16 July 2009

Mr John Hawkins
Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email: economics.sen@aph.gov.au

Dear Mr Hawkins,

Re: Corporations Amendment (Improving Accountability on Termination Payments) Bill

The Australian Council of Superannuation Investors ("ACSI") is pleased to provide the following submission to the Senate Standing Committee on Economics and its inquiry into the Corporations Amendment (Improving Accountability on Termination Payments) Bill.

ACSI represents the interests of 42 superannuation funds who collectively manage over $250 billion of Australian retirement savings. ACSI provides its members with advice and information on the impact of corporate governance, environmental and social issues on the long term performance of investee companies. On behalf of its members ACSI discusses these issues with Australian listed companies.

ACSI has argued for a number of years, that the threshold contained in the Corporations Act 2001 for shareholder approval of termination benefits, of seven times a recipient's total annual remuneration, was too high and left shareholders unable to apply any meaningful restraint on excessive termination benefits paid to executive directors employed by listed Australian companies.

In some circumstances, such excessive termination payments appear to not only reward executive directors for mediocre performance, but in some cases, for failure. Such payments were justifiably seen by a number of investors and the community as being too generous and exceeding anything available to the rest of the workforce.

Accordingly, ACSI supports the quantum threshold being reduced from seven years to one year.

ACSI supports the threshold being determined by reference to a person's 'base salary' instead of the current reference to "total remuneration". Furthermore, ACSI supports the scope of the regulations expanding beyond "company directors" to include "key management personnel" of the company. This would create a consistency with the disclosure and endorsement provisions that apply to key management personnel as outlined in remuneration reports that are subject to a non-binding shareholder vote pursuant to the Corporations Act 2001.

ACSI supports the provision of the shareholder vote on termination to be undertaken at any time prior to termination benefits being paid to relevant key management personnel. In this context, such an approach would give companies ample opportunity to persuade and influence shareholders to support payments that may be in excess of one year. Although we generally believe that a one year payment for termination represents a reasonable amount, companies may be able to present cogent arguments to their shareholders and justify termination payment amounts in excess of one year.

ACSI strongly supports the prohibition of key management personnel from participating in a vote on their own termination benefits as this removes an obvious conflict of interest. (ACSI has submitted to the Productivity Commission, Executive Remuneration Inquiry that key management personnel should not participate in a vote on a company's remuneration report).

ACSI sees the merit in 'carving out' unvested performance pay and deferred bonus incentives from termination pay calculations, particularly where they have already been earned by a member of key management personnel. We would however be cautious to avoid turning this exemption into a 'loophole' that would effectively allow companies to describe termination payments as bonuses, so as to avoid shareholder scrutiny and approval.

ACSI also supports any moves that excludes personal contributions to superannuation through salary sacrifice, or through post tax income on departure, from shareholder approval.

We note from submissions that concerns have been expressed with respect to Australian companies being placed at a competitive disadvantage relative to overseas companies as a consequence of the proposals.

In our opinion, these concerns are overstated. According to research commissioned by ACSI (attached for your information), Australian companies were more likely to recruit internally and from within Australia and New Zealand. Between 2003 to 2007 amongst the top ASX/S&P 50 companies, of the 333 confirmed executive appointments, 17.4 per cent were external recruits sourced from within Australia and New Zealand; 10.5 per cent are recruited from Australia and New Zealand; and a substantial majority of appointments were internally based, accounting for 63.1 per cent of confirmed appointments.

We note in particular concerns that the one year threshold may be too limiting on a company, particularly in attracting overseas executives. We reiterate that in circumstances where companies have a genuine concern in engaging talented executives from overseas, who are often leaving their own secure arrangements or foregoing entitlements, then a company can submit a proposal for shareholder approval and make a reasonable case for a termination payment to apply beyond 12 months.

We remain concerned that companies should be more transparent with their shareholders with respect to whether executives have in fact resigned, retired or been terminated. There appears to often be an inconsistency arising where CEO's departures are not described as terminations, however later disclosures reveal that termination payments were still made.

In summary, ACSI supports the proposal introduced by the Federal Government, as it would largely require companies to engage with their shareholders in order to justify key management personnel termination payments beyond one year.

If you have any queries, please contact Phil Spathis on pspathis@acsi.org.au or 03 8677 3886.

