives and equity-based incentives from the analysis, they nevertheless offer general support for the conclusion that higher levels of executive remuneration do not translate into higher levels of organisational performance.

Research by O'Neill and Iob (1999) draws on data relating to 42 CEO and 930 senior executive positions in 49 Australian organisations, and uses change in total shareholder returns (TSR) over a five-year period (1992-97) as the preferred measure of organisational performance. While these researchers were interested primarily in the extent to which factors such as organisational performance and role size *determine* executive remuneration levels, their findings also point to the absence of any positive link between executive pay and performance. O'Neill and Iob conclude that 'job size was the only significant determinant of base salary, short-term incentives and total aggregate reward for CEOs in this sample' (1999, 69).[15] However, their regression results also indicate that for 'large sized' (i.e. CEO) roles, the association between company performance and the level and composition of executive pay was insignificant , while for 'medium sized' (i.e. senior executive) roles, company performance had a significantly negative association with every component of pay: base salary, short-term incentives and long-term incentives (1999, 72). O'Neill and Iob conclude that, '[d]espite the controversy surrounding executive remuneration, the actual amounts paid do not have a significant impact on costs or profits for major firms' (1999, 73). As to the reasons for the 'inverse relationship between senior executive pay and company performance', they suggest that, in response to poor performance, companies may have little choice but to pay a premium attract and retain a CEO of sufficient talent to effect a turnaround in company performance (1999, 73). [16]

---

14 Aberfoyle Ltd, ANZ Banking Group, Ashton Mining, BHP, Brambles, Boral, BTR Nylex, Coca-Cola Amatil, Coles Myer, CSR, Finemores, Hills Industries, NAB, Magellan Petroleum, Mayne Nickless, OPSM, Pioneer, Santos, TNT, TMA Tubemakers, Wattyl, WMC, Westpac, Woodside Petroleum.

15 Holland *et al* also note the strong association between company and, hence, job size and the level of executive remuneration. Holland *et al* find that organisational size explained just under 50 percent of change in base pay for the period to 1995 but that this causal relationship weakened during more recent years to the point where firm size accounted for just 33 percent of base pay change in 2000 (2001, 50).

16 Elsewhere, O'Neill (1999, 159) has observed that 'there is no empirical data to support the notion that linking pay to organisational performance at management and executive levels actually increases required outcomes'.

There is no doubt that, as in the USA, the growth in executive remuneration since the late 1980s has dwarfed gains made by ordinary shareholders. Over the past 15 years the after-tax returns on shareholder funds of the top 1000 Australian companies has been halved - to 6.7% or little better than the bond rate of 4.75% (Way and Heathcote, 2003, 45). As the executive chairman of respected business research and information firm IBISWorld, Phil Ruthven, has remarked:

> What is crazy is that over that period, the CEOs and the boards have been rewarding themselves when, on average, the company performance is going down, down, down. To me that is almost obscene. (Way and Heathcote, 2003, 45)

Having alighted from the gravy train, some ex-CEOs have taken to making a similar point. Ex-BHP Billiton CEO Paul Anderson is a case in point. On the eve of his departure in 2002, Anderson, who was himself the recipient of a $AU17 million termination payment, declared that CEO pay was "totally out of control. It's reached a point now that there's no way to justify the incredible compensation" (Way and Heathcote, 2002, 47).

3.2. Beyond Rent-Extraction: What Pay Level Delivers Optimum Performance?

Analysis of the *Australian Financial Review* data also suggests that optimum performance outcomes may be associated with particular executive remuneration levels, configurations and pay relativities with ordinary employees. Exhibit 3.8 presents descriptive statistics comparing means/averages for base pay, bonuses and total cash remuneration for the 20 best performing executives on each of three performance measures (ROE, share price change, and change in earnings per share). These data suggest that the level of total cash remuneration associated with the highest performance outcomes was between $AU0.85 million and $AU1.17 million. These data support the contention by Bebchuk, Fried and Walker (2002) that the current high levels of executive remuneration reflect systematic rent-extraction rather than optimal principal-agent bargains, and that the growing emphasis on executive incentives is primarily a cover for this process.

Exhibit 3.8
Maximum Performance for Pay, 2001-2002: Optimal Ratio of Executive Total Cash Remuneration to Average Full Time Employee Earnings.

Return on Equity

	20 Best (Mean)*	As a Ratio of AFTATE**
Return on Equity	+50.3%	
Base Salary, Super & Benefits	$776,667	
Bonuses and Other Incentives	$394,684	
Total Cash Remuneration	$1,171,351	24:1

Share Price Change (%)

	20 Best (Mean)	As a Ratio of AFTATE
Annual Change in Share Price	+87.2%	
Base Salary, Super & Benefits	$697,799	
Bonuses and Other Incentives	$149,942	
Total Cash Remuneration	$846,741	17:1

Change in Earnings Per Share

	20 Best (Mean)	As a Ratio of AFTATE
Annual Change in Diluted Earnings Per Share	+288.9%	
Base Salary, Super & Benefits	$929,891	
Bonuses and Other Incentives	$151,385	
Total Cash Remuneration	$1,081,276	22:1

* n=181 executives.
** Based on AWFTTE for November Quarter 2002.
Sources: *AFR*, 6 November 2002; ABS, Average Weekly Earnings, Australia, Cat.6302.0.

Significantly, these performance-optimal pay levels also equate to between 17 and 24 times the prevailing (November 2002) level of average full time annual total earnings. Comparing this with the data given in Exhibit 1.2, above, it can be seen that this was the approximate scale of the pay gap between CEOs and ordinary employees which prevailed in Australia prior to the surge in executive remuneration in the 1990s. It may therefore be inferred that the current average pay gap between top 100 CEOs and ordinary employees (c. 80:1) is at least three times higher than that required to maximise organisational performance.

3.3 Performance Hurdles: Alternative Options?

Traditional executive incentive plans have been criticised for being discretionary in nature and for not presenting a clear 'line of sight' between performance and reward. Standard share option plans, in particular, are said to possess a number of key weaknesses from the organisational (and especially the ordinary shareholder) perspective:

- There is no downside risk to the executive. If share price falls, shareholders will be worse off in absolute terms, but not so the executives.
- The link between performance and reward is remote. There are so many uncontrolled variables influencing share price that it represents a very remote measure of the executive's own contribution. In a bull share market, executives whose performance is mediocre will still stand to make a large capital gain, whilst in a bear market, even the best executives will be penalised.
- Equity ownership is usually temporary. If the option is exercised, the shares are often resold immediately to realise a capital gain. This means that there is no long-term 'ownership' effect.
- Exercised options will 'dilute' shareholder equity. When options are exercised and the acquired shares then sold, the resulting increase in share supply may dilute share values, which will be detrimental to ordinary shareholders
- Options are a cost to the company and, hence, to shareholders but this is not recognised in company accounts. Options are a substitute for cash payment to executives and should therefore be fully expensed using an accepted standard formula so as to reveal the true costs of executive hire and retention.
- Options invite market manipulation. Simply by releasing overly optimistic forward profit figures or by raising the possibility of a takeover, the executive can make a windfall gain. Research by Kasznik and Aboody (1998) has revealed that executives can use their power to make corporate disclosures, especially immediately prior to options being granted and being exercised, to maximise their gains. Corporate disclosures and earnings forecasts tended to be less optimistic immediately before option grants being made, and more optimistic immediately prior to options being exercised.

With a view to strengthening the pay-performance link, a growing number of company boards have introduced a range of performance hurdles to short- and long-term incentive plans. Access to short-

term cash bonuses, share bonuses and options have been linked to the achievement of specified performance targets. Among the most widely used performance criteria hare are:

- Pre/post-tax annual profit
- Earnings Before Interest and Tax (EBIT)
- Earnings per share (EPS) growth
- Return on assets (ROA)
- Return on equity (ROE)
- Total shareholder returns (TSR)
- Economic Value Added (EVA)

In relation to long-term incentives, it is becoming increasingly common for executive option grants to be hedged with special performance hurdles that seek to motivate executives to add value to company shares before being able to realise any gain. Such devices include:

- Longer minimum vesting periods. It is increasingly common for options to be issued at the current company share price but only exercisable after a minimum period or when the price reaches a specified higher level. Typically, the minimum no vesting period is three years and the maximum is five years.
- Premium pricing of options. Premium pricing involves granting options at prices above the price prevailing at the date of grant. This means that the market share price must appreciate before the executive starts to make a gain.
- Zero exercise price options (ZEPOs). These are basically conditional share bonuses and typically provide for the vesting of share grants to executives free of charge when specific performance hurdles are met. These provide some reward to the executive even if movement in the company share price is slow or negative.
- Shareholder earnings hurdles. Firms are also tying options to specific performance targets and hurdles, particularly to the achievement of specific increase in shareholder returns.
- Share price indexing. To factor out market-wide share price movements which have little or no relationship to either executive or company performance, many firms now index the company's share price against overall market trends. A more precise measure of a company's *relative* share performance involves indexing its share price or total shareholder returns against that of 'peers' in the same industry. A growing number of executive option schemes now use industry share price deflaters of this type to minimise the possibility of the CEO making windfall gains or incurring externally-driven losses.

O'Neill and Berry (2002, 235) report that target-based plans now cover 80 percent of senior executives in major Australian companies, as compared with 52 percent in 1994. One of the most common hurdles currently in use is the achievement of total shareholder returns (TSR) in excess of the median TSR of a specified group of comparator companies (O'Neill and Berry, 2002, 240). Exhibit 3.9 details some of the key performance hurdles now applied to executive option plans in some of the largest Australian companies.

Exhibit 3.9
Performance Hurdles Applied to Executive Option Plans in Australian Companies, 2002.

Company	Key Performance Hurdles	Vesting Period
Commonwealth Bank*	Fifty per cent of allocated shares vest if the Bank's TSR is equal to the average return of peer institutions, 75 per cent vest at the 66th percentile in the index and 100 per cent when the return exceeds the 75th percentile.	Minimum three years.

Westpac	Options fully vest only if Westpac's growth in total returns to shareholders is at or above the 75th percentile of the top 50 companies.	Minimum three years, maximum five years.
ANZ	The ANZ accumulation index must equal or exceed the accumulated banking and finance index and the ASX l00 accumulation index for the full exercise of options.	Three to seven years. Options for the CEO expire four or five years from the date of grant.
National Australia Bank	NAB's TSR is given a percentile ranking in comparison with the ASX top 50 companies. If it does not reach 25 during the performance period, the options are not exercisable.	Three to eight years.
St George Bank	EPS growth must exceed annual compound growth of 10 per cent.	Minimum 30 months, maximum 5 years.
Macquarie Bank	Bank's average annual return on ordinary equity for the three previous financial years is at or above the 65th percentile of the corresponding figures for all companies in the S&P/ASX 300 Industrials Index.	One third after each of two, three and four years.
Telstra*	The 30-day average of the Telstra accumulation index must exceed the 30-day average of the All Industrials Accumulation index between the third and fifth anniversary of allocation.	Three to 10 years.
Optus	Share price must rise above the exercise price. Schemes for senior executives measure Optus' performance against an international pool of benchmark companies.	Generally 30 per cent after each of the first and second years. Options generally exercisable after the third year. Expire in the 10th year.
Woolworths	Compound annual earnings per share (EPS) growth and TSR must be above market performance.	Progressive vesting between three and five years. For grants since July 2002, between four n five years.
Westfield	Regard is taken of the group's performance during the period, as well as the individual's performance and the performance of relevant operations divisions.	25 percent after three years, 25 percent after four years, and 50 percent after five years from the date of grant.
Coles Myer	TSR must exceed that of the ASX 100 over the same period. For the managing director, TSR must be in the 50th percentile or better of the top 50 industrials or the company must achieve a minimum EPS annual compound growth rate.	Three to five years.
Harvey Norman	Performance hurdles determined by market place and reflected in share price.	Minimum three years. Maximum five years.
News Corp.	Options are issued at market value so shares need to appreciate for benefit to be received.	Each options grant vests at 25 per cent a year over four years.
BHP Billiton	TSR performance must be greater than the 50th percentile compared to the peer comparator group and then only a proportion will vest depending on where BHP Billiton is positioned.	Minimum two years.
WMC*	Company's performance against an index of industry peers.	One year.
Santos	Minimum of 10 per cent total shareholder return per annum (capital growth plus dividend).	Three to five years.
Amcor	Total shareholder return is to exceed a comparator TSR.	One year.
Brambles	Must meet or exceed the performance of the top companies in the ASX and FTSE leaders indices. Hurdles also relate to achieving total shareholder value returns.	Generally three to five years.

Mayne Group	The recipient has the right to exercise the options in the vesting period.	Minimum 42 months, maximum 60 months.
Qantas*	The percentile performance of Qantas (based on average relative TSR) within a modified ASX 200 Index and within an international airline 'peer group'.	Minimum three years, maximum eight years.
Tabcorp	The company's TSR is ranked against the top 100 companies in the ASX 200 excluding mining companies and property trusts. The ranking determines the number of options that become exercisable.	Not specified. Depends on performance hurdles being achieved.
Coca-Cola Amatil	Total shareholder return performance against a peer group of Australian companies. Shares must appreciate to receive benefit.	Three to five years.
IAG	TSR is ranked against the ASX 100 index over a period of three to five years. The share rights are not exercisable if it ranks less than the 50th percentile.	Three to five years.
AMP*	The board determines the number of options to be vested based on AMP's financial performance measured by shareholders' returns.	Minimum three years, maximum 10 years.
Southcorp	The absolute increase in the share price over a defined period.	Normally three to four years.
James Hardie	In some cases, TSR needs to exceed the 50th percentile before the options are granted and the return must exceed the 75th percentile before all the options are granted.	Minimum three years. Maximum five years.
Leighton	TSR must equal or exceed the percentage increase in either the ASX All Industrials Accumulation index or the ASX 100 Industrials Accumulation Index over the two years since the options were granted.	Minimum two years, maximum five years. Not more than 50 per cent of options can be exercised before the third year.
Patrick Corp	The options are issued at a premium to the market and the principal hurdle is to see the share price appreciate over time.	One third after each of the first, second and third years. Options expire after five years.

* Companies have abandoned or eliminated further issues of executive options from this financial year.
Source: Murray (2002), pp.48-49.

Despite the intention behind the adoption of performance-contingent plans of the above type, there is as yet little hard evidence that the inclusion of such performance hurdles in executive incentive plans do deliver improved levels of organisational performance. The 2001-2002 *Australian Financial Review* survey data includes details on 39 executives from the companies whose performance share and option plans are detailed in Exhibit 3.9. In 2001-2002, these executive had an average base salary of $AU2.32 million, bonuses and incentives of $AU2.05 million, total cash remuneration of $4.39 million, shares valued at $AU271 million, and gross option value of $AU49.8 million. Yet this group presided over performance outcomes little different from those achieved by their counterparts occupying the 100 largest positions: ROE of 13.4 percent compared to 11.9 percent achieved by the largest 100, and change in earnings per share of 25.5 percent compared to 22.1 percent. In relation to share price change, performance was considerably lower than that of the largest 100: minus 4.4 percent compared to plus 7.5 percent.

Exhibit 3.10 presents the correlation coefficients for these 39 executives. As the coefficients indicate, a positive association between pay and performance is no more in evidence here than it is for the larger group of executives represented in the 2001-2002 *Australian Financial Review* survey data. The multiple regression results for this group (Exhibit 3.11) confirm the point. Ironically, for this group, it was the number and value of options held which had the strongest negative correlation with performance.

Exhibit 3.10
Executive Pay and Organisational Performance: 39 Executives in Australian Listed Companies with Performance Hurdles, 2001-2002 - Pearson Correlation Coefficients.

Remuneration Component	Company Performance Criteria		
	ROE	Percent Share Price Change	Percent Change in Earnings per Share.
Base Salary, Super & Benefits	**-.639****	-.227	-.005
Cash Bonuses & Incentives	**-.405***	-.165	-.177
Total Cash Remuneration	**-.577****	-.217	-.136
% Annual Change in Total Cash Remuneration	.224	.250	-.201
Number of Shares Held	**-.369***	-.221	.007
Value of Shares Held	**-.348***	-.153	.024
Number of Options Held	**-.718****	**-.337***	-.031
Gross Value of Options Held	**-.678****	-.284	-.125

** Significant at $p < 0.01$
* Significant at $p < 0.05$ level
Source: *AFR*, 6 November 2002.

Exhibit 3.11
Executive Pay and Organisational Performance: 39 Executives in Australian Listed Companies with Performance Hurdles, 2001-2002 - Multiple Regression Results.

Year	R Square	F Value	Predictors							
			Base Pay		Bonuses & Incentives		Value of Shares		Value of Options	
			Beta	t	Beta	t	Beta	t	Beta	t
ROE	**.506**	**8.184****	-.335	-1.714	.082	.505	-.007	-.049	**-.476***	**-2.197**
Share Price Change	.082	.755	-.043	-.166	.017	.081	-.003	-.016	-.261	-.909
EPS Change	.059	.468	.016	.085	-.232	-1.166	.121	.605	-.119	-.669

* Significant at $p < 0.05$
*** Significant at $p < 0.001$

What might account for the apparent ineffectiveness of formal performance hurdles? It may simply be that such practices are too recent to have yet had any discernible impact. Another possible reason is that traditional financial hurdles are open to 'system gaming'. As O'Neill notes:

> If an executive's bonus is dependent on meeting or exceeding an agreed budget, it is a fair bet that the budget setting process is likely to be compromised by significant negotiations predicated on a potential remuneration outcome, rather than on genuine longer term corporate performance issues. (1999a, 160)

Profit-based bonuses have particular problems in this regard. Profit-related bonuses are typically paid after a threshold figure, or trigger is reached, but the 'line of sight' between reward and performance is usually weak since profitability is susceptible to random movements in uncontrolled variables such as materials costs and interest rates. Moreover, in order to get a higher short-term reward, the executive may artificially inflate paper profits by postponing infrastructure investment or cutting back on research and development. This will deliver a short-term personal gain but only at the cost of long-term organisational performance. A post-tax profit formula would align more closely with shareholder interests since it post-tax profit is the basis for the calculation of dividend levels, but it could still be affected by external variables like random changes to tax law.

A bonus formula based on earnings per share directly links bonuses to the two components of shareholder earnings, namely dividends and share price appreciation. While this will bring the interests of the executives into closer alignment with that of the shareholders, it also has some

limitations. In particular, share prices are subject to a range of influences over which the executive has little or no control, such as random fluctuations in share market demand. In some plans of this type, the share price target is benchmarked against a wider share index to factor out the effect of general share market trends. However, this gives only a relative and not an absolute measure of performance. If the firm's share price falls less than the industry benchmark, the target is still met and the bonus paid, even though shareholders have still lost value.

The application of performance hurdles may simply encourage executives to hedge their risks still further by demanding larger numbers of options: 'The logic of this relationship is based on the notion that if the probability of the options vesting is only 50 percent, there is a need to issue twice as many to ensure that the expected reward outcome remains constant' (O'Neill and Berry, 2002, 240).

These are some of the reasons why the greater use of performance hurdles has not translated into higher levels of organisational performance. A related factor here is poor follow-up and evaluation. Notwithstanding the trend towards a greater use of incentive programs, 'the vast majority of these companies admit that they do not know the impact these plans have on business performance' (O'Neill and Iob, 1999, 74). Less that one in four companies have any formal process for evaluating plan effectiveness (O'Neill and Berry, 2002, 23). Such shortcomings highlight the pressing need for a more rigorous and accountable approach to corporate governance by company boards.

3.4 Conclusions

The data and analysis presented in this chapter provide little support for the contention that executive remuneration practices do enhance traditional financial measures of organisational performance. Indeed the analysis indicates a range of negative correlations between the quantum of executive remuneration and traditional measures of organisational performance. The performance outcomes in the firms headed by Australia's highest paid CEOs seem to bear this out. High executive pay does not necessarily translate into high organisational performance. Indeed, the current average pay gap between top 100 CEOs and ordinary employees appears to be is at least three times higher than that required to maximise organisational performance. Moreover, far from increasing financial performance, the increased emphasis on short- and long-term incentives in Australian executive remuneration packages is associated with lower rather than higher levels ROE, share price change and change in earnings per share. The inclusion of performance hurdles in executive incentive plans seems thus far to have done little to strengthen the pay-performance link.

