Snouts in the CEO Trough

Stephen Mayne on the quaint Australian custom of rewarding corporate failure when the aim is to be, er, successful

Australia's merry band of well-paid CEOs are quick to point out what tough jobs they have and that failure can mean employment is difficult to find in the future. Therefore, the argument goes, they need to be paid huge sums of money which include guaranteed payouts if they're fired before the expiry of their contract.

But hold on. Aren't these the same CEOs who are also leading the public campaign for changes to Australia's unfair dismissal laws that would give them more flexibility to hire and fire workers? Why can't Australian CEOs be like the legendary General Electric boss Jack Welch, who had a one-page contract which allowed GE to fire him at any time for no reason with no payout? Welch ended up getting a huge payout, but one his board argued was a reward for success.

In Australia, Woolworth's CEO Roger Corbett is paid more than $4 million a year and has made about $30 million on his share options. Is that too much? Probably not. Since Corbett took over in 1998, Woolworth's has tripled in value and lifted net profits from $301 million in 1997-98 to a projected $900 million in 2004-05.

The real argument is not about what to pay successful CEOs while they're on the job, but what a CEO who fails should be paid. The accompanying list (see box) is my assessment of the most undeserving and inappropriate termination payouts to Australian CEOs over the past few years.

The low-watermark for CEO contracts in Australia came in 1994 when the Kennett government in Victoria poached Ross Wilson from Southcorp to head up Tabcorp after it was floated. Wilson was financed at no cost to him into 1% of the company, which left him with a profit of about $60 million when he retired in 2002. Even worse, he was given a five-year contract which would have been paid out in full for almost $10 million if the Tabcorp float had not proceeded, or the board had fired him early (neither of which happened, as it turned out).

The notion of guaranteeing a CEO a five-year payout has long passed, but two-year payouts are still to be found in some CEO contracts. In this regard Australia remains well behind the UK system of rolling one-year contracts which means a CEO can never be terminated with more than a year of base pay.

Additional benefits on top of termination payments can be just as problematic. Westpac CEO Dr David Morgan, NAB's Frank Cicutto, James Hardie's Peter Macdonald and Coles Myer's Dennis Eck all negotiated ongoing payments at the conclusion of their contracts which were either characterised as non-compete fees or consultancy arrangements – a device to keep nominal termination payouts down.

Another problematic issue is the question of surrendering share options which usually operate as handcuffs to maintain executive loyalty. For instance, the NAB board allowed former CEO Don Argus to retire in May 1999 and keep 750,000 options at $28.23 that were approved by shareholders only five months earlier. Argus could have converted and sold these options for a profit of $6 million in mid 2002.

NAB is now Australia's second biggest fund manager, and this highlights the fundamental problem with the executive pay debate in Australia: the financial services industry, which is supposed to be fighting the good fight on behalf of Australia's superannuants to keep a lid on greedy bosses, has the worst record for executive largesse. For this reason we can only rely on the not-for-profit industry funds to keep CEOs honest, and it's instructive that their umbrella group, the Australian Council of Superannuation Investors, last week released the most definitive report yet on termination payments in Australia.

You're Fired!

The ten most unacceptable termination payouts to Australian executives (according to Stephen Mayne, with thanks to Proxy Australia)

1. George Trumbull, AMP, $7.5m
2. Keith Lambert, Southcorp, $4.4m
3. Sir CK Chow, Brambles, $7.7m
4. Frank Cicutto, NAB, $6.5m
5. David Higgins, Lend Lease, $6.7m
6. Dennis Eck, Coles Myer, $4.7m
7. Brian Gilbertson, BHP-Billiton, $10m
8. Peter Macdonald, James Hardie, $8.2m
9. Chris Cuffe, Commonwealth Bank, $26.5m
10. Peter Yates, PBL, $6.5m