Yours sincerely

ANN BYRNE
Chief Executive Officer

A war for talent? Evidence from top 50 Australian companies on the competition for executive talent

Research Paper prepared by

RiskMetrics Australia

Commissioned by the Australian Council of Super Investors Inc.

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Foreword

Boards of directors are responsible for establishing companies' remuneration policies. Such policies should ensure that the whole organisation has the appropriate skill base including leadership qualities to fulfil its strategic objectives to the advantage of shareholders. Disclosure of remuneration policies provide shareholders with a view on the link between performance and reward and the improvement in shareholder value.

On the many occasions when ACSI has engaged with directors on the issue of the quantum of payment to executives the rationale given was that there was a global war for talent. In thinking about this response ACSI decided that it was appropriate to research the actuality of this competition for talent by commissioning this research.

The research focuses on factual data which is disclosed in the annual reports of listed companies or other company announcements for those executives whose remuneration must be disclosed in annual reports, either as the highest paid executives within a company or as members of key management personnel.

ACSI recognises that the research may not provide a definitive answer on the question of the global war for talent and its relationship to increasing executive remuneration. However neither does the research provide compelling evidence to justify pay increases for senior executives on the basis of a 'global war for talent'. In fact, only three (4.3 percent of all departures) Australian based executives within the research period were recruited by overseas companies. Another 30 (13 percent of all departures) executives were recruited to other Australian companies. In addition, throughout the research period the majority of departures (75.7 percent) were due to termination (35.7 percent), divestment of business units (7 percent) and retirements (33 percent).

The findings, while not providing compelling evidence of a global war for talent, were not necessarily inconsistent with there being substantial competition for senior executives. This is because pay arrangements and other changes may have been driven by companies responding to attempts to recruit their executives. It should however be noted that nearly half of all confirmed departures were due to death or were company initiated.

We also acknowledge that the research in relation to the cost of appointing external CEO's uses fixed pay as the sole measure and as such consideration is not given to other variable remuneration. As noted in the research however, fixed pay is the only guaranteed portion of executive pay and is hence the most transparent indicator of the guaranteed cost to the company of a CEO.

We also anticipate that questions will be raised about the sample size and its broader applicability given the research reviews executive appointments and departures at 50 of the largest ASX listed companies. The sample was selected as representing the largest ASX listed companies – accounting for over 70 percent of the Australian equity market in terms of market capitalisation - that are most likely to attract global executives and have executives visible to overseas employers. ACSI considers that if a war for talent is in progress that it would be visible among these companies.

In terms of CEOs the study also raised doubt over widely held views that Australian companies have a high level of CEO turnover.

This research provides ACSI with factual data and as a consequence of this research when engaging with companies ACSI will request further substantiation of claims that what appear to be excessive pay arrangements are necessary to attract and retain senior executives.

We look forward to this research adding to the remuneration debate and would welcome any comments on the research.

Ann Byrne
CEO
ACSI

1 RiskMetrics Group

ISS Governance Services is part of the RiskMetrics Group, a major risk company, providing expertise to the financial community through a broad range of research, analytics, data and other products and services. Formerly a division of JP Morgan, RiskMetrics Group became an independent company in 1998. RiskMetrics Group helps investors manage across multiple classes of interrelated risk. The company is headquartered in New York City, with 23 offices worldwide. More information is available online at: www.riskmetrics.com.

In June 2005, ISS acquired specialist corporate governance research firm, Proxy Australia. The combined company forms the foundation of RiskMetrics' Australian business unit, headquartered in Melbourne.

The Melbourne office provides in-market research, service and expertise to institutional investors and superannuation funds in the region and worldwide. Outside of Australia, ISS Governance Services has corporate governance and proxy voting experts on the ground in the US, UK, Canada, Belgium, France, Netherlands, Philippines, Singapore and Japan.

2 Introduction and executive summary

RiskMetrics Australia was commissioned by the Australian Council of Super Investors' (ACSI) to assess the reality of the so-called war for talent. This phrase has been used increasingly by listed company directors, executives and service providers in recent years as companies seek to explain executive remuneration arrangements to their shareholders, either directly or through groups such as ACSI.

The study reviews executive appointments and departures at 50 of the largest ASX listed companies between the end of their 2003 and 2007 financial years. It identifies 230 confirmed departures by senior executives from the sample group between 2003 and 2007, and 333 confirmed appointments. Additional research was done to identify the reasons why executives left the sample companies, and from where newly appointed executives were recruited.

