

# Newsletter December 2014

In this last newsletter of 2014, we wish you a restful and festive holiday season.

As the year begins to wind down, you may have some time to reflect on the year that was.

Embracing this theme, we've summarised the key issues addressed during the year. We also take a look at the AGM season just passed, canvas remuneration and corporate governance trends from around the world and compare Australian top earners from different fields.

Finally, we examine the challenges facing the superannuation industry and discuss what this means for talent acquisition and remuneration of Board trustees.



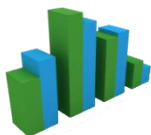
## Overview of the Australian 2014 AGM Season

Remuneration issues were far from being on the back burner this year, with a number of strikes recorded against the remuneration report of prominent companies.



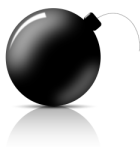
## Around the World in Remuneration and Governance

International markets continue to provide context for Australia's remuneration and corporate governance policies.



## 2014: Most Read Articles

We present the articles you enjoyed the most over the year.



## Who Will Win the Super Industry's Skills Arm Race?

Forces converging on the superannuation industry are creating a perfect storm for talent acquisition.

# Overview of the 2014 Australian AGM Season

In 2014, it was believed that the focus of annual general meetings would move from remuneration to Board composition and governance.

Indeed, Director tenure, Director independence and Director workload received particular attention, with cases occurring where Director elections were cancelled at the last minute or received high protest votes. Succession issues and Director and company performance were also factors in votes.

However, remuneration issues were far from being on the back burner, with a number of strikes recorded against the remuneration report of prominent companies.



Strike newcomers included:

- Flexigroup
- Harvey Norman
- McMillan Shakespeare
- Mortgage Choice
- Newcrest
- Primary Healthcare
- Paladin Energy
- Seven Group
- Sino Gas Holdings
- UGL

Near misses included:

- AGL
- Bentham IMF
- Cedar Woods Property
- GWA Group
- Karoon Gas
- Ozforex
- Village Roadshow

Serial strikers:

- Cabcharge
- Cash Converters

Amongst other reasons, strikes or protest votes occurred where:

- Disclosure of remuneration arrangements was unclear, inconsistent or incomplete, often paired with a lack of stakeholder engagement. Poor disclosure of short term bonus rules, hurdles and rationale for awarded amounts was a particular issue.
- Significant payments were made or offered to secure CEO or executive talent, whether in the form of sign-on payments or a generous long- and short-term incentive opportunity
- Remuneration framework was considered unbalanced, generally with either too much fixed remuneration, too much STI (especially when the award was 100% cash), or too little LTI
- Review of market remuneration levels led to significant uplifts in fixed remuneration
- Corporate governance practices were questionable
- Performance period for the LTI was not long enough – generally the expected minimum is three years, not including periods where a service condition is the only hurdle.
- Performance measure choice for STI or LTI was inappropriate or the hurdle was not considered difficult enough. Advisors will now often compare hurdles to analyst forecasts.
- Cliff vesting presented an all or nothing scenario for the vesting of variable incentives.
- Termination benefit frameworks were considered too generous.

In many cases, concerns were exacerbated by organisations' performance, showing how difficult it can be for Boards to manage stakeholders' perceptions while attracting and retaining the right executive team to achieve growth or transformation. Resources organisations are feeling particular pressure on their remuneration as commodity prices tumble.

Votes this year have also highlighted how voting exclusions or high shareholdings can affect the two strikes process.

For example, in response to the strike at Harvey Norman following the significant pay rise for his spouse and company CEO Katie Page, Executive Chairman Gerry Harvey said "nothing will change". Harvey has the power to defeat any spill resolutions due to his 30% stake in the company.

"I understand where they're coming from and that's fine, but in the big picture I wonder whether it's all worth it," he said.

Paladin Energy meanwhile complained that the strike reflected only 5% of the share register.

## Avoiding a second strike

Although there were some serial strikers (notably this year was the first time the Australian Shareholders' Association voted yes for a spill motion, defeated at Cabcharge's AGM), most of the companies that received a strike last year escaped a second strike, often after making significant changes to their remuneration structure or quantum.

