# Australia and the United States: A Comparison and Contrast of Corporate Governance Practices

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## Introduction

We begin with a brief comparative overview of the frameworks for executive pay in the United States (U.S.) and Australia. The U.S and Australia have regulatory bodies with many similar features. The differences between them arise mostly in terms of capital market and regulatory structuring. In the U.S., despite institutional investment being extremely popular, there is still a dispersed share ownership model (Hill, Masulis, & Thomas, 2010). On the other hand, Australia also has high levels of institutional investment, but the companies listed in the corporate sector contain a significant proportion of block-holder ownership (Hill et al., 2010). These stakeholder differences end up affecting the framework for executive pay somewhat, but historically speaking, both the U.S. and Australia have allowed market mechanisms to determine pay with limited legislative intervention.

Next is a comparative analysis of the structure and composition of United States and Australian boards of directors. A brief explanation of the respective regulatory bodies is presented, as laws and regulations provided guidance on some of the characteristics and requirements for public company boards of directors. Much of the guidance from Australia is presented in the form of recommendations, as opposed to the United States, which has specific requirements for board of directors. In both countries, board of director composition tends to be fairly homogenous in terms of education, professional affiliation, ethnicity, gender, and age.

### Executive Compensation in the U.S.

Despite the substantial gamut of compensation amounts for executives around the world, most packages contain some basic components. Standard elements of an arrangement are salary, annual bonuses, long-term incentive plans (LTIs), restricted option grants and restricted stock grants. Like much of the workforce they also receive contributions to pension plans and, depending on the situation, termination or retirement payments. The relative importance of this mix of components has changed quite significantly over time.

From 1936 to the 1950s, executive compensation in the U.S. was typically limited to salaries and bonuses. Like today, the bonuses were often performance-based and dependent on one or several financial reporting measures. LTIs didn’t make a splash in the executive pay world until the 1960s. These were often based on performance derived from multiple-year figures and paid out over several years from their distribution. During the 1980s and 1990s, stock options became immensely popular, surging to the highest percentage they had ever been due to their favorable taxation (Frydman & Jenter, 2010). It is no secret that there is an increasing climb in CEO pay, and a significant portion of it is driven by the increase in options used as compensation. Options as a form of payment took a dive in 2008 with the stock market crash, but have regained much of their luster in more recent years with the trade volume and stock prices at record-setting levels. The average CEO compensation of the top 350 firms was about $14.1 million in 2012, while CEO compensation for a public company was on average about $10-12 million (Mishel & Sabadish, 2013). From 1978 to 2012, CEO compensation measured with options realized increased about 875%, a rise more than double stock market growth and significantly greater than the 5.4% growth in a typical worker's compensation over the same time period (Mishel & Sabadish, 2013). Using the same measure of options-realized CEO pay, the CEO-to-worker compensation ratio was 20:1 in 1965, 29:1 in 1978, 123:1 in 1995, and peaked at 383.4:1 in 2000 (Mishel & Sabadish, 2013). In 2012 it was 273:1, which is still far greater than in previous decades. In relation to other high earner over the past 30 years, CEO compensation grew far faster than that of other highly paid workers. CEO compensation in 2010 was 4.70 times greater than that of the top 0.1% of wage earners and is not significantly less than that figure even today (Mishel & Sabadish, 2013).

If we turn our attention to the perks, bonuses and severance components of compensation, the picture is not quite as clear. Obtaining concrete information that yields significant relationships and convincing trends is difficult; much of this is due to insufficient disclosure in financial statements and an overall desire to downplay executive compensation due to its contentious and criticized nature. Dodd-Frank has aided in shedding some light on the issue. These forms of pay are sometimes called "stealth compensation," but it is also plausible that they have arisen due to an intelligent design plan (Frydman & Jenter, 2010). Perks on the other hand have only recently had consistent reporting. Evidence that they are granted was historically not eye-level, as shareholders react negatively when firms disclose perquisites or information spills cause executive lifestyles to be projected as ostentatious. In this way, they could be thought of as a signal of weak corporate governance. Average disclosed perquisites have increased nearly twofold since the SEC's disclosure rules enacted in December 2006 (Frydman & Jenter, 2010). A lack of empirical evidence for pensions and severance pay is even greater, and conclusions are difficult to draw. The reaction toward golden parachute payments has had a trend of positive stock market reaction. Each facet of executive compensation is, in principle, supposed to be based on the most informative indicators of whether the executive has acted in the interest of maximizing shareholder value (Frydman & Jenter, 2010). But in reality, because shareholders are unlikely to know which of those actions are truly value maximizing, incentives for executives are often directly based on the principals' ultimate shareholder value objective (Frydman & Jenter, 2010).

## Executive Compensation in Australia

Australia may be geographically positioned south of Asia, but without a doubt, it aligns much closer to the Western world in the context of cultural norms. The Australian governments, its legal and social frameworks were derived primarily from those of the U.S., U.K. and other western European countries. Where it follows these nations culturally, it also embraces many of the models of executive compensation and rewards used there as well; the similarities vastly outweigh the differences. The very structure of business enterprise and economy in Australia mirror them as well. This would include the stock exchanges and regulatory bodies. However, there are some key differences that have surfaced, which the Australians view as endearing and fostering to the business environment. After explaining the regulatory environment, a general landscape of executive pay in Australia and specific areas that differ from typical U.S. approaches to pay will be addressed.

Australia has what is called a “twin peaks” model of financial regulation where one regulatory body, the Australian Prudential Authority (APRA), is responsible for financial regulation, while another regulatory body, the Australian Securities and Investments Commission (ASIC), is responsible for business conduct and consumer protection (Hill et al., 2010). The framework has controls regarding executive pay that mix “black letter law” and principles of “soft law.” The hard or black letter law contains prescribed rules and is much less concept-based, where soft law principles operate on a more grey, “comply or explain,” or “if not, why not,” basis (Hill et al., 2010). A large proportion of Australia’s regulatory framework is due to a direct response to Enron and some similar Australian scandals. The AICD guidelines for CEO contracts distinguish three possible types: pure fixed term, maximum term, and indefinite term contracts (Hill et al., 2010). They recommend against the adoption of a pure fixed term contract as it can only be terminated for inappropriate conduct and may cause dissention later on.

A study by Hill, Masulis, and Thomas done in 2010 found, after creating pairs of U.S. and Australian firms matched on a number of dimensions including firm size and industry, that Australian CEOs have significantly greater base salaries than their U.S. counterparts. This basic component of salary is one aspect of compensation that is markedly different from the U.S. This finding held even after they converted Australian currency into U.S. dollars and excluded the cash value of Australian “perquisites,” which are lumped with cash compensation figures. Furthermore, the study found that the median and mean differences between the two were statistically significant. In general, American contracts were significantly more likely to include some form of equity based compensation in comparison to Australian contracts, but both were found equally likely to have contracts that include annual bonuses. The average CEO pay in Australia is approximately $2 million (2012) and if bonuses and options are included the figure, jumps to $4.7 million (Wilkins, 2013). Executive fixed pay has increased three times faster than the rate of inflation since 2002, and 70% faster than the average wage growth. Fixed pay has decreased over the last few years after it met more scrutiny following the global financial crises.

