

Newsletter October 2016

The voting response at this year's AGM season has not been muted – there have been multiple strikes against remuneration reports. One flash point has been the proportion of bonuses determined by non-financial performance criteria, a topic we touch on in this newsletter. We also discuss trends in the 2016 batch of remuneration reports following a detailed examination of top companies' disclosures. Lastly, John Egan provides his insights into whether the leaders of Australia's universities are appropriately paid.

Remuneration Report Trends: 2016



Egan Associates takes a detailed look at the remuneration reports of Australia's top companies and identifies key trends.

Non-Financial STI Performance Measures: Avoiding Shareholder Voting Backlash



How do companies implement strategic, cultural, safety or other non-financial performance criteria into bonus plans without incurring adverse votes from investors?



How Much Are the Leaders of Our Universities Worth?

Our Principal John Egan outlines the elements that need to be considered by universities when determining the remuneration of Vice Chancellors and senior staff.



The Agenda

The Agenda is our must-read summary of issues concerning Boards of Directors and Government.

Remuneration Report Trends: 2016

Egan Associates is currently analysing data from 2016 annual reports – over the year we will examine reports for 500+ companies.

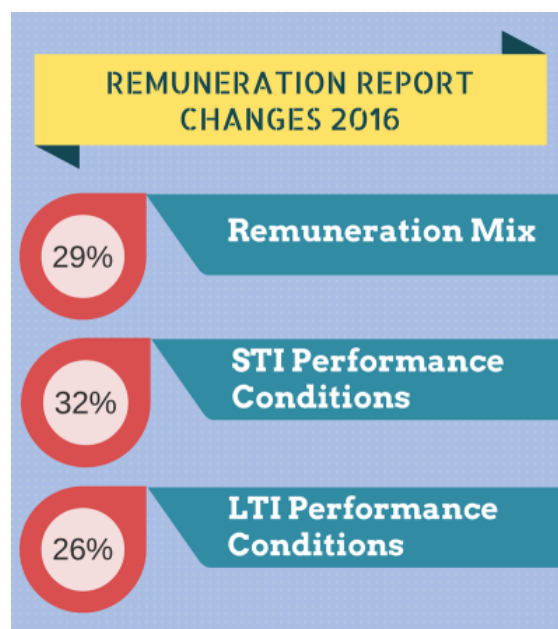
At this time of year, we like to have a detailed look at the remuneration reports of the top 50 companies to obtain an indication for remuneration trends. When large companies adopt certain remuneration practices, it is not unusual for smaller companies to emulate them in later years.

Our observations from the observed reports are below.

Changes to the remuneration framework

Of the companies that released their reports, around 80% had made or intended to make some sort of change to remuneration arrangements.

- Approximately a third of companies adjusted their remuneration mix, generally to increase the amount of variable remuneration.
- Around a third made changes to the STI performance conditions, adjusting the mix for financial and non-financial incentives, adding, or changing incentives. There was no noticeable trend towards or away from a particular set of incentives, although a number did highlight culture based incentives.
- Almost as many companies made or were considering changes to LTI performance conditions. A number were adding or strengthening the weighting for Return measures such as Return on Capital Employed or Return on Invested Capital, although one company noted that the latter could be volatile and it was considering whether it should be removed.
- Six companies added or increased the length of deferral for STI schemes, while one removed mandatory STI deferral.
- Those companies that changed the performance period of their long term incentive increased it rather than decreased it. Changes to peer groups were generally towards more tailored, selective peer groups.
- Four companies moved from using fair value to allocate equity under their long term incentive plans to using face value. Two companies disclosed an increase in the proportion of total remuneration comprised of long term incentives due to a prior change from fair value to face value.



Fixed remuneration increases

A large number of companies have indicated that their CEO received no increase to fixed remuneration in 2016 or will be receiving no increase in 2017. Often, this was accompanied by a statement that the CEO's fixed remuneration has not increased for a number of years, sometimes as many as five.

Where increases have occurred, however, they were at times significant. Treasury Wine Estates has rewarded its CEO for his ability to turnaround the winemaker, providing him with an increase from \$1.7 million to \$2.2 million, for example.

