

SUBMISSION TO THE PRODUCTIVITY COMMISSION ON EXECUTIVE PAY

I am a small shareholder in many companies.

I strongly support the 'two strikes' provision, where consecutive votes against executive pay will cause a spill of board positions.

I strongly support this provision being triggered at a low level – at 25% against, or even lower.

The reason for this is that there is clear market failure in the current structure of shareholder votes and boards, leading to runaway executive pay.

Overwhelmingly, I, like many other small shareholders, vote against executive payrises (this is usually euphemistically titled 'adopting the remuneration report').

But usually, proposals to increase board pay pass because large institutional members such as superannuation funds, simply vote for executive payrises, or do not vote at all.

The problem is one of pure agency. Large superannuation and pension funds are simply not put under pressure by their members to act in their interests (many of whom are unaware of who they are ultimately investing in) and accordingly, fail to pursue members interests by voting down executive pay.

The difference between small investors (who know its their money that is going to be spent on the payrises and vote 'no') and the large investors, who don't care and vote either 'yes' or abstain, couldn't be clearer.

This situation contributes to the extremely 'clubby' nature of Australian business, where there are deep personal connections between board members, and large investors, and a reluctance to reduce pay and punish those who are not performing.

Having a strong 'two strikes' rule, with possibly an even lower trigger than 25% would at least grant some power to that growing minority of investors who are outraged at continuing increasing executive pay, and would like to do something about it. At the moment, these people are stymied by the large institutional investors, who refuse to take any action.

If the Productivity commission does not advocate a strong 'two strikes' rule with a low trigger, then we will continue to see the outrageous explosion in executive pay we have seen to date grow even worse.

David Beattie

Melbourne 11th November 2009.