CHAPTER 4
Banking the Bucks: Senior Executive Remuneration in the Australian Banking Industry.

This case study explores executive pay in the four largest banks: the National Australia Bank (NAB); the Commonwealth Bank of Australia (CBA); Westpac; and the Australia and New Zealand Banking Corporation (ANZ). It examines the remuneration of CEOs, other executives and non-executive directors reported in the banks annual reports for 2002. The study also compares the remuneration of CEOs to that of customer service officers, the degree to which performance hurdles for executives are evident in the Bank's annual reports, concerns over the lack of expensing of stock options and the lack of timely disclosure of executive employment contracts. In addition, the case study questions the relationship between rising corporate profits and declining social responsibility by contrasting the banks' economic performance in recent years against the numbers of branch closures, job losses and increases in workloads experienced by staff.

4.1 Executive and Non-Executive Director Remuneration in the Four Major Banks

This section provides the total cash remuneration paid to CEOs, other senior executives and non-executive directors of the four major banks for 2002 using data contained in the banks' annual reports for 2002.

CEO Remuneration

The total remuneration for the CEO of the Commonwealth Bank, David Murray, for 2002 was approximately $AU8.9 million. This figure includes base pay, bonuses, superannuation and a long service bonus of $AU4.65 million. Murray also received 250,000 options with a fair value of $AU2.01 using the Black-Scholes option pricing model worth $AU502,500 and 42,000 shares under a share grant where 'no consideration is payable by the executive for the grant of shares'. The average share price for the CBA for the week on 24-30 June 2002 was $AU33.36, putting the value of the 42,000 shares at $AU1.4 million.

The total remuneration for the CEO of NAB, Frank Cicutto, for 2002 was $AU2.62 million. He did not receive any stock options for 2002. This represents a drop from the previous year of $AU2.93 million and reflects the $AU4 billion in losses by the bank's US mortgage arm HomeSide. When comparing 2001 to 2002 Mr Cicutto's base salary jumped $AU280,000 to $AU1.76 million (up 19 percent) in 2001-2002, though his performance based remuneration was almost halved to $AU765,000 from $AU1.35 million (*Sydney Morning Herald*, 26 November 2002, 21).

The CEO of Westpac, David Morgan, received compensation to the value of $AU6.18 million. This included base pay and short term incentives valued at $AU3.58 million and a $AU2.6 million stock option grant comprised of 1.1 million options with a 'notional value' of $AU2.37 (Westpac Annual Report, 2002, p.51). The total remuneration for the ANZ's CEO, J McFarlane, for 2002 consisted of $AU5.58 million and comprised $AU1.42 million salary, $AU1.4 million of performance related bonuses of deferred shares and $AU80,500 in superannuation payments. He also received options valued at $AU2.68 million. The value of the options was determined by multiplying two lots of 500,000 options issued on 31 December 2001 with a fair value, using a modified Black-Scholes model, of $AU2.68 per option (ANZ Annual Report 2002, 53).

Exhibit 4.1 summarises the estimated total remuneration of the CEOs of the 'big four' banks.

Exhibit 4.1
CEO remuneration in the four major banks, 2002.

	ANZ	Westpac	CBA	NAB	Total
			($AU million)		
CEO cash remuneration in 2002	5.58	6.18	8.9	2.62	23.29

CEO Pay in Comparison to that of Customer Service Staff

While the overall ratio of average weekly earning to executive pay for 2002 was 74:1, in the banking sector the ratio of CEO pay across the four biggest banks to that of customer service staff was 188:1. The largest difference occurred at CBA. The CEO, David Murray, whose total pay for 2002 was $AU8.9 million, received 307 times the salary of customer service employees for 2002. The salary of a grade 1 customer service officer was $AU29,001 under the Commonwealth Bank of Australia Retail Banking Services Enterprise Bargaining Agreement 2002 (CBA, 2002). At Westpac, the CEO's total package of $AU6.18 million was 191 times the pay of a grade 1 customer service officer, who received a maximum of $AU32,430 under the Westpac Banking Corporation (SA/NT/TAS) Enterprise Development Agreement, 2002 (Westpac, 2002). The next largest pay gap was at ANZ where the CEO's package of $AU5.58 million was some 187 times larger than that of a customer service officer grade 1. Under the 1998 Enterprise agreement, which remains in force, a customer service officer grade 1 was paid $AU29,836 (ANZ, 1998). At the end of the queue is the difference between customer service officers grade 1 at the NAB and the CEO, Frank Cicutto, which stood at a comparatively low ratio of 81:1 for 2002. This can largely be explained by the lack of share options provided to the CEO while his performance bonus was significantly reduced from the previous year. A grade 1 employee at NAB received $AU32,430 under the National Australia Bank limited Enterprise Agreement 2002 (NAB, 2002).

The Remuneration of Other Senior Executives

The entitlements provided to executives across the four major banks over 2001-2002 has created a burgeoning number of millionaires: 'The number of senior bankers earning more than $AU1 million in the 2002 financial year jumped from 39 to 51. According to disclosures made by the four majors – ANZ, NAB, Westpac and Commonwealth Bank, 211 senior executives received aggregate payments of $AU180.9 million in 2002 compared with 134.2 million in 2001' (Lekakis, 2002, p.28). These figures include base salary payments, performance-based bonuses, superannuation and retention payments, but exclude lucrative options programs. In 2002 the NAB alone gave 11.26 million options to 751 senior executives valued at almost $AU72 million (*Sydney Morning Herald*, 26 November 2002, 21).

The 6 senior executives who reported directly to CBA CEO David Murray received a total of $AU8.24 million. This figure was calculated by adding the total remuneration amounts of the 6 senior executives disclosed on the 2002 CBA annual report. The figure included base pay, bonuses (paid this year and vested in CBA shares), superannuation as well as other compensation.

Excluding the CEO, the next seven senior executives at NAB whose remuneration was listed in the annual report were paid a total of $AU21.25 million: 'The biggest slice of the NAB salary pie however went to an executive employed for little more than a year. Mr Whiteside was the white knight sent in to take charge of HomeSide. Mr Whiteside's $AU5.9 million remuneration included $AU3.3 million in performance bonuses paid for stabilising and then selling the US business for a surprise $AU6 million profit' (Charles, 2002, p27).

The six most senior executives at Westpac after the CEO were paid a total of $AU5.90 million. This figure was calculated by adding the total remuneration amounts of the 6 non-executives

disclosed on the 2002 Westpac annual report. The amount includes base pay, short term incentives and other compensation. The total amount paid to the next five senior executives mentioned in the annual report after the CEO was $AU6.73 million (ANZ Annual Report p.53). The $AU6.73 million is calculated by adding the total remuneration amounts of the 5 executive disclosed on the 2002 ANZ annual report. The amount includes salary/fees, benefits performance related bonuses (both cash component and deferred shares) and superannuation contributions.

Remuneration of Non Executive Directors
Within the CBA the 10 non-executive directors were paid a total of $AU1.31 million. This figure was calculated by adding the total remuneration of each director outlined in the 2002 annual report. The report indicates that the total remuneration category includes base fee/pay, committee fee, salary sacrifice and superannuation. Retirement allowances however were not included in this amount (CBA Annual Report, 2002, p.48). In addition, the directors participated in the CBA's Non-executive Directors' Share Plan (NEDSP). This plan 'provides for the acquisition of shares through the sacrifice of 20 percent of their annual fees. The shares purchased are restricted for sale for 10 years or when the director leaves the board, whichever is earlier' (CBA Annual Report, 2002, p.48). The amount of shares purchased under this plan during the 2002 financial year totalled 14,511.

At NAB, the 8 non-executive directors were paid a total of $AU1.62 million. The $AU1.62 million is calculated by adding the total remuneration for the 8 non-executives disclosed in the 2002 NAB annual report. This figure included fees/cash, the share component and other benefits: 'The aggregate number of shares acquired by non-executive directors as part of their remuneration was 9,233 shares issued at an average price of $AU34.50' (NAB Annual Report, 2002, p.68). The total does not include, however, the accrual of retirement allowance benefits that was worth $AU693,292.

The 2001-2002 financial year saw 11 non-executive directors at Westpac paid a total of $AU2.67 million. The $AU2.67 million was calculated by adding the total remuneration paid to the 11 non-executives disclosed in the 2002 Westpac annual report. The total includes fees, superannuation guarantee charges and retirement/resignation payments. It also includes the retirement resignation payments provided to 5 directors which amounted to $AU1.38 million. Directors' holdings of shares and options as at 31 October 2002 totalled 5.21 million ordinary fully paid shares and options (Westpac Annual Report, 2002, p.50).

The total fees paid to eight non-executive directors by the ANZ for 2002 amounted to $AU1.19 million. The $AU1.19 million includes income from salaries, bonuses, other benefits (including non-cash benefits), retirement benefits and superannuation contributions' (ANZ Annual Report, 2002, p.68). These directors were further compensated with a total of 1.75 million options and 1.38 million fully paid ordinary shares in the company (ANZ Annual Report, 2002, p.67).

4.2 Performance Hurdles for Bank Executives.

Over the last 15 years there has been a decline in the overall proportion of remuneration allocated to a fixed amount of base pay for executives and a growing emphasis on both short-term (STIs) and long-term incentives (LTIs). In most cases, short-term incentive plans measure executive performance in relation to measures such as net operating profit after tax or operating income though other measures such as return on equity and return on capital employed are also commonly used as they take account of the return on capital invested in the company (O'Neill and Berry, 2002, 233). Many companies have introduced a target-based approach to measuring the achievement of STIs. At the beginning of the financial year performance criteria are outlined and the levels of rewards available for each proportion of targets achieved is determined. This approach

measures executive performance against measures such as profits, return on investment, and return on net assets. While some of the banks outline a philosophy that appears to mirror these trends, there is little if any real detail of the level of performance hurdles that executives need to meet or the level of rewards on offer for each target or proportion thereof that they meet.

As has been shown (see Exhibit 3.9) performance hurdles are also now widely applied to LTIs, including option plans, in the Banking industry. In the case of Westpac, a new Westpac Performance Plan has replaced the General Management Share Option Plan and the Senior Officers' Share option plan. Westpac claims that the plan imposes stringent performance hurdles on executives: 'Under this new hurdle, all rights to performance options and performance share rights are lost if our TSR [total shareholder return] performance fails to be at or above the middle (median) performance of the peer group over the specific performance periods…' (Westpac Annual Report, 2002).

At the ANZ, stock options form a major element of the long-term incentives provided to executives and the performance hurdles for these options have been tightened in 2002. 'The new option has a dynamic exercise price, i.e. the exercise price will be adjusted in line with the movement in the S&P/ASX 200 banks (Industry Group) Accumulation Index (excluding ANZ). This has replaced the "traditional" option where executives could benefit from a general rise in the market…' (ANZ Annual Report, 2002).

At the Commonwealth bank the allocation of options has been linked to meeting the total shareholder return of comparator financial institutions:

> Effective from 1 July 2002, options will no longer be issued under the Equity Reward Plan. In future Reward Shares only will be issued under this plan. A further change introduced is that whereas previously allocated options and shares vested upon the weighted average Total Shareholder Return of peer institutions being exceeded, a tiered vesting scale has been introduced so that 50% of allocated shares vest if the bank's Total Shareholder Return is equal to the median return, 75% vest at the 67th percentile and 100% when the Bank's return is in the top quartile. Options and shares previously allocated under the Equity Reward Plan will continue until they vest upon the prescribed performance hurdles being met or they lapse. (Commonwealth Bank, Annual Report 2002, 50)

Nevertheless, in relation to the NAB, the Australian Shareholders Association has expressed its opposition to the NAB's share option plan for executives because a section of this scheme allows for options to be exercised for below average performance (ie. 25-50th quartile) (Australian Shareholders Association Website, 2002).

In addition, executive remuneration commentators have highlighted a range of problems with this approach to executive rewards. First, there are no details provided in the banks annual reports regarding the specific targets that CEOs and other executives have to meet in order to receive their bonuses, stock options or share grants other than the exhortation that it will be based on a comparison of other financial institutions. As Alan Kohler has highlighted in relation to the CBA, while 'There is a general statement about how the CBA hurdle works (exceeding average total shareholder return of peer companies), but no explanation of exactly how Murray earned his bonus [$AU670,000] or the 42,000 shares [$AU1.4 million]…' (Kohler, 2003, 72). Second, there is the danger that in order to reach the specific short-term targets set for them CEOs, and other executives, have considerable incentive to put off spending on research and development and infrastructure projects. Third, where executives can see that they are performing below the hurdle, there may be a temptation to engage in high-risk activities in order to achieve the targets. Fourth,

share price volatility often occurs because of factors beyond the control of executives such as changes in the economy and international developments. Fifth, the outcome of such comparisons is relative rather than absolute and even if the share price falls, as long as the fall is less than that of comparator companies, the performance hurdle may still be met, even where shareholders have suffered an absolute decline in the value of their shares. Sixth, this approach to executive motivation and performance management can significantly inflate the number of stock options being allocated as '…if the probability of the options vesting is only 50 percent, there is a need to issue twice as many to ensure that the expected reward outcome remains constant' (O'Neill and Parry, 2002, 233-240).

4.3 Commercial-in-Confidence: Non-Expensing and Non-Disclosure

Non-Expensing of Options

The granting of share options to executives is beneficial for the major banks as they appear to have no cost. This is because accounting rules do not require them to be taken as an expense as long as the grant price is fixed. This is advantageous as 'issuing options and shares dilutes the asset backing of a company and there is a definite cost involved that should be charged to company revenue under internationally accepted accounting principles' (Wasiliev, 2002).

None of the four major banks charged the cost of options as an expense in their financial statements in 2002. For example, in relation to the NAB '…the Company adopts the intrinsic value method for valuing options issued under the plan. Under the intrinsic value method, a nil value is ascribed to the option issued under the plan, as the exercise price and market value of the options at issue date are equivalent …[though] The Company intends to adopt the new standard in relation to accounting for share options once it is issued by the IASB and the Australian Accounting Standards Board' (NAB Annual Report, 2002, 71)

The CEO for NAB did not receive any share options for 2002 though the next seven senior executives received an aggregate of 925,000 options whose fair value was $AU5.9 million. Overall within NAB: 'During and since the end of 2002, 11,263,500 share options were granted to 751 senior employees (including the options granted to senior executives…). The fair value of these options amounted to $AU71.86 million' (NAB Annual Report, 2002, 70).

The Commonwealth Bank also failed to expense the stock options allocated to executives in its financial statements though it concedes that 'Based on the current deliberations of the International Accounting Standards Board on recognition of an expense for equity based compensation, the Group would be required to recognise an expense for the fair value of the options issued' (Commonwealth Bank Annual Report 2002, 51). The CBA's CEO, David Murray, received stock options worth $AU502,500 and a 'share grant' worth $AU1.4 million. The six senior executives who reported directly to David Murray were provided with a total of 575,000 options as well as 82,000 shares (CBA Annual report, 2002, 49). This amount is calculated by totalling the option grant numbers and share grant numbers for all of the executives (excluding the CEO) from the 2002 CBA annual report. Cumulatively, just over 3 million executive share options were granted by the CBA during the 2002 financial year at a fair value of $AU6.03 million. During the current year 2,994,500 options were issued with a fair value of $AU2.01, with 12,500 options issued with a fair value of $AU1.53. Fair value for CBA stock options is determined using the Black-Scholes option pricing model and includes a 50 per cent discount in recognition of the likelihood that executives will not be able to meet the performance hurdles established and will be unable to exercise a sizeable number of the options available (CBA Annual report, 2002, 51).

The CEO of Westpac received $AU2.6 million of stock options for 2002. The six next senior executives listed in the 2002 Annual received 1.5 million performance options and 424,528 performance share rights (Westpac Annual Report, 2002, 52). Had Westpac accounted for the total cost of executive options across the company, it would have resulted in an expense of $AU48 million (Westpac Annual Report, 2002, Directors Report).

At ANZ the CEO received stock options worth $AU2.68 million in 2002. The options received by the next five senior executives detailed in the 2002 Annual Report totalled 903,700 with a fair value of $AU1.66 million using the Black-Scholes model. The $AU1.66 million was derived by adding the 364,100 options issued on 24 April 2002 (with a fair value of $AU2.95) to the 539,600 options issued on the 24 October 2002 (with a fair value of $AU1.10) (ANZ Annual Report 2002, 53).

Non Disclosure of Bonuses

The announcement of the record $AU32.75 million payment to Chris Cuffe, the former chief executive of Colonial First State, by the CBA in February 2003 on his departure from the organization highlights the lack of timely disclosure of these contractual arrangements between the banks and their employees. According to Cuffe the CBA renewed his contract in 2000 as part of its takeover of Colonial First State and did so again in 2002. The lack of disclosure of the details of Cuffe's employment contract contrasts with the situation that has existed in the US for many years where the remuneration of CEOs is fully disclosed by way of proxy statements (Kohler, 2003, 72). The Cuffe payment highlights the need for changes to the Corporations Act and the ASX listing rules that would require these contracts to be disclosed when the contract is negotiated rather than when it is paid out. Such timely disclosure requirements might also make boards of directors more cautious when negotiating such deals (Whyte, Murray, & Cornell, 2003, 81).

4.4 Performance at a Price

What evidence is there that this ever-rising largesse has served to enhance bank financial performance? The 'big four' banks have certainly achieved impressive growth in reported net profits in recent years. As Exhibit 4.2 indicates, the net profits of Australia's four major banks have increased steadily over the past decade.

Exhibit 4.2
Net Profits for the Four Major Banks, Australia, 1993-2002. ($AU million)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
	($AU Million)									
ANZ	247	822	1,052	1,116	1,024	1,106	1,480	1,747	1,870	2,322
CBA	443	682	983	1,119	1,078	1,090	1,422	1,678	2,262	2,501
NAB	1,129	1,708	1,969	2,102	2,223	2,014	2,821	3,239	2,083	3,379
Westpac	39	705	947	1,132	1,291	1,342	1,456	1,715	1,903	2,192
Total	1,858	3,917	4,951	5,469	5,616	5,552	7,179	8,379	8,118	10,394

Source: FSU Website. (2001). 'The facts on big bank profits'
* 2002 net profit figures taken from each of the bank's 2002 annual report.

However, a closer analysis points to a rather different set of conclusions. While the small size of this CEO group is not sufficient to support correlation and regression analysis, using the *Australian Financial Review* data, it is still possible to track longitudinal change in average CEO pay and organisational performance in eight major banks for the four year period 1998-2002. The banks represented are the National Australian Bank, Westpac, ANZ, Commonwealth Bank, Macquarie, St George Bank, Bankwest, and Suncorp-Metway.

Exhibit 4.3 summarises the key descriptive statistics for this group of eight. In contrast to the data for the executive groupings considered in Chapter 3, the data for bank CEOs reveals a divergence between trends in average executive remuneration and organisational performance since 1998. On the one hand, since 1998 the bank CEOs have enjoyed a sustained increase in the average value of both the cash and equity components of their remuneration. Over this period, their average total cash remuneration rose by 57 percent, a rate of increase considerably higher than that achieved by most other executives, including the 20 most highly cash remunerated executives (see Exhibits 1.1 and 3.5, above). Again, in contrast to the latter, since 1998 the bank CEOs have seen the average value of their share holdings rise by almost 70 percent since 1998 and the gross value of their option holdings increase by 90 percent. Conversely, over the same period, the eight banks headed by these CEOs have experienced a sustained decline in ROE, and a deceleration in both share price growth and growth in earnings per share. Over the four year period, cumulative growth in spare price and in earnings per share (21 percent and 20 percent, respectively) fell well short of the growth in the growth in executive cash remuneration and equity wealth.

Exhibit 4.3
Executive Pay and Organisational Performance in Eight Major Australian Banks#, 1998-2002 - Descriptive Statistics.