This raises the question of whether many companies have decided to only award fixed remuneration increases to CEOs upon evidence of performance. Another possibility is that Boards are waiting for better economic conditions to increase fixed remuneration. However, they should be cognisant that a number of institutional investors and proxy advisors will heavily scrutinise fixed remuneration increases that are considered to be "catch-up" increases following years without.

Executives are a different matter. Certain members of the executive team appear to be receiving significant increases, often in double digits without any explanation. These changes will vary substantially, leading to the assumption that there may have been a change in role or accountabilities, however, this is often not clear.

Increases to Board fees are split between companies that are keeping Board fees the same as the prior year, those that are increasing fees by a modest amount (under 3%) and those that are increasing fees by a significantly larger figure. For the latter, the increases are often to committee fees, which in general are not changed often.

STI awards

The majority of companies provided information on the proportion of the STI award potential that had been awarded, although not all provided this information as a percentage of a maximum award, with some only providing figures as a percentage of target.

The median award for a CEO or an executive was approximately 75% of maximum or the potential award – in line with that observed by Ownership Matters and ACSI in a recent CEO Pay report and by [Egan Associates in a 2015 analysis](#).

The median difference between the lowest award and the highest award for executives within a company was just under 18%.

Four companies paid no STI to their CEO, with two also awarding no STI to the top executives.

LTI vesting

A significant majority of companies also provided information on the percentage of potential LTI awards that had vested during the year. Five companies reported 0% vesting. 13 companies reported vesting at levels below 50%. Four companies reported 100% vesting. The median vesting amount was approximately 60%. Unsurprisingly, materials companies had the lowest level of vesting, while Healthcare companies experienced the highest level of vesting.

Disclosure of actual remuneration received

The number of companies that are disclosing a non-statutory remuneration table summarising the remuneration executives actually received during the year (including vested incentives) has

not increased since we ran this analysis two years ago – the proportion remains around two thirds. Of the companies which had released their report, only 12 did not provide this information, although two of these did provide actual remuneration solely for the CEO.

The information in the tables has, however, become more consistent. Most companies provide fixed remuneration, short term incentive cash earned during the financial year (but that may be paid after the completion of the year), STI deferred and LTI grants that vested during the year. A small number combine the STI Deferred and LTI equity vesting values into one figure.

Lend Lease uses an interesting method to describe the value of incentives vested. It discloses the value of the incentives that vested based on the market price at grant date and then separately discloses the increase in value of those shares since grant as well as the value of dividends on those securities. In this manner, a reader of the report can see how much value the executive received as part of the Board's original remuneration intent and how much the executive received due to appreciation in the shares and dividends. The latter is remuneration shareholders would also have received.

Discretion

More than half the companies applied no discretion to the operation of remuneration awards (as there was no mention of discretion being applied), except to determine the outcomes of non-financial key performance indicators or elements on balanced scorecards.

Where Board discretion was mentioned, four Boards exercised discretion that acted to remove remuneration from executives, six Boards acted to increase the remuneration of executives, 3 Boards applied discretion that both advantaged and disadvantaged executives, and two Boards noted that they had considered whether discretion should be exercised due to special circumstances and had decided not to exercise their discretion.

Where downwards discretion was exercised, impairments, loss of earnings, fatalities or a combination of these reasons were responsible for the Board deciding to reduce or not pay a short term incentive. Interestingly given the [concerns we raised about utilising an earnings-based compound annual growth rate for LTIs](#), one company also exercised its discretion to have its LTI vest solely based on a relative TSR measure, noting that it would not be appropriate to use the return on equity measure because the base year included impairments that would make the hurdle too easy to meet.

Where upwards discretion was exercised, it was:

- To exclude certain impairments from the results used to calculate a bonus (this practice is conducted by a number of companies, but many do not identify it as discretion as they have noted in their incentive rules that they use underlying profits in calculations.)
- To reward or compensate executives following a takeover via automatic vesting of incentives that are on foot or provision of additional incentives to balance dilution.