The list below of companies that received a strike in 2013 but not in 2014 notes the changes these companies undertook:

Company	Actions
Alumina (AGM for 2013 year held in 2014)	<ul style="list-style-type: none"> <li>• CEO total remuneration now reflects the 25th percentile against two different peer groups</li> <li>• Incoming CEO has a lower STI opportunity than his predecessor. (From target at 80% and maximum at 100% of fixed remuneration to 35% and 80% respectively.</li> <li>• Long term incentive opportunity reduced from 50% to 30% of fixed remuneration. No retesting for vesting of performance rights.</li> <li>• Alumina did not pay the corporate element of the STI scheme to any senior executive because of the financial result and lack of dividend. STI payments were 40% lower than 2012.</li> <li>• Revised disclosure for greater transparency</li> </ul>
Aurizon	<ul style="list-style-type: none"> <li>• Fixed remuneration frozen for KMP</li> <li>• CEO bonus and total package lower than former year</li> <li>• New contracts become effective 1 July 2014 with maximum termination payments of 12 months</li> <li>• Hurdles changed for STI (ROIC removed and EBIT threshold increased)</li> <li>• EPS hurdle replaced by ROIC for LTI</li> <li>• Improved disclosure of 2014 STI targets and determination of outcomes.</li> </ul>
Automotive Holdings Group	<ul style="list-style-type: none"> <li>• Few changes, since a remuneration consultant had already been engaged in 2012 with a new remuneration framework implemented in 2013. This framework was maintained in 2014 with minor amendments, such as the inclusion of clawback provisions.</li> <li>• Fixed remuneration was increased following benchmarking. Fixed pay increased by up to 2.5% for the executives and 5% for the CEO.</li> </ul>
David Jones	<ul style="list-style-type: none"> <li>• The company never made it to a 2014 AGM due to its acquisition by South Africa's Woolworths.</li> </ul>
Forge Group	<ul style="list-style-type: none"> <li>• Delisted</li> </ul>
Greencross	<ul style="list-style-type: none"> <li>• Greencross did not acknowledge a strike in the 2014 AGM results or in the 2014 remuneration report, despite proxy votes indicating a no-vote of over 25%.</li> </ul>

Hills	<ul style="list-style-type: none"> <li>The remuneration mix will be changed with more weight to be given to LTI.</li> <li>After concerns about a LTI grant proposed for the MD at the AGM, the performance hurdles were changed to be relative TSR and underlying EPS growth. They were previously based on share price and EPS growth.</li> <li>The 2014 STI has a stronger financial focus (was previously mainly strategic)</li> </ul>
iSelect	<ul style="list-style-type: none"> <li>Maintained loan share plan, but added EPS growth hurdle, lengthened performance period to three years and ended retesting.</li> <li>A review of fixed remuneration was undertaken.</li> <li>Changed gross profit STI hurdle to operating revenue target.</li> <li>Addition of a STI threshold below which no STI is paid.</li> <li>Changed the payment of STI from quarterly to biannual, and will move to annual payments in 2015.</li> <li>Departing executives will not receive pro-rata bonus payments on departure.</li> <li>No bonus payments are to be made for NEDs.</li> </ul>
Karoon Gas	<ul style="list-style-type: none"> <li>STI performance is now measured against the company as a whole rather than business groups</li> <li>Introduced a bespoke peer group for relative TSR hurdle that Karoon's Board believed better reflected the size and operations of the company</li> <li>Remuneration structure for executive Directors brought in line with the rest of the team – instead of fixed remuneration made up of cash and options without performance conditions, they will have fixed remuneration, STI &amp; LTI</li> <li>Disclosure improved</li> </ul>
Linc Energy	<ul style="list-style-type: none"> <li>Delisted</li> </ul>
NEXTDC	<ul style="list-style-type: none"> <li>Provided greater disclosure of STI performance measures</li> <li>Introduced three-year TSR-based LTI plan</li> <li>Grandfathered loan funded share plan</li> <li>Changed remuneration mix to be more heavily weighted towards LTI</li> </ul>
SCA Property Group	<ul style="list-style-type: none"> <li>Improved communication</li> <li>Increased STI threshold and target hurdles</li> <li>Increased LTI baseline for calculating growth</li> <li>Increased LTI performance period, introduced graduated vesting profile instead of cliff vesting, added ROE as a third performance measure.</li> <li>Expanded clawback to apply where earnings are not maintained</li> <li>Executives now receive distributions over the performance and vesting periods for each vested STI and LTI right.</li> </ul>
Servcorp	<ul style="list-style-type: none"> <li>Expanded disclosure</li> <li>Added gateway NPAT hurdle to STI and adjusted targets</li> </ul>