The study found that large Australian listed companies were relatively unlikely to lose senior executives to other employers, whether based in Australia or overseas. Only 13 percent of the confirmed departures involved executives being recruited by Australian based companies, while only 4.3 percent of confirmed departures were as a result of an executive being recruited by an offshore employer. Terminations and retirements accounted for just under 69 percent of all senior executive departures during the survey period.

Australian companies were however more likely to recruit senior executives from outside the company than to lose senior executives to another employer. Of the 333 confirmed executive appointments, 17.4 percent were external recruits sourced from within Australia and NZ and another 10.5 percent were recruited from outside of Australia and NZ. A substantial majority of appointments however were internal, accounting for 63.1 percent of all confirmed appointments.

The study also reviewed CEO turnover and recruitment among the sample companies during the survey period and found that Australian CEOs were unlikely to be enticed to join domestic or overseas companies. Of the 50 companies, 26 changed CEOs during the period, with two having two CEO changes. Retirements accounted for 57.1 percent of CEO departures, followed by terminations, which accounted for 28.6 percent of departures. Departures to join another employer accounted for just 7.1 percent of CEO departures (two of 28).

In replacing these departed CEOs, internal appointments were favoured, making up 57.1 percent of the total. Another 17.9 percent were recruited from overseas employers and 14.3 percent from Australian employers. The findings on executive and CEO departures and appointments indicate that being a senior executive of a large Australian company is viewed attractively, with executives being more willing to accept such roles than to move on to other employment. This suggests that shareholders should be wary of attempts to restructure remuneration packages with a view to reducing the risk or increasing the remuneration of senior executives on the basis that they are likely to be recruited by another employer (although it is possible that changes to pay arrangements over the sample period partly explain the low rate of incumbent senior executives leaving voluntarily for other roles).

The small sample of CEO appointments did allow a comparison between the fixed pay of CEOs recruited internally against those recruited externally. Based on the sample CEOs, the median annual fixed pay of an externally recruited CEO was likely to be 4.3 percent higher than that of their predecessor, while the median internally recruited CEO received annual fixed pay that was 11.9 percent lower than that received by their predecessor.

Finally, the study also reviewed CEO tenure in light of research by other groups in Australia indicating that CEO tenure was generally less than six years. Terminated CEOs in the sample left office after serving, on average, 5 years, 6 months as CEO, while retiring CEOs left office after serving 8 years, 5.5 months. Of the 50 sample companies, 24 had the same CEO throughout the survey period, and nine had the same CEO in office as at January 2009. The 24 incumbent CEOs during the period had average tenure of 9 years, 11.7 months as at the end of the relevant 2007 financial year, although if Westfield's Frank Lowy is excluded, average tenure among this group falls to 8 years, 3.9 months.

3 Executive departures

This section reviews the reasons why executives of 50 of the largest Australian companies listed on the ASX between 2003 and 2007 departed their employer. As with the rest of this study, it involved reviewing those executives whose remuneration was disclosed in the years between 2003 and 2007. The 50 companies were chosen as the 50 largest ASX listed Australian domiciled companies (including internally managed stapled entities such as Westfield and Stockland) listed for all or the majority of the period between financial years ending in 2003 and 2007 (the full list of companies is included as an appendix). These 50 companies also account for well over half of Australia's market capitalisation (the largest 50 ASX-listed companies account for approximately 75 percent of Australian domestic equity market capitalisation).

The starting cohort of executives was those still employed at the end of the 2003 financial year, and the study includes these executives and all executives whose remuneration was subsequently disclosed over the next four financial years.[1] Where possible, reasons for an executive's remuneration no longer being disclosed have been given; in some cases no reasons could be found. Reasons for departure were drawn from annual reports, company announcements to the market and via press release and media reports. In determining whether executives were terminated or resigned a degree of judgement was exercised taking into account media reports and company announcements concerning the executive's departure and whether or not they received a termination payment.

3.1 Reasons for departure

The study identified 324 departures (defined as an executive whose remuneration was disclosed in the annual report during the survey period but whose remuneration was not subsequently disclosed by the company over the period). Of these, no reason for departure (or whether or not the executive was still employed by the company but no longer had their remuneration disclosed) was available in 17 percent of cases (55 'departures') and in another 12 percent of cases, (39 executives) the executive no longer had their remuneration disclosed but remained employed by the company for the next financial year.