In 1986 the Australian federal government introduced a fringe benefits tax that was levied on employers for any benefits they provided to employees. The tax was designed in such a way that the cost for each $100 in after-tax cash the company provided, the cost of providing $100 worth of benefits was essentially equal (Berry & Johnson, 2008). The creation of this rule was meant to legitimize benefits that companies provided to its employees and to remove the financial incentive to use bonuses and extras in place of cash. Some of the benefits were exempt from this fringe benefit tax as were items such as employer provided cars and pension plan contributions. Where stocks and options are concerned, Australia more rigorously applies performance hurdles; a contract may include one, two, or even three performance hurdles that much be reached before the stock or option can be paid (Hill et al., 2010). This type of arrangement is called contingent vesting; the likelihood of using performance-vesting options was found to be positively related to the proportion of outsiders on the board and the presence of a new CEO (Hill et al., 2010).

Companies subsequently developed another response to the fringe benefit tax: executive choice. The response—addressing compensation arrangements—was for companies to quantify or define a fixed value of reward they were willing to pay executives, and then allow him or her to choose whichever type of package desired (Berry & Johnson, 2008). The perk benefit items had a specific value in the form of cost to the company and then the balance of the sum that was left came in the form of a cash salary. Executives could in this way elect to take majority cash salary or analogously choose the benefits-based package, which came with a lower cash salary. Initially, companies provided a fairly wide selection of benefits for executives to choose from; over time the range has generally been reduced as employers try to eliminate the administrative costs of benefits that offered no financial advantage (Berry & Johnson, 2008). The most common remaining forms of benefits are cars and pension plan contributions.

Of greater consequence, however, is the executive-choice approach, which has made it so companies do not make external reward comparisons based on a base salary, as may be done in the U.S. and elsewhere (Berry & Johnson, 2008). As executives structure their pay packages with the components they want within the parameters of a fixed value amount, base salary is reflective of what companies pay their executives, but also of the choices that those individual executives make on how to receive that pay. Increasingly, companies are not tracking the salary component, as it has become a sideline, "balancing" item in the compensation agenda. Most comparisons rationally are now conducted using the total fixed pay value as a data point. Subsidiaries operating in Australia with U.S. parent companies will typically still use a defined salary and benefit package, as adoption of the Australian approach has not garnered much popularity

Around the same time that the fringe benefit tax was introduced, the Australian government redefined requirements for benefit plans. The funds are referred to appropriately as superannuation plans. Like the much of the Western world, specifically the U.S., it was concerned that the aging baby boomer population was approaching retirement with insufficient resources and would rely on social security payments to fill in the gap. It decided to shift some of that burden to employers and employees for the future of its working population.

A radical change in superannuation legislation occurred in 1992 with the introduction of guaranteed superannuation contributions. It made it compulsory for employers to contribute to superannuation funds. Employers of 88% of all Australian workers, including executives, are required to make the contributions on the employees' behalf (Hill et al., 2010). The required contribution percentage has risen and been adjusted several times, but was at 9.25% as of July 1, 2013. Beginning in 2014, many employers are required to pay default contributions to an authorized product, one of the most popular being a "MySuper" annuation fund created in 2011 by the Australian government. The minimum obligation required by employers is set to increase to 12% annually from 2013 to 2020. The contributions are fully vested and must remain in their approved accounts until retirement of the individual, even if that person has since left the employer (Berry & Johnson, 2008). Around that time, Australia saw a major shift from defined benefit to defined contribution plans. Much like the U.S., it was due to several factors. The most prominent and pressing was the social security allotment issue, but advantages of the plan, such as their flexibility with fixed pay packages and investment return results, prompted many employers to adopt these defined contribution plans.

Insurance, unlike some other benefits many Americans receive from employers, has never been a significant element of Australian reward packages (Berry & Johnson, 2008). Superannuation funds have appropriations for life insurance with options to increase or decrease levels of coverage. Medical insurance is highly regulated in Australia, so companies cannot provide their own coverage for most employees (Berry & Johnson, 2008). The company can pay contributions to approved insurers, but there is no financial benefit to the company and the choice of insurers it has to choose from is quite scarce, so few companies adopt such arrangements.

The use of executive short-term incentives is quite mainstream in Australia. The incentives usually revolve around a performance test and have a payment period of up to 12 months (Berry & Johnson, 2008). The size of the short-term incentive (STI) has increased over time, particularly in the past two decades, from a small component of fixed annual compensation to widely becoming a significant portion. The proportion varies with the size of the firm and industry, as performance-based incentive structures seem to align better with some industries than others by nature. Amounts for senior executives can range from around 30% to the whole amount of a fixed annual reward. Performance-driven pay consummation of entire pay amounts can be seen in sectors like financial services and resources, where performance is often thought to be closely linked to strategic decisions executives face. Historically there was variation of the determination of short-term incentives; some plans were target-based with defined opportunity sizes while some were in the form of “bonuses paid retrospectively “ (Berry & Johnson, 2008). Hay Group now estimates that 75% of companies use a target based STI plan, with the amount of incentive payment floating from year to year based on the achievement of specific company targets. The targets could be set for a whole company, segment or perhaps for a business unit, but they are both to be agreed upon in advance along with the associated rewards. The most common measures for performance in target-based STIs are profit, return on capital, cost control, and the exhibition of key management behaviors (Berry & Johnson, 2008).

Australia has been shielded, to a degree, from the general recession that the economic crisis caused. Somewhat unlike the U.S. and Europe, consumer confidence remained fairly steady and the widespread failure of many businesses and markets was less profound. It has experienced economic growth and benefitted from the impact of strong commodity prices. Due to what appears to be absence of a lapse in general corporate performance, the talent market for executives is quite steady. The war for talent and performance has led to some micro trends; STI opportunities now include stretch performance targets and subsequent rewards due to upside opportunities (Berry & Johnson, 2008). There is also a small trend that is gaining some momentum regarding deferral of payouts to executives (Berry & Johnson, 2008). Deferring the payout of STIs can substantiate better retention of executives for a company. This is particularly important, obviously, in industries with limited talent pools. A noted difference in leadership terms can be seen in Australia, with the median length of an Australian contract in the Hill et al. (2010) study being just one year, while in the U.S. it is three years. Australian corporation code and ASX listing rules may explain the relatively low prevalence of change-in-control features for contracts.

Long-term incentives (LTIs) are an interesting component in practice in Australia. They are usually characterized by the use of time and performance milestones, but the more interesting thing is the involvement that shareholders have with these LTIs. Many shareholder groups have made performance hurdles almost a compulsory requisite for participation in LTI plans (Berry & Johnson, 2008). The goal here is clearly to mitigate the misalignment of goals between executives and shareholders. Although this is a practice, it takes an active shareholder group and also one that is large enough in terms of voting to ensure performance hurdles correlate to reward. Not all public companies’ shareholders have the time, desire, leadership and coordination to assure such measures be obligatory. Performance plans typically have time spans of three years; some firms use five (Berry & Johnson, 2008). The combination of performance and time hurdles for executives means that around half of all allocations for possible bonuses do not vest (Berry & Johnson, 2008). The design of these incentives for Australians must be carefully crafted as their impact extends well beyond a paycheck. Incentive allowances are represented on balance sheets and tax forms, and have impact on the executives’ tax regulations. Additionally, users of financial statements deserve to have them visually represented and disclosed. If the LTIs are improperly designed, they can result in unwanted tax consequences for the executive, which may affect retention. It also affects the impact of the suitability that overseas LTIPs have on Australian executives.