	<ul style="list-style-type: none"> <li>Considered introducing deferred STI and LTI but decided against it due to international jurisdictions</li> <li>Benchmarked selected Board and exec KMP positions against local comparators</li> </ul>
Southern Cross Media Group	<ul style="list-style-type: none"> <li>Improved disclosure of STI performance hurdles and LTI comparator group</li> <li>Increased the weighting of financial metrics in STI</li> <li>Made changes to LTI including adding a performance measure.</li> </ul>
St Barbara	<ul style="list-style-type: none"> <li>Directors fees reduced by 10% in 2014, no increase in 2015. No increase in executive fixed remuneration in either year. Board now has absolute discretion on payment of STI.</li> <li>No STI incentives paid in 2014.</li> <li>New MD's 2015 fixed remuneration and STI is 20% less than predecessor, LTI 25% less.</li> </ul>
Super Retail Group	<ul style="list-style-type: none"> <li>Developed a policy on the treatment of one-off adjustments to STI targets following 2013 target being based on underlying profit before tax.</li> <li>Reviewed and retrospectively applied performance metrics for performance rights, separating EPS growth and ROC hurdles so achievement of one hurdle allows partial vesting to remove cliff vesting impact. It also introduced a sliding vesting scale, increased the difficulty of the EPS hurdle, and adjusted the ROC hurdle to take into account the negative impact of a changed capital structure</li> <li>Clawback policy introduced for LTI</li> <li>Changed the vesting conditions for the case that an employee ceases their role. (Directors can determine that some of the LTI vests rather than everything lapsing)</li> </ul> <p>However:</p> <ul style="list-style-type: none"> <li>Continued to raise base salaries to bring them in line with market median.</li> <li>Decided not to introduce STI deferral</li> </ul>
Thorn Group	<ul style="list-style-type: none"> <li>Disclosure of STI improved</li> <li>LTI comparator group revealed and reasons outlined for prior retention payments to CEO</li> <li>The company is considering benchmarking KMP remuneration and reviewing the STI and LTI structure.</li> </ul>

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# Around the World in Remuneration and Governance

Aon Hewitt's 2014 Global Salary Increase Survey stated that salary increases will be strong around the world in 2015 due to better GDP projections and lower unemployment rates.

	2013 Average Increases	2014 Average Increases	2015 Average Increases (Projected)
Africa	7.2%	7.4%	8.0%
Asia Pacific	5.8%	5.2%	5.8%
Europe	3.7%	3.6%	3.7%
Latin America	5.9%	5.5%	5.9%
Middle East (Gulf Countries)	5.3%	4.9%	5.1%
North America	2.9%	2.9%	3.0%

Not all nations were expected to enjoy such high salary increases, with some due to report higher rises and others more likely to experience stagnant wages. The *Australian Bureau of Statistics'* seasonally adjusted Wage Price Index increased only 2.6% year-on-year to September 2014, while Average Weekly earnings rose 2.4% to May 2014. The CPI Increase to September 2014 stood at 2.3%.

## Wage Equality – Ratios and Caps

The gap between executive and worker pay is receiving more attention across the globe.

The proposed SEC rule forcing US organisations to disclose the ratio between the pay of their CEO and that of their median worker has still not been finalised and is experiencing resistance from business and Republican lawmakers. The SEC has now postponed its finalisation until October 2015.

