

Study on

Directors' Remuneration

In

Public-listed Companies

by

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Introduction

The objective of this study is to provide a guide on how companies are paying their executive directors and is an update of the one first completed in 1996.

As more listed companies, will be disclosing their directors' remuneration, in compliance with the new Corporate Governance Code, many will also take the opportunity to make comparisons to check for market competitiveness.

The directors' remuneration and fees for 410 public-listed companies were analysed to find out how much executive directors as a group are being paid.

The aggregate remuneration for the financial year 2001/2002 were analysed according to company size, profits and business activity. Comparisons were also made with those paid in 1994/95.

Summary of Findings

Executive directors' remuneration vary substantially from less than \$100,000 to over \$10 million per annum. Despite this wide variation, the aggregate remuneration increases with company size in terms of shareholders' funds and, to a lesser extent, profitability.

Listed companies, generally, pay their executive directors a fixed base salary and benefits package plus a variable performance bonus. As a result of these fixed salary and benefits components, the size of the total remuneration packages were only partly related to performance.

For the financial year 2001/2002, the executive directors, as a group, were paid an aggregate remuneration ranging from \$566,099 for small companies (for those with shareholders' funds of less than \$20 million) to \$1,520,000 for large companies (those with shareholders' funds exceeding \$1,000 million). Most companies have between two to three executive directors.

As a proportion of profits before tax (PBT), the directors' remuneration accounted for 49% for small companies and 1.0% of PBT for the large ones.

Although DBS Group Holdings paid the highest remuneration (\$16.8 million), as a proportion of PBT, it accounted for a relatively modest 1.2% of PBT. The next highest remuneration was paid by Venture Manufacturing with \$11.6 million and which accounted for 8.1% of PBT followed by UOB's \$10.7 million and 0.9% PBT.

The relationship between directors' remuneration and shareholders' funds as well as PBT are shown graphically in Charts I & II.

Comparing the payouts in 2001/2002 with those made in 1994/1995, the same companies paid 41% more despite reduced profits. As a proportion of PBT, they paid 18% compared to 7% of PBT in 1994/1995.

In 2001/02, 44% of companies had higher profits compared to 1994/95 so, not surprisingly, most of them (73%) paid more to their executive directors – the median increase in this group was 81%. What is, perhaps, somewhat surprising is that although 56% of companies had lower profits, more than half of these companies (58%) paid more to their executive directors – the median increase here was 59%. With more companies benchmarking their directors' remuneration against those of other companies, this “inflationary” trend is likely to continue even if there is little or no improved performance justification.

In terms of business activity, it was the banking sector that paid the highest remuneration. The banks paid a median remuneration of \$10.7 million in 2001/2002 and although this was more than 4 times higher than the \$2.5 million in 1994/1995, there was more than enough justification. Their median shareholders' funds were 5.5 times and their PBT 3.7 times higher this time around.

After the banking sector, it was the stockbroking sector that paid the next highest. The stockbroking firms paid a median \$3.0 million – this was less than half of the \$6.1 million paid in 1994/1995 because of reduced profits (\$21.8 million compared to \$49.3 million in 1994/1995).

The hotel companies, on the other hand paid the lowest \$544,00 – this was still an increase of 121% increase over that paid in 1994/1995 despite very similar profits.

GLCs

In 1994/95, the government-linked public-listed companies paid the least to their executive directors. This changed in 2001/02.

In 2001/02, the median directors' remuneration increased by almost 2.7 times from \$504,000 in 1994/95 to \$1,365,243. They now match those of other private sector companies in terms of company size.

In terms of proportion of PBT, it was a GLC, Singapore Telecommunications, that gave the best value for money as it paid their executive director only 0.07% PBT, the lowest among all listed companies.

Directors' Fees

The director fees which are mainly for non-executive directors (although a few companies also pay them to their executive directors) came up to a median value of \$109,700 per company. The fees vary from \$70,000 for small companies to \$446,000 for the large ones.

Comparing the fees paid to the 124 same companies, the fees in 2001/2002 increased by 50% from 1994/1995.

Summary Tables

- Chart I - Directors' Remuneration vs Shareholders' Funds
- Chart II - Directors' Remuneration vs Profit Before Tax
- Table I - By Shareholders' Funds - 2001/2002
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