The majority of LTI plans use a relative total shareholder return (TSR) measure, which is a combination of share price appreciation and dividends paid (Berry & Johnson, 2008). These metrics are used as a reference point when comparing TSR to other companies. In more recent years (less than a decade), a change in LTI approach has caught on with performance-driven share plans replacing stock option plans. Stock options declined to become a minority of executive reward packages with performance driven counterparts grew in their proportions (Berry & Johnson, 2008).

Governance requirements concerning executive pay disclosure in Australia are similar to those in the US. Listed companies must include a remuneration report in their annual reports that discloses all director remuneration amounts and types for the past year, along with more detailed pay information for key executives—usually five or more (Barney, 2009). A public company's annual report must also give details of its reward philosophy and policies including incentive plans and performance criteria. Share-based equity payments must be disclosed in agreement with International Financial Reporting Standards (IFRS); this includes past awards where options have not yet been exercised. A non-binding shareholder vote is required for the acceptance of the remuneration report at the annual shareholder's meeting. Governance guidelines have dictated that 12 months pay should be the maximum termination payment for dismissed top executives; this is, however, a non-binding guideline. Listed companies are prohibited from making termination payments linked to change-in-control (CIC). This exists as an attempt to prevent CIC payments from being used by management to discourage takeovers with a poison pill. Payments are allowed to be made following a CIC, but only if triggered by factors that would hold true in other situations, for example, the termination of the executive (Barney, 2009).

While strong similarities exist amongst the approaches to executive compensation in Australia and the U.S., there are still some important, distinguishable differences. The differing structures of fixed pay practice make the use of base salary and total cash for market comparisons in Australia potentially misleading. The Australian regulations on company superannuation plan contributions make it a very tax effective component of income. There is generally a somewhat smaller proportion of overall pay provided as STI and LTI in Australia when compared to the U.S. Shareholder requirements in Australia have significant performance benchmarks that result in a high risk of LTIs not vesting. Lastly, because Australian LTI provisions can result in taxation before vesting, the architecture of these plans should be carefully considered. Overall the fundamental philosophies of reward and pay that govern U.S. organizations can be applied in Australia with some adjustments to components of compensation structures. The adjustment of mechanics is vital to a correct and competitive market comparison and related decision-making.

## Conclusions

In summary, there are a number of similarities between CEO employment contracts in the U.S. and Australia. We also find some interesting differences in contract features, not only in terms of mediums for compensation, but also with respect other contract terms such as contract length and restrictions on CEO actions that stakeholders might react differently to.

Some of these differences appear to be explained by visible differences in the legal and regulatory environments. Things like the low rate of change-in-control provisions and contract lengths in Australian seem to be a result of the systems. Other differences include substitution of one form of performance-based compensation for another, varying nationally, across industries and firm size. Some observed differences, however, require further speculation and study. We have to consider whether institutional differences such as tax codes, institutional ownership levels, power distance, boards of directors, or many other nuances of corporate governance are the main determinant for the terms of such contract provisions.

## Boards of Directors – Regulatory Bodies

The Australian Securities & Investments Commission (ASIC) acts as Australia's corporate regulator, and is an independent Australian government body. The role of the ASIC is to enforce and regulate company and financial services laws that protect consumers, investors, and creditors. ASIC was established through the Australian Securities and Investments Commission Act 2001, also known as the Corporations Act 2001 ('Corps' Act). As required by the Corps Act, the ASIC has the responsibility to:

- Maintain, facilitate and improve the performance of the financial system and related entities
- Promote confident and informed participation by investors and consumers in the financial system
- Administer the law effectively and with minimal procedural requirements
- Enforce and give effect to the law
- Receive, process and store, efficiently and quickly, information provided to them
- Make information about companies and other bodies available to the public as soon as practicable

The ASIC has three strategic priorities. First is a focus on ensuring investors and financial consumers are informed and confident. Gatekeepers, including auditors, directors, advisers, custodians, product manufacturers and distributors, are expected to be accountable for their actions and the information they provide. Second is a priority to ensure fair and efficient financial markets. The ASIC has the responsibility to supervise the Australian Securities Exchange (ASX) and believes that good corporate governance is an essential component of the regulatory framework in place in equity markets. The third priority is efficient registration and licensing. These three strategic priorities are in line with the functions of the ASIC. As a consumer credit regulator, the ASIC ensures licensees met the standards that are identified in the National Consumer Credit Protection Act 2009. As a markets regulator, the ASIC assesses how effectively authorized financial markets are complying with their legal obligations to operate fair, orderly and transparent markets; and as a financial services regulator, the ASIC licenses and monitors financial services businesses to ensure they operate efficiently, fairly, and honestly.

In response to the financial collapses in Australia (HIH Insurance, One.Tel, Harris-Scarfe), Australia enacted "Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (CLERP 9)" (Gabel, Mansfield, Von Nessen, Hall, Jones, 2010). CLERP 9 is intended to rebuild the integrity of the audit system by emphasizing and assuring auditor independence.

The Australian Securities Exchange (ASX) is one of the world's top 10 listed exchange groups, comparable to the New York Stock Exchange, the London Stock Exchange, and the Deutsche Boerse. ASX Compliance, which is a subsidiary of ASX, is responsible for monitoring and enforcing ASX-listed companies' compliance with ASX operating rules and promotes standards of corporate governance among Australia's listed companies. The ASX Corporate Governance Council has developed Corporate Governance Principles and Recommendations (ASX 2nd edition) that are designed to promote investor confidence and to assist ASX listed entities in meeting stakeholder expectations. The corporate governance principles are as follows:

- Principle 1 – Lay solid foundations for management and oversight
    - Companies should establish and disclose the respective roles and responsibilities of board and management
- Principle 2 – Structure the board to add value
    - Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties
- Principle 3 – Promote ethical and responsible decision-making
    - Companies should actively promote ethical and responsible decision-making
- Principle 4 – Safeguard integrity in financial reporting
    - Companies should have a structure to independently verify and safeguard the integrity of their financial reporting
- Principle 5 – Make timely and balanced disclosure
    - Companies should promote timely and balanced disclosure of all material matters concerning the company
- Principle 6 - Respect the rights of shareholders
    - Companies should respect the rights of shareholders and facilitate the effective exercise of those rights
- Principle 7 – Recognise and manage risk
    - Companies should establish a sound system of risk oversight and management and internal control
- Principle 8 – Remunerate fairly and responsibly
    - Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear

The entities are required to benchmark their own corporate governance practices against the Council's recommendations, and where they do not conform, disclose that fact and the reasons why. This type of reporting has been identified as "if not, why not" reporting. Effective "if not, why not" reporting practices involve 1) identifying the recommendations the company has not followed; 2) explaining why the company has not followed the relevant recommendation; 3) explaining how its practices accord with the "spirit" of the relevant principal, that the company understands the relevant issues and has considered the impact of its alternative approach.