The EU may also see the introduction of a pay ratio. Its Parliament is reportedly keen to table legislation by the European summer for an updated Shareholder Rights Directive that would oblige companies to:

- disclose clear, comparable, and comprehensive information on their remuneration policies and how they play out in practice;
- put their remuneration policy to a binding shareholder vote;

- Include a maximum executive remuneration amount in the policy, explain how this maximum contributes to the company's long-term interests and sustainability; and
- set out how the pay and employment conditions of employees of the company were taken into account when setting the policy, including *aclarification of the ratio between average employees and executive pay*.

Some organisations such as the UK's High Pay Centre believe that the concept of a maximum pay ratio between the workers and the CEO of a company should be introduced to ensure equality does not slide. It notes that such maximum ratios could be sector specific.

As mentioned in a previous round-up, Swiss citizens voted down a proposal that CEO pay in the country be limited to 12 times what the lowest paid worker in the company earns.

In July this year Canada introduced a Bill that proposes limits for executive remuneration for organisations in the "broader public sector". It will apply to every hospital, every school board, every university and every college. Under the Bill, the government would have the authority to establish remuneration frameworks which may include hard caps.

On the other side of the world, executives of China's state owned enterprises will have their pay cut down in 2015 to a ratio of around eight times that earned by the average workers at those enterprises.

### **Is there a perfect ratio?**

A recent study by Chulalongkorn University and Harvard Business School academics Sorapop Kiatpongsan and Michael Norton surveyed people from 40 companies on what they thought the ratio between CEO and average unskilled worker pay was and what the ratio should be.

*Australians were tolerant of income inequality: Australians' ideal ratio sat at 8.3 times, almost twice the average across the 40 countries of 4.6.*

There was a large gap in between what survey respondents thought the CEO to worker pay ratio was and what it actually was. Australians estimated the ratio of CEO pay to unskilled worker pay as being about 40 times. The study placed the actual ratio at just over 90 times, more than twice as high as the estimates. To put the error into context, the mean estimate of the ratio across the 40 countries was 10, the actual ratio across the 16 countries where data existed was 101.

In comparison to Australia's ratio of 90, the UK's actual ratio was 84, the USA's was 354 and Germany's was 147. The ideal ratio uncovered by the survey for those countries was 6.7, 5.3 and 6.3.

### **Bonus Cap**

UK Chancellor George Osborne has dropped the legal action looking to overturn the EU's bonus cap that limits bankers' variable pay to twice fixed remuneration in an attempt to reduce risky behaviour. Osborne's argument had been that the cap provided perverse incentives to increase fixed remuneration. However, with an advisor noting there was little chance of winning, he decided not to waste taxpayer money on continuing the suit.

European banks' preferred loophole for getting around the bonus cap has now also been closed by the European Banking Authority. Banks had been paying employees adjustable role-based allowances (often on a month-by-month basis) and classifying them as fixed.



The Banking Authority investigated the matter and found that if role-based allowances were discretionary, not predetermined, not transparent, not permanent, or are revocable, they should not be considered as fixed remuneration but should be classified as variable. It noted that institutions making use of such allowances should change their remuneration policies and reclassify the ratio between the fixed and the variable component to comply with the bonus cap.

## Corporate Governance Principles

KPMG and the Association of Chartered Certified Accountants have released a report ranking 25 markets for their corporate governance practices. The organisations produced the rankings based on the clarity and completeness of corporate governance requirements.

The ranking is as follows:

1 UK	9 Brazil	17 Indonesia
2 US	10 Taiwan	18 Canada
3 Singapore	11 South Africa	19 China
4 Australia	11 Thailand	20 Cambodia
4 India	13 Korea	21 Japan
4 Malaysia	14 UAE	22 Vietnam
7 Hong Kong	15 New Zealand	23 Myanmar
7 Russia	16 Philippines	24 Brunei
		24 Laos

Australia's strengths were considered to be its requirements on Board diversity, the remuneration committee and the role of the Board, while the weaknesses were considered to be risk governance, Directors' time and resources, and assurance.

Information on recent corporate governance developments in other countries is found below:

### New Zealand

New Zealand's Financial Markets Authority has released a new set of corporate governance principles, set to replace principles put in place a decade earlier.

