

# Executive Salaries

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AUSTRALIAN DEMOCRATS ACTION PLAN  
EXECUTIVE SALARIES  
TAXATION FINANCE & CORPORATE AFFAIRS

*Executive remuneration materially affects investor and public confidence and faith in the credibility performance and governance of corporations and the market.*

*Executive remuneration has been a matter of great public interest because the greed of some directors and executives caused a public outcry and contributed to company failures and market shocks. It has been a matter of great private interest because shareholders in a number of companies felt greedy insiders had taken an opportunity to devise extravagant remuneration and retirement packages. The Democrats are proud to have helped significantly improve governance in this area.*

## Steps taken so far

*"We want to see Macquarie Bank's remuneration more in line with its international investment banking peers (not "in the same broad range" as claimed in the annual report), and also more in line with Australian community and shareholder expectations"*

**Mr Stephen Matthews**  
**Deputy Chairman,**  
**Australian Shareholders**  
**Association**

Strong campaigning and advocacy by the Democrats, and many others, has seen the following improvements in the determination of executive remuneration:

- The corporate world resisted disclosure of executive remuneration in the annual directors' report. The Democrats and Labor forced it into Corporations law, where it is now well established;
- Australian accounting standards now require much improved standards for remuneration disclosure in the financial report;
- The ASIC and ASX regulators have campaigned for higher standards and shareholders, institutions and the media are demanding accountability;
- The Democrats campaigned for votes to be taken. Non-binding shareholder voting on executive remuneration is now in Corporations law;
- Many boards have tightened up their contract negotiations to ensure executive and board remuneration benefits and retirement packages specify risk and performance criteria, and are geared to the longer term.

## Our Action Plan

- Further amend the Corporations Act to require board members remuneration, benefits and retirement packages, including those of executive directors, to be subject to the binding vote of shareholders. This is a natural extension of the Board being elected by the shareholders and responsible to them;
- Amend the Corporations Act to require companies to disclose all direct and indirect benefits, and accruing retirement benefits, to executives and directors;
- Investment and superannuation funds hold shares on behalf of investors. Require them to exercise their fiduciary duty and to exercise a vote in three areas: constitutional resolutions, the election of directors, and on the remuneration, benefits and retirement packages of directors.



Other ACTION PLANS are available online at  
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## The Issues

The problem with excessive or unwarranted executive and directors remuneration benefits and retirement packages was that the system allowed insiders to unjustly enrich themselves at shareholder cost. Despite considerable improvements in law, disclosure and governance, the system still does allow that to happen.

For a start the law does not prohibit arrangements where there is a conflict of interest. Good governance should require it, but that is up to the particular board. Those who benefit from devising clever, complex, costly remuneration, benefit or retirement packages are often the very people who then vote on them at board meetings. It is a myth that executives do not influence such matters. One in five directors is an executive. Overall, in approximately two-thirds of companies, the CEO chairs the board.

If shareholders do get a vote, the chair holding proxies that can be voted at his or her absolute discretion (another problem with the law), can simply ensure the remuneration vote is passed.

Some company constitutions and practices allow for a self-perpetuating system that makes it difficult for shareholders to change board personnel and practices. The Democrats have initiated the 2007 Joint Parliamentary Senate Committee on Corporations and Financial Services' inquiry into Shareholder Engagement and Participation which is inquiring into the engagement and participation of shareholders in the corporate governance of the companies in which they are part-owners. The inquiry focuses on barriers to effective shareholder engagement, best practice corporate governance mechanisms, the effectiveness of mechanisms for communicating with shareholders and whether there is a need for legislative or regulatory change. This inquiry will revisit the non-binding shareholder vote on executive salaries and other issues arising from it.

The key to good remuneration practice has to be governance and ethical systems that prevent the conflicts of interests and collegiate conspiracy that allow some corporate insiders to unjustly enrich themselves at shareholders expense.

Good corporate democracy is the key to corporate governance. The Democrats believe that democratic mechanisms need reinforcing in corporations: best practice regular elections; compulsory voting in set instances; representative bodies; independent people; appointments on merit; the separation of powers; and transparency, accountability and full disclosure. Poor corporate governance is bad for productivity and profitability. It creates situations where major conflicts of interest, mismanagement, impropriety and even corruption can go unchecked.

One current example serves to indicate how contentious remuneration matters still are. In 2007 Macquarie Bank faced a protest vote from shareholders of 21.44% against directors' remuneration packages. This shows that shareholders are embracing their right to question high executive salaries. In July 2007 it was reported in The Age that CEO of Macquarie Bank Allan Moss had a salary increase of 58% since the last year and his pay was the equivalent of 335 doctors, 669 teachers or 747 times the average Australian worker. Unions NSW secretary, John Robertson said executive pay increases are in the vicinity of 120% to 150% while working people are getting rises of only 4%.



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