

PRODUCTIVITY COMMISSION EXECUTIVE REMUNERATION INQUIRY

Submission from Norman West

Introduction

My main interest is in the areas affecting small retail shareholders. I would like to address three issues – reasons behind shareholder concerns, voting on remuneration-related resolutions and shareholder engagement.

Shareholder Concerns

The supporters of current high levels of remuneration appear to be happy to focus the debate on the levels of executive remuneration which enable them to dismiss deeper concerns. It also allows them to dismiss criticisms on the following grounds-

- a. The average shareholder doesn't have enough knowledge to decide on remuneration levels
- b. Boards are the best judges
- c. If Boards have consulted expert remuneration consultants the decisions cannot be questioned.

This approach insults the collective intelligence of shareholders and avoids looking at other issues, particularly Board sensitivity to votes on remuneration reports. Most negative reactions are concerned with excessive undeserved pay but I'd like to raise the following examples where other criticisms can be raised.

- a. Board Sensitivity – Oxiana/Oz Minerals. Here the shareholders rejected the termination payments. The Board then tweaked the termination payments so that shareholders had no say. This was an example where the Board completely ignored shareholder opinion and is a strong enough example to reject any assertion the Boards are "sensitive".
- b. The Australian ethic of "The Fair Go" – Pacific Brands. It was not the level of remuneration here. The outrage was that executives could receive increases while 1800 jobs were lost. This was hardly "fair" and indicated a Board with no social sensitivity.
- c. Undeserved in Relation to Achievement – Transurban, Babcock and Brown – where high pay did not result in a good result for shareholders.
- d. Excessive by Anyone's Standards – numerous examples, Babcock and Brown, Telstra, Macquarie Bank. Apart from questionable performance these figures do not compare favourably with BHP or the Prime Minister. However they were approved by Boards.

The point is high pay for high performance may be acceptable but high pay for poor, undeserved or destructive performance cannot be overlooked.

Remuneration-Related Resolutions

Recommendations 4 and 6 are strongly supported as they eliminate any conflict of interest and inhibit people from voting on resolutions that they have drafted and already approved. It should greatly improve the quality of remuneration because there is no

guarantee of support. Unless there is some other conflict of interest there is no need to extend the recommendation to other proxy holders.

Shareholder Engagement

Draft Recommendation 14 and 15 are strongly supported with the retention of “show of hands” voting for 14. Some companies refuse to have a “show of hands” with the paper based ballot and may use electronic voting in a similar manner. Thus when a contentious report such as remuneration is discussed by an antagonistic meeting and the Chairman knows they have the required proxies the “show of hands” is not used which avoids a public rebuke. This is frustrating for shareholders and does not improve engagement particularly if shareholders have made the effort to attend the meeting to express their displeasure. Thus I request that the “show of hands” voting be retained for all resolutions (but especially remuneration) and the result recorded in the minutes. It is not time consuming and cost neutral. The Chairman then has the option of declaring – The resolution is passed/lost on the show of hands and the proxies.

Or

The resolution is passed/ lost on the show of hands but passed/lost by the proxies

Or

The resolution is passed /lost on the show of hands and we await the final result from the paper ballot or electronic voting.

Recommendation 15 has been criticized as “unworkable”, “undemocratic” and “destabilizing”.

It is eminently workable. Companies have 12 months to develop a sound remuneration policy. With a no vote of 25% or higher the company has another 12 months to improve it. That is two years work. If it is still unsatisfactory the Board is accountable.. Even then the Board goes to a normal election and can be re-elected. That is democratic. It is argued that 25% is not democratic as 75% support it. This is not correct due to the issue of undirected proxies. Secondly its not a win- lose situation. It simply says you have 12 months to try to do better. This recommendation does give the shareholders more influence and the 25% threshold should be maintained for the second stage.

Two failures and the Board should stand at an EGM held 3 months from the AGM. Clarification is needed – is the 25% of votes submitted or 25% of the potential vote.? I would support 25% of the votes submitted as this encourages and rewards active shareholders.

Lastly, what happens if the Board is returned? I think the issue has to be finalized (sometime) so the new Board should be allowed to pass or renew the remuneration then start the process again. They should be “sensitive” to the overall issues by that time.

Norm West