The principles have been updated in the following areas:

- *Ethical standards:* Additional points added including recognition that Boards must hold management accountable for delivering high standards of ethical behaviour and a recommendation that Boards describe the actions management and the Board are expected to undertake in responding to and supporting whistleblowing.
- *Board Composition and Performance:* Added a recommendation that the Board consider using a board skills and capability matrix to identify the current and future skills, capability and diversity needs of the entity. It should also annually report the assessment of its

composition and the impact it expects that composition to have on its future success and sustainability.

The principles also encourage Boards to undertake external performance reviews on a periodic basis, for example every third year.

Director independence has been further defined, including a clause regarding the effects of long Director tenure on independence. The principles note that regular reviews of tenure will help strike the right balance between institutional knowledge and fresh thinking.

- *Board Committees:* A note added that committees are not appropriate for all entities. The importance of the audit committee was highlighted and further commentary was provided on other committees.
- *Reporting:* Principles updated to reflect changes in audit and accounting standards and terminology. The continuous disclosure commentary has also been updated.
- *Remuneration:* Focus increased on transparency.
- *Risk management:* Principles updated to ensure that Boards have risk frameworks in place, that Directors oversee these frameworks appropriately and that they report to investors on risk.
- *Audit:* Updates made to reflect changes to practices and legislation.

New Zealand's strengths in the KPMG report were its audit committee and financial integrity rules, as well as its shareholder rights and Director independence provisions. Its weaknesses were risk governance, shareholder engagement and communication and Board diversity.

## Germany

From 2016, Germany's top publicly traded companies have to fill 30% of new supervisory Board roles with female Directors. Those who do not meet this quota must leave some Board vacancies unoccupied. In addition, from 2015, companies must set their own binding goals for increasing the number of women on supervisory Boards, management Boards and the executive team.

## UK

The UK's Financial Reporting Council (FRC) published a revised version of the UK Corporate Governance code, which applies for companies with reporting years beginning on or after 1 October 2014. The new version follows proposals aired by the Council in 2013. Key changes include:

- Companies are required to put into place clawback provisions for unvested and previously paid variable remuneration or explain why they have not done so. Companies must decide themselves when they would claw back remuneration, although a restatement of results or misconduct are considered minimum triggers.
- Wording changes were made to the effect that remuneration policies should be designed with the long term success of the company in mind (instead of to attract, retain and motivate)
- Where there are significant votes against a resolution, organisations are expected to note in the AGM results how they intend to engage with stakeholders on the issue

- Directors should provide a “viability” statement in the annual report evaluating the company’s likely overall viability during the course of a specified period (significantly longer than 12 months) based on a wide ranging and thorough assessment of the company’s market and financial position.

The FRC has also flagged that it plans to release a discussion paper on Board and executive succession planning after concerns that companies are not dealing with appointments in the way they should be. The council is considering whether it needs to be made clear in the UK’s Corporate Governance guidelines that succession planning is a constant process.

The UK’s corporate governance strengths in the KPMG report were Audit committee and financial integrity, remuneration structures and risk governance. Its weaknesses were Directors’ time and resources, Stakeholder engagement and communication and shareholder rights.

### **Italy**

Italy has reportedly updated its corporate governance principles with effect from 1 January 2015 such that:

- Boards should have at least two independent Directors, with Directors to be reviewed at least annually to check for relationships or other matters that could affect impartiality
- Every compensation scheme should have a claw back provision
- Press releases announcing the firing of executives should explain the process leading to termination, note whether the executive’s replacement is governed by the company’s succession plan, and include further details including intended severance payments, benefits, non-competition clauses and ongoing rights to incentive plans.
- Boards should explain to investors each individual case of non-compliance with Italian law or the corporate governance code

### **Japan**

Japan’s Government Pension Investment Fund (GPIF), the largest pension fund in the world, has been increasing its allocation of domestic stocks and is expected to take on more of an activist role, which may have an effect on the country’s poor record in corporate governance.

Japan’s strengths noted by KPMG and ACCA were requirements for remuneration committees, shareholder rights and risk governance. Its weaknesses were requirements on Board diversity, Directors’ time and resources and performance evaluations.

### **South Korea**

Regulations enacted by the South Korea National Assembly came into effect at the end of 2013. South Korea previously required only the total amount of compensation for all Directors to be disclosed. Now Director compensation must be disclosed on an individual basis if it exceeds 500 million Korean won (Around AU\$530,500). This compares to Japan’s limit of 100 million yen (AU\$992,731).