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Non-Financial STI Performance Measures: Avoiding Shareholder Voting Backlash

In a year where political focus has been on the possibility of a royal commission into banking, it is not surprising that a number of Boards have been considering the use of non-financial performance indicators under their bonus plans.

Indeed, ASIC Chairman Greg Medcraft has been [prolific on the topic of culture](#), presenting a number of speeches on the topic and stating that it would like to have the power to hold Directors and senior management to account when the culture of their company deteriorates.

Diversity has been another hot topic, with a significant amount of pressure being applied from certain quarters for Boards to incentivise management to hire a gender, culture and age diverse field of candidates.

Remuneration report votes at the AGM season, on the other hand, have clearly shown the dangers of introducing additional non-financial performance measures to bonus plans without careful consideration.

AGL Energy recently faced a protest vote from Shareholders over CEO remuneration, in part due to the use of non-financial performance measures or KPIs in assessing performance pay outcomes. Other companies, including the Commonwealth Bank, have also [incurred the wrath of investors and proxy advisers](#) over bonuses awarded to CEOs and KMPs based in part on performance criteria seen by some as soft or 'flaky'.

Culture and diversity are only some of a broad web of non-financial performance measures that can be found in the incentive plans of major organisations. There are three major categories of non-financial measures:

- **Customer** measures such as customer satisfaction and growth
- **Internal Business Process** measures like quality control and production efficiency
- **People Development** measures like safety, productivity and succession planning

Also increasing in prevalence are measures related to effective risk management, sustainability and the environment.

Such non-financial measures are being seen in performance appraisal and reward systems, as elements of the original Balanced Scorecard methodology are increasingly adopted and incorporated into corporate performance management and reward frameworks.

Some prominent examples include:

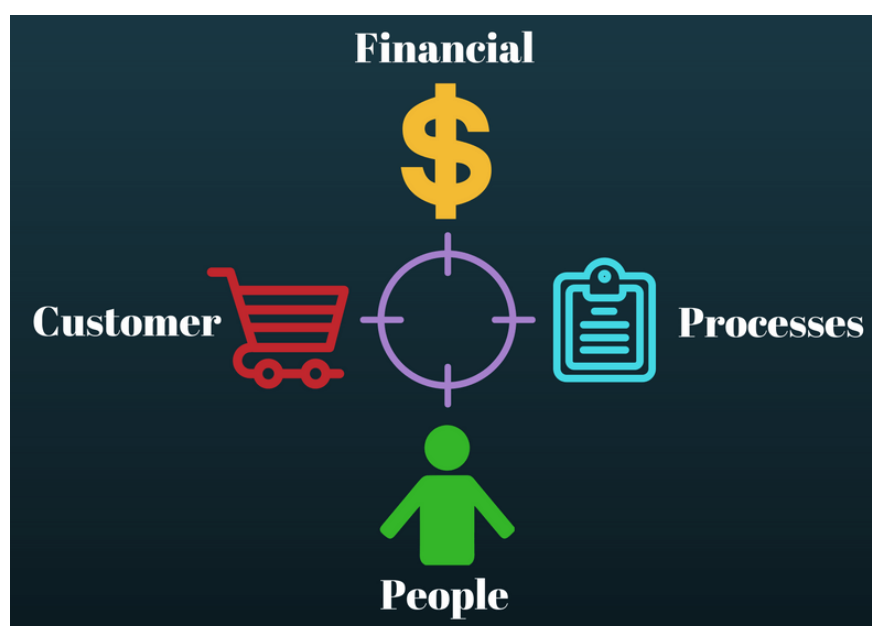
| ASX 100 Company | Key Non-Financial Measures | Weight Given To Non-Financial KPIs for CEO |
|--------------------------|--|--|
| Commonwealth Bank | <i>Customer Satisfaction Ranking, Technology, Culture and People</i> | 60% |
| AGL | <i>Team Effectiveness and Individual Performance Criteria</i> | 50% |
| ANZ Bank | <i>Customer satisfaction, People, Management and Growth</i> | Up to 80% |
| NAB Limited | <i>Net Promoter Score</i> | 33% |
| Rio Tinto Ltd | <i>Safety and Individual Performance Criteria</i> | 50% |
| Wesfarmers Ltd | <i>Safety, Diversity and People</i> | 40% |

The case for non-financial performance measures

The argument for including non-financial measures in assessing CEO and KMP performance in relation to their annual incentive payment is twofold:

1. Identifying and Rewarding Underlying Value Drivers

The Balanced Scorecard methodology that originated with Kaplan & Norton identifies lead and lag measures of performance and groups these into four distinct areas:



Financial measures typically include Profit, Return on Capital and Earnings Per Share type measures and are usually **outcomes or lag indicators of performance**.