The remaining 230 cases ('confirmed departures' where the reason for leaving was clear) all involved executives who left the company during the survey period. Reasons for departure were divided into eight categories, shown in the table below:

[1] The legal requirements concerning disclosure of executive pay changed several times over the period between 2003 and 2007; at the beginning of the survey period the law required disclosure of the five highest paid executives of the listed entity and of the corporate group at the end of the period it required the disclosure of the remuneration of members of 'key management personnel': Those executives with the greatest influence over the affairs of the company during the reporting period.

Reason for departure	*Number of departures*	*As a percentage of confirmed departures*
Terminated	82	35.7
Retired	76	33
Recruited – Australia	30	13.0
Divestment	16	7
Recruited – Internationally	10	4.3
Resigned - reshuffle	9	3.9
Other	4	1.7
Death	3	1.3

Table 1: Reasons for executive departures

Most of the classifications used are self-evident. 'Resigned – reshuffle' was used when an executive resigned immediately following a reshuffle where their responsibilities were lessened (as opposed to a reshuffle that resulted in them becoming redundant, in which case they were classified as being terminated) or in cases where an executive resigned shortly after another executive was appointed as chief executive. The 'Other' category in all cases refers to companies with a major overseas shareholder (Woodside Petroleum and AXA Asia-Pacific) where executives seconded to the Australian company from the overseas shareholder ended their secondment.

There was some difficulty in distinguishing whether executives were retired or terminated, given that most companies describe departing executives as having resigned or retired. In distinguishing between termination and retirement, the age of the executive departing, their years of service with the company, prior announcements of their intended retirement and ongoing roles with the company (such as acting as a consultant or director of subsidiary or associated companies) were taken into account, as well as the nature of the payment received by the executive on departure.

As can be seen from the above table, the thesis of a 'war for talent' is not unequivocally supported by the evidence from the sample group. Large Australian companies, whose executives are relatively visible to would-be employers, were far more likely to lose executives to retirement or to actually terminate an executive than to have them recruited by another employer, with well over half of the confirmed departures being due to retirement or termination. Voluntary departures to another employer were responsible for only 17.3 percent of all departures during the study period, and recruiting by overseas companies was responsible for only one-quarter of this group (in six of the 10 cases of offshore recruitment, the executive was actually a resident of the country of their new employer, and in another case, that of CK Chow of Brambles, the executive was based in the UK and recruited by a Hong Kong company). Only three Australian based executives were recruited by overseas companies during the survey period.

Recruitment by another employer within Australia was more common: Of the 30 confirmed departures as a result of recruitment by an Australian company, 20 were to an Australian listed company. Departures to private equity (other than via a wholesale management buy-out of a company, not included in the survey) resulted in only two executive departures during the survey period (Fairfax Media lost its CEO to a private equity firm in the 2004 financial year while Woolworths lost one executive to private equity-owned Myer). This was despite the survey period including the 'private equity boom' of 2006 and 2007, when many companies and their advisers in discussions with groups such as ACSI and RiskMetrics voiced concern over the potential risk of private equity raiding listed companies for executive talent, and the need for executive remuneration packages to be adjusted – and often increased – in response. In fact a listed company was more likely to lose a senior executive to death than to private equity during the survey period.

The term recruited also includes several departures where executives seemingly opted for substantial career changes. For example, one executive, St George's Steve McKerihan, departed the bank to become CEO of the Sydney Anglican Church, while another, Fairfax's Greg Hywood, departed to take up a role in the Victorian Department of Premier and Cabinet. In another case, a Stockland senior executive, Darren Steinberg, left to take up a role as a property funds manager with Colonial First State. One executive who is included as being recruited by an international company, the former CEO of Origin Energy's listed NZ subsidiary, Contact, David Hunt, left to a start-up energy consulting firm.

It is important to note that while the survey findings do not unequivocally support the 'war for talent' argument, it is possible for the findings to be consistent with a war for executive talent: In some cases, companies may be recruiting executives outside the senior management group whose remuneration is not required to be disclosed (in which case it is not clear why companies consider their most senior executives, whose remuneration is public knowledge, to be at risk of being recruited by other employers), or it is also possible that 'retention' remuneration arrangements, as well as pay and bonus increases helped prevent executive departures. Even if this is the case, it should be noted that nearly half of all confirmed executive departures during the survey period (43.7 percent) were due to death or were company initiated, either by way of termination or divestment. The evidence from the study suggests the thesis that being a senior executive of a large listed company in Australia is an attractive role that people are eager to attain and reluctant to leave is at least as good an explanation of the results as a 'war for talent'.