Korea’s strengths as identified by KPMG and ACCA were requirements for the remuneration committee, audit committee and financial integrity and shareholder rights. Its weaknesses were

requirements on Directors' time and resources, Shareholder engagement and communication and Board diversity.

## **China**

ISS Group recently released a study of shareholder voting and engagement in China. It found that shareholder voting at meetings was low in China with mainland listed companies achieving around a 55% turnout, compared with 62% for dual-listed companies, 74% for Hong Kong companies, 70% for French companies, 74% for UK companies and 87% for US companies.

It suggested that Chinese retail investors tend not to make the effort to vote at shareholder meetings because they do not believe their votes will matter. Chinese institutional investors may often share this view because of the controlling stakes held by the state.

The approval rate of management proposals is also high. Forty per cent of proposals were approved unanimously, 90% were approved with 99% of shares voted in favour. This compares to the US and the UK which had 0% and 1% of proposals approved unanimously and 29.8% and 51.8% approved by 99% of shareholder votes. ISS conjectured that this could be due to the highly concentrated shareholder base, however, this is also the case for dual listed and Hong Kong listed companies, which had lower approval levels. ISS decided this was likely due to higher levels of foreign ownership.

Looking at the type of resolutions, Chinese voters are more concerned by share issues, related party transactions and mergers and acquisitions than Director elections or equity issues and executive remuneration, with the latter being the least contentious.

In a survey with a small sample size, ISS asked institutional investors about their perceptions of Chinese corporate governance. Almost 75% of respondents rated practice as poor or very poor. Those who were not investing in China most often named corporate governance concerns as the reason. Lack of transparency was the biggest bug bear.

China's strengths according to KPMG and ACCA were requirements for remuneration committees, nominating committees and Director independence. Weaknesses were requirements for assurance, Board diversity and risk governance.

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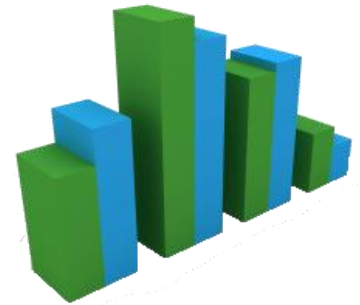
# 2014: Most Read Articles

It's been a busy year for us at Egan Associates and we're sure that you too have been rushed off your feet.

There might not always have been time to open our newsletter and review some of the articles within. Notwithstanding, we've been overwhelmed by your support for our monthly analysis. Now is our chance to say thank you for reading.

Hopefully as the year winds down you'll have a little more time to contemplate the truths of life. If so, you might want to consider tapping into some of the articles and reports you missed. But if not, don't worry. 2015 is a new year, with fresh commentary and insight to come.

The material our readers liked the most over the last 12 months has been:



## Our KMP Reports

1. [KMP Report: Trends for ASX 300 and NZ 50 Boards](#) – our annual report on Director remuneration levels
2. [2014 AGM Season Proxy Advisor Views](#) – Our summary of proxy advisor and institutional investor guidelines in time for the AGM season
3. [KMP Report: Work needed to link Pay and Performance](#) – Results from a survey sent out to Directors on the success and repercussions of the two strikes rule
4. [KMP Report: Board Cost of Governance](#) – A comparison of CEO and Director pay levels

## Our explainers:

1. [At Risk Reward: The Annual Incentive](#) – The nuts and bolts of annual incentives
2. [At Risk Reward: The Long Term Incentive](#) – The ins and outs of long term incentives
3. [Benchmarks in Conflict](#) – Why remuneration benchmarking is more complicated than it seems and can cause disagreement between the Board and management
4. [Why Companies Offer Sign On Payments](#) – The reasons companies sometimes have to offer executives a carrot to move company
5. [Accurate Disclosure of the Remuneration Structure](#) – A guide to remuneration structure disclosure