The drivers or **lead indicators** of performance would include measures relating to **customer satisfaction, internal business process efficiency and people development**.

By measuring and rewarding non-financial lead indicators, CEOs and KMPs are encouraged to focus on the underlying drivers of financial performance, which, when properly implemented, lead to increased value for shareholders in the long run.

2. Alignment with Societal Norms and Values

The second argument for including non-financial KPIs in measuring and rewarding performance is to ensure organisational alignment with important broader societal goals and norms. Evidence suggests a direct link between these goals and the organisation's reputation in the market, which in turn affects how customers perceive and value the brand and the company's products or services. In labour intensive industries Health and Safety is normally accorded a material weighting in performance measurement whilst in other industries KPIs relating to the environment or people development and culture might be included.

Successfully implementing non-financial incentives

There are a number of considerations when deciding to implement non-financial incentives.

1. Relationship to remuneration.

Should performance against the KPI impact directly on remuneration via annual or long term incentives, or indirectly impact remuneration by affecting the executives' career prospects and accountability levels or by acting as a factor in fixed remuneration decisions?

2. Structure

If it is decided that the KPI fits best within the annual incentive plan, in what way should it impact the annual incentive? The non-financial measure could:

- **Determine whether a proportion of the incentive is awarded.** For example, 80% of an executive's bonus might be determined by financial measures, while 20% might be determined by non-financial measures. Generally, single non-financial measures will only be worth between 5% to 20% of the total award.
- **Modify the amount of an incentive that is awarded.** The proportion of the target incentive that vests is determined by financial KPIs. Performance against non-financial incentives might act as a multiplier, for example, between 1 and 1.5 that adjusts the actual incentive amount paid.
- **Act as a gateway.** The proportion and amount of the incentive that is awarded is determined by financial KPIs, while the payment will only be made if performance objectives against key non-financial KPIs have been met.

Non-financial measures that are considered crucial might be implemented as gateways (for example maintaining zero fatalities) while less important indicators could be implemented using either one or a combination of the other two approaches.

3. Balance

Where too much weight is placed on non-financial KPIs, particularly in years where financial performance is less than stellar, criticism will invariably be invited from activist shareholders and proxy advisors.

Where not enough weighting is afforded non-financial KPIs, it is unlikely that CEOs or other KMPs will give them sufficient attention to warrant their inclusion in the performance

management and remuneration process and as such their impact as a behaviour and outcome modifier is diminished.

Of the top 500 companies by market capitalisation that disclosed the proportion of the incentive that is determined by financial measures, the average award governed by financial measures was 60%.

Proxy advisors and institutional investors generally prefer that at least half of an annual incentive award be determined by financial outcomes. The preference may make non-financial gateways or modifiers more attractive for certain organisations.

4. Identification and Definition

In essence a good KPI is one that complies, inter alia, with the following key selection criteria:

- Alignment – KPIs are in line with the business objectives
- Definitive – KPIs are well defined and accurately measure the desired outcome
- Objective – KPIs are measured objectively using available substantiating data
- Measurable – All KPIs are measurable i.e. the required data / information exists or can be easily obtained and then also on a repeatable basis

Conclusion

Ultimately executive incentive plans should reward CEO and KMP actions that generate sustained improvements in shareholder value creation in a manner acceptable to all relevant stakeholders. It is the Board's duty to identify the correct remuneration approach to support this objective and then communicate that approach to all stakeholders.