4 Executive appointments

The survey period included 359 "appointments", defined as an executive having their remuneration disclosed for the first time between the end of the 2003 financial year and the end of the 2007 financial year. Of this group, 210 were internal appointments, where the executive was previously employed by the company for 12 months prior to them having their remuneration disclosed. In another 26 cases, it was not possible to determine the executive's prior role.

The 333 'confirmed appointments' were classified as follows:

Prior role	*Number*	*As a percentage of confirmed appointments*
Internal	210	63.1
Other employer - Australia	56	16.8
Other employer - Offshore	35	10.5
Joined through acquisition	30	9.0
Other employer - NZ	2	0.6

Table 2: Executive recruitment

Information on executives' prior roles was taken from company annual reports, announcements to the market and press releases and media reports. In some cases executives have been classified as having been recruited from an external employer even though it was unclear whether or not they were actually in full time employment prior to their appointment.

The findings indicate that large listed Australian companies are more likely to recruit an executive externally than to lose an executive to another employer. This may in part reflect that many appointments are made after a company has terminated executives and may be seeking an external candidate to bring in new ideas, although it should be remembered that the majority of all confirmed appointments were internal. The findings also indicate Australian companies recruit from within Australia to a much greater extent than they do from offshore (62.4 percent of all confirmed appointments where an executive was recruited from outside the company involve executives recruited from Australia or NZ).

In addition, as was the case with executive departures, many of the executives classified as being recruited from offshore were actually recruited by Australian companies with extensive offshore operations to work in those offshore operations: As an example, two Lend Lease executives, one recruited from Fluor Corp. in the US and another from Cable & Wireless UK, were recruited to offshore roles (Ron Oakley of Fluor and Adrian Chamberlain of Cable & Wireless joined and left the company during the survey period; Oakley was recruited by another US employer and Chamberlain was terminated following a management restructure).

Australian based senior executives hired from another Australian listed company accounted for less than half of all recruitment from other Australian employers. Only 22 of the 56 executives appointed from other Australian employers were previously employed by an Australian listed company, with banking executives being far more likely to be recruited by a sample company (seven of the 22 were recruited from one of ANZ, Commonwealth, Westpac and St George). The other executives were recruited from law firms (major law firm Mallesons Stephen Jaques was the source of three of the five appointments from law firms, which also included Aristocrat Leisure's appointment of an executive described as previously running his own law firm), professional services firms (five executives), investment banks (five, including three from Citigroup Australia) and unlisted Australian firms (either privately owned or subsidiaries of overseas listed entities such as

GE and BP). Only two of the 56 executives were recruited from government entities (AGL Energy's Stephen Mikkelsen joined from government owned Snowy Hydro and Telstra recruited Kate McKenzie from the NSW Government).

A sizeable minority of companies in the sample made no appointments from outside during the period, with several of these being considered strong performers during the survey period. Retailer Woolworths, investment bank Macquarie, property firms Centro and Westfield, AMP, Leighton Holdings, Qantas and QBE Insurance made no outside appointments to their senior executive teams during the survey period and their executive teams were relatively stable over this period. Another two companies, Lion Nathan and Wesfarmers, made only one appointment from outside during the survey period but in both cases the executive appointed had considerable knowledge of the company. Lion Nathan recruited its CEO, Rob Murray, from Nestle Oceania but he had been a non-executive director of Lion Nathan prior to appointment while Wesfarmers' Terry Bowen rejoined the company from Qantas subsidiary Jetstar in 2005 two years after leaving Wesfarmers.

5 CEO tenure, remuneration and origin

The chief executives of large Australian companies should also be exposed to the 'global war for talent', and due to their increased visibility, may be more sought after by overseas employers than less senior executives. For this reason, this study reviewed changes in CEO during the survey period among the 50 company sample group. For the purposes of the CEO portion of the study, if a CEO's departure occurred at the end of the 2007 financial year, their departure (and their replacement) has been included in the data below. In most companies, determining the most senior executive is relatively simple; three of the sample companies however have both executive chairpersons and CEOs or managing directors: Computershare, Publishing & Broadcasting Limited and Westfield. In Computershare's case, the executive chairperson is treated as the CEO until the announcement of a separate CEO in 2006; in the case of PBL, the former deputy executive chair, Kerry Packer, was treated as the CEO until his death in 2005, when his son James Packer was considered CEO and in Westfield's case, executive chairperson Frank Lowy was considered CEO for the entire period.