## Our series on the use of Fair Value to allocate equity for long term incentives:

1. [Fair Value – is it fair?](#) – Our introduction of the issue
2. [Fair Value Analysis Shows Grant Inflation](#) – A look at an ISS Group report matching our views
3. [Remuneration Value not the Same as Accounting Cost](#) – Coverage of a Credit Suisse report
4. [Why Do Companies Use Fair Value?](#) – An examination of the reasons behind the practice

Our data analysis and discussion of trends:

1. [2013 AGM Season in Review](#) – A summary of last year's strikes
2. [Pay for Performance in the ASX 100](#) – Consulting the data on STI grants
3. [Remuneration trends from 2014 Annual Reports](#) – our first look at the 2014 reports of Australia's top 50 companies
4. [Infographic: Board Tenure](#) – A snapshot of data on ASX 300 Directors' length of service

Our commentary on Board issues:

1. [Supercharge your Board](#) – Tips for getting the most out of your Board
2. [Signs a Board Portfolio is too Full](#) – The telltales of an overboarded Director
3. [Board Skills Matrix Adds to Nomination Role](#) – Comment on the increasing importance of the Nomination role given the current focus on Board renewal.

Some of the news items we covered during the year were:

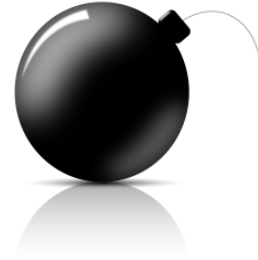
- [Changes proposed to the taxation provisions for employee share schemes](#)
- [Superannuation Remuneration Disclosure rules came into effect](#)
- [New Corporate Governance Principles and Recommendations finalised](#)
- [Disclosure Relief expanded for employee incentive schemes](#)
- [Changes to Corporation Legislation proposed and introduced into Parliament](#)
- [The newly elected Coalition Government released its first Budget](#)
- [The minimum wage was increased by 3% and the superannuation guarantee rate from 9.25% to 9.5%.](#)
- [Penalty rates reduced for certain casual employees in the restaurant industry](#)

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# Who Will Win the Super Industry's Skills Arm Race?

Fed by compulsory employer contributions, Australian superannuation is now a \$1.85 trillion industry.

Some would see the superannuation funds who are the gatekeepers of this mountain of money as having an unassailable position. Yet there are a number of converging forces, including the recommendations made by the recently released financial system inquiry, that will threaten the status quo:



- New competition – Rising popularity of SMSFs (Self Managed Super Funds)
- Cost pressure – Criticism over high fees and the introduction of low-fee products
- Regulation – Push for more stringent governance standards for superannuation Boards, including a set proportion of independent Directors
- Sequencing risks – Employees may decide to retire during a share market crash, hindering the typical response of topping up funds during down years
- Technology Infrastructure – Risks in sourcing, maintaining, consolidating, overhauling and upgrading administrative and information technology (IT) systems and platforms
- Technology Innovation – Members demand digital tools for oversight and budgeting, enabling forward-looking planning rather than a rear-view snapshot
- Product Innovation – Demand for new products such as lifecycle investment and post-retirement solutions
- Turnover – With the ability to compare and switch funds online, members can move their funds often and more quickly
- Size – Challenge of growing big enough to compete with banks for distribution, tap into benefits of scale for investments such as infrastructure assets and enable potential in-sourcing of investment management
- Market – Low-interest rate environment intensifies search for yield
- Security – Ensuring data integrity for reputation and informed decision making

These challenges will bring the acquisition of talent into centre court. A report by [Heidrick and Struggles](#) noted that funds will be seeking Directors and executives with:

- Strong investment skills,
- Experience in customer-facing businesses,
- Mergers and acquisitions experience,

- Knowledge of international investment markets,
- Wealth management capability,
- Experience with managing risk, and
- Technology backgrounds.

Although cultural fit can be an issue when hiring the right skills into industry super funds from the corporate world, with new recruits often having too great a focus on short term returns, Heidrick and Struggles states that the sticking point has usually been the organisations' reluctance to pay for the skills they need. Yet according the search firm "the time is coming when they won't have a choice".

Egan Associates' analysis places average and median remuneration for the Chairman of Australia's top 40 superannuation fund organisations\* at a little over \$100,000. The second highest paid member of the Board, often the deputy chair, is around \$70,000. The average remuneration of the balance of the Directors serving on these Boards sits between \$50,000 and \$60,000.

