Why Peter Costello Should be a Zillionaire

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The discussion of executive remuneration often mentions the need to be competitive internationally in order to attract the best executives to run our businesses. But it is worth considering why we think anyone should be paid so much money, here or overseas, for just doing a job they presumably love.

Why should privileged, highly intelligent and strategically acute people working at the pinnacle of their careers in challenging, exciting and powerful roles that give them endless opportunities for achievement, satisfaction and growth have to be bribed by excessive remuneration to do such jobs? If the world refuses to pay them exorbitant salaries and bonuses, are they going to quit and buy a lawn mowing franchise?

Sure the best have a lot expertise and experience, and they should be rewarded for that. Sure they take on heavy responsibilities, they work long hours, and they travel a lot, but that's what the job entails. Everyone who rises to corporate leadership faces the same demands and challenges. Does that make them worth 80 times the average weekly wage?! No employee *(executives are just employees after all)* is worth that much more, no matter what they do or how well they do it.

Consider if Peter Costello had been on one of these executive remuneration packages while he was Australia's treasurer. What kind of performance bonuses might he have demanded having paid back billions in debt, produced annual budget surpluses in the billions, returned billions to taxpayers in tax cuts and middle class welfare, grew the economy by 150% in ten years, created 2 million jobs in that time, and halved inflation. All while on a salary under $250,000 a year! And no bonuses! And he didn't get the only promotion he wanted! How do our multi-million dollar corporate wreckers stand up to that? And how about his counterparts in the US and Britain: more pay, a lot less performance!

As you consider an approach to executive remuneration for this country, I think you should challenge senior executives to demonstrate the same kind of dedication and commitment to the job, for the sheer love of it and for the pure pleasure of accomplishment, that Peter Costello has demonstrated. You do this by making most of the senior executive's remuneration contingent on measurable and desirable achievement.

To measure an executive's commitment to the job they take on and their confidence in themselves to do good for their employer, executive remuneration packages in public companies should include

- *a base salary* that acknowledges the expertise and experience of an executive, the number of people they manage directly or indirectly, the size of budgets being managed, and the complexity of the environment in which they must operate. The bigger can an executive carries, the bigger the base salary. Base salaries increase or decrease annually at the same rate as the weekly non-executive payroll within the business and on the same basis (e.g., annual performance reviews, automatic increments). This means if weekly earnings of staff fall due to casualisation, paycuts, downsizing, juniorising, outsourcing or redundancies, executive base salaries fall as well. This ensures executives consider the welfare of workers in making management decisions or bear some of the pain as well.

- *an annual short-term performance bonus* that represents a multiple of the base salary, but payable only on achievement of measurable objectives and triple bottom line KPIs. This is to ensure effective, competent, attentive day-to-day management of the enterprise. The multiple is 0.1 for every objective achieved and every KPI met, plus another 0.25 if all are accomplished, less 0.1 for every objective/KPI missed. This ensures that senior executives pay attention to the bread-and-butter basis of the business and carry the risk of failure as well as the rewards of success.
- *a short-term investor bonus* for the most senior managers and board members that represents a multiple of the base salary, but payable only on achievement of annual objectives relative to share value and dividends to shareholders. The multiple is the percentage increase in share value achieved and dividends payable over the previous year. If there is a reduction in value or dividends, the percentage of that loss is deducted from the base salary over the next 12 months. This is to ensure that executives remember for whom they are working and who owns the business and that capital growth of the business is their mission.
- *a long-term performance bonus* payable every four years in 10-year deferred shares, based on achievement of long-term capitalisation, return-on-investment and core business performance objectives. Number of shares is negotiated as part of the employment contract. Shares are awarded only on the fourth anniversary of employment and not pro rata if executives leave before their anniversary(ies). The idea is to provide executives with an incentive to attend to the long-term performance of the business and to stick around for the rewards of their achievements. It is also to ensure that shares are issued only to reward executives who have enriched shareholders and not to dilute the value of their holdings.

This approach to remuneration puts the onus on senior executives to demonstrate the expertise, experience and commitment they claim to possess by improving the day-to-day and long-term performance of the company, rather than by playing high-risk, no-return games with shareholder capital. The greedier they are, the harder they'll have to work to produce tangible, measurable results. Grand schemes and pipe dreams don't attract any short-term reward and put at risk their remuneration.

Anyone who thinks this approach to executive remuneration will encourage too much caution needs to remember that the remuneration free-for-all we've just come through has resulted in executives neglecting their core businesses in favour of bonus-producing investment scams and junk paper. Car makers forgot to make cars, insurance companies forgot to insure, banks forgot to capitalise, construction companies forgot to build and airlines forgot about safety and service. Now we are all paying the price and have a right to demand that shareholder and taxpayer investments in businesses produce sustainable returns based on businesses sticking to their knitting and being productive for the economy.

We need more Peter Costellos who achieve something not for the money but for the satisfaction of being great at something.