The Foreign Investment Review Board states that by Australian standards, a good corporate governance system is one that:

- Has a formalized the functions reserved to the board and those delegated to management.
- A majority of the board would be independent directors. The chairperson would also be an independent director.
- The chairperson and the Chief Executive Officer would not be the same person.
- An established code of conduct for company officers.

- An established trading policy for company officers.
- An established audit committee.
- Established practices for the oversight and management of material business risks.
- An established remuneration policy for executives and non-executive directors.

In the United States, the U.S. Securities and Exchange Commission (SEC) is an agency of the federal government that has primary responsibility for enforcing federal securities laws and regulations of the securities industry, exchanges, and markets. Its mission is to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation. The SEC enforces the Sarbanes-Oxley Act of 2002 (SOX). SOX is a United States federal law that set new or enhanced standards for all U.S. publicly company boards, management and public accounting firms. SOX impacts the relationship between auditors and public companies, and corporate governance practices that touch on financial reports and internal controls (Gabel, Mansfield, Von Nessen, Hall, Jones, 2010). The law was enacted after several major corporate and accounting scandals (Enron, Tyco, WorldCom) took place and greatly impacted confidence in U.S. securities markets. There are penalties for violating the provisions of SOX. It has eleven sections, identified as follows:

- Title I – Public Company Accounting Oversight Board
- Title II – Auditor Independence
- Title III – Corporate Responsibility
- Title IV – Enhanced Financial Disclosures
- Title V – Analyst Conflicts of Interest
- Title VI – Commission Resources and Authority
- Title VII – Studies and Reports
- Title IX – White Collar Crime Penalty Enhancements
- Title X – Corporate Tax Returns
- Title XI – Corporate Fraud and Accountability

SOX is intended to protect investors from possible fraudulent accounting activities by corporations. The act enhanced auditor independence, and requires the board of directors to identify an audit committee. SOX also established a Public Company Accounting Oversight Board (SOX, Title I, Sec. 101) in order to ensure that audit reports for public companies are independent, informative, and accurate.

## Board of Directors – Structure and Composition

The Corporations and Markets Advisory Committee (CAMAC) has defined the role of boards in Australia as "to direct a company on behalf of the shareholders…setting the strategic direction and aims of the company, providing resources for their implementation, and directing or overseeing the management of the company's business and compliance with its obligations" (Hill, 2010). This is supported by the ASX Corporate Governance Principals (ASX 2nd Edition) which provides a wide-ranging list of board responsibilities.

In 2008, Korn/Ferry International and Egan Associates (Korn/Ferry, 2008) provided a report from their study of the annual reports of leading companies in Australia that were released prior to December 2007. The Australian companies included in the study were the ASX Top 300, ranked by revenue and market capitalism. Reports on the board composition and governance structures by Korn/Ferry International (Korn/Ferry, 2008) indicate that Australian boards have an average of nine directors. Board size tends to increase in proportion to revenue. On average, 74.1% of the directors are non-executive directors. The proportion of non-executive directors increases with company size. Men hold an overwhelming majority of director positions, comprising 91.7% of the board. The average age of all directors is 53.

The ASX corporate governing principles recommend that the listed companies establish several committees, including a nomination committee, remuneration committee, and audit committee (ASX 2nd Edition; Hill, 2010). 95% of the ASX Top 300 have an audit committee, 88% have a remuneration committee, and 31% have a nomination committee.

It has been noted that listed Australian company boards tend to be homogenous groups in terms of gender, age, ethnicity and educational and professional background (Hill, 2010). The ASX corporate governance principals (ASX 2nd Edition) address this issue by requiring listed entities to disclose, as part of their annual report, a range of matters concerning diversity. This includes the entity's achievement against gender objectives adopted by the board. Board diversity is closely related to the board appointment process. An election of directors must be held each year (ASX Listing Rules), and a director must not hold office beyond a three-year period without re-election by shareholders. Contested elections are rare, with most new appointments initiated by existing board members or the chairman. However, the power of shareholders to remove directors from office is a very important governance mechanism in Australia. Section 203D of the Corporations Act 2001 ('Corps' Act) grants shareholders of a public company the right to remove directors from office at any time, with or without cause. Section 203E of the Corporations Act 2001 prohibits removal of a director by the other board directors. This provision means that shareholders continue to remain responsible for removal of directors in a public company.

Independence of directors continues to be an important component for Australian boards. This links directly back to Principal 2 of the ASX corporate governance principles (ASX 2nd Edition). Recommendation 2.1 of Principal 2 states that "[a] majority of the board should be independent directors." An independent director should be a non-executive director, not a member of management, who is free of any business or other relationship that could materially interfere with the independent exercise of their judgment (ASX 2nd Edition). The chair of the board should also be an independent director, and the chair and the chief executive officer should not be the same person.

An empirical study by Reza M. Monem (2013) found significant differences between Australia and the United States in terms of the corporate legal environment (US has a higher litigation risk), ownership concentration (higher in Australia), firm size (US has significantly larger firms) and labor market conditions (Australia highly unionized, with the unions playing an active role in management monitoring and shareholder activism). These differences, then, lead to differences between the governance practices of the two countries. Mozem found that in Australia, board size and board independence increase with firm size, while duality decreases with firm size. In the United States, the board chair and CEO roles are often combined in large firms, and in fact, duality increases with firm size. The opposite is true in Australia. The United States corporate world values wealth creation and profitability, and often rewards successful CEOs by placing them in a board leadership position. On the board, the CEO has more of an advisor role rather than a monitor role. In Australia, on the other hand, investors are suspicious of corporate insiders, and value a monitoring role on the board rather than an advising role. Australian boards are more likely to be independent, larger, and more distinct from the CEO.

Australia and the United States each have laws and guidelines in place that guide board of director composition and structure. The average board in Australia has nine directors, while the

United States has a minimum legal requirement of five directors (likely to be 7 – 11 directors). Independence is valued in both countries, but due to differing corporate cultures, Australian boards have a tendency to be more independent than United States boards. Per the Australian ASX corporate governance principals (ASX 2nd Edition), each board should establish committees such as an independent audit committee, nomination committee, and remuneration committee. In addition to these committees, the United States also recommends, and in some cases requires, a risk committee. Duality, where the CEO is also the Board Chair, is more common in the United States than in Australia.

Both countries have a tendency to have more homogenous boards, with members having similar educational and professional backgrounds, as well as likely to be the same gender, age, and ethnic group. Australia has implemented several programs and guidance to further diversify their board of director composition.

## Board Diversity or Gender Diversity? Perspectives from Europe, Australia and South Africa

This article, published in the Deakin Law Review, examines gender imbalances and the way they are being addressed in Australia. Europe and South Africa are also examined in the article, but are not discussed here. As with most developed nations, Australia is experiencing a gender imbalance on the boards of directors of publicly held companies (Du Plessis, Saenger, & Foster, 2012). Australia is, however, making rapid progress in electing women to boards, especially compared to other countries that address the gender imbalance with voluntary guidelines, as opposed to compulsory legal action.

The most recent changes to address board diversity were made in 2010, when the Australian Securities Exchange updated their Corporate Governance Principles and Recommendations to include Recommendation 3.2. This Recommendation reads, “Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.” Diversity, as stated in this Recommendation, alludes to an ideal mixture of age, gender, ethnicity, cultural background, etc.