In comparison, Chairmen of companies with a similar level of total assets receive payments more in the order of \$500,000, the deputy or lead Director in the range of \$230,000 to \$280,000 and other Directors in the range of \$200,000 to \$225,000.

It is over-simplistic to benchmark using only one metric (as we have noted in [previous newsletters](#)). It's also important to note that the payment of trustees is complex due to non-independent trustees receiving remuneration from parent or related organisations. However, the above comparison does highlight a discrepancy in how trustees of Superannuation Boards and Directors of listed companies are remunerated. Superannuation fund trustees often receive only 20% to 30% of the remuneration of listed company Directors.

Given the skills requirements of the industry and where these skills are likely to be sourced, superannuation funds may be forced to narrow this gap. Those organisations which address Board renewal now will have the best choice of candidates.

Front of mind must be:

What capability mix will be required on the Board to ensure the optimal Board composition?

- What remuneration is required to attract the right candidates?
- Are appropriate structures and cultures in place to retain the right candidates?
- Do new hires have the time to tackle regulatory and industry challenges?
- How do the skill sets break down over the whole Board and over the committees?
- Are Board trustees able to:
  - Provide outstanding governance while also ensuring compliance with APRA and other demands?
  - Create and communicate an enduring vision for the organisation?
  - Ensure investment choices are made that reflect the central ethos of the organisation while also achieving a sustainable level of return and fees that satisfy members' needs now and in the future?



- Develop the means to embrace technological change that will deliver member services and products more efficiently and create new products and services?
- Maintain and build relationships with the media, government and other stakeholders?

Remuneration and capability considerations will be equally important when acquiring the right CEO to lead superannuation organisations through these changes.

Egan Associates is able to assist superannuation funds in conducting Board reviews of current Board performance, creating capability matrices to identify future skills needs for Board renewal and CEO succession, and determining appropriate remuneration levels for Key Management Personnel.

Should you want more information on this matter, please contact Vince Murdoch on [vmurdoch@eganrem.com](mailto:vmurdoch@eganrem.com).

\*The top 40 funds were selected using APRA's fund-level research released in January.

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# About us

For more than 25 years, Egan Associates has advised leading organisations and emerging enterprises in Australia and New Zealand on the remuneration of executives, Directors and key staff members, as well as performance management, work value, corporate governance and Board effectiveness.

Our Services include:

- **Remuneration reviews and benchmarking** for Boards, CEOs, executives, senior technical positions and specialist roles including governance and stakeholder engagement
- Advice on **annual incentive plan structures**, performance criteria, target and maximum payment levels including deferral and clawback provisions
- Advice on **long term incentive plan structures**, participants, performance hurdles, equity instruments, valuation and allocation, as well as monitoring
- **Corporate transactions / IPOs**: assistance transitioning pre-IPO reward arrangements into the listed company environment with considerations including escrow provisions
- **Government pay reviews**: assistance at both Federal and State level in administrative, policy and corporatised environments on reward for senior executives and independent Boards
- **Online human capital solutions** : online resources to assist organisations manage role accountability statements, work value, internal relativity and market competitiveness
- **Board effectiveness**: assistance with Board reviews, Board skills matrices, scenario planning and Board documentation.

## John Egan



John's early career was with Cullen Egan Dell (now Mercer Human Capital), which he chaired from 1983 to 1989, when he formed Egan Associates. John has been an advisor to Boards and senior executives on organisation, governance and reward issues over many years. He has assisted a significant majority of Australia's top 200 companies as well as a myriad of entrepreneurial organisations and government entities across a wide range of industries.

John has been actively involved with Universities, chairing Sydney University's Board of Advice for its Faculty of Economics & Business (2001 – 2010). John is an Honorary Fellow of the University and an Adjunct Professor in the School of Business.

His personal interests are in cool climate gardens – [www.thebraesgarden.com](http://www.thebraesgarden.com) – and he served as a Trustee from May 2010 to June 2014 of the Sydney Royal Botanic Gardens & Domain Trust.