Executive Remuneration (average) $AU million		Company Performance (average) Percent	
Base Salary, Super & Benefits		Average ROE	
1998-1999	1.01	1998-1999	+14.89
1999-2000	1.09	1999-2000	+8.23
2000-2001	1.14	2000-2001	+7.45
2001-2002	1.17	2001-2002	+4.62
Change 1998-2002	(+15.80%)		
Cash Bonuses & Incentives			
1998-1999	0.80		
1999-2000	0.94		
2000-2001	0.87		
2001-2002	1.69		
% Change 1998-2002	(+111.25%)		
Total Cash Remuneration		Average Share Price Change	
1998-1999	1.82	1998-1999	+13.75
1999-2000	2.04	1999-2000	+3.50
2000-2001	2.13	2000-2001	+2.93
2001-2002	2.86	2001-2002	+0.83
% Change 1998-2002	(+57.14%)	% Change 1998-2002	+21.01
Value of Shares Held+			
1998-1999	3.68		
1999-2000	4.30		
2000-2001	4.59		
2001-2002	6.25		
% Change 1998-2002	(+69.83%)		
Gross Value of Options Held++		Average Change in Earnings Per Share	
1998-1999	18.44	1998-1999	N/A
1999-2000	25.62	1999-2000	+18.08
2000-2001	32.68	2000-2001	+5.39
2001-2002	35.12	2001-2002	-2.94
% Change 1998-2002	(+90.46%)	% Change 1998-2002	+20.53

Banks represented: NAB, Westpac, ANZ, CBA, Macquarie, St George, Bankwest, and Suncorp-Metway..

+ Total share ownership as disclosed in most recent annual report multiplied by company's closing share price at end of year.

++ Total number of options held as disclosed in most recent annual report multiplied by company closing share price at start of year.
Source: *AFR*, 1 November 1999, 16 November 2000, 16 November 2001, 6 November 2002.

It could be argued that the banks have continued to return positive (albeit diminishing) growth on these performance dimensions and have remained a low risk 'safe haven' for investors since the end of the share price boom. Yet, in itself, this does not justify the disproportionate rise in executive remuneration levels in this industry.

4.6 Profits versus Social Responsibility

These findings must also be placed in the context of wider stakeholder interests, including those of customers and ordinary employees. The banks have arguably undertaken cost-cutting measures that have had a deleterious impact on customer satisfaction and employee morale. For example, from 1993 until 2000 the four major banks have also closed over 1900 branches combined. (FSU Website, 'Staff and customers pay for bank profits says reserve bank study', 1 March 2000, 1). Between 1993 and 2001, the number of branches was reduced by 454 at ANZ, by 703 at CBA, by 352 at NAB and by 449 at Westpac (FSU website).[17] In addition, according to the Financial Sector Union, between 1991 and 2001 some 55,497 jobs have been lost in the industry. Exhibit 4.4 details the extent of job losses in the 'big four' since 1991.

Exhibit 4.4
Jobs Lost in the Major Banks, Australia, 1991-2002.

Bank	1991	2001	Jobs lost
ANZ	30,433	16,152	-14,281
Westpac	37,304	19,848	-17,456
CBA	46,597	28,837	-17,760
NAB	22,000	16,000	-6,000
Total	136,334	80,837	-55,497

- NAB employment totals are FTE estimates based on figures provided to FSU from National. They differ from those set out in National Annual report and exclude ex-MLC employees
- 1991 employment numbers drawn from Affirmative Action Agency reports.
- 2001 figures sourced from company reports (except National)
- Westpac figures based on 2001 Annual report and subsequent figures provided to FSU from Westpac.

Source: FSU Website, (2001). 'Jobs lost in major banks'.

On December 13 2001 Westpac, NAB and ANZ workers participated in the first coordinated industrial action between the major banks. 'The action had been called to draw attention to the declining levels of customer services caused by branch closures and staff cuts, while banks make billions of dollars in profits' (Bosswatch, 'Unprecedented action by bank workers, 11 November 2001, 1).

The consequence of closing branches and job cuts is that the remaining employees experience expanding workloads: 'Research conducted by the Finance Sector Union found that the amount of overtime work of bank staff had increased three-fold over the past 14 years' (Adam, 2002). The following information was taken from the Financial Sector Union Website.

[17] The figures are taken from a FSU table labeled branch closures. It appears however that the figure is the difference between the number of branches at the beginning and end of the year. Thus, it includes the number of new branches opened as well as the number that have closed.

Who usually works overtime?

- 47 percent of males said they usually work overtime (62,900 out of 134,200)
- 27 percent of females said they usually work overtime (51,500 out of 187,600)
- 36 percent of the total Finance and Insurance workforce usually work overtime (114,400 out of workforce total of 321,800)

Are they paid for their overtime?

- 39 percent of those doing overtime were not paid for it (44,200 did unpaid overtime)
- 32 percent said it was included in their salary package (36,800)
- 21 percent were paid for their overtime (24,300)
- 6 percent received time off in lieu (6,400)
- 2 percent had some other arrangement for compensation (2,700)

According to the FSU a total of 986,900 hours of overtime are worked each week in the finance sector, 39 percent of which remains unpaid. These unpaid hours total 384,891 hours, which translates into the banks saving approximately $AU5 million per week[18] (FSU Website. 'Hours of work in the finance sector', 2002).

For these reasons, O'Neill and Perry argue, with considerable justification, that a more appropriate approach to allocating short-term incentives for executives would be to emphasise a Balanced Scorecard approach whereby the executive is measured not solely against narrow financial performance criteria, but also against '…customer satisfaction, employee satisfaction and motivation, process improvement, corporate reputation and strategic development' (2002, 237).

4.7 Conclusions

This case study of executive pay in the major Australian banks casts doubt on the assumption that the levels of cash and equity wealth enjoyed by the CEOs of the major banks are justified in terms of improvements in bank financial performance. Indeed, in terms of performance measures that better reflect shareholder value, this is not the case. The *Australian Financial Review* data points to the existence of a divergent trend between Bank CEO remuneration, including cash, shares and options, and widely recognised measures of financial performance, including ROE, share price change and earnings per share.

The excessive nature of executive remuneration provided by the banks is compounded by the lack of information provided regarding the targets that executives have to meet to receive either short-term or long-term incentives. The only information provided are statements to the effect that more stringent criteria have been developed whereby executives have to perform to at least the median level of peer companies before 50 per cent of available stock options can be vested. Rather than containing the spread of stock option grants, such criteria may led to a significant increase in the number of options made available to executives to match their expectations of financial rewards. In addition, none of the four major banks expense the cost of stock options in their financial statements, they even go so far as to claim that they have a nil value under existing accounting standards. This is despite the substantial sums options cost the banks, such as the $AU72 million

[18] The $AU5 million in lost wages is calculated using the lowest rate for a bank worker of $AU14.90 an hour. $AU14.90 is an hourly rate based on the lowest base salary (ANZ) of the four banks' current enterprise agreements. Based on average weekly earnings for the sector the amount would be closer to $AU10 million per week

outlined in the NAB Annual Report (2002) and the $AU48 million noted in the Westpac Annual Report (2002). Moreover, the high levels of payments to executives in the banks on the termination of their employment contracts supports moves by the Australian Stock Exchange for more timely disclosure of the details of executive employment contracts at the time they are negotiated.

The study also draws attention to the enormous gap between the payments provided to CEOs compared to the level of pay provided to bank customer service staff. The ratio of CEO pay to that of customer service staff (188:1) is over two and a half times the level evident across all industries (74:1). The banks' soaring profits performance in recent years and concomitant record of over 55,000 job losses (between 1991 and 2001) and over 1,900 branch closures (between 1993 and 2000) also suggests that executive rewards are linked to an overly narrow focus on financial criteria to the detriment of the banks' broader social responsibilities to their customers and staff. One means of addressing this would be to link executive rewards to a Balanced Scorecard approach that also measures customer expectations and staff morale and job satisfaction.

CHAPTER 5
Options for Reform

There is now widespread agreement across many sectors of Australian society that executive pay is out of control and that existing reporting requirements and regulatory mechanisms are inadequate to the task. The evidence presented in this report suggests that existing executive remuneration practices are defensible neither in terms of distributive justice nor organisational effectiveness.

What, then, can be done? Within the scope of a liberal democratic system, the options for reform and remedy open to the trade union movement would seem to fall into three main areas:
1. Legislative enactment, principally through the Corporations laws;
2. Legislative enactment through the taxation system;
3. Through peak unions, such as the Labor Council of New South Wales and the ACTU, making common cause with other bodies seeking change in the areas of corporate governance and executive remuneration

The report's key recommendations are as follows:

1. Governments should use their purchasing policy to encourage firms with moderate executive packages.
Governments currently consider a range of issues when considering a contract or tender, including environment impact, economic impact, compliance with affirmative action requirements and, in the case of NSW, labour relations. Similarly, executive pay levels could also be considered when awarding government tenders and contracts, with recognition that pay relativities above a performance optimal range (See Chapter 3, Section 2) are less likely to deliver a good return for shareholders or the taxpayer. The use of government purchasing policy to affect behavioural change offers companies that comply a clear incentive for altering their corporate practices.

2. Create a fully independent regulatory body with power of enforcement.
The formation of the Corporate Governance Council in 2002 and the development of the Australian Stock Exchange's (ASX) *Principles of Good Corporate Governance* (*Sydney Morning Herald*, 1 April 2001) represent a belated acknowledgement in business circles of the 'problem' of executive pay determination. The ASX's attempts to promote good practice within a framework of self-regulation are certainly to be welcomed. Arguably, however, such activities also serve a defensive purpose. The promotion of voluntary codes of best practice is designed, in part, to head off further legislative regulation. Self-regulation also has its own inherent shortcomings. Since the ASX is itself a privately listed company, its regulatory functions are necessarily compromised. These functions should be transferred to a fully independent entity such as the Australian Securities and Investments Commission.

3. Restrict the use of share grants and share options.
The total number of options and shares granted to hired executives should be capped so as not to exceed a specified proportion of the number of shares in the company's issued capital. This would have the effect of limiting the dilution of ordinary shareholder wealth and the scope for the abuse of option plans. Guidelines laid down by the shareholder bodies like the Australian Shareholders Association, the Australian Investment Managers and the Australian Institute of Company Directors propose a cap of 5 percent here. At the same time, a statutory minimum vesting period of three years should be applied to all new option plans so as to minimise the potential for financial manipulation

4. End taxpayer subsidy of executive pay and perks.

An enforceable limit should be placed on 'reasonable business expenses' for the purposes of taxation deductions. A limit should also be placed on the capacity of companies to use non-monetary compensation mechanisms to avoid income tax. This may also require amendment of the taxation regime applicable to family trusts to limit the capacity of directors, senior executives and companies using this means to minimise tax.

As the US experience demonstrates, what is required is substantially more than a simple cap on the deductibility of the fixed or cash component of executive pay. The US Congress limited deductibility to a maximum of $US1 million in 1993 but performance-based payments were excluded from the limit and, as a consequence, companies turned increasingly to incentive plans, including options, to circumvent the limit.[19]

The fact that the effective rate of capital gains tax is half that of the highest marginal rate of personal income tax gives executives and remuneration consultants further incentive to accentuate the use of options and share grants as opposed to cash. The argument that hired executives should not be treated any differently here to ordinary shareholders is fallacious since such executives receive options and share grants by virtue of their status as employees of the company rather than as private investors. To address this issue, tax law should be amended to require the payment of income tax on share grants and the fair value new option grants, taking into account the vesting periods involved. So as not to inhibit share ownership by ordinary employees, the existing tax free threshold for share grants of up to $1,000 could be increased substantially, to say $10,000.

5. Require that executive termination payments providing benefits in excess of those available to other company employees should be approved by shareholders within twelve months of hiring of the new executive.

One of the main reasons for the astronomical sums paid out to departing CEOs is the fact that severance benefits are rarely negotiated at the point of hire, which means that failed executives are able to coerce massive additional payments in exchange for going quietly. Termination and other one-off payments should be written into contract of employment (subject to shareholder approval) and subject to full and immediate disclosure.

6. Action, including legislation, to make superannuation funds more accountable for executive pay decisions.

As some of the largest institutional investors in the country, superannuation funds should be required by law to provide information to their members how its nominees on boards have participated in decisions on executive pay in listed companies. This provision could begin in public and occupational superannuation funds and be extended to private superannuation and investment funds. This would require legislative action at the state and federal level.

At the same time, the role of union and employee nominees in industry and public superannuation funds provides an opportunity for the union movement to both influence the public debate and promote appropriate regulation. Public sector superannuation funds are often important sources of

---

[19] In this respect, the authors believe that ACTU's submission to the Senate Economics Committee Inquiry into the Corporations Amendment (Repayment of Directors' Bonuses) Bill 2002, which included a recommendation for the removal of tax deductibility of remuneration packages exceeding $AU1 million, is problematic. At the very least, the deductibility cap should apply to the fair value of executive remuneration from *all* sources, including option and share grants made during the relevant year.

capital for business, as are industry funds. Unions, then, should make it a priority to ensure that its investment power is used to promote good practice and to ensure that directors of companies in which the public and industry funds have significant investments are aware of the principles that underline good practice.

Through its public sector union affiliates the Labor Council may be able to exercise more leverage in state-based superannuation funds. At the national level, the Council should urge the ACTU to take a more active role in this area as well as lobbying large national unions who have nominees on industry funds to take a more interventionist stance in relation to corporate governance and executive remuneration.

An immediate step would for the union movement to become more engaged with the Australian Council of Super Investors - the peak body of industry superannuation funds. Its recent report *Corporate Governance Guidelines for Superannuation Fund Trustees and Corporations* advocate principles and practices are consistent with the general direction of the recommendations listed above. More formal interaction with the Association of Superannuation Funds of Australia may be assistance to the union movement in this area.

7. Legislate to require that all organisations providing commercial services in the field of executive remuneration within Australia be registered and subject to full reporting requirements.
Given the role played by remuneration consultants in the determination of executive remuneration practices and levels it is appropriate that the role of such organisations themselves be made subject to greater public scrutiny. Executive remuneration consultants should be required to report annually to relevant statutory authorities (such as the Australian Securities and Investments Commission and the Australian Competition and Consumer Affairs Commission) on their activities. Further, where any listed company draws on advice from an external consulting organisation in determining executive pay levels and composition, it should be a statutory requirement that all reports commissioned by such external consultants be made available in full to shareholders of the company at the time of submission and at the next Annual General Meeting.

8. Strengthen corporate governance requirements relating to executive remuneration and board independence.
The setting of executive remuneration falls within the overall framework of corporate governance. It is therefore necessary that the *Corporations Act* be amended to ensure:

- that the legislated responsibilities of directors of publicly listed companies include specific responsibilities to stakeholders (including employees);
- that a majority of directors in publicly listed companies are independent directors;
- that companies are required to constitute 'arms-length' remuneration committees to determine and report on executive remuneration;
- that a majority of members of the remuneration committees of publicly listed companies be independent, non-executive directors serving on a rotating basis;
- that the chair of the remuneration committee be an independent director; and
- that there be a statutory limitation on the number of directorships that can be held by non-executive directors in publicly listed companies.

9. Introduce more stringent disclosure, reporting and shareholder approval requirements.
The assumption that the terms of executive employment contracts are commercial-in-confidence and inviolate should be subject to legislative review. In the same way that worker and their unions are required to furnish detailed evidence in support of adjustment in national minimum wage and award wage rates, so shareholders, employees and the general public are entitled to the provision of full information on the level and composition of senior executive pay and on the rationale behind

the amount paid and any change in pay level, composition and payment mode. Toward this end, it should be mandatory for each listed company to fully detail the remuneration level and structure of all directors and the ten most highly remunerated executives who are not directors, including fair valuation of all unexercised option holdings. This information should identify each individual concerned.

Corporations laws should be amended to require formal shareholder approval for all recommendations and decisions by remuneration committees in relation executive directors and the top ten salaried executives. To minimise the potential for non-compliance, the requirement for shareholder approval should not be limited to a disaggregated list of specified remuneration components; rather, the requirement should be global in scope, covering all reward elements and the combined total of these elements.

In addition, existing regulations requiring boards to ensure that remuneration is 'reasonable given the circumstances of the company' (O'Neill and Berry, 2002, 242) should be strengthened to require full justification of all changes in total remuneration in relation to terms of such factors as: company size; relevant labour market pressures and trends, and recent and projected company financial performance, as well as the interests of other key stakeholder, particularly employees, customers, taxpayers, and institutional and non-institutional shareholders.

Further, listed companies should be required to provide more detailed comparative information about executive remuneration in their annual reports. Specific comparative information might include:

- changes in the ratio between the highest and lowest paid company employee;
- the growth or decline in employment within the company;
- benchmark comparisons of executive remuneration in peer group companies (eg banks; telcos, large retail companies);
- comparison of changes in total remuneration payment to the 10 highest paid executives over the previous three years with changes in a specified set of organisational performance measures over the same period. Performance measurement should include a balance of accepted financial measures (e.g. earnings per share, total shareholder returns, return on equity) and non-financial indicators (e.g. employee and customer satisfaction; employee retention/turnover; change in market share.)

Listed companies should also be required to provide more comprehensive information on the use and impact of share options and share based incentive schemes in their annual reports. Such information should include:

- the number and type of shares / options available for issue, the associated vesting periods, and the number actually issued;
- the exercise price of share options or the method of determining it;
- details of any interest-free or low-interest loans provided to individual executives for share purchase and how these are funded;
- the basis of any performance hurdles applied to cash or share bonuses and option grants, justification of the performance measure/s chosen, and an explanation of the association between the measures used and any bonuses paid;
- the estimated cost to the organisation of all unexercised employee option plans and the incorporation of this expense in company income and expenditure statements and balance sheets.

- the estimated fair value of unexercised option holdings to individual executives using a standard valuation method. This could be achieved by the mandatory adoption of international accounting standards in this area[20];
- estimates of the dilution effect of options exercised;
- details of all share buy-back activities undertaken by the company during the reporting period and the reasons for each buy-back.

In addition, companies should be required to adhere to 'real-time' disclosure. There should be *immediate* disclosure of the key terms of executive contracts, including termination payments. This should include immediate public notification

****

The above recommendations involve significant legislative change and their implementation will therefore require considerable political and ethical will. They also highlight the limitations of 'self-regulation'. While it is unlikely that the current federal government would readily increase regulation in this area, the level of public concern about the issues of executive remuneration and corporate governance generally is such that it would be politically unwise for the government to totally ignore the matters of concern. There is also growing disquiet in the corporate world about this issue. The central point is that executive pay is far too important an issue to be left solely to corporate boardrooms, the remuneration consultants, and the self-regulators. If the level of wages paid to ordinary employees is rightly a matter of social and economic interest, then so too are the stratospheric sums paid to those at the top end of the corporate hierarchy.

---

[20] The fair and realistic valuing of option holdings is necessarily a problematic process, since it is reliant on share price projections and other uncertainties. The estimation of probability becomes all the more complex where performance hurdles, which may or may no be achieved, are involved. For these reasons there is considerable debate about the most appropriate valuation model. In the USA, the referred approach is the Black-Scholes model. However, where performance hurdles apply, Black-Scholes will often over-estimate the value of the option. For reporting purposes, the objective should be to legislate to ensure the consistent application of an accepted method.

BIBLIOGRAPHY

Abowd, J. (1990), 'Does Performance-based Managerial Compensation Affect Corporate Performance?', *Industrial and Labour Relations Review*, 43 (special issue, February), 52s-73s.

Adam, B. (2002), 'Bank rage and overtime create stress for bank workers'. *AAP General News*, 22 November.

ANZ (1998) Australia and New Zealand Banking Group limited and the Finance Sector Union of Australia Agreement, 12 August. A2988.

ANZ Annual Report, 2001, 2002.

Armstrong, M. (1996), *Employee Reward*, Institute of Personnel and Development, London, ch.25 (325-339).

Armstrong, M. & Murlis, H. (1998), *Reward Management. A Handbook of Remuneration Strategy and Practice*, 4th edn. Kogan Page, London, ch. 26 (355-368).