Where non-financial KPIs are included, the linkages to value creation must be well understood and the weightings correctly applied at the various levels of the organisation. There should also be no ambiguity or unintended subjectivity in the measures used or in their calculation or subsequent interpretation.

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How Much Are the Leaders of our Universities Worth?

Egan Associates Principal John Egan was recently quoted by a number of media publications on the topic of University Vice Chancellor remuneration.

The Australian asked whether it was reasonable that Vice Chancellors from top universities were earning salaries over \$1 million, and the average salary across Australian Vice Chancellors was almost \$900,000.

In Egan Associates' view, there are a number of elements that need to be taken into account when determining the answer to this question. John Egan's thoughts on the matter are below.



1. External Relativities

In the private sector the structure of executive pay will often consist of fixed remuneration and incentives. The latter are not universally available in Universities or are not of substantial scale. This observation would appear to indicate a need for competitive fixed remuneration to ensure overall remuneration for Vice Chancellors remains aligned to the market.

However, universities are not truly equivalent to the private sector. A university's governance environment often comprises of the alumni, the student population, the academic community and Government nominees. Universities, along with other Government supported organisations, need to have governance structures which avoid traditional impediments to excelling at an intellectual and management level yet also enable them to efficiently remove individuals who are not applying their intellect and their energy optimally for the benefit of the academic and student community. This is a very different governance model from that which applies in business.

There is also not the same level of competition between universities within the nation as there exists between rival commercial entities. Regulation of fee levels removes the urgency for efficiency and also the impetus to create differences in courses that would help a university stand out from the rest.

As [recently noted](#) by Richard Dawkins, the architect of the HECs reforms in 1987, "Since 2009, with the demand-driven system, taxpayer funding for Commonwealth-supported places in higher education has increased by 69 per cent compared to 29 per cent growth in nominal GDP over the same period. Funding of university students has grown at twice the rate of the economy." This increase primarily stems from a change in government policy.

If Federal Education Minister Simon Birmingham's proposal to allow universities to charge different amounts of fees for "flagship courses" is implemented, followed by further deregulation down the track, the ability of universities to innovate and compete both amongst each other and with international peers will intensify. This would increase the difficulty of the role of a Vice

Chancellor, bringing it more in line with the private sector. Until then, however, universities have more in common with government organisations.

Comparing the accountabilities and scope of a Vice Chancellor position to that of Heads of Premier and Cabinet or positions at a Commonwealth level with oversight of billions in expenditure, the role of a University Vice Chancellor would often not have the same complexity or reach.

In my judgement, having a University Vice Chancellor paid more than the Head of the major budget areas in State Government or more than the Principal Adviser to a Premier or a major Commonwealth Department, including the Head of Prime Minister & Cabinet, appears problematic.

I would have thought the differential should favour the Head of Prime Minister and Cabinet, just as it should favour an individual in a similar position in a State who is managing transport, education and health where expenditures run into the billions or tens of billions.

2. Accountabilities

The Vice Chancellor may be a distinguished academic with an international reputation who provides academic leadership while being supported by a Provost who would oversee the day-to-day operations of the University, or these roles may be reversed. Some Vice Chancellors may fulfil both roles, particularly in the smaller/regional Universities.

Where a University is substantial in scale (having for example revenues substantially above \$1 billion, a student population of 50,000 or more, an academic staff of several thousand, a number of campuses and assets worth billions of dollars), the Vice Chancellor's focus is likely to be more that of a Chief Executive. A Provost, should one exist, would have stewardship of the academic community, which would be managed through a number of Deans across allocated disciplines.

One of the challenges of a modern university is that it's often based over multiple sites or multiple campuses. In terms of the main campus, in many respects the Vice Chancellor has control of a small city with 50,000 plus movements of residents and occupants in and out every day. There is substantial infrastructure that will have to be managed. The Vice Chancellor would have oversight of facilities capable of potentially accommodating several thousand students, feeding more than 50,000 individuals for one or two meals per day and with 10,000 or more daily vehicle movements within its precinct. These are major tasks.

Some Vice Chancellors would have oversight of complex research projects which involve the acquisition and management of tens of millions of dollars' in research funds. This oversight may cover annual applications for grant funding. It may also entail managing participation in linked research or relationships with global research teams, particularly in medical, science, information technology and related fields.

