



Find out whether good  
management really matters



## M&E BDO ASIAMONEY STARS INDEX

ASIAMONEY is proud to have teamed up with Management & Excellence consultancy and accountancy firm BDO to create the first Hong Kong-focused stock index based upon tracking management performance. Each month we will reveal how the 18 companies being tracked by the index perform compared to the Hang Seng Index.

[www.asiamoney.com/starsindex](http://www.asiamoney.com/starsindex)

# Calculating the cost of good executives

**Swire Pacific, China Mobile and China Life are all thrifty when it comes to executive pay versus earnings, according to the newly-launched M&E BDO Asiamoney Stars Index. On the other end of the scale Manulife tends to be the most generous to its staff. Richard Morrow reports.**

Swire Pacific, China Mobile and China Life pay their top executives relatively little money relative to the companies' respective earnings per share (EPS) ratios, while Manulife Financial was very generous when rewarding its executives relative to the income it made per share, according to the newly released M&E BDO Asiamoney Stars Index.

The index, which officially launched in November, includes 18 of Hong Kong and China's best-managed companies. Unlike most equity indices the Stars Index uniquely quantifies good management using a wide array of key data points in an effort to demonstrate that well-managed companies outperform the market as a whole.

Index creator Bill Cox, CEO of Management & Excellence (M&E), worked with accounting firm BDO to get data that tracked the 2011 remuneration of each of the companies in the index. They then divided this total sum by each company's EPS for that year to provide a simple calculation of how much each cent of EPS cost in terms of executive remuneration. Cox calls the end figure the executive cost ratio.

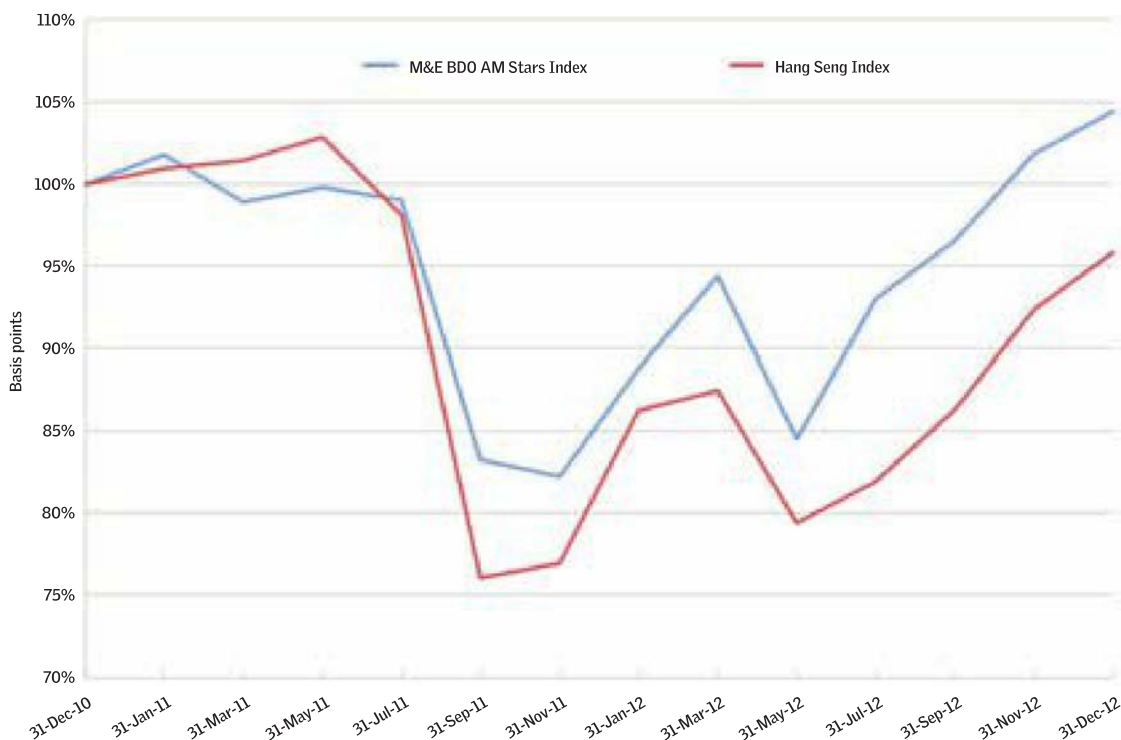
EPS divides a company's net income by outstanding shares, and is a simple means of ascertaining a company's profitability.

Companies with a lower ratio pay their top managers relatively less for each cent of earnings made on each available share, while those with higher ratios are more generous in their executive remuneration when compared to profitability.

The range between the most cost effective and most expensive companies is considerable. However, excluding the bottom three firms, the standard deviation in the results is only HKD126,806. If all 18 companies are included, the range jumps to over HKD4 million.