Australian Council of Super Investors Inc (2003), *Corporate Governance Guidelines for Superannuation Fund Trustees and Corporations,* ACSII, March.

Australian Stock Exchange, *ASX Corporate Governance Council: Principles of Good Governance and Best Practice Recommendations*, ASX, March 2003.

Bannister, R. & Gentry, W. (1999), 'Aligning Executive Pay and Company Performance', in Risher, H. (ed.), *Aligning Pay and Results. Compensation Strategies that Work from the Boardroom to the Shop Floor*, Amacom, ch. 3 (43-79).

Barenbaum, L. & Schubert, W. (1993), 'Measuring the Value of Executive Stock Options', *Compensation and Benefits Review*, September-October, 19-24.

Bassick, E.W. & Grove, S.J. (1998), 'Stock Option Valuation Models', *ACA Journal*, Spring, 52-54.

Bebchuck, L.A., Fried, J.M. & Walker, D.I. (2002), 'Managerial Power and Rent Extraction in the Design of Executive Compensation', NBER Working Paper Series, Working paper 9068, National Bureau of Economic Research, Cambridge, Massachusetts. http://www.nber.org/papers/w9068

Bisson. D. (2001), 'Pay for Performance is Dead (and Stock Compensation Killed It)', *WorldatWork Journal*, 10(3), 24-32.

Bloedorn, J. & Chingos, P. (1994), 'Executive Pay and Company Performance: A Progress Report', *ACA Journal*, 3(3), Autumn, 70-89.

Bloom, M. (1999), 'The Art and Context of the Deal: A Balanced View of Executive Incentives', *Compensation and Benefits Review*, January-February, 25-31.

Bloom, M.C. & Milkovich, G.T. (1996), 'Issues in Managerial Compensation Research', *Journal of Organizational Behavior*, 3, 23-47.

Bodie, Z., Kaplan, R.S. & Merton, R.C. (2003), 'For the Last Time: Stock Options Are an Expense', *Harvard Business Review*, 81(3), March, 63-71.

Bok, D. (1993), *The Cost of Talent. How Executives and Professionals are Paid and How it Affects America*, Free Press, New York.

Bok, D. (1994), 'Defining Reasonable Pay for Executives: An Exclusive Interview with Former Harvard University President Derek Bok', *ACA Journal*, 3(3), Autumn, 60-69.

Bosswatch, (4/12/02), 'Murray cashes in $9.43 million', S*ydney Morning Herald*, p.1

Bosswatch. (11/09/02). 'Salaries high, performance low'. Available at: [http://bosswatch.abor.net.au/campaigns/general/1031717447_28193.php].

Boreham, T. (07/10/02). 'Westpac narrows its options'. *The Australian*, p.27

Brossy, R. & Balkcom, J.E. (1998), 'Executive Compensation: Finding a Balance in the Quest for Value', *Compensation and Benefits Review*, January-February, 29-34.

Byrne, J.A & Bongiorno, L. (1997), 'How Ordinary Workers Feel When Fat Cats Get the Cream', *Management Development Review*, 10(4/5), 164-65.

Cameron, F. (2002), 'Fair Share', *HRMonthly*, November, 19-24.

Carpenter, J. & Yermack, D. (eds.) (1999), *Executive Compensation and Shareholder Value: Theory and Evidence*, Kluwer Academic Publishers.

Carr, E. (1997), *Remuneration Strategies. Ten Case Studies On Why It Pays to Get It Right*, Newsletter Information Services, Manly, ch.2 (15-26).

Carr, E. (1997), 'Salary Stakes. How To Win the Race', *Australian Financial Review*, *Weekend*, 15-16 November, 33-37.

Carr, L. & Valinezhad, M (1994), 'The Role of Ethics in Executive Compensation: Towards a Contractarian Interpretation of the Neoclassical Theory of Managerial Remuneration', *Journal of Business Ethics*, 13, 81-93.

CBA (2002) Commonwealth Bank of Australia Retail Banking Services Enterprise Bargaining Agreement 2002, AG817514. Workplace relations Act 1996 s. 170LJ Agreement with organisations of employees (Division 2) Commonwealth bank of Australia Ltd and Finance Sector Union of Australia. 9 August 2002.

Chingos, P.T. (1991), 'Annual Incentive Compensation for Executives', in Rock, M. & Berger, L. (eds.), *The Compensation Handbook: A State of the Art Guide to Compensation Strategy and Design*, third edn., McGraw Hill, New York, ch.23 (322-338).

Chingos, P.T. (1997), *Paying for Performance: A Guide to Compensation Management*, John Wiley & Sons.

Chingos, P. (1999), 'Annual Incentive Plans for Management', in Berger, L.A. & Berger, D.R. (1999), *The Compensation Handbook. A State-of-the-Art Guide to Compensation Strategy and Design*, 4th edn., McGraw-Hill, ch.27 (349-356).

Commonwealth Bank of Australian, Annual Report, 2001, 2002.

Conger, J, Finegold, D. and Lawler E.E. (1998), 'CEO Appraisals: Holding Corporate Leadership Accountable', *Organizational Dynamics*, 27(1), 6-20.

Cornell, A. (08/03/02). 'Wage Case'. *Australian Financial Review,* p.54

Conway, D. & Walker, K. (26/12/02). 'CEOss take profit, we take the loss'. *Herald Sun*, Melbourne, Australia, p.35

Cook, F.W. (1993), 'The Ascendancy of Capital. Sharing Capital Returns with Employees Who Create Value', *ACA Journal*, Autumn, 6-13.

Cook, F.W. (1997), 'Compensation Ethics: Guidelines for Developing a Code', & Bankowski, E., 'Response: Ethics Must Come From the Top Down', *Compensation and Benefits Review*, March-April, 24-29.Cook, F.W. (1993), 'The Ascendancy of Capital. Sharing Capital Returns with Employees Who Create Value', *ACA Journal*, Autumn, 6-13.

Cook, F. (1998), 'Do Stock Options Dilute Shareholders' Interests?', *ACA Journal*, 7(1), Spring, 67-72.

Cornell, A. (2002), 'Up, Up and Away', *AFR Boss Magazine*, November 2002, 42-46.

Cornish, G. (1998), 'Practical Strategic Executive Reward', Cullen Egan Dell.

Costello, C.J. (1990), 'Total Remuneration Cost: Designing and Managing Executive Reward', in O'Neill, G. (ed.), *Corporate Remuneration in the 1990s*, Longman, Melbourne, ch.6 (95-116).

Cowherd, D.M. & Levine, D.I. (1992), 'Product Quality and Pay Equity Between Lower-Level Employees and Top Management: An Investigation of Distributive Justice Theory', *Administrative Science Quarterly*, 37, 302-20.

Crystal, G. (1988), 'The Wacky, Wacky World of CEO Pay', *Fortune*, 6 June, 34-40.

Crystal, G. (1991), *In Search of Excess: The Overcompensation of American Executives*, Norton.

Crystal, G.S. (1991), 'Why CEO Compensation Is So High'', *California Management Review*, 34, 9-29.

Crystal, G.S. & Cook, F. (1996), 'The Growing Pay Gap: Are CEOs Paid Too Much Relative to Other Employees?', *ACA Journal*, 5 (2), Summer, 22-29.

Crystal, G. & Kay, I. (1998), 'Do Stock Options Affect Performance?', *ACA Journal*, 7(1), Spring, 102-107.

Delves, D. (2000), 'Balancing the Costs and Benefits of Options: How to Solve the Stock Option Bind', *Compensation and Benefits Review*, March-April, 25-34, 51-56.

Denholm, M. & Webber, N. (08/10/2002). 'Fat cat pay leap'. *Herald Sun*, Melbourne, 1.

Dolmat-Connell, J. (2000), 'Executive Pay and Performance: The 'Gulf' War Wages On', *WorldatWork Journal*, 10(1), 19-27.

Egan, J. (1990), 'Incentives - Executive Reward at Risk', in O'Neill, G. (ed.), *Corporate Remuneration in the 1990s*, Longman, Melbourne, ch.2 (19-44).

Eisenhardt, K.M. (1989), 'Agency Theory: An Assessment and Review', *Academy of Management Review*, 14, 57-74.

Ellig, B.R. (2002), 'Executive Compensation 101: Considering the Many Elements', *WorldatWork Journal*, 10(3).

Ellig, B.R. (2002), *The Complete Guide to Executive Compensation*. McGraw-Hill Publishing.

Elson, C. *et al* (2003), 'What's Wrong With Executive Compensation?', *Harvard Business Review*, 81 (1), 67-77.

Finkelstein, S. & Hambrick, D. (1989), 'Chief Executive Compensation: a Study of the Intersection of Markets and Political Processes', *Strategic Management Journal*, 10, 121-34.

Flannery, T., Hofrichter, D. & Platten, P. (1996), *People, Performance and Pay*, Free Press, chs. 7 & 8 (167-203).

Foulkes, F. (ed.) (1989), *Executive Compensation*, Harvard Business School Press.

FSU Website. (29/05/01). 'The facts on big bank profits'. Available at: [www.fuunion.org.au]

FSU Website. (15/04/02). 'Hours of work in the finance sector'. Available at: [www.fuunion.org.au]

FSU Website. (16/11/99). 'Jobs go but the work piles up at Westpac'. Available at: [www.fsunion.org.au/article.asp?artid=183]

FSU Website. (01/03/00). 'Staff & customers pay for bank profits says reserve bank study'. Available at: [www.fsunion.org.au/articleasp?artid=539]

FSU Website. (23/3/00). 'Pay gap widens'. Available at: [www.fsunion.org.au/article.asp?artid=609]

FSU Website, (2001). 'Jobs lost in major banks'.

Gerhart. B. & Milkovich, G. (1990), 'Organizational Differences in Managerial Compensation and Financial Performance', *Academy of Management Journal*, 33, 663-91.

Gluyas, R. & Elliot, G. (26/10/02). 'Rating the top 100 CEOs: Are you getting value for your money'. *The Australian*, 31.

Halligan, J. (1994), 'Senior Executive Pay Policies in the Australian Public Service in Comparative Perspective', *Public Administration Quarterly*, 18(3), 298-325.

Hallock, K.F. & Murphy, K.J. (eds.) (1999), *The Economics of Executive Compensation*, Edward Elgar.

Heery, E. (1996), 'Risk, Representation and the 'New Pay', *Personnel Review*, 25(6), 54-65.

Holland, P.J., Dowling, P.J. &Innes, P.A. (2001), 'CEO Compensation in Australia: Is There a Relationship Between Principles, Policies and Practices?', *Asia Pacific Journal of Human Resources*, 39(3), 41-58.

Hovy, M. (2003), 'Executive Pays Go To Market', *HRMonthly*, May, 36-40.

Hyman, J.S. (1991), 'Long-Term Incentives', in Rock, M. & Berger, L. (eds.), *The Compensation Handbook: A State of the Art Guide to Compensation Strategy and Design*, third edn., McGraw Hill, New York, ch.24 (339-354).

Hyman, J. (1999), 'Long-Term Incentives', in Berger, L.A. & Berger, D.R. (1999), *The Compensation Handbook. A State-of-the-Art Guide to Compensation Strategy and Design*, 4th edn., McGraw-Hill, ch.28 (357-373).

Jensen, M. & Murphy, K. (1990), 'Performance Pay and Top-Management Incentives', *Journal of Political Economy*, 98(2), 225-264.

Jensen, M. & Murphy, K. (1991), 'CEO Incentives - It's Not How Much You Pay, But How', in Harvard Business Review, *Compensation. Fair Pay for Executives and Employees*, Harvard Business Review, Boston, 3-18.

Johnson, A.M. (1999), 'Designing and Implementing Total Compensation Programs', in Berger, L.A. & Berger, D.R. (1999), *The Compensation Handbook. A State-of-the-Art Guide to Compensation Strategy and Design*, 4th edn., McGraw-Hill, ch.26 (339-348).

Johnson, A. (1999), 'Should Options Reward Absolute or Relative Shareholder Returns?, *Compensation and Benefits Review*, January-February, 38-43.

Kasznik, R. & Aboody, D. (1998), 'CEO Stock Option Awards and Corporate Voluntary Disclosures', Stanford Graduate School of Business, GSB research papers, no.1535, November.

Kay, I. (1998), *CEO Pay and Shareholder Value: Helping the US Win the Global Economic War*, St. Lucie Press.

Kay, I. (1999), 'Growing Shareholder Value: Why Executive Stock Ownership Works', *Compensation and Benefits Review*, January-February, 32-37.

Kay, I. & Rushbrook, S. (2000), 'The US Executive Pay Model: Smart Business or Senseless Greed?', *WorldatWork Journal*, 9(4), 8-18.

Kay, I. & Robinson, R. (1994), 'Misguided Attacks on Executive Pay Hurt Shareholders', & Crystal, G., 'Response', *Compensation and Benefits Review*, January-February, 25-37.

Klinger, S. e al (2002), 'Executive Excess 2002. Ninth Annual CEO Compensation Survey', Institute for Policy Studies and United for a fair Economy, Boston. http://www.fairEconomy.org

Kohler, A. (2003) 'Cuffe's millions: new laws will stop it happening again', *Australian Financial Review*, 15-16 February, 72.

Lederer, J.L. & Weinberg, C.R. (1999), 'Setting Executive Compensation: Does the Industry You're In Really Matter', *Compensation and Benefits Review*, January-February, 13-24.

Lekakis, G. (28/11/2002). 'Executives join elite $1m club'. *Australian Financial Review*, 28.

Lekakis, G. (19/12/02). 'Cicutto faces vote on options'. *Australian Financial Review*.

Lekakis, G. (12/12/02). 'Westpac directors face payout cuts'. *Australian Financial Review*.

Lekakis, G. (14/11/02). 'Millionaires rise fast in ANZ ranks'. *Australian Financial Review*.

Leonard, J. (1990), 'Executive Pay and Firm Performance', *Industrial and Labor Relations Review,* 43 (special issue, February), 13s-29s.

Lewis, P. (11/12/01). 'Verdict in: Banks are bastards'. Bosswatch, Available at: [http://bosswatch.labor.net.au/campaigns/general/1008049601_26797.php] p.1

Lewis, T. & Penkara, R. (1990), 'Executive Share Plans: Benefits for Executives and Shareholders', in O'Neill, G. (ed.), *Corporate Remuneration in the 1990s*, Longman, Melbourne, ch.8 (131-154).

Longnecker, B.M., Hitt, R., & Petersen, B.T. (1999), 'Long-Term Incentives: How Private Companies Can Compete With Public Companies', *Compensation and Benefits Review*, January-February, 44-53.

Marquardt, E. (1996), 'Executive Incentive Plans: Sharpening the Focus on Strategy Execution', *ACA Journal*, 5(1), Spring, 32-39.

Marquardt, E. (1999), 'Aligning Compensation and Stock Ownership', in Risher, H. (ed.), *Aligning Pay and Results. Compensation Strategies that Work from the Boardroom to the Shop Floor*, Amacom, ch. 5 (101-118).

Martin, J. (1982), 'The Fairness of Earning Differentials: An Experimental Study of the Perceptions of Blue-Collar Workers', *Journal of Human Resources*, 17, 110-22.

Martocchio, J.J. (1997), *Strategic Compensation: A Human Resource Management Approach*, Prentice Hall, Englewood Cliffs, ch.13 (341-66).

Mazer, M.A. & Larre, E.C. (1999), 'Executive Compensation Strategy', in Berger, L.A. & Berger, D.R. (1999), *The Compensation Handbook. A State-of-the-Art Guide to Compensation Strategy and Design*, 4th edn., McGraw-Hill, ch.25 (327-338).

Milkovich, G.T. & Newman (1999), *Compensation*, 6th edn., Irwin McGraw-Hill, (455-462).

Mishra, C.S., McConaughy, D.L. & Gobeli, D.H. (2000), 'Effectiveness of CEO Pay-For-Performance', *Review of Financial Economics*, 9, 1-13.

Morris, T.J. & Fenton-O'Creevy, M. (1996), 'Opening Up the Black Box: A UK Case Study of Top Managers' Attitudes to Their Performance Related Pay', *International Journal of Human Resource Management*, 7(3), 708-20.

Meltzer, M. & Goldsmith, H. (1997), Executive Compensation For Growth Companies, *Compensation and Benefits Review*, November-December 1997, 41-50.

Murray, L. (2002), 'Up, Up and Away', *AFR Boss Magazine*, November 2002, 47-49.

Nalbantian, H.R. & Zheng, W. (2001), 'Worth a Risk? When and How to Use Stock in Executive Incentives', *WorldatWork*, Third Quarter, 50-58.

National Australia Bank, Annual Report, 2001, 2002.

NAB (2002) National Australia Bank Limited Enterprise Agreement 2002. 24 October 2002. AG819009.

O'Byrne, S. (1994), 'EVA and Management Compensation', *ACA Journal*, 3(2), Summer, 60-73.

O'Neill, G. (1999a), 'Issues with Design and Structure of Executive Pay', in O'Neill, G. & Kramar, R. (eds.) (1999), *Australian Human Resource Management: Current Trends in Management Practice*, vol.2.

O'Neill, G. (1999b), *Executive Remuneration in Australia: An Overview of Trends and Issues*, Australian Human Resource Institute, Sydney.

O'Neill, G. & Clark, R. (1990), 'Executive Remuneration in the 1990s: Major Issues and Trends' in O'Neill, G. (ed.), *Corporate Remuneration in the 1990s*, Longman, Melbourne, ch.1 (1-18).

O'Neill, G. & Iob, M. (1999), 'Determinants of Executive Remuneration in Australian Organisations: An Exploratory Study', *Asia Pacific Journal of Human Resources*, 37(1), 65-75.

O'Reilly, C., Main, B. & Crystal. G. (1988), 'CEO Compensation as Tournament and Social Comparison: A Tale of Two Theories', *Administrative Science Quarterly*, 33, 257-74.

Parks, J. & Conlon, E.J. (1995), 'Compensation Contracts: Do Agency Theory Assumptions Predict Negotiated Agreements?', *Academy of Management Journal*, 38(3), 821-38.

Paulin, G. & Cook, F. (1992), 'What Should Be Done About Executive Compensation?', *ACA Journal*, 1(1), Autumn 20-35.

Pennings, J.M. (1999), 'Executive Compensation Systems: Drivers or Results from Strategic Choices', in Berger, L.A. & Berger, D.R. (1999), *The Compensation Handbook. A State-of-the-Art Guide to Compensation Strategy and Design*, 4th edn., McGraw-Hill, ch.29 (373-390).

Rappaport, A. (1999), 'New Thinking on How to Link Executive Pay with Performance', *Harvard Business Review*, 77(2), March-April, 91-101.

Rich, J. (1995), '"Unimpeachable" Executive Pay: Aligning Compensation with Performance', *ACA Journal*, 4(1), Spring, 64-73.

Rich, J. (1999), 'Aligning Executive Pay and the Creation of Economic Value', in Risher, H. (ed.), *Aligning Pay and Results. Compensation Strategies that Work from the Boardroom to the Shop Floor*, Amacom, ch.4 (80-100).

Swinford, D.N. (1999), 'Don't Pay for Executive Failure', *Compensation and Benefits Review*, January-February, 54-60.

Tosi, H. & Gomez-Mejia (1989), 'The Decoupling of CEO Pay and Performance: An Agency Theory Perspective', *Administrative Science Quarterly*, 34, 169-89.

Towers Perrin (1997), *Report on the Use of Long-Term Incentive Plans for Executives in Australia*.

Wasiliev, J. (2002). 'Carrot & stick: Share options balancing incentive with performance'. *Australian Financial Review*, 14 December.

Way, N. and Heathcote, A. (2003) '20 Highest Paid CEOs', *BRW*, 20-26 February, 44-50.

Weinberg, I. (1995), 'What is Reasonable Executive Compensation?', *Journal of Compensation and Benefits*, 11 (1), 17-23.

Westpac Annual Report, (2001).

Westpac Annual Report, (2002).

Westpac (2002) Westpac Banking Corporation (SA/NT/TAS) Enterprise Development Agreement, 2002, AG817398. 5 August 2002.

