Executive Remuneration Inquiry,
Productivity Commission,
L28, 35 Collins Street,
MELBOURNE VIC 3000

Dear Commissioners,

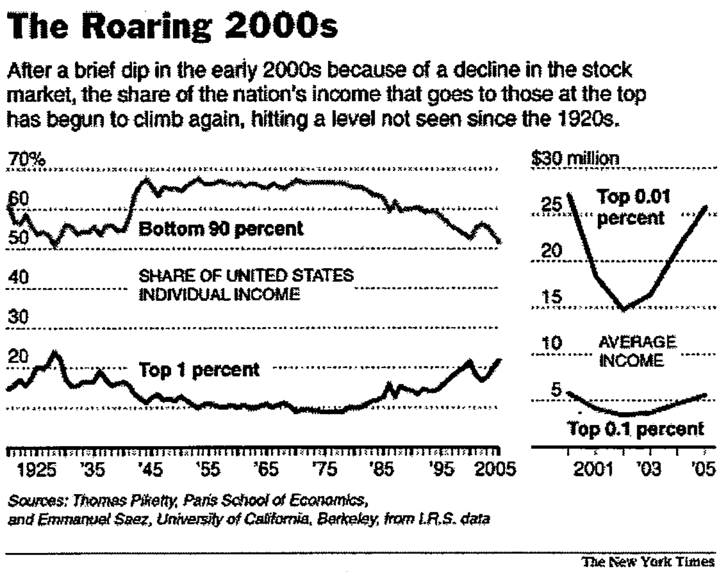
RE: EXECUTIVE REMUNERATION ENQUIRY

Background

My experience is 17 years as a company director, eight of which were as managing director of both the Australian/South-East Asian subsidiaries of US multinational and an ASX-listed company. I am currently chairman of an ASX-listed industrial company and a non-executive director of a privately held consulting firm. I own a specialist corporate advisory firm which provides governance advice to corporations. I have extensive experience in executive remuneration and performance management practices.

Submission

The last 20 years experience in developed countries with liberal economic policies has seen a substantial widening of the remuneration gap between the most senior levels and be lowest levels of organisations. For example, as shown in the attached graph, in the US during this period, the share of the nation's income that goes to the top 1% has doubled from 10% to over 20%. Experience in Australia has been similar.



Source: *The New York Times*, 29 March 2007

Boards of corporations find themselves with a difficult dilemma to resolve: do they resist demands of powerful chief executives for unreasonable remuneration packages? Or do they take a less difficult course, rationalising the decision on the basis that the total paid to the top few executives is still a small proportion of the total remuneration costs of the organisation? Generally, they opt for the latter.

The registry of large organisations is dominated by institutional investors and these shareholders are reluctant to engage in controversy. They prefer exercise their influence through buying and selling on the market, rather than fulfilling their shareholders' obligations through active participation at general meetings.

Proposals for Consideration by the Commission

1. Amend the Corporations Act to require all public companies and all large private companies to pass a Remuneration Resolution at each Annual General Meeting.

   The Remuneration Resolution, at a minimum, should contain the following:
   - A remuneration report for the most recently finished financial year (as is currently required for listed companies).
   - The remuneration policy for the current financial year which, at a minimum, includes the value and structure of the total remuneration of the top 10% of staff in the organisation and the bottom 10% of staff in the organisation.
   - Details of the total remuneration for the top 10 executives in the organisation, including an assessment of the likely net present value of bonuses, and other remuneration devices, such as shares, share options, or warrants.

2. Amend the Corporations Act to require all substantial shareholders (those with a shareholding of 5% or more of the issued capital) to vote on the Remuneration Resolution, either in person or by proxy.

3. The Remuneration Resolution must be passed as a binding, ordinary resolution of shareholders.

4. Where the total remuneration of the top 10% of staff is greater than 10 times the total remuneration of the bottom 10% of staff, the remuneration resolution must be passed as a binding, *special* resolution of shareholders.

Such an approach would allow boards (with shareholder approval) of companies in competitive industries, to pay high remuneration packages that might be required to attract the appropriate talent. Highly profitable companies can still pay high remuneration packages, as long as they are equitably distributed across the workforce. In difficult industries, boards would think carefully before taking the resolution to the AGM, due to concerns that it may be rejected. This would place downward pressure on salaries in poorly-performing companies. The owners of the company would share the responsibility of ensuring levels of remuneration appropriate to the company's business.

Yours faithfully,

Donald Hector BE PhD FIChemE FIEAust FAICD CEng