This submission relates to disadvantage, and the gap trend between rich and poor, increasing steadily over the last 4 decades.

One of the key issues and one shrouded in business silence, is the issue of Senior executive salaries, being out of control

This area of obscene reimbursement, is a classic example of power and camouflage, with both the research and common-sense stating reimbursement is out of control, and key power brokers in setting public policy, e.g., Board directors, recruitment consultants, and Parliamentarians, are all linked in avoiding this equity issue.

Overview

- Stop paying bonus and performance pay packages, and pay a simple annual salary for chief executives and senior management. The recently announced Health reforms provides a further opportunity to address the obscene salaries paid to senior staff. The research by Swiss behavioural economist Professor Ernst Fehr, and the United Kingdom High Pay Commission, also the Harvard Business Review group and the excellent 2019 book by Deborah Hargreaves (impeccable credentials), *Are Chief Executives Overpaid?* confirms there is little value in performance and bonus payments, yet this approach dominates senior executive remuneration. Reform is long overdue, and City Councils and Government agencies need to begin the change!

Executive Pay: Not fit for purpose, shape the new future!

Covid 19 provided the chance to both highlight and expose the hypocrisy and sheer greed of the salaries paid to senior management and Chief Executive Positions.

The great work by staff working at the coal face, customer contact and service at its best, illustrates how the world has got it wrong, over -rewarding the back room, the planners and senior management positions.

The CEO has little individual effect on performance in difficult times, and in good times its an easy steer.

The NZ evidence shows the gap between rich and poor since the 1980's has continued to increase, at the same time as the trend in executive pay from a reasonably high middle-class salary to untold riches has unfolded. One dominant factor in this has been performance related pay and the incentives built around it, resulting in an obscene pay bonanza.

Sadly, the research strongly points those incentives often don't work, are often not monitored, and are mostly unnecessary.

Covid 19 post economic recovery, all CEO salaries should be paid at base salary level and all State Sector and local government salaries should be lowered by 20%, and a Task force established to look at remuneration principles for both Public and private sector application.

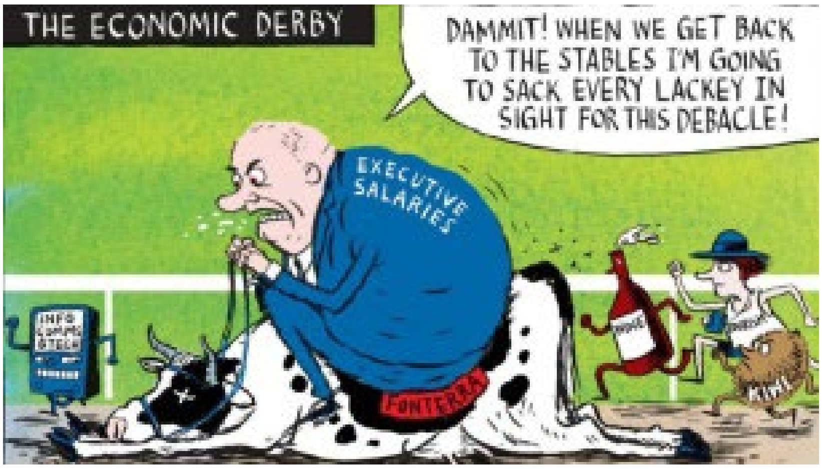
New Zealand has blindly followed the United States model of remuneration over the past 40 years, and boards and recruitment consultants have together camouflaged discussion on what is fair reimbursement for quality leaders, relying on the ill-conceived "market forces" as an excuse for poor logic, lack of knowledge and gross over payments.

Recruitment consultants are often paid a percentage of the first year's salary package, providing an incentive to push payments higher, and Remuneration bodies have restraints and appointment relationships which counter independent choices

A 2019 book by Deborah Hargreaves (impeccable credentials), *Are Chief Executives Overpaid?* describes the experience in Britain, coming to the conclusion the system is rigged in favour of wealthy elites, with corporate performance having little to do with remuneration.

Soaring top pay and stagnating wages for the workforce and front-line operators is self-evident, but the public have felt powerless to do anything about it. At Anglo-Us oil major BP in 1979 the boss was paid $143,334 (just over $500,000 on today's rates). By 2011 the package had arisen to $4.4.5 million, 4 years later to $19.6 million. The ratio at the company between top pay and the average leapt from 16 to 1 in 1979 to 63 to 1 in 2011 and 148 to 1 in 1916. Don't you get the feeling the 1979 ratio was about right!

In the United Kingdom the ratio between average chief executive pay and employee pay in 1998 was 48 to 1; in 2016 it had risen to 129 to 1. Japanese chief executive pay, by contrast, is about a tenth of US levels.



Cartoonist Sharton Murdoch highlighted unrest with Theo Spierings' pay rise in 2015 against a background of lay-offs.

The excuse used internationally and in New Zealand – that pay is set because of "a global war for talent" – is rebutted by Hargreaves, who shows only 1 per cent of firms had poached a boss from abroad. Hargreaves 134-page book rips through the camouflage and rhetoric supporting obscene pay levels.

Former Reserve Bank of Australia governor Bernie Fraser has recently come out swinging, stating that executive pay at the big four Australian banks is out of control, and criticising the bonus culture, imported from the US, labelling it a terrible development. Remember Sir Ralph Norris and his 16 million dollars pay packet and that was over 10 years ago, for being an Australian Commonwealth Bank CEO. Common sense tells you; this is a remuneration world gone mad!

The work by Swiss behavioural economist Professor Ernst Fehr, research conducted by the United Kingdom High Pay Commission, and work out of the Harvard Business Review group confirms there is little value in performance pay incentives, yet this approach dominates chief executive remuneration.

Steven Clifford, a US commentator, calls the problem "the CEO pay machine", and through both quantitative and qualitative analysis, concludes that CEO pay is nothing to do with actual performance, and is destructive to company operations.

This is what needs to be done:

- ***Stop paying bonus and performance pay packages, and pay a simple annual salary for chief executives and senior management.***
- ***Introduce a high marginal tax rate on all incomes over $250,000 a year.***

- ***Introduce pay transparency as a potent weapon to disclose pay ratios between senior management and employees.***
- ***Start talking down senior executive pay at government level. Government comments and interest in this area assists public education.***
- ***Look at introducing a formula to assist realistic and reasonable reimbursement. The Swedish formula of 12 times the lowest worker in the company is a good start; the NZ Tertiary Education Union says it should be no more than five times the lowest salary. My view is about 15-1 would be an acceptable average ratio, across Public sector and private business.***
- ***Establish a commission or working group to review remuneration rates and provide guidelines for fair and reasonable reward.***

With these steps, we can begin the needed adjustment to turn around the current excesses, and move both public sector and private enterprise board members to tackle the problem. Having actual knowledge of what the research over the last forty years states would be a good starting point

Alec Waugh MPP, BA Chairman of Kaspanz a consumer group formed to be a voice on retirement income issues. This submission is in my individual capacity