According to the index, shareholders of Swire paid its company executives HKD29,576 (US\$3,814.96) for one Hong Kong dollar cent of EPS, while at the other end Manulife executives charged their owners HKD21 million per each cent of EPS. In other words Swire is fairly parsimonious when it comes to rewarding its top management given

**M&E BDO ASIAMONEY HONG KONG STARS INDEX PERFORMANCE vs HANG SENG INDEX**



SOURCE: M&E BDO FINANCIAL SERVICES

the amount of money it earns, while Manulife is generous in the extreme.

In total, the 18 companies covered in M&E BDO's latest research spent HKD29.09 million for a total of 18 cents of EPS, with Manulife accounting for 72% of this figure.

According to BDO's research only three companies monitored by the index – Shangri-La Asia, Lenovo and Manulife – paid their executive team over HKD1 million per cent of EPS. However this was sufficient to drive up the average executive cost ratio among all 18 companies to HKD1.61 million.

The research considers all fixed and variable compensation in its analysis except stock options, as this could skew the results.

## PROVIDING TRANSPARENCY

Cox feels that the publishing of such data offers investors a means to ascertain whether companies are under- or overpaying their staff, relative to the performance of the company. "Companies tend to stash away their shareholder-approved executive remuneration figures in their annual documentation but this figure offers investors a way to compare them and discover which companies are more economical with their remuneration, and gives them a chance to decide whether they should vote to accept the suggested levels," he says.

The ratio is just one statistic, and it can be affected by abnormal losses, investments or income gains. For example shareholders of Swire Pacific may well wonder whether they are rewarding the company's senior executives enough for good profitability, given the company's low ratio. However the conglomerate reported roughly half of the EPS level for 2012 that it had in 2011, negative operating results and higher interest expenses due to increased debt. This means its executive cost ratio is likely to deteriorate unless it adjusts compensation downwards.

Nevertheless, these ratios still offer a means of assessing whether companies are proving to be overly generous or too frugal when it comes to rewarding their executives.

"The relationship between executive compensation and EPS is perhaps at the heart of shareholder control over executive performance," says Patrick Rozario, director at BDO Financial, which also oversees the newly-launched management rating system.

Manulife's shareholders in particular may be forgiven for wondering why the company's management was so handsomely rewarded compared to the company's EPS – particularly when fellow insurer China Life had a far lower ratio.

Cox hopes that such statistics help investors better understand the capabilities and performance of the companies in which they invest.



## EXECUTIVE COMPENSATION RATIOS

Company name/ Stars Index constituents	Executive remuneration in Hong Kong dollars (2011)	Earnings per share (2011)	Executive cost ratio (executive remuneration/ per HK 1 cent EPS)
1 Swire Pacific ('A' and 'B' shares together)	65,856,000	22.266	29,576.93
2 China Mobile	19,774,000	6.27	31,489.63
3 China Life	3,394,276	80.11	42,370.19
4 HKEx (Hong Kong Exchange)	29,293,000	4.73	61,930
5 Wharf Holdings	67,547,000	10.22	66,092.95
6 Power Assets (previously HK Electric)	41,940,000	4.25	98,682.35
7 Cheung Kong Holdings	202,000,000	19.88	101,609.66
8 Standard Chartered	208,899,145	1,559.714	133,934.26
9 Henderson	160,526,000	744	215,760.75
10 MTR Corporation	62,000,000	2.55	243,137.25
11 SmarTone	20,426,000	0.73	279,808.22
12 Hutchison Whampoa	382,130,000	13.14	290,814.31
13 Cathay Pacific	46,223,000	139.8	330,636.62
14 Hong Kong and Shanghai Bank (HSBC)	237,149,542	714.61	331,858.70
15 CLP (China Light & Power)	166,000,000	3.86	430,051
16 Shangri-la Asia	78,389,610	63.53815	1,233,740.83
17 Lenovo	151,062,340	36.274	4,164,479.79
18 Manulife Financial Corporation	319,275,600	15.2036	21,000,000.00

NOTE: BASED ON 2011 EARNINGS PER SHARE AND EXECUTIVE COMPENSATION DATA.  
SOURCE: M&E BDO FINANCIAL SERVICES

"This sort of information is an attempt to improve transparency, which is needed in Hong Kong," he says. "The city is in many ways a financially sophisticated market but it is far less transparent when it comes to corporate information disclosure than London, New York, or even countries like Brazil."

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BILL COX, CEO OF MANAGEMENT & EXCELLENCE (M&E) AND CREATOR OF THE M&E BDO ASIAMONEY STARS INDEX

The management performance-focused methodology of the Stars Index appears to be identifying some important factors in company management, which helps them do well. In December the Stars index outperformed the Hang Seng index by around 8%, while it has on average outperformed the Hang Seng by 9%-11% on a monthly basis since June. ▀