Recommendation 3.4 deals specifically with gender diversity at multiple levels of the organization. Namely, in accordance with best practices, “Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.” ASX’s comments to Recommendation 3.4 point out that gender diversity on the board has been linked to stronger financial statements and an overall positive impact on the economy. On a non-financial level, ASX points out that gender diversity can improve an organization’s image, widen the selection criteria for employment, decrease employee turnover rates, and foster an environment of innovation and change. Also of interest, Recommendation 3.5 looks to the ‘comply or explain’ system that is often used in the United Kingdom with regards to company reporting on gender diversity. Organizations should be ready and willing to post their policies regarding diversity on a public area of their website, preferably in a section dealing with corporate governance.

In addition the ASX’s recommendations, there have been several other initiatives undertaken in the past few years to promote gender diversity on boards. The Business Council of Australia (BCA) implemented a pilot program in 2010 called the ‘C Suite.’ The purpose of this program was to partner accomplished women working for BCA member companies with top-level executives at other BCA companies. This exposure and mentoring seeks to open an express lane for high-achieving women to executive positions within their organizations, ideally leading to eventual board nomination. Elizabeth Broderick, Sex Discrimination Commissioner of the Australian Human Rights Commission, recently took it upon herself to bring together a number of male top-level executives to form the 'Male Champions of Change Group.' Unlike the 'C Suite,' which works as a passive means to promote women through exposure to top-level executive, this group seeks to actively and directly promote women to positions of leadership within members' organizations. Further, the group acts as a direct line to the Commissioner for discussion of gender and diversity issues faced by member organizations.

The Australian Institute of Company Directors (AICD), a membership organization for directors of Australian companies, launched an initiative similar to the 'C-Suite,' partnering women with executives and directors for a yearlong mentoring program. In addition to 'C-Suite,' the AICD was able to collect statistics for the year 2010 as a snapshot of gender diversity in Australian companies. Overall, their statistics revealed that 2010 was far and away the biggest year for women on boards of directors, showing over 10% of directors on the ASX200 (equivalent to Fortune 500) were female and only 46.5% of companies still had no women serving on their boards. These positive trends were continued into 2011, with women now making up over 12% of the board members of ASX200 firms and 29% of new board appointments being women. Continuing to 2012, the numbers climb further to 14.5% of the total composition and hold steady at 28% of new appointments.

Although Australia has traditionally suffered from lack of gender diversity on boards, these new initiatives, coupled with public pressure and reporting requirements, paint a bright future for the future of board gender diversity. In addition to pushes at the top, measures are now being taken to ensure women are hired and promoted from all levels of the organization with the Workplace Gender Equality Act of 2012, which mandates organizations to report the number of females and males employed. With these changes all considered together, Australia is blazing the trail for gender equality on TMTs and BODs, and other countries should feel confident in following their methods to achieve similar levels of diversity.

## Business Sustainability and Undergraduate Management Education: An Australian study

Organizational sustainability is examined in the article, but from the standpoint of how frequently it is currently discussed as a topic in Australian business schools. Although many researchers seem to understand the urgency in making business more sustainable, no one in the research surveyed seems to lay out exactly how sustainability should be implemented, given the plethora of motivations for an organization to become more sustainable. The authors look to the previous research of Bruntland (sustainability is 'meeting the needs of a firm's direct and indirect stakeholders…, without compromising its ability to meet the needs of future stakeholders as well') (Bruntland, 1987) and others to argue that there is a desperate need for more discussion of organizational sustainability in business school curriculum. Because current students are future leaders and executives, it is critical that organizational sustainability is discussed and instructed at an early stage if we are to expect any meaningful change to take place. (Fisher & Bonn, 2011) Further, because Australian business school play host to many international students, adding materials in organizational sustainability will work to disperse sustainable concepts throughout the world.

Recent bodies of research indicate that while almost all organizations understand the need to become more sustainable, a majority do not know where to begin the process. In 2008, KPMG released a survey that approximately 80% of companies had difficulty in discovering issues, developing solution frameworks, and tracking progress of plans implemented. This theme is further echoed in a 2007 study in Australia, finding that many companies 'have a limited understanding of environment[al] issues' and 'companies clearly need more information on how they can improve sustainable practices' (Australian Industry Group & Sustainability Victoria, 2007). Given the clear gap between understanding what sustainability is and how to actually address the issue, action needs to be taken to educate new and future business leaders on methods to tackle problems head on.

In conducting their study, the authors surveyed all 40 universities in Australia that offered undergraduate business and management courses. Initial investigations looked to see what percentage of courses offered included the word 'sustainable' or its derivative in the description. Then, it was determined whether or not the term was further defined to indicate a sense "that indicated a consideration of the environmental and/or social dimension of sustainability." Finally, those courses were examined to look at the extent that sustainability was discussed in the core and non-core areas of the course.

All of the universities surveyed offered at least one course in business or management. Just over 40% of all business and management courses mentioned sustainability in course core and non-core subjects. Breaking down the number of courses that did mention sustainability, only 6.5% mentioned sustainability in the course title. This is troubling, as the majority of courses offered don't mention sustainability at the course or subject level. The majority of courses that do mention sustainability as a core or non-core subject do so in relation one subject or business function. Additionally, very few courses seem to discuss sustainability at a level requisite to put the term in the course subject.

These findings are troubling for Australian universities, as it indicates that less than half of the business and management courses address sustainability in business and management courses. Furthermore, the sustainability discussed in those courses almost never relates to organization sustainability as a whole. This is indicative of Australian students graduating from business and management programs with little to no formal training on the subject of organizational sustainability. It has been noted in another Australian study that '[o]n the whole, sustainability is not very thoroughly or uniformly integrated across Australian universities' (Sherren, 2006).

There is good news, however, in that it appears Australian universities are beginning to address the lack of curriculum in this area. Although Australia has clearly demonstrated it has room for improvement in this area, initiatives have begun to be taken. In 2009, 14 of the 40 universities surveyed in the study were signatories to the Talloires Declaration. These universities have taken a public pledge to increase environmental awareness among their faculty and students, vowing that students will take courses that include sustainability in the curriculum. Three universities have also signed on to the United Nation's Principles for Responsible Management Education initiative, agreeing to provide annual reports detailing their efforts to include more ethics and sustainability in their course curriculum. As this report has demonstrated, Australia has a made strides in incorporating sustainability in their university business and management programs. In recognizing that today's students are tomorrow's business leaders, their implementation will ensure that sustainability comes to the forefront of Australia's business culture.

## CEO Compensation from M&As in Australia

Two views of CEO compensation are examined in the context of changes in CEO compensation after the completion of a merger or acquisition. The neo-classical view is that "CEOs are rewarded for skill and effort and their compensation reflects alignment of managers and shareholders interests" (Bugeja, Da Silva Rosa, Duong, & Izan, 2012). In our class discussions, this view is in alignment with CEOs acting as a value-creating person within the firm, responsible for adding more value to the organization for the shareholders than they are receiving in compensation. The alternative view, the managerial power perspective, is a more cynical one that views CEOs as self-interested, using their power to extract as much compensation as possible from the organization in the course of performing their duties.