White, W.L. & Fife, R.W. (1993), 'New Challenges for Executive Compensation in the 1990s', *Compensation and Benefits Review*, 25(1), January-February, 27-35.

Whyte, J., Murray, L., Cornell, A. & Buffini, F. (2003) 'Murray in damage control over CBA's $33 million man', *Australian Financial Review*, 14 February, 1, 80-81.

Woldring, K. (1995), 'The Ethics of Australian Executive Remuneration Packages', *Journal of Business Ethics*, 14, 937-47.

STATISTICAL APPENDICES

Key:

$ Base	Base salary, superannuation and benefits.
$ Bonuses	Bonuses and other cash incentives.
$ Total	Total cash remuneration for the relevant year: The sum of 1 & 2.
$ Change	Annual percentage change in total cash remuneration.
Shares	Number of company shares held at close of relevant year.
Share $	Market value of company shares held at the close of the relevant year multiplied by the company's share price at the relevant year.
Options	Number of unexercised share options held at the commencement of the relevant financial year.
Option $	Gross value of unexercised options held, i.e. the number of unexercised options held multiplied by the company's share price at the commencement of the relevant year.
Capital	The company's market capitalisation at the end of the relevant year,
ROE	Return on equity for the relevant year. i.e. profit, net of significant items, expressed as a percentage of shareholders' equity
% SPC	Percentage share price change. ie. the percentage change in the company's share price over the relevant year.
% PG	Percentage growth in reported pre-tax profits as compared with previous year.
% EPSC	Percentage change in diluted earnings per share as compared with previous year.

Appendix 1
Australian Financial Review Executive Remuneration Survey Data, 1989-1999

Source: *Australian Financial Review*, 1 November 1999, 26-27.

Selection Criteria: Australian-based Chief Executive Officers, Managing Directors, General Managers, Executive Chairpersons and 'Chairmen' of the Australian Stock Exchange 'Top 150' public companies, excluding property and other trusts. Foreign dual-listed companies not disclosing executive remuneration also excluded.

COMPANY	EXECUTIVE	$ BASE	$ BONUSES	$ TOTAL	$ CHANGE	SHARES	SHARE $	OPTIONS	0PTION $	CAPITAL	ROE	% SPC	% PG
News Corp	P Chernin	4849779	13934216	18783995	105.50	0	0	6450000	69853500	42435	4.00	-2.20	-40.1
Westfield Holdings	FP Lowy	898638	6739880	7638518	18.40	164380239	1425176672	0	0	4541	25.70	17.50	23.2
AMP	GR Trumbull	1897000	3050000	4947000	26.80	15896	239076	0	0	16317	12.90	-12.60	15.7
Coles Myer	D Eck	2349307	1792596	4141903	7.90	651082	5124015	6000000	47220000	9104	16.80	39.50	10.1
GIO	SH Steffey	536358	3187611	3723969	25.40					1884	-164.10	-2.20	-96.0
Macquarie Bank	AE Moss	498459	3184111	3682570	39.00	474857	9881774	601371	12514531	2164	12.00	21.50	66.0
Aristocrat	DH Randall	1164019	1980000	3144019		85	1262	500000	7425000	1557	40.00	201.00	25.0
Leighton Group	WM King	1610841	1500000	3110841	39.60	6660	39760	600000	3582000	1564	19.90	4.30	18.0
Village Roadshow	PA Zielger	3101805	0	3101805	-3.60	57200	156156	0	0	722	2.70	-9.90	-61.2
National Mutual	GA Tomlinson	2387228	334335	2721563	119.70	0	0	1275000	2690250	3771	5.10	-33.60	-31.7
NAB	DR Argus	1706908	1000000	2706908	26.50	59612	1335905	1600000	35856000	33302	17.90	17.30	9.4
Westpac	RL Joss	1402390	1000000	2402390	24.50	1416667	13529170	5433334	51888340	17690	14.70	-.05	7.9
BHP	PM Anderson	2340181	0	2340181		104000	1794000	1900000	32775000	29997	4.20	28.20	-5.3
Rio Tinto	LA Davis	1732750	351330	2084080	27.50	155220	2245131	285963	7037549	14818	10.10	29.00	-32.2
Fosters Brewing	ET Kunkel	1329216	747964	2067180	4.90	238185	1036105	2400000	10440000	7525	13.70	12.10	-17.4
Brambles	JE Fletcher	1582000	417000	1999000	4.20	148000	6438000	225000	9787500	9892	18.60	25.90	16.3
CSR	P Kirby	1386900	600000	1986900		41660	145810	500000	1750000	3639	8.70	-7.30	420.0
Wesfarmers	MA Chaney	1018000	921000	1939000	22.80	600427	7181107	0	0	3211	15.10	13.30	8.1
PBL	NG Falloon	1301179	630000	1931179	-11.80	1050000	9082500	0	0	5633	6.60	43.40	-63.5
Qantas	J Strong	1260522	654900	1915422	10.10	109196	538336	0	0	5942	14.00	105.30	38.3
CC Amatil	DL Kennedy	1382759	500000	1882759	27.20	201000	986910	400000	1964000	5010	4.30	-9.60	13.9
Spotless Group	BC Blythe	551125	1286664	1837789		18821671	99001989	0	0	803	23.40	22.30	36.6
ANZ	J McFarlane	1200000	560000	1760000	109.50	302000	3013960	1000000	9980000	15622	14.60	-.02	8.0
CBA	D Murray	1265700	450000	1715700	33.50	44372	1075134	800000	19384000	22356	16.10	27.60	30.5
Pioneer International	Jm Schubert	1097247	600000	1697247	23.90	160000	557280	2000000	6966000	2868	11.10	.00	24.3
Woodside Petroleum	JH Akehurst	1499508	92400	1591908	13.80	397520	3951349	0	0	6626	20.60	26.90	9.2
Santos	NR Adler	1284136	300000	1584136	4.20	855000	3514050	2500000	10275000	2491	9.10	-1.00	-14.5
Tabcorp	IR Wilson	1303625	254305	1557930	1.90	3926000	39652600	0	0	3071	21.50	28.50	18.2

Lend Lease	DH Higgins	1092691	463883	1556574	-20.60	82161	1487114	0	0	9220	12.10	28.00	15.5
FH Faulding	ED Tweddle	1055614	490210	1545824	40.70	614100	5895360	360000	3456000	1546	10.10	24.90	37.6
Amcor	RH Jones	1187390	290000	1477390	13.60	100000	685000	700000	4795000	4365	10.40	18.70	462.2
Seven Network	GW Rice	1016087	459895	1475982	64.20	0	0	0	0	1141	6.20	-8.80	-53.0
HIH Insurance	RR Williams	1460350	0	1460350	44.70	10336383	14574300	500000	705000	652	11.50	-34.30	268.3
Mayne Nickless	RR Dalziel	1082949	375000	1457949		22000	91960	600000	2508000	1431	40.80	-31.50	16.1
Colonial Group	PJ Smedley	1038000	395200	1433200	6.20	30090	1692272	3000000	17070000	5281	10.30	9.60	34.8
Goodman Fielder	DLG Hearn	1419513	0	1419513	-15.00	5000000	7050000	9000000	12690000	1792	1.60	-42.60	85.0
AGL	LF Bleasel	1300000	80400	1380400	6.20	673483	5859302	0	0	2860	15.20	-9.00	12.7
WMC	HM Morgan	1117714	255350	1373064	5.70	220000	1568600	900000	6417000	8147	5.90	33.50	-9.5
Southcorp	GJ Kraehe	1045293	321028	1366321	5.10	190105	1064588	1000000	5600000	3467	13.10	30.10	-84.6
James Hardie	RK Burton	1005337	360000	1365337	18.80	275637	1062581	0	0	1571	14.60	-11.30	13.0
Howard Smith	KJ Moss	1039000	311000	1350000	53.40	304557	3371446	214000	2368980	2164	12.00	21.50	68.0
Boral	AR Berg	1156250	179000	1335250	2.00	755856	1814054	3500000	8400000	2707	7.50	-15.50	13.5
C&W Optus	CJ Anderson	966098	300000	1266098	7.40	44621	157958	241500	854910	13360	-17.20	29.80	91.5
Futuris Corporation	AL Newman	1218868	0	1218868	-29.90	9922254	19546840	6000000	11820000	1117	11.60	54.90	20.0
Suncorp Metway	WS Jones	951921	243000	1194921		50300	571692	2000000	16280000	2476	12.70	29.90	11.0
Telstra	ZE Switkowski	700836	473000	1173836		67120	518166	0	0	59881	29.90	57.60	16.1
Woolworths	RC Corbett	885659	282480	1168139	-1.80	70165	372576	319000	1693890	6121	21.90	-4.20	8.0
Foodland	BJ Alty	903116	108127	1083243	19.00	225000	2081250	150000	1387500	870	7.70	-1.50	83.0
Normandy Mining	RJ de Crespigny	981000	88000	1069000	9.20	92140745	110568894	0	0	2086	10.30	-23.70	24.0
Anaconda Nickle	JAH Forrest	640568	367500	1008068	13.40	30533000	65035290	4000000	8520000	705	1.40	33.00	32.4
Pacific Dunlop	RL Chadwick	888398	88839	977237	9.80	621400	1367080	1800000	3960000	2261	12.20	-16.40	13.7
AAPT	LF Williams	665222	303750	968972	4.30	179500	879550	2000000	9800000	1465	10.10	51.60	275.9
One.Tel	JD Rich	427772	500000	927772		32943311*	36896508*	61665165*	69066665*	1986	3.60	280.60	18.6
One.Tel	B Keeling	427772	500000	927772		32943311*	36896508*	61665165*	69066665*	1986	3.60	280.60	18.6
MIM Holdings	NW Stump	888880	35000	923880	6.20	32098	40764	0	0	2163	-2.30	37.10	-162.3
National Foods	MG Ould	715263	180000	895263	-2.	1115980	3057785	2000000	5480000	751	12.90	-3.00	11.0
Smorgan Steel	RK Horsburgh	701479	181073	882552		88258	187107	1025373	2173791	1600	5.40	1.80	
QBE Insurance	FM O'Halloran	876800	0	876800		823043	5218093	140000	887600	2458	12.20	.90	30.0
Newcrest Mining	GT Galt	663082	203000	866082	94.60	0	0	750000	3232500	1041	5.30	62.30	100.2
GWA International	GJ McGrath	625426	227500	852926	.30	654275	1668401	0	0	699	12.70	8.50	22.4
ASX	RG Humphrey	560888	289500	850388	39.60	0	0	0	0	907	19.40	155.70	55.0
Pasminco	DM Stewart	801491	32631	834122	8.50	26029	36701	950000	1339500	1585	-.10	35.60	-48.0
Comalco	WT Palmer	613413	210000	823413	19.50	0	0	0	0	4271	14.20	15.50	7.2
Solution 6	CS Tyler	613844	177994	791838	55.60	5400	37260	5012100	34583490	581	2.80	253.70	796.0
North	MW Broomhead	715778	50000	765778	16.20	11000	35420	307500	990150	2468	-2.00	-7.80	-126.0
Jupiters	RK Barnes	567000	183000	750000	39.10	127605	422373	0	0	798	8.40	48.70	18.3
Pacifica Group	BJ Jackson	599060	150000	749060	29.40	31040	178480	550000	3162500	838	5.20	67.50	-2.0
Perpetual	GJ Bradley	748080	0	748080	-8.80	53811	1076220	64407	1288140	730	22.60	71.00	22.4
George Weston	JH Pascoe	738801	0	738801	2.80	6310	41709	0	0	716	6.30	-14.40	-6.5

Fairfax	FG Hilmer	736417	0	736417		200000	780000	3500000	13650000	2837	18.30	60.30	-78.7
ERG	PR Fogarty	657500	75000	732500	6.30	5204748	32165343	1250000	7725000	1285	8.80	155.00	47.0
Email	RG Waters	676458	55502	731960	55.70	106100	286470	700000	1890000	733	7.70	3.80	80.0
WA Newspapers	DW Thompson	598611	100000	689611	14.70	460653	2404609	0	0	1151	37.30	10.50	-9.7
CSL	BA McNamee	500000	180000	680000	23.90	435760	8070275	420000	7778400	2453	11.80	24.80	16.0
Lihir Gold	M Merton	674754	0	674754	25.70	1000	1290	0	0	1397	-1.10	-42.70	-187.0
Caltex	ID Blackburne	669655	0	669655		30000	78300	0	0	704	8.30	-14.90	-14.0
United Energy	KG Stamm	598655	61970	660625	16.10	30000	62400	0	0	866	10.50	26.90	56.0
Bankwest	TC Budge	628493	0	628493	10.50	8678	34365	400000	1584000	1989	17.20	13.30	28.5
Orica	PL Weickhardt	550000	70500	620500	11.00	14752	120081	287500	2340250	2223	31.30	-13.60	-23.6
Mirvac Group	RJ Hamilton	565541	50003	615544	31.20	12358991	39178001	0	0	1691	8.10		10.2
BRL Hardy	SB Millar	468759	102940	571699	21.90	266217	1863519	303200	2122400	981	14.40	23.10	27.0
TAB	W Wilson	432107	120000	552107		771	2051	0	0	1330	10.60	28.10	8.0
APN News & media	AC O'Reilly	550688	0	550688	-1.70	1500000	4605000	1200000	3684000	749	10.00	22.30	15.0
Transurban	K Edwards	438939	80000	518939	13.10	100	176000	0	0	1601		39.40	
Incitec	JF Babon	382800	100000	482800	12.50	1000	5550	0	0	669	12.30	9.60	-27.0
Rural Press	BK McCarthy	475046	0	475046	10.50	123577	589129	0	0	803	13.70	6.90	-35.7
Cochlear	CB Livingstone	369340	100564	469904	14.90	67000	1139000	228000	3876000	868	49.40	83.60	23.0
St George Bank	EA O'Neal	439000	0	439000	-60.10	500	5070	0	0	4683	13.90	.50	-2.2
Stockland trust	PJ Daly	339678	33897	373575	13.50	1729758	5673606	0	0	1386	9.80	-6.50	5.7
Iluka Resources	MH Macpherson	354787	17980	372767	16.90	5083	19112	1500000	5640000	837	.70	-2.50	-82.7
Acacia Resources	GM Folle	361530	0	361530	-41.70	63000	173250	2490476	6848809	693	9.60	1.00	-64.8
Computershare	CJ Morris	330000	0	330000	3.40	13464988	72037686	0	0	2546	12.30	218.00	131.0
Coal & Allied	KT Tronson	280611	40000	320611	28.80	0	0	0	0	1298	22.10	107.10	525.3
Argo Investments	RJ Patterson	300648	0	300648	7.40	392770	1370767	0	0	1004	19.60	12.10	25.7
WH Soul Pattinson	PR Robinson	288000	0	288000	3.20	7321	281859	0	0	918	9.20	32.10	15.6
Flight Centre	GF Turner	89055	186565	275620	45.80	16870000	227745000	0	0	1884	49.30	140.50	52.0
Harvey Norman	G Harvey	250400	0	250400	4.30	328082050	1030117637	0	0	3197	21.70	73.50	39.1
Challenger Internatonal	WEB Ireland	174960	16941	191901	1.50	24161016	98335335	720000	2930400	694	60.40	589.50	40.0
Hills Motorway	WR Clark	149475	0	179475	116.60					638	.20	56.40	79.9
South Pac Petrol	JA McFarlane	176197	0	176197	18.30	2005000	5573900	0	0	851	-1.00	12.50	.5
AFIC	BB Teele	66000	0	66000		954639	2825731	437500	1295000	2099	5.40	6.50	13.0

* Figure adjusted to reflect average individual ownership.

Appendix 2
Australian Financial Review Executive Remuneration Survey Data, 1999-2000

Source: *Australian Financial Review*, 16 November 2000, S8-S9.

Selection Criteria: Australian-based Chief Executive Officers, Managing Directors, General Managers, Executive Chairpersons and 'Chairmen' of the Australian Stock Exchange 'Top 150' public companies, excluding property and other trusts.

COMPANY	EXECUTIVE	$ BASE	$ BONUSES	$ TOTAL	$ CHANGE	SHARE NO.	SHARE $	OPTIONS	0PTION $	CAPITAL	ROE	% SPC	% EPSC
News Corp	P Chemin	6742770	15816210	22558980	20.1	0	0	12600000	268002000	41805	3.90	78.40	17.9
News Corp	KR Murdoch	8624429	3805175	12429604	3.1	624067880	13273923808	24000000	510480000	41805	3.90	78.40	17.9
Westfield Holdings	FP Lowy	768310	7695200	8463510	10.8	161610259	2073459623	0	0	6570	23.20	24.00	15.3
One.Tel	JD Rich	565000	6904000	7469000	705.0	34831227*	24730171*	44000000	31240000	1538	-27.30	8.90	-2838.5
One.Tel	B Keeling	562000	6904000	7466000	704.7	34831227*	24730171*	29500000	20945000	1538	-27.30	8.90	-2838.5
BHP	PM Anderson	1625000	5844239	7093239	203.1	304000	5700000	1700000	31875000	33680	17.10	12.90	444.5
Macquarie Bank	AE Moss	1211644	3841368	5053012	37.2	474857	13865824	716371	20918033	4997	28.10	27.80	22.7
Lend Lease	DH Higgins	2314243	2500000	4814243	209.3	83841	1743893	75000	1560000	9473	81.20	3.50	2.8
Securenet	G Ross	4509674	0	4509674		1480000	14060000	1150000	10925000	654	2.70	560.93	15.8
Coles Myer	D Eck	2650000	1850000	4500000	8.6	651523	4743087	7000000	50960000	8243	10.90	-27.00	8.6
Boral	AR Berg	4109620	0	4109620	207.8	0	0	0	0	1102	13.60	12.60	14.8
Leighton Group	WM King	1681510	1700000	3381510	8.7	6660	42691	600000	3846000	1700	21.00	-8.80	9.7
Tabcorp	IR Wilson	1897192	796598	2693790	72.9	3926000	43107480	3000000	32940000	3996	18.80	-5.70	6.3
Normandy Mining	RJ de Crespigny	2667000	0	2667000	149.5	94384924	88721829	0	0	1676	-25.30	-10.50	31.0
PBL	NG Falloon	1701356	900000	2601356	34.7	1500000	20820000	0	0	8471	9.00	28.90	50.7
Wesfarmers	MA Chaney	1055000	1419000	2474000	27.6	604138	9140608	0	0	3878	17.00	-2.20	52.0
Westpac	DR Morgan	1135807	1300000	2435807	41.5	734732	9904187	3675000	49539000	23299	16.90	23.00	15.3
AMP	P Batchelor	1332000	1099000	2431000		1500	271500	0	0	19058	-4.60	2.90	.2
Mayne Nickless	RR Dalziel	2299227	125000	2424227	66.3	0	0	0	0	1808	-17.60	-33.70	-30.6
C&W Optus	CL Anderson	1431230	978605	2409835	90.3	147657	2923241	139682	11856046	15624	5.90	44.80	2433.3
Rio Tinto	LA Davis	1769670	590146	2359816	13.2	57480	1572653	204941	5607186	13784	18.00	11.50	85.7
Aristocrat	DH Randall	2126657	200000	2326657	-26.0	85	544	250000	1600000	2565	28.20	97.38	-30.0
Village Roadshow	JR Kirby	1781539	521605	2303144	1.5	111826723	199051567	0	0	405	6.40	-12.90	-3.3
Austar	JC Porter	2266485	27143	2293628		280000	1033200	4600850	16977137	1918	23.90		
Fosters	ET Kunkel	1411139	865730	2276869	10.1	2000	9240	0	0	8322	18.80	10.40	17.1
AGL	LF Bleasdel	1492177	774200	2266377	64.2	684847	8053801	0	0	3997	27.40	8.30	15.8
CSR	P Kirby	1322800	933500	2256300	13.6	208780	843471	500000	2020000	3958	13.30	7.40	34.2
Qantas	J Strong	1336705	763152	2099857	9.6	119404	463288	1110000	4306800	4638	17.50	-32.30	20.9
CBA	D Murray	1360140	685000	2045140	19.2	50387	1506067	1000000	29890000	37159	22.30	15.10	20.9
Newcrest Mining	GT Galt	2013203	0	2013203	132.4	0	0	250000	920000	903	1.00	32.70	-540.0