5.1 CEO changes

Of the 50 companies in the survey, 26 changed CEOs during the survey period (two companies, ASX, and Brambles, changed CEO twice during the survey period, making for a total of 28 CEO changes). The reasons for the changes are given below:

Reason for CEO change	*Number (% of total)*
Retired	16 (57.1)
Terminated	8 (28.6)
Recruited	2 (7.1)
Death	1 (3.6)
Not disclosed	1 (3.6)

Table 3: CEO departures

As with all executive departures during the period it was often difficult to distinguish between retirements and terminations, given that most companies announce CEOs as having 'resigned' or 'retired' rather than having been terminated. This report has distinguished between termination and retirement on the same basis as elsewhere in this report; as an example, ANZ's John McFarlane has been treated as having retired while Zinifex's Greig Gailey has been classified as having been terminated. Former Fairfax CEO Fred Hilmer is classified as not having the reasons for his departure disclosed; this is because it cannot be determined whether he retired or was terminated.

The figures show that departures either initiated by the company or owing to retirement account for over 85 percent of all CEO changes during the survey period. Only two CEOs were recruited by another employer during the survey period: CK Chow, who left Brambles to run MTR Corporation in Hong Kong (Chow was based in the UK), and Gail Kelly, who left St George Bank to run Westpac. This indicates it is rare for a large Australian company to lose its CEO to an offshore or onshore company. On this basis, Australian shareholders are entitled to seek additional justification for proposals to increase or alter remuneration arrangements for CEOs at large companies on the basis they may be recruited by another company.

5.2 Where new CEOs come from

The 28 CEOs who were appointed during the survey period were predominantly internal appointments (this includes CEOs appointed to fill roles vacated during the survey period but whose appointment was announced after the end of the survey period). A summary of the origin of newly appointed CEOs during the survey period is given below:

Where CEO previously employed	*Number (% of total)*
Internal	16 (57.1)
Overseas employer	5 (17.9)
Australian employer	4 (14.3)
Acquisition	2 (7.1)
NZ employer	1 (3.6)

Table 3: CEO appointments

The findings on CEO appointments are consistent with the findings for all senior executives, in that Australian companies are more likely to recruit an executive to fill vacancies rather than to lose an executive to another employer. Nonetheless, well over half of the newly appointed CEOs were already employed by the company, or had joined the company as the result of an acquisition (Robert Elstone at the ASX, previously CEO of the SFE, and Greg Paramor of Mirvac who was previously CEO of James Fielding). At least one of the five CEOs recruited from overseas, Sol Trujillo of Telstra, did not appear to be in full time employment prior to being appointed Telstra CEO.[2]

5.3 The cost of external CEOs

The study also reviewed the fixed pay of newly appointed CEOs compared to that of the CEO they replaced. Fixed pay was chosen as giving the most transparent measure of CEO pay levels, given the potential impact of performance, valuation and disclosure considerations on other elements of CEO pay such as annual bonuses and share-based payments. Caution should be taken in interpreting these figures given the sample size but they indicate that CEOs hired externally generally receive higher fixed pay relative to their predecessor than CEOs promoted from within. Of the 10 CEOs recruited externally (grouping together those hired from within and outside Australia), the median increase in fixed pay was 4.29 percent, with five of the sample being paid more than their predecessor, two receiving the same fixed pay as their predecessor and three being paid less (these were Chris Roberts at Cochlear, David Kirk at Fairfax and Rob Murray at Lion Nathan). The largest increase in fixed pay received by a CEO recruited from outside the company occurred at Telstra, where new CEO Sol Trujillo received fixed annual pay of $3 million, 43.4 percent higher than that received by his predecessor, Ziggy Switkowski.

