Submission on the Public Governance, Performance and Accountability Amendment (Executive Remuneration) Bill 2017

This submission is from Professor Reza Monem. I am a professor of accounting at Griffith University. However, I am making this submission in a personal capacity. The views expressed in this submission are purely my personal views.

I have strong research expertise in the area of corporate governance, especially in executive remuneration. I am the pioneer in providing the first piece of empirical evidence on Australia's "two strikes" on corporate executive remuneration. I have PhD supervision experience on executive remuneration. I have also written on this topic in the online social engagement forum THE CONVERSATION.

I would like to make comments on two aspects of the bill: (1) the method of calculating the maximum remuneration and (2) the reporting of executive remuneration.

Method of calculating the maximum remuneration.

I really like the idea of capping the pay at five times of the average employee pay of the Commonwealth entity or company. In recent years, the controversy surrounding executive pay has been the exponential growth of executive pay relative to average employee pay. Hence, capping the senior executive pay at five times is a step in the right direction in restoring community confidence in corporate governance. However, I have reservations about how this remuneration cap is formulated in the bill. In the determining AWE (average weekly earnings), Australian Bureau of Statistics (ABS) does not consider the rank or classification of the employees surveyed. If that methodology is adopted for the purpose of the bill, then the formula (1) in section 72A will make the senior executive pay creep up very fast over time. This will defeat the whole purpose of capping. Specifically, if AAWE includes all employees (including senior executives of the entity), then as senior executives' pay grows this year, it will experience a compounded growth in the next year even though the intended rate of growth is linear. For example, an entity has nine employees whose total annual earnings are $720,000 and it has one senior executive whose salary is $200,000. If the senior executive is included in calculating the AAWE, then the AAWE is $92,000. That is, next year (year 1) the senior executive could be paid a maximum of $460,000 ($92,000 X 5). Suppose, in year 1, the senior executive is actually paid $250,000. Then without any changes to other employees' pay, in the second year (year 2), the senior executive could be paid a maximum of $485,000 [= {($720,000+$250,000)/10} X 5]! This process might lead to exponential growth in senior executive pay. To stop this process, **I would recommend that, in calculating the AAWE, executive remuneration for senior executives be excluded altogether.**

Reporting of executive remuneration

I think section 93B of the bill is seriously inadequate. Several Commonwealth entities are profit-making entities. If senior executives are paid a performance bonus or other incentive-based remuneration, then the incentive schemes and the basis for payment under those schemes should be reported. At the same time, the total remuneration should show a breakdown of each category of remuneration (fixed or variable, at-risk, short-term or long-term, superannuation, benefits in kind, etc.).

If a Commonwealth entity is service-focused, then any incentive-based remuneration should be linked to the KPIs of the entity. Specifically, disclosures must be made of the KPIs for senior executives, how they are measured. and how the pay is related to any or some of the KPIs.

*****************End of Submission***