There would also be a parallel focus on the commercialisation of University sponsored intellectual property.

3. Scale of the University

There is a difference between a university the size of Sydney or Melbourne University – with a billion dollars plus in revenue – and a university that manages a couple of hundred million dollars in revenue. It would not be appropriate to pay the same amount of money to a Vice Chancellor serving in all universities.

4. The experience/background of the candidate

If Australian universities have aspirations to rival international universities and a desire to attract top university executives from leading institutions around the globe to their leadership team, they will have to pay a premium.

Such executives will ensure the university retains or improves its prestigious position within global rankings. They would have significant reputation, networks to support research and will be comfortable conducting fundraising and networking within the business community.

To pay modestly and fail would not be my view of an appropriate way of managing or determining a Vice Chancellor's level of reward. If Australia is to be part of the world's innovative and intellectual class across all relevant disciplines where we have the potential for economic advantage, then leaders of Universities should be well paid.

5. Internal Relativities

A critical task for the governing body of a university is establishing pay relativities throughout reporting levels. Such relativities need to recognise academics with international reputation that can attract substantial funds for research and development as well as key non-academic functions which are vital to a university's sustainability.

The pay relativity between the leadership team and the Vice Chancellor would be influenced by the scale and the breadth of functions reporting to the Vice Chancellor, the size of the student population (including international students), the complexity of the academic environment and the reward level paid to key administrative staff either under a Deputy Vice Chancellor or other corporate administrative leader.

Larger Universities are likely to have a Head of Human Resources, Head of Strategy, Head of Property & Development, Chief Financial Officer and a principal Legal Counsel. The complexity and the depth of those functions is influenced by scale, though reward would indicatively be between \$300,000 and \$500,000.

A large University would also have a number of Deputy Vice Chancellors, who might undertake different oversight roles, for example of the student population, international engagement, research and development, administrative functions, or property and infrastructure activities including campus accommodation.

Reporting to a level below the Deputy Vice Chancellor there may be Pro Vice Chancellors and/or Deans, with their direct reports being Professors with oversight of a School or Division. Below that fall academic staff and faculty or school support staff.

One would anticipate that senior professorial staff would be in receipt of fixed remuneration up to \$250,000, Deans or Heads of School indicatively from \$250,000 to \$350,000, Deputy Vice Chancellors from \$350,000 to \$500,000, with Vice Chancellors being paid above \$700,000.

Remuneration above \$700,000 will be reflective of the university's pay structure, the independence of the University Council in determining remuneration and the challenge in attracting a distinguished individual with significant reputation, skills and prior experience in managing an enterprise of significant scale.

It will be up to the Senate or governing body of the University to assess whether they are getting value for money at \$1 million plus, whether the pay relativity between the Deputy Vice Chancellor and other significant members of the University leadership team is appropriate.

There is merit in paying competitive remuneration for a leader with a global reputation who brings significant expertise and leadership, will lead the university efficiently, attract the best academics, and obtain significant research grants. Such actions will contribute to retaining a leadership position in global rankings, which in turn will attract full-fee paying international students.

In my view a university has much more dependence upon the quality of the teaching staff, the professoriate and the research staff than central administration. Yet if central administration provides the leadership and has the ability to garner the resources to make the student and research experience second to none, they are invaluable – in such cases an extra half a million for a top leader will be nothing for a university with expenditure and assets running into billions of dollars.

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The Agenda

APRA to review remuneration practices

Following the remuneration regulations APRA introduced for Authorised Deposit Taking Institutions, Insurers and Superannuation Organisations in 2010 and 2012, the Authority now [intends to take a “stocktake” of current industry remuneration practices](#) to see how well existing requirements are being implemented and how they are interacting with the risk cultures of institutions. It will also compare its remuneration requirements with recent international developments.

The Authority has advised that this will entail reviewing the remuneration arrangements of some senior executives starting this year and continuing into 2017.