The study examined 177 merger and acquisition deals between companies listed on the Australian Securities Exchange (ASK) occurring between 2000 and 2007. Four factors were looked at with regards to their relationship to CEO compensation before and after a merger or acquisition. Those factors are CEO effort in facilitating the merger or acquisition, CEO skill in orchestrating the merger or acquisition, CEO performance post-merger or acquisition, and CEO power relative to the board or other board members. The report unequivocally shows that CEOs see an increase in pay after the completion of a merger or acquisition, as both bonus and base salaries saw increases during the year of the merger or acquisition and the year following.

A positive correlation was found between deal success and CEO compensation, indicating that Australian CEOs tend to be better compensated as a reflection increased effort in closing deals. This correlation also scales bonuses to be larger when the corporation is larger. The study indicated that larger mergers or those involving a merger or acquisition with a company in another industry were more complex, requiring greater CEO skill to effectuate the handoff. An increase in the size or level of a difficulty, in turn, led to an increase in CEO compensation following the merger or acquisition. This trend is indicative of the neo-classical view, that CEOs are rewarded for their skills and efforts. There was a positive correlation drawn between firm performance post-merger or acquisition and CEO performance. Again, this is indicative of the neo-classical view. CEO power relative to the board, surprisingly, was negatively related to bonus amounts. Australia stands out from the United States and United Kingdom in this regard. CEOs who had a spot on the board's nominating committee, owned a large amount of company stock, or sat on a board with more inside directors, actually saw reduced bonus payouts after a merger or acquisition. As it can be seen, although Australian CEOs share parallels with peer countries in some aspects of their compensation, there are other facets that vary wildly.

## Corporate Governance and Company Performance in Australia

Strong corporate governance mechanisms are an essential component to a healthy corporate environment. This requires a balancing between performance monitoring systems and executive freedoms. Much like the United States' Sarbanes-Oxley (SOX) act of 2002, the 2003 Australian Securities Exchange (ASX) Principles of Good Corporate Governance and Best Practice Recommendations aim to tighten monitoring and control mechanisms to promote positive corporate governance (Christensen, Kent, & Stewart, 2010). These measures are a response to the agency theory of management, seeking to reduce the opportunities for agents to take advantage of principals by aligning the parties' interests. Unlike SOX, however, the Recommendations are not mandatory. ASX-listed companies are required to "comply or explain" their adherence to the guidelines in their annual reports. This places Australian companies in a unique situation, as corporate governance mechanisms are mandatory in most developed nations.

The Australian Accounting Review examined four broad principles from the ASX Principles of Good Corporate Governance and Best Practice Recommendations and whether there was a positive or negative correlation between company performance (as measured by ROA and Tobin's Q) and adherence to the Recommendations. 1039 ASX-listed companies were examined, making this one of the largest studies of its kind. Companies from every industry sector were included.

The first principle reviewed was board size, measured by the number of directors on the board. There is conflicting research in this area. While some studies have suggested that larger boards are more desirable because they possess more specialized skills and are able to better monitor management, other studies have found that smaller boards see greatly improved communication and decision-making abilities. The ASX guideline does not lay out a specific number of directors, but states that the size of a board should be 'limited so as to encourage efficient decision-making.' This indicates that ASX values the virtues of a smaller board, and the initial hypothesis of the article associated smaller boards with improved company performance. Results associated smaller board sizes with greater company ROA. There was also support for smaller board sizes being associated with smaller Tobin's Q.

The second of the four principles examined was board diligence, as measured by the number of meetings on an annual basis. Previous research on the subject has shown evidence in favor of more frequent board meetings. Frequent board meetings have been associated with an increase in disclosure transparency, board diligence and effectiveness, and oversight of TMT. As a result, the researchers hypothesized that an increase in board meetings would correlate to an increase in company ROA and Tobin's Q. There was no strong correlation between board meeting frequency and ROA. This indicated to researchers that board meeting frequency may not be indicative of board diligence. Just because a board is meeting once a week doesn't necessarily mean that they are taking care of corporate issues in a timely fashion. Somewhat surprisingly, there was a negative correlation between Tobin's Q and board meeting frequency. The authors postulate that this could indicate the market's view of frequent board meetings as reflective of an ineffective board, or that the frequent meetings are a result of negative internal events requiring board attention.

The third principle is board independence, measured by the proportion of independent directors on the board and whether or not there is duality in the CEO and board chairperson positions. Arguments for board independence, rooted in agency theory, are that independent board members help solve the agency problem, acting as disinterested parties and able to control the TMT, separation of TMT decision makers and board provides checks and balances in power, and a reduction the likelihood of fraud in financial statements and disclosures. Stewardship theory, on the other hand, takes the view that inside directors are stronger board members because they have a more complete knowledge of the business and are trustworthy stewards of company resources. ASX Recommendations call for a majority of the board to be independent outsiders. Thus, there has been dual hypotheses (to reflect agency and stewardship theories) that more and less board independence are indicative of improved company performance.

With regards to duality, there are diverging viewpoints based on the agency and stewardship theories. Agency theory assumes that when the CEO and chairperson are the same person, there is a potential for managerial domination and constraint of the board's independence. Management, in turn, will be more able to pursue their own interests at the expense of shareholders. Stewardship theory assumes that the CEO wants to perform his duties for the shareholders and will not act opportunistically for his own enrichment. Duality provides a clearcut leadership role on the board that, in turn, facilitates strategy creation and implementation. Power is centered in one person, reducing uncertainty in decision-making.

The study found that, with regards to director independence, ROA correlation supports the stewardship theory and ROA tends to decline as the number of independent directors increases. Tobin's Q provides a mild negative correlation with director independence, again suggesting the stewardship view and that concerns over board independence may work to reduce a company's market valuation. For duality, ROA found support in the agency theory, increasing in the absence of duality. This may indicate unease with a CEO serving in both an executive and Chairman role. Tobin's Q provided a positive correlation, increasing when duality was present.

The final principle examined was presence of board committees, measured by whether or not the company board had audit, remuneration, and nomination committees. The presence of an audit committee, generally delegated the auditing and financial reporting responsibilities on the board, is likely to protect shareholders by preventing false or misleading financial statements and ensuring a company's compliance with applicable laws and regulations. A remuneration committee serves the important role of researching and setting executive compensation levels. This committee is able to alleviate agency problems by aligning executive compensation plans with shareholder goals and company performance. The nomination committee is responsible for seeking out motivated, qualified individuals to be up for nomination on the board of directors. The caliber of candidates elected to the board is expected to be correlated with future company performance. Research findings indicate that the presence of audit and remuneration committees had a positive impact on ROA, while nominating committees had no discernable effect. Tobin's Q was positively correlated with all three committees, indicating that the market places value on board committees as indicators of good corporate governance.

## The Impact of Board of Director Oversight Characteristics on Corporate Tax Aggressiveness: An Empirical Analysis

Researchers observed datasets from 203 publicly listed Australian companies from 2006-2009 to study how board oversight characteristics affect corporate tax aggressiveness (Richardson, Taylor, & Lanis, 2013). Four independent factors were examined, implementation of a risk management system and internal controls, employment of a Big 4 auditor, whether the external auditors provide more non-audit than audit services, and independence of that audit committee.