Spotless Group	BS Blythe	761367	1224275	1985642	8.0	19943468	140402015	0	0	1196	14.00	38.20	-2.9
NAB	F Cicutto	1371408	550000	1921408	22.0	39647	1129940	1300000	37050000	41179	18.10	11.60	13.2
Goodman Fielder	DLG Hearn	1410287	433700	1843987	29.9	5000	6250	9000000	11250000	1569	6.60	-7.50	24.1
Brambles	JE Fletcher	1660000	146000	1806000	-9.7	148000	7195760	365000	17746300	11647	19.30	23.00	9.6
Anaconda Nickel	JAH Forrest	1781491	0	1781491	76.7	31030238	97434947	8000000	25120000	1154	-1.30	10.00	523.1
Woodside	AH Akehurst	1506068	247822	1748890	9.9	429690	5878159	0	0	9336	20.40	27.10	-2.9
Lion Nathan	GM Cairns	835485	901680	1737165		0	0	0	0	2004	4.00	1.50	7.6
Amcor	RH Jones	1294500	427500	1722000	16.9	100000	540000	1500000	8100000	3411	13.10	-13.90	-3.3
ANZ	J McFarlane	1200000	433333	1666666	-15.5	502044	7324822	1750000	25532500	21297	17.70	15.30	14.7
Telstra	ZE Switkowski	1000909	654000	1654909	41.0	140720	923123	300000	1968000	27362	33.70	-21.70	5.5
Santos	NR Adler	1422532	200000	1622532	2.4	855000	5386500	3000000	18900000	3742	15.50	2.80	24.3
Coca-Cola Amatil	DL Kennedy	1620045	0	1620045	-14.0	201000	870330	950000	4113500	4282	2.90	-46.60	-15.8
Perpetual Trust Aust	GJ Bradley	1606932	0	1606932	114.8	133394	4739489	446514	15864642	1260	22.60	8.20	26.7
Boral	RT Pearse	1065185	540000	1605185	159.3	41868	82480	1121500	2239075	1102	13.60	12.60	14.8
Woolworths	RC Corbett	1367117	223463	1590580	36.2	70165	533254	2271000	17259600	8307	23.40	22.70	18.8
Suncorp-Metway	WS Jones	902192	606000	1508192	26.2	50393	526607	2000000	20900000	1352	22.30	-4.70	41.3
James Hardie	PD McDonald	1064040	443054	1507094		25000	92500	1200000	4440000	1538	24.30	9.70	60.2
NRMA	ER Dodd	916000	567000	1483000		1158	3161	0	0	4064	11.00		
John Fairfax	FG Hilmer	1122662	300000	1422662		40204	168455	3500000	14665000	3288	18.00	4.50	34.1
WMC	HM Morgan	1131086	255350	1386436	1.0	322141	2367736	1150000	8452500	8185	5.80	15.20	62.8
Southcorp	GJ Kraehe	1080822	289637	1370459	.3	735426	3831569	1000000	5210000	3095	13.80	-21.70	13.8
Foodland Association	BJ Alty	956874	377936	1334810	23.2	335513	2835085	0	0	783	16.50	-18.30	-23.5
Futuris Corporation	AL Newman	1204365	107500	1311865	7.6	9980000	17964000	3000000	5400000	1073	10.70	-8.50	5.7
Oil Search	PR Botten	1298290	0	1298290	45.0	0	0	1900000	2964000	712	5.70	-18.30	156.9
Simsmetal	J Crabb	942515	352151	1294666		0	0	0	0	498	9.40	-18.80	500.0
British American Tobacco	GL Krelle	799735	490702	1290437		3000	39000	39228	509964	1956	24.90	-27.00	-27.4
QBE Insurance	FM O'Halloran	928300	320000	1248300	42.4	823043	7407387	390000	3510000	3838	13.00	42.10	20.1
FH Faulding	ED Tweddell	835157	395673	1230830	-20.4	734200	7709100	240000	2520000	1741	12.20	-11.00	16.0
Hutchison Telecomm	B Roberts-Thomson	729000	500000	1229000		78371122	245301612	325000	1017250	1852			-87.2
ERG	PJ Fogarty	790000	425000	1215000	65.9	4375107	14875364	1250000	4250000	687	15.30	363.20	74.0
PMP Communications	RS Muscat	959371	166500	1125871		0	0	1000000	1900000	470	-.60	-43.60	-3.7
Axa	JA Killen	784926	319250	1104176		220657	653145	904000	2675840	4952	6.70	15.60	41.7
Toll Holdings	PA Little	848000	221000	1069000	23.6	8863637	112568190	200000	2540000	713	28.40	74.40	29.0
Ecorp	D Petre	551290	500000	1051290		2000	4160	17631579	36673684	346	-14.40	-14.30	
AXS	RG Humphry	701813	325000	1026813	20.7	55333	665656	0	0	1194	32.60	15.70	60.7
MIM Holdings	NW Stump	940820	50000	990820	7.2	773444	850788	0	0	1894	7.40	-15.90	426.7
PowerTel	GE Dupler	797098	178571	975669		0	0	1000000	1180000	545	-62.50	4.50	-51.0
Ten Network	JH McAlpine	768568	206505	975073	18.3	0	0	2300000	6072000	997	7.00	18.60	8.5
Smorgan Steel	RK Horsburgh	800000	158133	958133	8.6	110758	118511	1025373	1097149	725	9.70	-41.50	8.3
Pacific Dunlop	RL Chadwick	957547	0	957547	-2.0	621400	981812	1200000	1896000	1574	-5.60	-31.70	-29.9

United Energy	K Stamm	767602	184777	952379	44.2	30000	98700	0	0	1353	16.00	35.80	10.0
Jupiters	RK Barnes	622000	329000	951000	26.8	127605	438951	0	0	820	1104.00	-8.90	50.8
Howard Smith	KJ Moss	941000	0	941000	-30.3	46000	375820	70000	571900	1600	14.60	-29.40	-2.0
Email	RG Waters	737500	185000	922500	26.0	106100	284348	1000000	2680000	713	8.50	5.20	18.3
David Jones	P Wilkinson	918985	0	918985	-12.5	5000	6950	4500000	6255000	528	8.80	-3.00	12.5
Pasminco	DM Stewart	917683	0	917683	10.0	51029	42864	1250000	1050000	922	1.60	-46.60	340.0
Origin Energy	GA King	650335	236000	886335		40029	82059	918375	1882669	1157	4.50	-37.10	24.0
Austrim Nylex	AR Jackson	856355	0	856355		10339900	16026845	361000	559550	375	15.40	-33.80	-7.9
Bankwest	TC Budge	712320	130000	842320	34.0	9101	32582	600000	2148000	1801	17.40	11.20	12.9
Orica	PL Weickhardt	749100	92800	841900	35.7	15499	92064	457500	2717550	1626	13.00	-8.20	-24.5
CSL	B McNamee	635000	200000	835000	22.8	120000	4184400	300000	10461000	5246	9.00	153.30	13.0
Adelaide Bank	BF Fitzpatrick	658356	165000	823356		545500	2825690	0	0	435	11.20	-16.10	-17.1
St George Bank	EA O'Neal	821000	0	821000	87.0	11700	148005	1500000	18975000	5524	3.00	8.70	3.6
Nufam	DJ Rathbone	698034	117229	815263		37318498	117553269	0	0	475		-33.70	15.1
Uhir Gold	M. Merton	804795	0	804795	19.3	1000	570	0	0	628	-1.30	-42.10	27.3
Crane Group	JW Ingram	686417	110000	796417		448029	3673838	200000	1640000	351	10.80	-7.60	20.3
Howard Smith	I Tsicalas	785000	0	785000		249000	2034330	233000	1903610	1800	14.60	-29.40	-2.0
WA Newspapers	DW Thompson	654561	125000	779561	11.6	568453	3029845	0	0	1085	52.40	-6.10	45.3
Sons of Gwalia	PK Lalor	770327	0	770327		868689	5264255	500000	3030000	690	23.30	32.00	5.2
National Foods	MG Ould	760527	0	760527	-15.0	2322648	6898265	1000000	2970000	687	15.00	27.90	8.6
BRL Hardy	SB Millar	625310	133800	759110	32.8	199136	1503477	403200	3044160	1121	15.50	12.10	25.4
Data Advantage	B Bargon	749473	0	749473		0	0	0	0	541	2.00	19.90	
PaperlinX	I Wightwick	579328	152176	731504		29417	104725	0	0	875	7.50		
Pacifica Group	BJ Jackson	687500	37500	725000	-3.2	32036	103797	715000	2316600	493	10.20	-32.30	22.4
Iluka Resources	MH Macpherson	559300	158000	717300	92.4	57083	226620	100000	397000	896	12.30	46.40	1061.3
Bank of Queensland	J Dawson	614258	100000	714258	19.0	1000	5810	0	0	334	12.80	-9.80	1.0
Caltex Australia	ID Blackburne	677136	32500	709636	6.0	40000	94400	0	0	642	10.40	-12.50	29.3
APN News & Media	AC O'Reilly	676884	0	676884	22.9	1500000	6750000	1200000	5400000	1174	11.50	34.60	17.6
Sonic Healthcare	GS Goldschmidt	327578	300000	627578	1.5	858000	6735300	3500000	27475000	1439	8.20	62.20	-10.6
Transurban City Link	K Edwards	500000	120000	620000	19.5	50000	205000	0	0	2014	-39.20	11.40	
Lang Corporation	CD Corrigan	600000	0	600000		4201928	42649569	0	0	1221	17.00	79.60	
Corporate Express	T Nark	584088	0	584088		534750	4598850	356250	3063750	809	19.30	144.90	117.2
QTC Resources	CD Rawlings	551941	30000	581941		0	0	800000	960000	826	-5.00		-106.7
TAB Ltd	W Wilson	478000	100000	578000	4.7	771	2560	1500000	4980000	1555	13.50	-20.00	26.4
Bendigo Bank	R Hunt	433500	100000	533500		210931	1086295	0	0	560	7.40	-20.70	18.8
Seven Network	MA Plavsic	532396	0	532396	-63.9	0	0	250000	1835000	1909	9.40	60.00	91.9
Cochlear	CB Livingstone	384703	128636	513339	9.2	100000	2720000	216000	5875200	1408	52.50	139.73	22.6
Energy Developments	WP Pahor	425000	75000	500000		8021191	112296674	700000	9800000	1214	10.40	109.68	43.1
Technology One	A Di Marco	369202	118382	487584		27900000	44640000	0	0	463	69.40		
Orogen Minerals	CW Lepani	469939	0	469939		0	0	0	0	465	2.00	3.50	68.9
Orbital Engine Corp	KC Schlunke	436775	0	436775	16.6	20931	45630	202500	441450	759	-40.30	340.96	-36.0

Strickland Trust	PJ Daly	345003	85000	430003	15.1	0	0	0	0	2054	9.90	2.20	5.8
Computershare	CJ Morris	423500	0	423500	28.3	52435212	465624683	0	0	4665	14.70	92.70	134.4
Ashton Mining	DW Bailey	361205	0	361205	-72.5	100000	224000	1000000	2240000	712	-14.90	40.90	-456.0
Data Advantage	D Grafton	303474	44500	347974		0	0	1600000	8992000	541	2.10	19.90	
Challenger Int	WEB Ireland	300000	30000	330000	72.0	0	0	300000	1221000	936	37.50	-5.20	90.5
Envestra	OG Clarke	260257	25000	285257		125000	115000	0	0	523	-12.00	-17.10	48.0
Seven Network	K Stokes	271307	0	271307	-81.6	91948189	674899707	0	0	1909	4.90	60.00	91.9
Harvey Norman	G Harvey	250400	0	250400	.0	303482067	1259450578	3000000	12450000	4255	23.30	41.20	37.3
KAZ Comp Services	P Kazarcos	249032	0	249032		106080000	121992000	1800000	2070000	540			
Newcrest Mining	RB Davis	245096	0	245096		3000	11404	0	0	903	1.00	32.70	-540.0
Open Telecom	W Passlow	230945	0	230945		70186962	126336532	0	0	1041			
MYOB	C Winkler	183961	0	183961		19750000	78012500	625000	2468750	872			
Hills Motorway Group	WR Clark	156000	0	156000	4.4	0	0	0	0	823	-24.20	-13.60	-3.9
Powerlan	T Baker	138557	0	138557		129600600	167184774	1200000	1548000	447	20.10		
Mayne Nickless	PJ Smedley					2000000	10340000	0	0	1808	-17.60	-33.70	-30.6

* Figure adjusted to reflect average individual ownership.

Appendix 3
Australian Financial Review Executive Remuneration Survey Data, 2000-2001

Source: *Australian Financial Review*, 16 November 2001, S8-S9.

Selection Criteria: Chief Executive Officers, Managing Directors, and Chairpersons of the 150 largest locally-listed companies by market capitalisation, excluding property and other trusts.

COMPANY	EXECUTIVE	$ BASE	$ BONUSES	$ TOTAL	$ CHANGE	SHARE NO.	SHARE $	OPTIONS	0PTION $	CAPITAL	ROE	% SPC	% EPSC
Newscorp	P Chernin	14752920	16027000	30779920		0	0	1000000	18020000	55095	-2.23	-21.66	-140.9
Rio Tinto	LA Davis	2702040	13058646	15760686	567.88	6100	208254	204941	6996689	16122	21.69	23.61	30.6
Newscorp	KR Murdoch	8972880	5880000	14852880	15.99	607853010	10953511240	16275000	293275500	55095	-2023.00	-21.66	-140.9
AGL	LF Bleasel	1296234	10416137	11712371	416.79	0	0	0	0	3234	6.25	-14.77	-75.4
Westfield Holdings	FP Lowy	1066554	8867080	9933634	17.37	159197708	2228767912	0	0	9200	24.41	21.92	13.9
Coles Myer	D Eck	3645511	4900000	8545511	89.90	0	0	4400000	27808000	6859	4.10	-1.47	-52.8
Southcorp	TP Park	4850509	2993212	7843721		0	0	2050000	15600500	4680	12.15	57.84	-1.8
BHP Billiton	PM Anderson	1583333	6239739	7823072	10.29	950856	9879394	1500000	15585000	33132	18.79	12.67	22.2
Rio Tinto	RL Clifford	5494000	910800	6404800	174.41	183987	6281316	199754	6819602	16122	21.69	23.61	30.6
PBL	HG Falloon	2272369	3000000	5272369	102.68	0	0	0	0	6454	-2.46	-29.34	-125.9
Santos	NR Adler	1225308	3770525	4995560	207.89	0	0	0	0	3821	14.49	27.50	36.3
Macquarie Bank	AE Moss	604952	4089025	4693950	-7.11	324857	11954738	366371	13482453	7575	27.07	41.10	11.7
AMP	P Batchelor	1734000	2458000	4192000	72.44	43213	950254	1542980	33930130	20041	12.36	29.37	360.2
NRMA Insurance	ER Dodd	3241000	874000	4115000	177.48	0	0	275000	935000	4450	10.99		
Leighton Holdings	WM King	1741117	1900000	3641117	7.68	6660	55611	600000	5010000	2902	22.30	55.20	16.4
MIM Holdings	NW Stump	704160	2863396	3567556	260.06	0	0	0	0	1807	4.54	33.33	-38.2
Pacific Dunlop	RL Chadwick	3394137	100000	3494137	264.91	0	0	0	0	781	-11.02	-43.62	-71.4
Cable & Wireless Optus	CJ Anderson	1775093	1714421	3489514	44.80	61240	230875	0	0	20035	24.12	-28.06	60.0
Coca Cola Amatil	DL Kennedy	1927716	1230000	3157716	94.92	201000	884400	950000	4180000	3443	4.64	54.39	5.9
Wesfarmers	MA Chaney	1144000	1900000	3044000	23.04	402889	10922321	0	0	11541	17.81	103.83	19.1
PBL	PW Yates	664832	2374647	3039479		55929	507835	0	0	6454	-2.46	-29.34	-125.9
Burns Philp	TJ Degan	2360732	656414	3017146		1800000	828000	1310172	602679	343	48.67	9.52	-3.5
CSR	P Kirby	1426600	156590	2992500	32.63	669695	4754835	700000	4970000	5787	16.59	53.02	38.5
Jupiters	RK Barnes	2440000	420000	2860000	200.74	0	0	0	0	972	13.40	34.16	14.3
Caltex Australia	ID Blackmore	171426	2620508	2791934	293.43	0	0	0	0	326	3.59	-43.21	-64.7
Normandy Mining	RJ de Crespigny	1171000	1611000	2782000	4.31	71076161	88134440	0	0	2551	-14.19	37.78	-91.4
Westpac	D Morgan	1408084	110000	2508084	45.70	734742	10624369	3675000	53140500	27176	19.31	19.98	7.5
Telstra	ZE Switkowski	1150832	1196000	2346832	41.81	105800	569204	910000	4895800	31204	32.68	-20.65	10.1
Macquarie Bank	DS Clarke	302462	2038068	2340530	-53.68	4448385	163700568	343750	12560000	7575	27.07	41.10	11.7

Spotless Group	BS Blythe	1044248	1202693	2246941	13.16	13144855	97929170	0	0	591	9.69	33.13	8.3
Village Roadshow	JR Kirby	1883330	363547	2246877	-2.44	111819817	180029905	6906	11119	544	6.35	-30.00	-79.2
Foster's Group	ET Kunkel	1636083	600000	2236083	-1.79	0	0	0	0	9704	15.46	16.60	1.2
Brambles Indistries	JE Fletcher	1719000	507000	2226000	23.26	0	0	0	0	11001	7.24	-6.50	-58.6
Amcor	RH Jones	1396228	820000	2216228	28.70	100000	662000	3000000	19860000	4197	14.92	13.34	-3.2
Tabcorp Holdings	IR Wilson	1865256	343077	2208333	-18.02	3926000	37297000	3000000	28500000	3717	15.13	-1.04	.6
Boral	RT Pearse	1348119	829200	2177319	-47.02	86869	250183	1721500	4956920	1800	8.45	37.00	-9.1
Westfield Holdings	SM Lowy	850000	1250000	2100000		159197708	2228767912	1250000	17500000	9200	24.41	21.92	13.9
CBA	D Murray	1560173	450000	2010173	-1.71	47108	1608738	1500000	51225000	38683	13.58	23.33	-34.7
Mayne Nickless	PJ Smedley	1956344	0	1965344		2000000	12900000	0	0	5977	14.24	88.05	180.0
NAB	FJ Cicutto	1371408	550000	1921408	22.00	39647	1425310	1300000	46735000	48651	17.61	25.64	7.7
Lend Lease	DH Higgins	1882928	0	1882928	-60.89	1117841	14028905	0	0	4752	3.40	-41.31	-95.2
James Hardie Industries	PD McDonald	1136782	686210	1822992	20.96	81000	429300	1200000	6360000	2006	-31.88	20.80	-75.8
Woolworths	RC Corbett	1104780	703946	1808726	13.71	118165	1299815	2271000	24981000	275	47.97	78.43	24.1
Woodside Petroleum	JH Akehurst	1522529	284000	1806529	5.71	464679	7630029	0	0	8913	50.84	26.31	191.8
Suncorp Metway	WS Jones	937500	855365	1792856	18.88	93643	1404645	2000000	30000000	6784		74.02	20.1
Village Roadshow	GW Burke	1724758	0	1724758	-25.11	2400	3864	7390400	11898544	544	6.35	-30.00	-79.2
Lion Nathan	GM Cairns	1143963	525600	1669563	-3.89	327153	1442745	314594	1387360	1753	7.00	15.45	96.2
St George Bank	EA O'Neal	941000	715000	1656000	101.71	19200	285888	1500000	22335000	8408	9.69	30.60	8.9
One Steel	RL Every	1302549	290137	1592868		102793	94750	4309787	3965004	463			-108.8
WMC	HM Morgan	1168544	407546	1576090	13.68	402141	3852511	1150000	11017000	10384	16.26	28.19	181.7
Goodman Fielder	DLG Hearn	1551936	0	1551936	-15.84	505000	590850	6000000	7020000	1798	-6.50	-5.32	-193.8
ANZ	J McFarlane	1500000	0	1500000	-8.16	530117	8529583	2600922	41848835	26909	19.73	31.96	9.4
Alintas Gas	PJ Harvey	207900	1275210	1483110		0	0	0	0	609	245.87		
Qantas	J Strong	1477204	0	1477204	-29.64	0	0	0	0	5593	13.47	3.55	-23.7
Futuris Corp	AL Newman	1270537	170625	1441162	9.86	950000	25080000	0	0	1014	11.31	47.49	.8
Austereo Group	BC March	467104	881112	1348216		1025	2163	0	0	689	10.72		
Simsmetal	J Crabb	969837	358555	1328392	2.60	500000	2870000	800000	4592000	473	13.95	5.71	51.8
ERG	PJ Fogarty	920000	400000	1320000	8.64	11819019	16310246	3750000	5175000	389	15.32	-66.69	-82.1
Aristocrat Leisure	DH Randall	1164033	150000	1314033	-43.52	0	0	800000	5640000	2924	43.82	24.78	9.5
Mayne Nickless	RR Dalziel	1306947	0	1306947	-46.09	0	0	0	0	5977	14.24	88.05	180.0
David Jones	P Wilkinson	934272	370175	1304447	41.79	5000	5600	6000000	6720000	449	8.79	-9.82	-21.9
PaperlinX	IM Wightwick	942759	346950	1289709	76.31	148136	601432	0	0	1360	9.94	28.08	-58.8
AXA Asia Pacific Holdings	A Owen	1286546	0	1286546	16.52	65246	204220	56796	177771	3527	10.36	20.58	24.0
AGL	GW Martin	868877	400000	1268877		526254	4462634	0	0	3234	6.25	-14.77	-75.4
CSL	BA McNamee	872809	393034	1265843	51.60	40000	1908000	382540	18247158	7723	9.37	44.39	27.5
Origin Energy	GA King	764845	500000	1264845	42.71	40029	120087	936750	2810250	2081	7.84	86.34	-10.0
National Foods	MG Ould	851753	375000	1226753	61.30	3248015	7308034	0	0	769	13.43	-34.25	-8.0