Unemployment falls, but so does the number of jobs

The [unemployment rate has fallen to 5.6%](#), despite the loss of 9,800 jobs. While 43,200 part-time jobs were added, 53,000 full time jobs were lost. The reason the unemployment rate fell was that the participation rate (people in work or looking for it) has fallen from 64.7% to 64.5%.

Reserve Bank Governor Phillip Lowe examines low wage growth

In a recent [speech](#), Dr Lowe explained low inflation and wages growth in Australia citing three factors.

1. Low economic growth (due to the lingering effects of the global financial crisis and the weight of debt) has created excess capacity and decreased labour utilisation. Those who are finding jobs are often finding part time jobs and would like more hours.
2. Falls in commodity prices have led to lower inflation, which has resulted in workers agreeing to smaller wage increases, which has in turn factored into low inflation outcomes.
3. There has been a shift in the perceived pricing power of many workers and businesses, which Lowe believes is a symptom of the globalisation of markets and technology, which has increased competition.

The Reserve Bank of Australia (RBA) and the Australian Bureau of Statistics (ABS) collaborated to gain further insight into the trend. They found that there had been a decline in the frequency and size of wage increases, mainly due to a drop in the share of jobs where wages are increasing. Almost six years ago, around 40% of the 18,000 jobs the RBA and ABS examined experienced wage increases over 4%. Over the last year, only 10% experienced such increases.

One set of employees for whom wage increases have picked up are lawyers, [according to legal recruitment company Mahlab](#). It found salary freezes that had been in place were coming to an end. The average national salary increase over the past year was 3.8% in private practice and 3.4% for in-house lawyers.

AGM season

There appears to have been increased pressure on remuneration report votes this voting season, with proxy advisor reports focusing on pay increases and bonus payments where there has been no alignment with shareholder outcomes or where performance criteria have been inadequately explained. Egan Associates will publish our annual AGM Season round-up in December.

A paper by the University of Cincinnati¹ investigated whether Directors suffer reputational consequences from votes against their organisation's remuneration structure. It examined Directors of companies within the S&P 1500 where the say on pay approval vote was less than 70%.

The paper found that such Directors lose the equivalent of US\$435,000 in future remuneration at other companies where they serve on the Board. Those Directors are also more likely to lose Board seats and remuneration committee positions at those companies. The authors believe this shows that low support votes cause the market to reduce its estimate of a Director's quality. This reputational penalty occurred primarily when the vote was driven by excess remuneration rather than due to poor performance or high, but not excess, remuneration.

Fair Work Commission suggests replacing penalty rates with higher weekly rates

The Fair Work Commission has [proposed the introduction of higher hourly rates](#) to replace weekend penalty rates into retail industry awards. Currently, the introduction of such rates requires adding them into an enterprise bargaining agreement.

The Australian Council of Trade Unions have expressed concerns that such a swap would not be beneficial for part time employees.

Victorian Public Sector Commission recommends increased remuneration

A recent [review](#) of Victoria's executive employment and remuneration framework found that Victoria's remuneration for similarly valued roles is lower than in other states.

Figure 5: Executive remuneration span across Australian jurisdictions*



Note: *This is actual remuneration in the Australian Public Service (APS).

Source: Victorian Public Sector Commission

This had led to issues where organisations have been unable to attract executives from other jurisdictions.

The report recommended that Secretary remuneration increases be considered. It also recommended that a total remuneration package including superannuation be offered to avoid issues when Commonwealth superannuation requirements change.

US SEC issues Pay Ratio guidelines

The Securities and Exchange Commission has [issued guidelines](#) for US companies to calculate pay ratios between their CEO and the median employee. Companies must report this ratio for the first financial year beginning on or after 1 January 2017.

The SEC said that companies have to pick a date from within the last three months of the financial year on which to assess their employee population, which should include employees of the company or its subsidiaries (including foreign employees) but exclude contractors. There was no guidance on foreign-based employees, which are also to be included. The continued inclusion of foreign employees is unlikely to meet with approval, given that employee entitlements vary from country to country.