Resulting data shows that if a firm has an effective management system and robust internal controls, it is less likely to show tax aggressiveness. This is because of reduced opportunities to misstate or misrepresent financial data, fewer chances for the TMT to engage in self-serving risky financial activities, and a lower likelihood of participation in complex or furtive tax-sheltering systems. When a Big 4 audit firm is used, there is a decreased likelihood of tax-aggressive behavior. A Big 4 firm builds on top of strict internal controls, eliminating opportunities for error through increased monitoring, ability to resist client pressure, and providing an extra set of eyes to review audit policies and documents. When external audit firms provide fewer non-audit related services, tax aggressiveness also decreases. This seems to be stemming from the fact that external audit firms that also perform other services for companies tend to be less independent on account of their expanded relationship with the business. There is greater pressure on the external firm to perform favorably, thus they are more likely to engage in risky tax behavior. Finally, the independence of the audit committee is negatively correlated with tax aggressiveness. Reasoning for this is that independent, outside directors are less likely to show favoritism towards the organization, as they don't have a substantial personal interest in the company. In turn, they are less likely to overlook inconsistencies or inaccuracies in financial statements. In Australia, any company listed on the S&P/ASX All Ordinaries Index is required to have an audit committee composed of outside directors. The majority of the directors must also be independent. This policy helps curtail tax-aggressiveness by Australian companies. Australian regulators and policymakers should keep these findings in mind when drafting future legislation and recommendations to curb tax-aggressive behaviors by Australian companies.

## Sustainability

Sustainability has gotten more press and people have started to think about ways to be more sustainable as we realize the damage that we have done to our planet as a direct result of growth and expansion. Both the United States and Australia have practices put into place to be more environmentally sustainable. The United States for example has the Environmental Protection Agency. The Australian government has a space on their website that is devoted to environmental sustainability.

The Environmental Protection Agency is the main regulatory body when it comes to issues related to the environment. They have authorization from Congress to write regulations that have to be followed by various groups ranging from individuals all the way up to state and local governments (Laws & Regulations, 2013). The EPA has information on many different industries which includes the laws and regulations that are associated. There are even regulations for what has to be done in the event of an oil spill.

One thing that companies can do to make their buildings more efficient is to make them to Leadership in Energy & Environmental Design (LEED) specifications. LEED is based on a point system. When the building is designed there are certain green items that can be implemented into the building to make it better for the environment. There are four different levels of certification. These levels are certified, silver, gold, and platinum. To get certified you have to have between 40 and 49 points out of usually 110. If it is a home that is getting LEED certified the scale is out of 125 points (About LEED, 2012). Buildings that are already built can be remodeled to get certified.

The United States has developed different ways to not only conserve energy but to also create energy. Some of the ways that energy is being conserved is by purchasing energy star appliances which use energy more efficiently. To conserve on fuel, more fuel efficient and electric vehicles have been created. Renewable energy sources have seen substantial growth in the last five years. In 2011, 9% of the total energy used in the United States came from renewable sources (U.S. Renewable Energy, 2013).

Australia has several practices in place that allows them to be more environmentally sustainable. One of the things that the country does is what is called Equipment Energy Efficiency, or E3. This is a program that works to have appliances be more efficient. It is a label that is placed on appliances that gives information like the amount of energy consumption required for the product each year. E3 has made consumers more aware of how efficient different products are. This program has helped to reduce greenhouse gas emissions and energy demand because the companies producing the products work to get a better energy label. E3 helps the consumer because it reduces the cost to own and run the appliance. (The E3 Program, 2012)

The Australian government also publishes a design guide for offices and public buildings. This publication has a rating tool in it that gives buildings a rating from 1 star to 5 stars based on their water consumption. There are other ratings tools being created that measure other environmental impacts of buildings on things like emissions, pollution, and air quality. The guide gives 10 opportunities to make buildings more efficient. One of the largest sections is the ways to minimize energy use. Some of the recommendations are to change the building layout to make it more energy efficient by using natural lighting. The natural lighting will also serve as a heating source. This guide also gives information about choosing materials to use for construction and ways to reduce waste (Department of the Environment, 2007).

There is legislation that was put into place to protect the plants and animals of Australia. The main act is the Environment Protection and Biodiversity Conservation Act of 1999. Not only was this act written to protect the plants and animals of Australia, it also protects heritage places. There are provisions in the act that protect the movement of plants and animals to Australia. In June of 2013 an amendment was added which made water resources an item of national importance (About the EPBC Act, 2013).

### The Impact of Sustainability and Balanced Scorecard Disclosures on Market Performance

A study was done in Australia that looked at the top 100 companies in Australia to see first if they disclosed their sustainability reports and balanced scorecards (BSC). After this was done, the author Evangeline Elijido-Ten looked to see if there was any correlation "between sustainability and balanced scorecard reporting, share market performance and perception as well as company size and industry" (Elijido-Ten, 2011). It was found that all BSC disclosers also disclose their sustainability reports. But, of the companies that disclose their sustainability report, about half of these companies also disclose their BSC.

Sustainability reporting is a practice that has taken off in the past few decades. If a company uses sustainability reporting, they don't necessarily have better performance. There has been research done that shows that companies that provide environmental disclosures have better environmental performance. This sustainability report may be in the form of an additional measure on the BSC to create a sustainability balanced scorecard.

Since the development of the BSC many companies have begun to implement some form of it. The BSC is a performance measurement tool compromised of four different categories. These categories are financial, customer, internal business processes, and learning and growth (Kaplan & Norton, 1996). Not all of the items that are measured under the BSC are financial. This gives a better advantage because it can allow the company to better predict and explain their future performance. Implementing the BSC offers companies more things that they can use to measure their performance, better alignment with the strategy of the organization, and improved efficiency (Elijido-Ten, 2011). Companies that adopt the BSC usually perform better than the companies in their industry that do not use BSC.

To do the study (Elijido-Ten, 2011), the author first looked at which companies use BSC. She was able to find 43 companies that did; all 43 of them are in the top 100 companies in Australia. The top 100 companies in Australia were chosen because of their place in the market. All of the data for the study are publically accessible. The tests that were done looked at the sustainability report, BSC disclosure, shareholder return, market perception, firm size and industry classification. The author first looked at if the company had any type of sustainability report. After doing this she then looked to see if they also have a BSC implemented. Firm size was determined by taking the natural log of revenue.

The study showed that the number of companies that disclosed sustainability reports and BSC increased from 2007 to 2008. The size of the company and the industry they are in also has an effect on whether or not the company did the disclosures. Market performance and the thought that the companies that disclose have better performance were shown to be true in 2007 but not 2008. The act of disclosing the sustainability report and the BSC for the company does not only benefit the company itself, but also benefits the potential investors and the current investors.

### West Arnhem Land Fire Abatement Project

A case study (Molyneux, Dargusch, & Safa, 2011) was done about the West Arnhem Land Fire Abatement Project and the implications that it had on the organization that took part in the project. Carbon is being looked at with greater scrutiny these days. The thought of constraining carbon can be opportunities or threats for companies. Because companies are worried about their reputation, they are doing more to be socially responsible so that their reputation does not get tainted. The authors emphasize that there is a difference between corporate sustainability and sustainable development. They define sustainable development as "human sustainability plus ecological sustainability plus inter-generational sustainability." This definition takes a more long term view on sustainability. Corporate sustainability, on the other hand, is what the organization is doing to last throughout the years.

