

## Australia should compare CEO and average worker pay like the US and UK

Written by The Conversation

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Australia should follow the lead of the United States in requiring public companies to disclose how much their CEO makes each year directly compared to an “average” rank and file employee. Ballooning executive pay contributes to [income inequality](#) and the CEO pay ratio provides a measure of the extent of the pay gap between the top and bottom income levels in the [economy](#) .

US companies will be required to disclose from 1 January 2017 the ratio of pay of a CEO’s annual total remuneration to the median annual total remuneration of all company [employees](#) . UK companies are also subject to a variation of the CEO pay ratio rule, with relevant [regulation](#) requiring disclosure of the CEO’s remuneration compared to their employees. In Australia companies don’t have to disclose this ratio, although companies do disclose information about remuneration for executives.

Disclosing the ratio provides greater transparency around CEO pay and places some constraints on escalating executive [remuneration](#) . CEOs in the US are paid around [300 times](#) the median employee wage, while in the UK the ratio is roughly [183:1](#) .

The graphic below shows CEO pay compared to the average annual Australian pre-tax salary for a selection of large Australian companies. Comparing CEO pay against the median pay of a worker at the same company is the ideal way to compare ratios given companies in some sectors pay workers higher across the board. However a comparison with the average worker salary also provides insight on income inequality.

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The Commonwealth Bank has the highest CEO pay ratio in our sample, with CEO Ian Narev earning more than 100 times the salary of an average worker. Even the lowest paid CEO in our sample earned 15 times the average Australian annual salary. The figures for many of the corporations were sensitive to the inclusion of bonus or equity elements of pay, for example, Fortescue Metals is second highest ranked when salary and bonus are considered, but falls to sixth place when equity-based remuneration is also considered.

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There's quite a debate about what actually makes up CEO pay. Some argue that US CEO pay ratios are more like 70 to one when [only cash remuneration](#) is taken into account. Others include equity claims exercised – like stock options - and come up with a much higher ratio of something like [300 to one](#) .

Cash bonuses paid to CEOs are likewise controversial, with some [suggestions](#) that observed reductions in CEO pay levels in 2015/2016 are simply a case of shifting pay into cash bonuses rather than cash salaries. Certainly the ranking of our sample firms change when cash bonuses are included, indicating that bonuses are a significant source of remuneration for our CEOs. A cash bonus is effectively the same as a salary if it's very likely to be paid and so should logically form part of the CEO pay ratio.

The CEO pay ratio is an important measure of income inequality over time and Australian regulators should consider making this information mandatory. This would greatly enhance comparability with US and UK companies.

Research evidence describes wide differences in CEO remuneration across the world, with US CEO pay described as an outlier at 23% greater than the UK and 55% greater than Continental Europe, thereby contributing to [income inequality](#) in the US.

Disclosure of the ratio would allow Australian investors to understand better where a particular CEO lies in terms of pay packet size relative to other firms of similar size and industry.

In recent years, Australian corporate boards have been subject to the two-strikes legislation under which shareholders vote on the company's remuneration report at the Annual General Meeting. Any company receiving 25% or more of "no" votes from eligible shareholders at two consecutive meetings must put a motion to shareholders to spill the [board](#) .

The increased accountability around remuneration resulting from the two-strikes rule has provided shareholder and lobby groups with solid evidence about executive pay levels and disclosure. For example, the Australian Shareholders Association actively [monitors](#) the remuneration of selected corporations with the intention of influencing remuneration report voting.

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Proxy advisers also have an important role to play in [lobbying](#) institutional investors on remuneration voting. Disclosure of the Australian CEO pay ratio would be a useful input to that discussion.

While the two-strikes legislation has improved corporate accountability around executive pay, disclosure of the CEO pay ratio would provide a useful summary measure to voting investors, independent of location and currency.

Historically, executive pay has not always been at the current controversial levels but has steadily increased since the mid-1970s, an increase which has continued [after the global financial crisis](#)

Disclosure of CEO pay ratios gives everyone a consistent and meaningful yardstick by which to measure income equality.

*Julie Walker has previously received funding from Chartered Accountants Australia New Zealand.*

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