The SEC also clarified queries in a recent Compliance and Disclosure Interpretations document around using a “consistently applied compensation measure” (CACM) other than total annual compensation to identify the median employee. Since it would be onerous for many companies to calculate total annual compensation for all employees, companies can use an alternate measure, with the appropriateness of the measure varying depending on the company’s circumstances. Hourly rates of pay were not considered to be appropriate as a CACM, although many other possibilities exist, for which the SEC provides guidance. It also clarifies the treatment of furloughed employees and explains how organisations should determine if an employee is an independent contractor.

Mercer this month released the results of a survey into how high CEO pay ratios are likely to be after the introduction of the rule. It found that pay ratios are expected to be less than 100 to 1 in 2018, less than the 300 to 1 ratio that has been frequently published in the media.

Ratios differed by industry, with the highest ratios in the retail/wholesale and consumer goods sectors and the lowest ratios in the banking/financial services and technology sectors.

Value of Board Diversity in the Eye of the Beholder

A [PWC survey](#) of almost 1000 Directors in the US has found that while 89% of female Directors very much believe that Board diversity leads to enhanced company performance, only 24% of male Directors do.

Another [study conducted by the University of Toronto’s Rotman School of Management](#) found that women Board members were likely to bring half a dozen skills important to decision making that weren’t well represented on their Boards before their arrival: risk management, human resources, sustainability, politics or government, regulatory or compliance and corporate governance.

McKinsey and Company has published its annual [Women in the Workplace](#) study into the employment pipeline for women across North America. It found that for the 132 companies examined, women are promoted and hired at lower rates than men, leading to fewer women becoming senior leaders.

At each step up the ladder, the representation of women declines — for every 100 women that are promoted, 130 men are promoted. While at entry level there are 54% men and 46% women, this changes to 63% and 37% at the manager level, 67% and 33% at senior manager level, 71% and 29% at the vice president level, 76% and 24% at the senior vice president level and 81% and 19% at the C-suite level.

At senior levels, women tend to shift from line roles (positions with accountability for profit and loss, or a focus on core operations) to staff roles (positions that support the business such as legal, human resources and IT). This shift damages their chances of becoming a CEO, since CEOs are generally drawn from the ranks of line management.

Credit Suisse also published an update of its [global Gender 3000 report](#), last completed in 2014. Its results echoed those in 2014, finding that companies with higher participation of women in decision making roles generated higher returns on equity while running more conservative balance sheets. Where women were the majority in top management, businesses showed superior sales growth, cash flows and returns on investment.

Since 2014, there had been a significant amount of progress on hiring more female Directors – women occupied 14.7% of Board seats over 3000 companies globally, a 54% increase. However, this increase may have come at the cost of the number of women in senior management. Depending on how the data is analysed, there has either been no meaningful change in the number of women in senior management roles or a decline in the number of women in senior management roles since 2014.

The release of a [report by the University of Sydney's US Studies Centre](#) showed that the share of female Directorships had doubled over the last decade in Australia and the proportion of women participating in the workforce has increased by 5%. By comparison, female participation in the US fell 5% and the share of female Directorships rose less than 2%.

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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 Board Directors, executives and key staff members, as well as performance management, corporate governance and Board effectiveness.

Our Services include:

- **Remuneration reviews and benchmarking:** for CEOs, executives, senior management and professional positions, including specialist roles
- **Annual incentive plan structures:** advice on performance criteria, target and maximum payment levels as well as deferral and clawback provisions
- **Long term incentive plan structures:** advice on participation, performance hurdles, equity instruments, valuation and allocation, as well as provision of performance monitoring services
- **Corporate transactions / IPOs:** assistance transitioning pre-IPO reward arrangements into the listed company environment (or any other corporate transformation) considering issues including escrow provisions
- **Government pay reviews:** assistance at federal, state and local level in administrative, policy and corporatised environments on reward for senior executives, professional and administrative staff, and governing Boards
- **Board fee reviews:** benchmarking Board fee levels, including Chairman and Director retainer fees, Committee Chairman and member fees and fees for adhoc engagements.
- **Board effectiveness:** assistance with 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 – and he served as a Trustee of the Sydney Royal Botanic Gardens & Domain Trust from May 2010 to June 2014.