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Executive Search & Board Advisory

## **EXECUTIVE REMUNERATION – CEOS ARE PAID 150 TIMES MORE THAN THE AVERAGE WORKER**

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*"If I had asked people what they wanted,  
they would have said faster horses"* Henry Ford

Executive remuneration will always generate debate. There is no right answer. Some believe remuneration is a true reflection of the market economy, while others believe it needs to be compared and aligned relatively to the average wage.

In the UK, like Australia there has been pressure on executive pay. FTSE100 pay is approximately 150 times the average worker income, a ratio that has doubled in the last ten years. It is being argued that Chair and Chief Executives need to show leadership. It has been debated in the UK if pays continue to increase, measures such as removing responsibility from Remuneration Committees entirely and giving them to a Committee of investors with the right to nominate Board Directors may be considered.

Over two thirds of the FTSE100 CEO appointments are internal and it is argued remuneration committees have a real opportunity to exercise restraint when making new appointments. The alternative is that public trust in business is further eroded and governance regimes become open to further questioning with far more wide ranging ramifications than effective self-regulation on pay.

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In Australia, we are also seeing intensive discussion around CEO pay, and in particular, departing CEO pay after the executive has been encouraged to move on.

Now in the UK, as a result of the remuneration questions and encouragement of long-term thinking, many executive share options now have a five year vest. The fallout of this can be an overly conservative approach where executives do not challenge the status quo or take risks, as well as creating blockages in the organisation, leading to difficulties in developing and promoting the next generation of talent.

One of the more fundamental questions to ask is whether there is the need to compensate a Chief Executive Officer, 150 times annual workers' pay. In Australia, we appear to be prepared to pay global remuneration standards for roles which are arguably not comparable in scale or complexity. Another point is that one cannot underestimate the value of the title CEO, and why that attracts many executives. Bearing in mind Australia is a smaller business market and that CEO roles are rare, why do we pay as some would argue, beyond what is required?

Some thoughts include that talent is a global market and that if organisations wish to attract the very best they have to incentivise according to global standards. Other perspectives put forward include Australian executives are part of the global talent pool and therefore, need to be incentivised to remain on our shores.

There is also a lack of guarantee on many of the LTI structures in place for executive remuneration, that most executives treat LTI as more luck than a reward.

It does seem that overall, market sentiment is that incomes to CEO's are disproportionate to the scale of the companies, and the Board have an opportunity to introduce more appropriate structures.

As one analyst stated, "it is also reasonable to argue that Australian workers and executives are paid at inflated prices to the world market, and that a correction at all levels is required for the good of our country's economic competitiveness."

"Ultimately, there will be a differing of opinion, but with a limited supply of CEO roles available and strong supply of local and global candidates, the 100 times plus that CEO's are being paid to the average worker needs to be discussed. Many of the CEO's appointed walk into a company whose existence is a result of many others hard work over many years. The CEO did not create the business, did not put their own capital at risk, but instead, is the benefactor of in many cases, a solid platform. Why then do we need to pay such large incomes to CEO's, who in many cases contribute to incremental but not step change growth?, stated one investor."

As highlighted, remuneration is always an intensely debated topic. It will be interesting if we follow the same discussions as the UK.

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