



**“Reports show executive pay rates still rising”**

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**ALI MOORE, PRESENTER:** In the depths of the financial crisis much was said about corporate excess and the need to more closely link executive pay to performance. But annual reports released in the past couple of weeks revealed pay rates continue to rise at a time when profits for some companies have been all but wiped out. Shareholders are also voicing their displeasure and some directors may pay with their jobs at next month’s annual general meetings. Andrew Robertson reports.

**ANDREW ROBERTSON:** Company profits have taken a battering in recent times, but some chief executives it seems are immune.

**ERIK MATHER, REGNAN:** If we keep doing the same thing, we're going to get the same outcome, that is: community dissent.

**ANDREW ROBERTSON:** And three cases in the last couple of weeks are fuelling the latest outbreak of dissent. BHP Billiton's earnings plunged 62 per cent last year, Marius Kloppers pay jumped 51 per cent. At building product supplier Boral profits slumped 42 per cent, pay packet of outgoing boss Rod Pearse leapt 72 per cent thanks to a \$4 million end of service reward. While at Qantas full-year earnings thudded back to earth with a loss recorded in the second half, former CEO Geoff Dixon walked out the door with \$11 million for five months work. It's a situation that's hard to defend, and corporate governance expert Erik Mather believes directors who approve such payments will pay a price when they next face their shareholders at their annual general meeting.

**ERIK MATHER:** We'll have two things that share owners will be doing. They will be bringing out the rubber bullets which will be the non-binding vote in relation to remuneration report but also in some cases they're going to bring out the high-calibre bullet which is going to be a vote for directors. It's going to be a fascinating voting season following what we've seen.

**ANDREW ROBERTSON:** Many company directors gathered in Sydney today to hear Wesfarmers chief executive Richard Goyder, who understandably chose his words carefully on what's a very sensitive issue.

**RICHARD GOYDER, WESFARMERS CEO:** What gets reported is a lump sum, and people automatically assume, oh, that's what that person took home. Of course, the reality is usually there's a significant amount of tax paid, a significant component of a lot of executive salaries, not just CEOs, but executives these days is in equity, and that is at risk and some of that may or may not vest. So the actual take-home salaries of people can be considerably less than what is reported.

**ANDREW ROBERTSON:** Mr Goyder also pointing out that the contentious areas of the pay packets of people like Geoff Dixon and Rod Pearse were put in place well before the global financial crisis. It's a view shared by remuneration consultant John Egan.

**JOHN EGAN, EGAN ASSOCIATES:** The setting in which these negotiations took place was after a period of many years of highly bullish share market, everything was growing, things looked pretty rosy and boards in many instances signed hot property, in terms of CEOs and other executives, to very attractive contracts in order that they wouldn't be lured away.

**ANDREW ROBERTSON:** But times have changed, and John Egan believes pay packets on the whole are starting to reflect that.

**JOHN EGAN:** Many of the leading companies have revealed in the annual reports that salaries have been frozen, that bonuses are not being paid because profits are down and shareholders haven't received the return on their investment or the value of their investment has declined.

**ANDREW ROBERTSON:** That may be true, but Erik Mather believes for the controversy around executive pay to go away, a totally different approach is needed.

**ERIK MATHER:** We need to have remuneration paid over a five, 10-year timeframe to get things moving, and also a lot more remuneration in the form of equity, not because it's a magic bullet, but what it does mean is if the shareholder experience - in terms of share price – goes down, that executive will be more exposed than what they are today.

**ANDREW ROBERTSON:** Erik Mather and John Egan also believe directors could help themselves and their shareholders by doing a much better job of explaining the rationale behind the pay deals which seem so excessive.

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