Foodland Association	TM Coates	1206224	0	1206224	-9.63	454221	5005515	0	0	1145	12.71	39.89	
John Fairfax Holdings	FG Hilmer	1106196	100000	1206196	-15.22	64868	262715	3500000	14175000	2535	11.49	-13.87	-31.3
Smorgan Steel	RK Horsburgh	1155784	50000	1205784	25.85	75758	68182	3057873	2752086	370	-28.57	-32.84	-411.4
Telecom New Zealand	T Gattung	1182255	0	1182255		912760	4162186	0	0	3367	19.90	-22.71	-31.8
Ten Network	JH McAlpine	763333	400000	1163333	19.31	0	0	0	0	742	2.25	-27.45	-74.4
TAB Limited	W Wilson	600000	560000	1160000	100.69	5034	15706	1500000	4680000	1465	14.89	27.87	9.7
Downer EDI	SJ Gillies	931500	187500	1119000		1529483	841216	0	0	161	9.63	-25.68	-6.6
ASX	RG Humphrey	766728	350000	1116728	8.76	110666	1576991	0	0	1221	33.19	24.47	-5.5
Qantas	G Dixon	1116051	0	1116051		13718	48013	0	0	5593	13.47	3.55	-23.7
Adelaide Bank	BF Fitzpatrick	746800	348750	1095550	33.06	611178	3514274	0	0	572	11.27	20.29	15.3
PMP Communications	RS Muscat	1083362	0	1083362	-3.78	20000	9000	0	0	154	-150.09	-74.11	63.8
Vision Systems	JC Fox	736551	330000	1066551		4038350	14416910	0	0	331	63.19	166.72	696.3
Southcorp	GJ Kraehe	902981	150000	1052981	-23.17	0	0	0	0	4680	12.15	57.84	-1.8
Orica	PL Weickhardt	836500	137400	973900	15.68	36589	162821	595000	2647750	1580	7.61	-41.22	-7.4
Bank of WA	TC Budge	768513	180000	948513	12.61	209101	922135	600000	2646000	1140	15.13	16.77	12.5
Toll Holdings	PA Little	680001	225000	935001	-12.53	8984147	175280708	748678	14606708	1968	27.70	97.98	17.3
Crane Group	JW Ingham	769823	160000	929823	16.75	448029	3203407	200000	1430000	395	2.83	-10.06	-74.2
APN News & Media	AC O'Reilly	486106	441656	927762	37.06	0	0	0	0	705	13.90	.07	17.6
Perpetual Trustees	GJ Bradley	650000	253500	903500	-43.77	127474	5214961	401384	16420619	1102	25.36	57.54	33.5
Southcorp	KM Lambert	410295	480000	890295		1200000	9132000	0	0	4680	12.15	57.84	-1.8
Pacifica Group	BJ Jackson	737500	151875	889375	17.25	32436	115148	895000	3177250	475	-1.56	-15.50	-114.2
Sons of Gwalia	PK Lalor	768700	75000	843700	9.52	868689	7879009	212500	1927375	850	22.31	72.76	3.7
MIM Holdings	VP Gauci	761660	73000	834660		79255	95106	788462	946154	1807	4054.00	33.33	-38.2
WA Newspapers	DW Thompson	708322	125000	833322	6.90	568453	2836580	0	0	1062	55.62	-5.77	-26.2
Orogen Minerals	CW Lepani	833000	0	833000		0	0	0	0	290		-40.45	452.3
BRL Hardy	SB Miller	710439	105486	815925	7.48	233017	2407066	394200	4072086	1891	15.65	45.46	18.6
Oil Search	PR Botten	803360	0	803360		0	0	1000000	1200000	709	7.64	-34.43	32.4
GWA International	GJ McGrath	794219	0	794219		754275	1772546	0	0	338	10.72	6.48	-.7
Austereo Group	PM Harvie	313312	475000	788312		1030	2173	0	0	689	10.72		
Iluka Resources	MH Macpherson	629992	148613	778605	8.55	57083	281419	100000	493000	756	13.70	3.14	72.7
Seven Network	MA Plavsic	774411	0	774411	45.46	300000	2139000	150000	1069500	1818	1.72	.59	-50.2
Cochlear	CB Livingstone	151477	610160	761637	48.37	0	0	0	0	2667	63.42	35.61	52.0
Sonic Healthcare	GS Goldschmidt	333299	418000	751299	19.71	800000	6328000	3125000	24718750	2047	11.51	15.00	6.7
Novus Petroleum	RC Williams	517217	220983	738200		1183625	2201543	2000000	3720000	271	14.15	5.39	103.3
QBE Insurance	FM O'Haloran	516000	190000	706000	-43.44	843043	9956338	390000	4605900	4041	80.60	44.52	9.9
Foodland Association	BJ Alty	704962	0	704962	-47.19	0	0	0	0	1145	12.71	39.89	
APN News & Media	VC Crowley	602216	100000	702216	3.74	0	0	400000	1616000	705	13.90	.07	17.6
Pacific Hydro	J Harding	641425	50000	691425		632214	2617366	1190000	4926600	546	19.61	135.23	141.6
Transurban Group	K Edwards	550000	125000	675000	8.87	61000	274500	0	0	2361	-64.82	19.74	-3.7

Henry Walker Eltin	RV Ryan	652773	0	652773		921671	884804	900000	864000	169	6.71	-25.58	-33.8
Ramsay Health Care	IPS Grier	545254	100000	645254		124600	380030	330000	1006500	611	8.83	267.47	127.9
Goldfields	PW Cassidy	491077	130000	621077		5336	9445	1100000	1947000	446		29.15	58.4
Jupiters	RA Hines	468000	151000	619000		10000	42500	0	0	792	13.40	34.16	14.3
Southern Cross Broad	AE Bell	610726	0	610726		83979	1024544	0	0	623		37.08	-6.5
Billabong International	MD Perrin	419549	190000	609549		13138012	69631464	0	0	1639	75.12		
Newcrest Mining	RC Barwick	607777	0	607777		5000	22450	250000	1122500	959	9.00	-.24	1014.3
Lang Corp	CD Corrigan	600000	0	600000	.00	4201928	46221208	1000000	11000000	2053	20.57	21.91	41.4
Sons of Gwalia	M Cutifani	581967	15000	596967		0	0	50000	453500	850	22.31	72.76	3.7
Adsteam Marine	DJ Ryan	437917	150000	587917		636314	1215360	0	0	437	8.97	-13.48	-23.7
Cochlear	JJ O'Mahony	478786	105000	583786		0	0	150000	5850000	2667	63.42	35.61	52.0
United Energy	DG Bacon	581381	0	581381	-38.95	0	0	10000	24200	1052	19.02	-25.77	9.3
TAB Qld	R McIwain	578682	0	578682		0	0	1000000	2490000	398		21.88	-13.9
Burswood	JW Schaap	578453	0	578453		0	0	1800000	1440000	289	4.43	23.08	-31.3
Adelaide Brighton	PJ Wright	554491	0	554491		101000	67670	40000	26800	388	8.33	57.65	131.5
Corporate Express	TC Nark	432000	120000	552000		144583	660744	94480	431774	961	30.34	52.33	90.6
Miller's Retail	AI Miller	535637	0	535637		13369842	45992195	320000	1100800	696	39.24	104.34	59.4
Bendigo Bank	RG Hunt	433500	100000	533500	10.00	207973	1372622	0	0	578	8.02	34.23	14.5
Technology One	A Di Marco	281778	251088	532866	9.29	78200000	64906000	0	0	272	31.29	-32.70	10.7
Delta Gold	TB Burgess	496568	36000	532568		153950	246320	890700	1425120	580	38.39	28.93	137.8
Energy Developments	WP Pahor	450000	75000	525000	5.00	5417765	47784687	1500000	13230000	893	6.79	-9.54	.0
Vision Systems	PA Murphy	418750	91600	510350		2097440	7487861	0	0	331	63.19	166.72	696.3
OPSM Protector	JF Kelly	479418	0	479418		0	0	0	0	514	1.25	11.95	-1.6
Singleton Group	R Tate	475000	0	475000		1465000	5860000	3145500	12582000	522	27.67	103.00	44.0
Altium	K Oboudiyat	354232	118519	472751		1187500	5937500	1200000	6000000	318	11.80	2.00	39.7
Inst of Drug Tech	GL Blackman	427375	40000	467375		5830313	29151565	250000	1250000	187	33.49	17.67	14.5
Challenger International	WEB Ireland	400000	62885	462885	40.27	34293745	119342233	1380000	4802400	672	37.45	6.75	48.0
Bank of Queensland	JK Dawson	383963	75000	458963		0	0	200000	1324000	281	12.77	26.58	-.9
Medical Imaging Aust	P Macintosh	400000	50000	450000		4730211	5487045	500000	580000	879	8.67		-75.9
HPAL	TC Daly	320000	127600	447600		0	0	1113543	2360711	227	418.45		
Computershare	CJ Morris	423500	0	423500	.00	53322542	327933633	0	0	2979	9.12	-28.41	-4.0
PowerTel	SB Butler	314444	100018	414462		30000	9300	1133000	351230	194	-42.41	-82.92	-15.9
Tempo Services	JH Schaeffer	414256	0	414256		38682304	87422007	0	0	255	61.57	32.94	32.8
Silex Systems	MP Goldsworthy	382134	25000	407134		3424533	199033858	3900000	226668000	315	35.69	58.12	-100.0
Caltex Australia	TC Blevins	403448	0	403448		5000	8150	0	0	326	3.59	-43.21	-64.7
Kaz Computer Services	P Kazarcos	301365	100000	401365		106080000	145329600	1260000	1726200	507	16.34	52.22	116.9
Data Advantage	DJ Grafton	351536	43750	395286	13.60	0	0	1000000	6860000	656	5.80	49.71	200.0
Pan Pharmaceuticals	J Salim	364000	31000	395000		88126692	203572659	3500000	8085000	202	12.36		-38.8
United Energy	KG Stamm	27811	366247	394058		0	0	5000	12100	1052	18.02	-25.77	9.3

Tap Oil	PW Underwood	385000	0	385000		2101376	2878885	500000	685000	180	11.42	77.92	24.5
Tempo Services	J Eriani	379199	0	379199		1400000	3164000	300000	678000	255	61.57	32.94	32.8
Orogen Minerals	JF Kaupa	376320	0	376320		18000	18180	0	0	290		-40.45	452.3
Jubilee Mines	KK Harmanis	363421	0	363421		22051166	35061345	500000	795000	170	68.49	28.23	
Orbital Engine Corp	KC Schlunkey	325893	16000	341893	-21.72	20931	15280	163500	119355	195	-107.74	-60.11	-145.2
Renewable Energy	PD Williams	332888	0	332888		20000000	45200000	4000000	9040000	167	-5.24	247.69	-95.7
Santos	JC Ellice-Flint	253892	78082	331974	-79.54	1000000	6490000	3000000	19470000	3821	14.49	27.50	36.3
Simeon Wines	NR MacKenzie	299250	8977	308227		2000	5180	250000	647500	194	8.46	-.80	3.4
OPSM Protector	J. Pinshaw	306610	0	306610		150000	405000	2000000	54000000	514	1.25	11.95	-1.6
Envestra	OG Clark	282917	20000	302917	6.19	128750	104288	0	0	268	-26.59	17.39	-125.0
Ridley Corporation	MP Bickford-Smith	279584	0	279584		0	0	500000	345000	250	424.00	21.05	66.7
Pacific Dunlop	AB Dennis	276233	0	276233		9732	8175	0	0	781	-11.02	-43.62	-71.4
Bank of Quensland	DP Liddy	266231	0	266231		1000	6620	0	0	281	12.77	26.58	-.9
Harvey Norman	G Harvey	250400	0	250400	.00	297782067	1295351991	3000000	13050000	2596	19.00	15.57	-4.7
Collecton House	JM Pearce	228447	0	228447		17447730	92298492	0	0	318	25.18		
Alinta Gas	RB Browning	228330	0	228330		0	0	0	0	609	245.87		
Infomedia	RD Graham	225966	0	225966		926560	1667808	450000	810000	258	89.65		
Seven Network	KM Stokes	216676	0	216676	-20.14	91948189	655590588	0	0	1818	1.72	.59	-50.2
Flight Centre	GF Turner	86400	80057	166457		17000465	476013020	0	0	1844	48.36	47.76	7.2
Newcrest Mining	RB Davis	133966	0	133966	-45.34	3038	13641	0	0	959	9.00	-.24	1014.3
Intellect Holdings	JAC de Smet	118246	0	118246		0	0	500000	580000	161		54.67	-27.1
Aquarius Platinum	KS Liddell	117253	0	117253		165000	1428900	650000	5629000	288	31.53	116.50	242.3
Portman	IF Burston	97515	0	97515		0	0	500000	745000	241	2.12	86.25	-73.7
Peptech	S Kwik	95557	0	95557		300000	777000	2200000	5698000	647	-3.12	979.17	-61.7
AFIC	RE Barker	89000	0	89000		253379	836151	0	0	555		31.37	-.7
Hills Motorway Group	SJ Howard	80000	0	80000	-48.72	0	0	0	0	732	-2.63	36.79	-91.4
Renewable Energy	SE Blanch	75000	0	75000		7000	15820	0	0	167	-5.24	247.69	-95.7
Lihir Gold	A Roberts	59388	0	59388		0	0	0	0	1256	-24.48	37.88	-66.7
Gribbles Group	WS Cameron	41250	0	41250		0	0	0	0	217		5.21	
Djerriwarrh Investments	RE Barker	34695	0	34695		207974	738308	23633	83897	246	6.41	2.81	-4.8
Lihir Gold	M Merton	31720	0	31720		0	0	0	0	1256	-24.48	37.88	-66.7
Altium	NM Martin	7692	0	7692		23444000	117220000	0	0	318	11.80	2.00	39.7

Appendix 4
Australian Financial Review Executive Remuneration Survey Data, 2001-2002

Source: *Australian Financial Review*, 6 November 2002, S8-S10.

Selection Criteria: Chief Executive Officers, Managing Directors, and Chairpersons of the 150 largest locally-listed companies by market capitalisation, excluding property and other trusts.

COMPANY	EXECUTIVE	$ BASE	$ BONUSES	$ TOTAL	$ CHANGE	SHARE NO.	SHARE $	OPTIONS	0PTION $	CAPITAL	ROE	% SPC	% EPSC
News Corporation	P Chernin	14680380	16977840	31685000	2.9	0	0	22275000	215622000	50899	-31.55	-47.13	
News Corporation	KR Murdoch	10984620	5310000	16294000	9.7	641043528	6205301351	24005000	232368400	50899	-31.55	-47.13	
BHP Billiton	PAnderson	10532421	3510021	14042442	79.5	1934014	18621267	0	0	35990	13.36	-1.72	-8.7
Westfield Holdings	FP Lowy	978336	10944000	11922336	20.0	158636023	2373194904	0	0	6987	21.24	8.48	31.2
Leighton Holdings	WM King	2190564	6847309	9037873	148.2	6660	69197	650000	6753500	2545	22.13	27.80	6.3
Wesfarmers	MA Chaney	1222000	6716000	7938000	160.8	402889	10958581	0	0	9898	16.58	.59	25.5
Commowealth Bank	DV Murray	1675550	5320000	6995550	248.0	106374	3502896	1750000	57627500	38094	14.54	.98	10.3
Coles Myer	D Eck (res)	5459865	0	5459865		0	0	0	0	7569	11.87	5.41	124.6
Macquarie Bank	AE Moss	647973	4185686	4833659	3.0	324857	9502067	352371	10306852	4626	14.91	-18.07	-5.5
Burns Philp	TJ Degnan	3169314	716606	3885920	28.8	1800000	1170000	691050	449183	458	40.99	41.30	5.0
Mayne Group	PJ Smedley	2096348	1749690	3846038	96.6	0	0	2000000	7260000	2930	6.93	-35.11	-40.0
Rio Tinto	RL Clifford	2704600	1082560	3787160	-40.9	0	0	0	0	15937	15.30	-3.98	23.3
Westfield Holdings	PS Lowy	1504500	2212500	3717000		158636023	2373194904	1250000	18700000	6987	21.24	8.48	31.2
Qantas	J Strong	3655238	0	3655238		0	0	0	0	6623	11.34	32.95	14.0
Aristocrat Leisure	DH Randall	1297443	2352145	3649588	177.7	300340	1624839	1600000	8556000	2226	33.79	-23.15	27.3
Rio Tinto	R Wilson	2148800	1438880	3587680		112390	3767313	674556	22611117	15937	15.30	-3.98	23.3
CSR	P Kirby	1505567	2006139	3511706	17.4	1085216	6934530	675000	4313250	5161	13.80	-8.32	-7.5
Tabcorp Holdings	IR Wilson	2368309	984217	3352526	51.8	3726000	46575000	3000000	37500000	4296	20.71	32.84	35.2
AMP	P Batchelor	1729000	1613000	3342000	-20.3	104569	1631276	1482980	23134488	14725	6.74	-26.07	-39.8
Brambles Industries	CK Chow	2753000	540000	3293000		0	0	1782534	16827121	6623		-80.13	
Woolworths	RC Corbett	2009605	1282500	3292105	82.0	2118165	27853870	1223000	16082450	13028	51.79	20.20	24.3
Henry Walker Eltin	RV Ryan	3019474	0	3019474	362.6	921671	663603	450000	324000	167	-5.68	-23.40	
Orica	P Weickhardt	2886600	121700	2988300	206.8	0	0	0	0	2819	-13.82	121.32	
Spotless Group	BS Blythe	1100867	1846775	2947642	31.2	13174956	57706307	0	0	1024	7.11	32.14	5.6
National Australia Bank	FJ Cicutto	1577291	1350000	2927291	52.4	240616	8517806	1600000	56640000	52725	9.47	5.42	-38.0
Lend Lease	DH Higgins	1675533	1156138	2831671	50.4	82877	873524	0	0	4323	6.14	-15.44	56.4
Boral	RT Pearse	1480333	1320442	2800775	28.6	236753	887824	2371500	8893125	2380	10.13	23.70	24.8
Foster's Group	ET Kunkel	1508001	1240000	2748001	22.9	500639	2363016	1250000	5900000	9772	14.20	-12.27	10.7
Westfield Holdings	SM Lowy	850000	1850000	2700000	28.6	158636023	2373194904	1250000	18700000	6987	21.24	8.48	31.2
OneSteel	RL Every	1422179	1200000	2622179	64.6	102793	134659	2462735	3226183	846	4.22	37.89	