The 16 CEOs appointed from within during the survey period received a median fixed pay decrease compared to their predecessor of -11.9 percent (this was based on a sample size of 14; in two cases no comparison could be made due to companies remunerating CEOs in different currencies).[3] Of the CEOs appointed from within, only two received higher fixed pay than their predecessor: John Stewart received fixed pay that was 8.73 percent higher than that of his predecessor, Frank Cicutto, in his last full year as CEO, while Computershare's Stuart Crosby received in his first full year as CEO fixed pay that was marginally higher than the fixed pay received by executive chairperson Chris Morris in his last full year as chair and CEO. Another 12 CEOs appointed from within received less fixed pay than their predecessor; AXA's Andy Penn received fixed pay that was 53.27 percent less

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[2] See, for example, the announcement of his appointment by Telstra: ASX announcement, 'Telstra appoints new CEO,' 9 June 2005, available at http://www.asx.com.au/asx/statistics/announcementSearch.do?method=searchByCode&issuerCode=TLS&timeFrameSearchType=Y&year=2005.

[3] The two companies were Brambles and Rio Tinto.

than that received by his predecessor Les Owen (although Owen's fixed pay in the 2005 financial year, his last full year as CEO, included various relocation allowances given he was seconded to AXA Asia-Pacific from AXA SA).

It should also be noted that the results of this comparison may minimise the higher remuneration received by externally appointed CEOs, given it is common for CEOs recruited from other companies to receive 'sign-on' payments to compensate them for benefits foregone at their former employer. ANZ, for example, granted Mike Smith $9 million in shares (with the value calculated at the time he joined the company) in lieu of benefits foregone at HSBC, his former employer.

5.4 CEO tenure

Little work has been done in Australia on average CEO tenure outside of various surveys commissioned by the Business Council of Australia, an organisation representing the CEOs of large Australian companies.[4] This study reviewed the tenure of the CEOs who departed during the survey period, with the findings summarised below:

Reason for departure	*Tenure in years*
Terminated	5 years 6 months
Retired[5]	12 years 5.5 months
Death	31 years 7 months[6]
Not disclosed	7 years 1 months

Table 5: CEO tenure

A total of 24 of the sample companies did not change CEOs during the sample period. The average tenure of these CEOs as at the end of their companies' 2007 financial years was 9 years, 11.7 months; if the tenure of Westfield's Frank Lowy is excluded, average tenure as at relevant financial year end was 8 years, 3.9 months. Of the 24 CEOs in office during the whole of the survey period, nine remained in office as at the end of January 2009 (excluding Suncorp's John Mulcahy who announced his resignation shortly before this study was completed). These nine remaining CEOs as at the end of January 2009 had average tenure of 15 years, 6.8 months, and five had been in office for more than 10 years (Westfield's Frank Lowy, Leighton Holdings' Wal King, Sonic Healthcare's Colin Goldschmidt, Toll Holdings' Paul Little and QBE's Frank O'Halloran).

The findings of the study indicate that in the largest 50 Australian companies in recent years CEO tenure has been longer than that suggested for CEOs of S&P/ASX 200 companies by studies in 2003 and earlier years (the Booz Allen Hamilton/BCA study for the 2003 year for example found average CEO tenure at S&P/ASX 200 companies was 5.6 years, and 4.4 years in 2002).[7]

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[4] See, for example, Business Council of Australia, "Booz Allen Hamilton/BCA Study Shows Decline in Australian CEO Turnover", 23 November 2004, available at http://www.bca.com.au/Content/97057.aspx.

[5] This excludes Computershare, where Chris Morris retired as CEO but remains executive chairperson.

[6] Calculated from the date of death of Kerry Packer's father, Frank Packer.

[7] See n. 4 above. The study apparently used as its sample CEO departures from top 200 companies in the relevant calendar year.

Appendix: List of companies in survey

AGL Energy (formerly AGL)
Aristocrat Leisure
Amcor
AMP
ANZ
ASX
Alumina
AXA Asia-Pacific Holdings
BHP Billiton
Babcock & Brown (from 2004)
Bluescope Steel
Brambles
Commonwealth Bank
Coca-Cola Amatil
Centro Properties (from 2004)
Cochlear
Computershare
CSL
Foster's Group
Fairfax Media
IAG
Leighton Holdings
Lend Lease Corp.
Lion Nathan
Mirvac Group
Macquarie Group
National Australia Bank
Newcrest Mining
Origin Energy
Orica
OneSteel
Publishing & Broadcasting
Qantas
QBE Insurance
Rio Tinto
St George Bank
Stockland Property Group
Sonic Healthcare
Santos
Suncorp Metway
Tabcorp Holdings
Transurban Group
Telstra
Toll Holdings
Westpac Banking Corp.
Westfield Group
Wesfarmers
Woolworths
Woodside Petroleum
Zinifex