The West Arnhem Land is land where the indigenous people of Australia lived. The area is prone to wildfires during the dry season. The indigenous people moved off the land, meaning that the land was no longer being cared for. Because of this, the wildfires were not put out, sometimes until the start of the wet season. On average 40% of the area burned each year. The carbon dioxide that was emitted was reabsorbed by the new plant growth.

The Koyoto Protocol made it more apparent that carbon constraints needed to be implemented. From this the West Arnhem Land Fire Abatement project was created. This project spurred various alliances like the North Australian Indigenous Land and Sea Management Alliance. This alliance was used to support economic development and protect knowledge for future generations. Warddken Land Management was created after the WALFA project by the indigenous people of the northern territory. Because they already knew the land they had good ideas as to what they could do to help with the carbon and land management.

Companies that work to be more sustainable, like ConocoPhillips Australasia, are able to publish sustainability reports and feel good about their efforts. ConocoPhillips Australasia opened a liquefied natural gas plant near Darwin. The participated in the WALFA project when it was not required of them to do so. They paid $1 million each year and said they would abate 100,000 tCO2e every year for 17 years.

The main focus of this study was that companies with a focus on sustainable development can be strong drivers for change.

## Executive Compensation

### Corporate Scandals and Executive Compensation

A case study was done to look at the effects of corporate scandals on the laws and regulations that the United States and Australia have had put into place in regards to executive compensation. This study also looked at the two countries to see if there has been any convergence between the two on the subject of corporate governance. The convergence of corporate governance standards was looked at after the corporate scandals and also as a result of the financial crisis of 2007 and 2008.

The main corporate scandal that was looked at was the scandal that occurred at Enron. The reason that Enron collapsed was that they had overstated their earnings for the four years prior to having to declare bankruptcy. The reason that these overstatements were allowed to persist was that Arthur Anderson, the auditor, signed off on the statements even though they were questionable (Barney, 2009). The reason that executive compensation was brought to light in this scandal is that in 2000 the CEO received over $140 million in compensation. Of this $123 million was in stock options. Many employees at Enron were unable to sell their stock because it was locked into a retirement plan. A subcommittee in the Senate determined that the board was partially at fault for the scandal and executive pay because they should have seen the unethical accounting practices that were going on and should have stopped it. They were also responsible for the excessive pay packages that were given to the executives.

The United States has four sources for laws and regulations on the topic of executive compensation. These sources are the Internal Revenue Code (IRC), the Securities and Exchange Commission, the stock exchange listing rules, and the Sarbanes-Oxley Act of 2002. IRC Section 162(m) limits the deduction that a company can take as an expense for compensation to one million dollars. Performance-based compensation can be exempted from Section 162(m) if three criteria are met. This would allow the executives to earn more than one million dollars. Section 280G of the code keeps companies from being able to deduct excess golden parachute payments as business expenses (Barney, 2009). The SEC Regulation S-K requires that the compensation of the directors and the three most highly compensated officers other than the CEO and CFO to be disclosed. Part of this disclosure is a discussion that explains why the executives were paid the amounts they were. The Stock Exchange Rules state that shareholders have to be given the opportunity to vote on equity compensation plans. The Sarbanes-Oxley Act did not add anything to the executive compensation laws and regulations.

There were two scandals that occurred in Australia just before the scandal at Enron came to light. One.Tel was a telecommunications company and HIH was an insurance company. Both companies had dominating CEOs as their heads. These CEOs were not afraid of taking risks and often did. The boards of both companies had more inside directors than independent directors which led to problems. The pay of the executives was shocking considering the financial positions of the companies. The co-founders of One.Tel were both receiving $560,000 for a salary and $6.9 million in bonuses (Barney, 2009). The reason this is so astounding is that they received this just before the company's collapse. The founder of HIH received a pay increase of 44% between the years of 1997 to 1999. The company, during this time, was experiencing a lack of financial strength.

Australia has three sources of law on executive compensation that arose largely after the scandals at One.Tel and HIH. The Corporations Act of 2001 was enacted right after the two scandals. The main things that this act dealt with were that "a public company cannot provide a financial benefit to a related party without shareholder approval" (Barney, 2009). This law also says that the company has to disclose their executive compensation if 5% of the shareholders require it. The CLERP 9 Act of 2004 had amendments to The Corporations Act of 2001. The Act requires an advisory vote on executive compensation at the yearly general meeting. This was to try to give the shareholders a stronger voice when it came to pay. The third source of laws and regulations on executive compensation come from the ASX Listing Rules and Corporate Governance Principles. One of the rules requires shareholder approval for an increase in the amount of directors' fees and requires that the executives' compensation cannot be tied to the operating revenue of the company. Rule 4.10.3 requires listed companies to include "[a] statement disclosing the extent to which the entity has followed the best practice recommendation set by the ASX Corporate Governance Council" (Barney, 2009).

After the scandals rocked the corporate world in the two countries, the author looked at whether or not there had been any convergence in corporate governance as a direct result. The two countries had different views on "say on pay." Australia made it mandatory for shareholders to be able to vote on the pay of their executives, while the United States did not require it. The US has the regulations that are associated with taxation on compensation, while Australia does not. Both countries have a mandatory compensation disclosure in place.

During the period of the financial crisis of 2007 and 2008, there were reforms in the way that executives were paid in the United States. If a company was receiving government funds they were not able to pay bonuses to their executives. Australia did not have any of the problems that the United States had when it came to paying bonuses with government funds. The government in Australia did put a limit on "golden handshakes." This limit is that the shareholders have to approve payments greater than one year's base salary (Barney, 2009). The United States now has a "say on pay" requirement similar to that of Australia's. From all of this it is seen that there has been some convergence in corporate governance standards between the two countries, but there are also quite a few things that the countries are doing that differ.

### Stock Market Mispricing, Executive Compensation and Corporate Investment

A study was done by faculty members at La Trobe University in Australia to see what effect stock mispricing would have on the amount of executive compensation Australian CEOs would receive. The authors noted that there are a large number of executives who receive equity based compensation in the form of stock options. They decided to do the study to see what effect stock price has on how much pay the executives receive. The main reason that executives receive equity based compensation is to try to alleviate the agency problem. Equity based compensation makes the pay of the executive dependent more on the stock price. If the stock price does well the options they purchase can be sold at the higher amount, allowing them to make money. The hypotheses that were being tested were the non-significant relationship between share mispricing and firm's investment level, the positive relationship between mispricing and the firm's investment level, and the significant positive relationship between the proportion of equity-based compensation of executives and the firm's investment level (Li, Henry, & Chou, 2011).

The data for this study came from the Connect 4 database for the period between 2004 and 2007. It covers all Australian companies from the Bureau Van Dijk Electronic Publishing Osiris database in addition to the executive compensation information from the Connect 4 database (Li et al., 2011). The data showed that there was not a significant relationship between the firm investment level and the amount of stock mispricing. It was found though that executives are self-interested and the agency problem persists even with equity based compensation. This is shown because the more the stock was mispriced the more the executives focused on their investments when making decisions.

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