PBL	PW Yates	2508837	0	2508837	-17.5	116929	1058207	0	0	5352	7.88	.00	
Westpac Banking	D Morgan	1408084	1100000	2508084	3.0	559732	9090048	3675000	59682000	24889	20.56	14.53	16.2
Qantas Airways	G Dixon	1456905	1000000	2456905	120.1	14504	66718	0	0	6623	11.34	32.95	14.0
Axa Asia Pacific	AL Owen	1454932	998112	2453044	90.7	124500	336150	0	0	4281	13.50	-9.40	5.7
Macquarie Bank	DS Clarke	323986	2109772	2433758	4.0	660885	19330886	194250	5681813	4626	14.91	-18.07	-5.5
Telstra Corp	ZE Switkowski	1245850	1150000	2395850	2.1	135380	630871	2690000	12750600	61245	26.77	-13.06	-9.5
Amcor	RH Jones	1512910	876317	2389227	7.8	200001	1648008	3000000	24720000	6754	28.26	25.80	153.9
Santos	JC Ellice-Flint	1242023	1121918	2363941		1000000	6460000	0	0	3638	18.99	3.36	-9.0
Coca Cola Amatil	DL Kennedy	1747631	493086	2240717	-29.0	0	0	0	0	3655	11.99	29.15	181.6
James Hardie Ind	PD McDonald	1210750	1017800	2228550	22.2	81000	496692	1824000	11184768	2830	8.99	22.64	-22.2
Coles Myer	J Fletcher	1979531	192000	2171531		28018	185759	2500000	16575000	7569	11.87	5.41	124.6
Southcorp	KM Lambert	1384111	777100	2161211		1200000	6372000	2000000	10620000	3659	14.50	-27.26	31.0
Lion Nathan	GM Cairns	1429450	720000	2149450	28.7	327153	1586692	0	0	2785	8.48	10.23	39.6
WMC	HM Morgan	2069960	0	2069960	31.3	402141	3655462	950000	8635500	8443	8.44	-5.90	-46.4
Village Roadshow	JR Kirby	1735551	325000	2060551	-8.3	111819817		0	0	335	2.95	-28.99	-16.8
Simsmetal	J Crabbe	1982057	0	1982057		0	0	0	0	648	15.01	18.77	16.0
Woodside Petroleum	JH Akehurst	1390444	461022	1851466	2.5	586177	7954422	0	0	8013	38.99	-14.06	-5.9
Foodland Associates	TM Coates	1781853	0	1781853	47.7	479348	9059677	0	0	2214	12.71	74.68	67.3
Suncorp Metway	WS Jones	999999	760000	1759999	-1.8	388859	4786854	2000000	24620000	6402	11.36	-17.71	-31.0
St George Bank	EA O'Neal	902000	800000	1702000	2.8	25272	492551	1500000#	21000000#	8852	11.31	8.93	18.0
Iluka Resources	MH Macpherson	1402450	299281	1701731	118.6	100083	491408	0	0	1117	9.35	6.74	-28.0
CSL	BA McNamee	1279733	387696	1667429	31.7	40000	1287200	625733	20136088	2811	11.52	-30.91	50.2
WA Newspapers	DW Thompson	477843	1161136	1638979	96.7	0	0	0	0	1040	40.57	2.01	-23.3
Telecom New Zealand	T Gattung	1595754	0	1595754	35.0	1533092	6530972	0	0	8361	-11.32	-1.84	
IAG	MJ Hawker	1588000	0	1588000		100736	317318	1000000	3150000	3696	-1.07	-5.69	
Goodman Fielder	TP Park	844487	700000	1544487	-.5	0	0	5000000	8350000	1793	14.67	43.10	
Mayne Group	SB James	882949	634123	1517072	16.1	750000	3105000	0	0	2930	6.93	-35.11	-40.0
Ansell	H Boon	1370394	131957	1502351		10340	64935	120000	753600	1318	-12.13	53.10	
ANZ	J McFarlane	1500000	0	1500000	-8.2	631039	12172742	2600922	48225000	28323	20.09	17.55	9.4
Village Roadshow	GW Burke	1491702	0	1491702	-13.5	2400	2880	6000000	8760000	335	2.95	-28.99	-16.8
PaperlinX	IM Wightwick	1046660	419685	1466345	13.7	148796	721661	0	0	1810	9.94	19.75	-2.4
Austereo Group	BC March	1060363	359513	1419876	5.3	1025000	1773250	0	0	647	7.00	-16.02	11.6
Futuris Corporation	AL Newman	1381182	0	1381182	-4.2	7000000	9520000	3000000	4080000	689	8.48	-48.68	20.9
Ten Network	N Falloon	925041	400000	1325041		0	0	7500000	1500000	720	2.25	17.55	-85.9
Smorgon Steel	RK Horsburgh	1175477	125875	1301352	7.9	80452	92520	4275373	4916679	1002	4.52	27.78	
Downer EDI	SJ Gillies	1053000	243750	1296750	15.9	1606550	1060323	0	0	526	8.73	20.00	-3.5
Perpetual Trustees	GJ Bradley	712086	582500	1294586	43.3	188366	8080901	336977	14456313	1309	30.80	7.12	39.0
TAB	W Wilson	800000	475000	1275000	9.9	3578	11128	1500000	4665000	1430	17.46	.32	5.4
ASX	RG Humphry	843603	392000	1235603	10.6	302303	4050860	0	0	228	33.18	-3.74	15.4
MIM Holdings	VP Gauci	938884	285406	1224290	46.7	376403	489324	0	0	2277	3.54	8.33	-18.0
John Fairfax Holding	FG Hilmer	1109311	100000	1209311	.3	92890	307466	3500000	11585000	2146	4.78	-17.25	-64.7

Toll Holdings	PA Little	800000	400000	1200000	28.3	8484147	67236856	400000	3170000	7455	24.79	60.12	35.1
Origin Energy	GA King	830002	368000	1198002	-5.3	50029	168598	1636750	5515848	2431	8.92	14.24	18.0
Ten Newtwor	JH McAlpine	1000000	187200	1187200	2.1	0	0	0	0	720	2.25	17.55	-85.9
National Foods	MG Ould	975334	202500	1177834	-4.0	2252533	7726188	0	0	1050	13.41	65.70	11.0
GWA International	GJ McGratrh	880283	280000	1160283	46.1	754275	1772546	0	0	689	12.06	7.80	12.0
Adelaide Bank	BF Fitzpatrick	676989	482942	1159931	5.9	630583	460326	0	0	649	14.32	24.62	19.9
Crane Group	JW Ingram	668131	472763	1140894	22.7	448029	3844089	200000	1716000	401	9.83	19.43	220.9
QBE Insurance	FM O'Halloran	1139000	0	1139000	61.3	794800	5277472	450000	2988000	4737	-2.59	-41.75	
Colarado	RK Webb	467298	665750	1133048		560000	1719200	1600000	4912000	253	26.02	65.95	15.0
PMP Communications	RS Muscat	1119327	0	1119327	3.3	20000	16400	500000	410000	261	25.96	78.26	
Newcrest Mining	RC Barwick	189851	922500	1112351	83.0	0	0	0	0	1856	-10.91	68.82	-60.0
Transurban Group	K Edwards	800000	300000	1100000	63.0	61000	256200	1500000	6300000	2021		-.71	
Vision Systems	JC Fox	1082254	0	1082254	1.5	4238350	5509855	2135000	2775500	148	-7.48	-63.38	
AGL	GW Martin	939407	128333	1067740	-15.9	527526	5196131	0	0	4475	6.25	16.57	57.7
Metcash	A Reitzer	832807	212500	1045307		1200000	2652000	2500000	5525000	1328	17.47	67.42	229.2
United Energy	DG Bacon	742247	295585	1037832	78.5	10000	21500	0	0	1145	5.32	-9.66	-63.8
BRL Hardy	SB Millar	873210	134558	1007768	23.5	115024	1036366	120000	1081200	1372	12.86	-13.28	7.7
Adelaide Brighton	PJ Wright	644834	346500	991334	78.8	300000	2187000	0	0	574	9.85	10.61	-.1
Jupiters	RA Hines	711000	280000	991000		29962	161795	500000	2700000	956	15.19	34.26	5.3
Sons of Gwalia	PK Lalor	907513	80000	987513	17.0	868689	5255568	0	0	438	12.16	-13.72	-28.0
Cochlear	JJ O'Mahoney	642434	316925	959359	64.3	0	0	225000	7661250	1790	63.42	-12.58	27.2
David Jones	P Wilkinson	954051	0	954051	-26.9	5367	6977	3000000	3900000	440	1.53	-6.19	20.5
ERG	PJ Fogarty	950000	0	950000	-28.0	0	0	3750000	1125000	155	-126.76	-77.78	
United Group	R Leupen	822189	125000	947189		0	0	0	0	234	13.84	40.85	104.2
Sonic Healthcare	GS Goldschmidt	390389	520000	910389	21.2	950000	4892500	3000000	15450000	1638	4.71	-35.87	5.9
Southern Cross Broad	AE Bell	719122	178000	897122	46.9	89886	806277	0	0	503	9.43	-27.31	1.5
Brambles Industries	JE Flectcher	151000	735000	886000		0	0	0	0	6623		-80.13	57.1
Centro	AT Scott	662412	215255	877667		0	0	650000	2340000	1537	10.04	2.80	5.3
Simsmetal	J Sutcliffe	588383	249866	838249	-36.9	0	0	193798	1312012	648	15.01	18.77	16.0
Seven Network	MA Plavsic	796795	0	796795	2.9	200000	1112000	2150000	11954000	1202	6.83	-20.68	296.7
Oil Search	PR Botten	795731	0	795731	-.9	0	0	1000000	810000	762	1.96	-34.15	-67.0
APN News & Media	VC Crowley	786379	0	786379	12.0	373334	1362669	900000	3285000	1302	7.68	-8.75	-7.8
Novus Petroleum	RC Williams	663742	113066	776808	5.2	1183625	1905636	2000000	3220000	226	1.21	-14.99	-90.0
OPSM Group	J Pinshaw	660980	112500	773480		250437	871521	2000000	6960000	481	21.92	28.41	1690.0
Mirvac Group	RJ Hamilton	633453	122000	755453	-11.5	13086517	54701641	0	0	2570	10.03	12.67	3.9
Bristile	DN Gilham	551000	200000	751000		4300000	11180000	0	0	395	18.79	26.83	.7
Corporate Express	TC Nark	600000	150000	750000	35.9	30000	134400	225004	1008018	930	31.96	-4.07	26.3
TAB Qld	r McIlwain	672695	50000	722695	24.9	275000	1045000	725000	2755000	577	34.19	52.61	24.5
Orbital Engine	KC Schlunke	701149	0	701149	105.1	100000	30000	0	0	55	-107.74	-58.90	
Gunns	JE Gay	686833	0	686833		3428806	24344523	1000000	7100000	642	26.46	69.80	58.4
Bankwest	TC Budge	679560	0	679560	-28.4	400000	1904000	600000	2856000	2306	14.76	19.00	

Caltex Australia	TC Blevins	675528	0	675528	67.4	5000	7700	0	0	494	-20.54	.65	-615.0
Pacifica	JR Mackenzie	599194	61172	660366		17950	68928	730000	2803200	559	-12.87	7.93	
Miller's Retail	AI Miller	654570	0	654570	22.2	24065683	57998296	1090000	2626900	451	23.49	-61.19	15.0
Burswood	JW Schaap	651359	0	651359	12.6	0	0	1800000	1584000	287	4.07	10.00	-7.3
Hutchison Telecoms	K Russell	572694	75000	647694		0	0	0	0	152	-15.85	9.60	-38.2
Technology One	A Di Marco	305734	329822	635556	19.3	78230000		0	0	124	24.32	-28.24	11.3
Ridley Corporation	MP Bickford-Smith	501356	132000	633356	126.5	56311	77146	1000000	1370000	358	11.06	92.96	158.0
Austereo Group	PM Harvie	624620	0	624620	-20.8	1030000	1781900	0	0	647	7.00	-16.02	11.6
Gribbles Group	WS Cameron	450000	174200	624200		0	0	1300000	858000	245	.76	2.70	
Capral	GL L'Estrange	450000	170000	620000		730000	1898000	0	0	195	.03	20.93	99.7
Australian Pipeline	JK McDonald	476177	140400	616577		15000	35250	0	0	644	8.31	3.20	20.6
Ramsay Health Care G	IPS Grier	477901	110000	587901	-8.9	4600	19320	250000	1050000	487	14.65	33.12	74.8
Great Southern Plant	JC Young	486099	100000	586099		56251587	33750952	0	0	118		-21.10	21.9
Newcrest Mining	AJ Palmer	458774	125000	583774		10000	75800	500000	3790000	1856	-10.91	68.82	-60.0
Energy Developments	PA Whiteman	507032	75000	582032		7372306	27277532	0	0	290	5.87	-58.57	3.6
Bendigo Bank	RG Hunt	502328	75000	577328	8.2	408101	2775087	0	0	985	10.64	4.62	30.5
AWB	A Lindberg	500000	60000	560000		20000	80400	0	0	976	12.14	27.60	30.2
Jubilee Mines	KK Harmanis	559161	0	559161	53.9	22051166	34620331	500000	785000	177	60.22	6.08	69.0
Baycorp Advantage	DJ Grafton	433893	112500	546393		0	0	1036500	3679575	634	-77.20		
Lihir Gold	A Roberts	531000	0	531000		0	0	0	0	1245	13.45	45.97	
Pacific Hydro	J Harding	355112	170000	525112	-24.1	772214	2339808	1280000	3878400	414	19.61	-25.92	14.0
AurionGold	TB Burgess	356640	166900	523540		457419	1797657	600000	2358000	1270	26.74	115.34	20.6
Challenger	EEB Ireland	470000	47000	517000	11.7	30822615	85686870	7533738	20943792	527	36.20	-18.71	-4.5
Coates Hire	JA Brown	514573	0	514573		311735	732577	0	0	406	6.98	170.11	872.7
AlintaGas	RB Browning	503000	0	503000	120.3	2000	8600	0	0	698		30.30	-24.2
Pacifica	BJ Jackson	424769	64027	498796		0	0	0	0	559	-12.87	7.93	
Altium	K Oboudiyat	360615	136905	497520	5.2	1187500	1282500	1200000	1296000	117	1.67	-78.40	-83.9
HPAL	TC Daly	350000	130000	480000	7.2	0	0	1113543	1614637	182	30.42	-31.28	28.0
Institute of Drug Te	GL Blackman	459522	20000	479522	2.6	5830313	3731400	250000	160000	94	19.31	51.90	12.6
Sigma	E De Alwis	428679	50000	478679		59829	244701	100000	409000	561	8.58	71.85	144.6
Tap Oil	PW Underwood	402229	68000	470229	22.1	2055000	3144150	750000	1147500	231	10.72	11.68	9.8
Peptech	S Kwik	460171	0	460171		640000	1510400	1860000	4389600	167	109.28	-10.60	
Bank of Queensland	JK Dawson	458963	0	458963		0	0	0	0	472	12.25	14.86	.9
Novogen	c Naughton	451581	0	451581		318511	652948	700000	1435000	203	-27.90	-9.20	
Brazin	B. Blundy	450000	0	450000		68578884	157731433	0	0	232	29.99	101.75	92.2
Grand Hotel Group	G Cameron	450000	0	450000		31066	18018	0	0	117	-7.68	-43.69	61.3
Adsteam Marine	DJ Ryan	428993	0	428993	-27.0	647446	1249571	0	0	474	9.85	-3.50	-2.0
Tempo Services	JH Schaeffer	426796	0	426796	3.0	32993000	77533550	5000000	11750000	196	39.88	3.52	3.7
MIA Group	P Macintosh	425003	0	425003		5025461	4573170	500000	455000	515	7.59	-18.02	14.0
Ion	CJ Peters	425000	0	425000		1656944	4672582	700000	1974000	486	25.23	133.06	54.3
Iress	P Dunai	319535	101852	421387		0	0	1500000	3900000	203	109.44	23.22	23.6

Thakral Holdings	JS Hudson	408075	0	408075		58011	142127	0	0	381	9.11	.00	-74.4
Portman	IF Burston	400000	0	400000		100000	184000	1350000	2484000	218	14.36	24.32	575.0
Tempo Services	J Eriani	392996	0	392996	3.6	2010000	4723500	585000	1374750	196	39.88	3.52	3.7
Computershare	CJ Morris	386333	0	386333	-8.8	54635042	120197092	0	0	1224	13.68	-63.64	71.8
Flight Centre	GF Turner	86400	298710	385110	131.4	16993221	463065272	0	0	2062		.90	39.0
Renewable Energy	SE Blanch	352230	0	352230		0	0	0	0	11	-5.16	-93.90	
WA Newspapers	IF Law	200299	150000	350299		500000	2535000	0	0	1040	40.57	2.01	-23.3
Wattyl	RB Flynn	343427	0	343427		58594	149415	0	0	252	5.24	65.58	
KAZ Computer Service	P Kazacos	338651	0	338651	-15.6	106127000	30246195	1260000	359100	185	4.92	-78.08	-28.6
Intellect Holdings	JAC de Smet	320770	0	320770		250000	105000	500000	210000	70	90.82	-62.30	25.1
Wattyl	IE Jackson	317321	0	317321		2017	5143	0	0	252	5.24	65.68	
Billabong Internatio	MD Perrin	312013	0	312013	-48.8	13140928	117742715	0	0	1342	11.52	65.90	42.6
AFCI	RE Barker	293227	0	293227	229.5	304930	984924	0	0	2400	3.61	4.10	-18.7
Coca Cola Amatil	TJ Davis	204110	81534	285644		51000	325380	0	0	3655	11.99	29.15	181.6
Renewable Energy	PD Williams	283262	0	283262	-14.9	14500000	1885000	0	0	11	-5.16	-93.90	
Bank of Queensland	DP Liddy	266231	0	266231	.0	1000	7520	0	0	472	12.25	14.86	.9
Collection House	JM Pearce	228447	0	228447	.0	14146730	43854863	0	0	293	25.29	-39.57	85.9
Infomedia	RD Graham	218156	0	218156	-3.5	926559	2409053	450000	1170000	298	48.84	-54.44	3.8
Orbital Engine	PC Cook	194445	0	194445		20000	6000	0	0	55	-107.74	-58.90	
McGuigan Simeon	BJ McGuigan	191216	0	191216		8333138	39165749	2000000	9400000	449		37.43	
Adelaide Brighton	MP Chellow	177067	0	177067		15000	109350	0	0	574	6.87	10.61	-14.4
MYOB	C Winkler	174077	0	174077		833300	658307	1666700	1316693	178	10.28	30.30	-73.0
Gasnet	RH Keller	160985	0	160985		50000	93000	40000	74400	254		7.00	
Harvey Norman	G Harvey	149904	0	149904	-40.1	309186199	946109769	3000000	9180000	2671	18.23	-28.50	20.5
Gasnet	C O'Reilly	137009	0	137009		15000	27900	100000	186000	254		7.00	
Orica	MW Broomhead	108300	0	108300		0	0	0	0	2819	-13.82	121.32	
Seven Network	KM Stokes	75600	0	75600	-65.1	92564349	514657780	0	0	1202	6.83	-20.68	296.7
Dejerriwarrh Investm	RE Barker	44885	0	44885	29.4	172910	627663	0	0	475		2.80	-8.6

Corrected Figures.