



KORN/FERRY INTERNATIONAL

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Mr John Colvin
Chief Executive Officer
Australian Institute of Company Directors
Level 2, 255 George Street
Sydney NSW 2000

Dear John

It is our understanding the Australian Institute of Company Directors (AICD) is currently preparing a discussion paper on the relevance of international competitive remuneration to senior executives within the Australian business community. Given the importance of this subject, together with our support for the involvement with the business community of the AICD, we would take the opportunity to express our view which in essence is evidence based experience in international searches.

By way of general comment, the companies to which we are referring are in most cases global in outlook and/or operations. Consequently the very nature of such business therefore results in a presumption that a search to identify potential leaders will usually extend beyond our national boundaries. This being said, our experience would confirm that in many instances there will be that overarching comment to suggest there may well be executives overseas looking to return to Australia!

It is our view that by far the majority of boards of significant corporations are in their own right international in outlook, and most certainly we would suggest in capacity. It is a well acknowledged fact that an outstanding executive within our business community would enjoy a similar status in most other comparable markets.

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It is this combination of internationally capable boards of directors and competitive executive leadership teams which has allowed many Australian businesses to 'box above their perceived weight!'

We could suggest the issue of globally competitive remuneration of our senior executives, (when avoiding the emotive issues of the relatively small number of excesses and taking a practical view), is simply a by-product of the pragmatic view of the respective boards to bring to the company the attributes they believe can best serve the interests of shareholders. This is particularly so when seeking to make Managing Director/Chief Executive Officer appointments. However, it is also worthy of mention that we have seen sufficient ongoing activity in the 'functional' roles of corporations to suggest the same principles as referred to above are relevant.

The Australian Korn/Ferry International office recently completed a search which illustrates the requirement to broaden the approach for specific functional expertise. Whilst not at CEO level, the role required specific IT functional expertise. Our global research identified that the only suitably qualified candidates were indeed offshore. The search looked at Australia, United Kingdom, Europe, North America and Asia. The successful candidate was based in the UK and had gained significant relevant experience over many years working across a number of geographies.

Of the total number of searches conducted by our Australasian practice during the past two years, international candidates were involved in 100% of C-suite searches, and approximately 80% of the level below C-suite.

The quest for internationally competitive executives has also been impacted by the often referred to limited availability of talent, which again we can readily attribute to the last decade of growth within the global economy.

It would therefore be readily understood that to attract and retain executives that the board deems to be in the best interests of the shareholders, the remuneration of that executive must be on balance competitive so that they may attract potential candidates.

To many, Australia represents opportunities which other countries may not, vis a vis lifestyle, security and a relatively sophisticated business environment. In the alternative view, there is the issue of distance and isolation, moving out of the business hubs of North America and Europe, and the ability of our enterprises to have the scale and funding to play a material role. The emerging markets of China and India are also considerations.

Additionally, our experience suggests that not only does the opportunity need to maintain the life stature of the individual, but in the majority of cases, there needs to be a premium payment for the compensation of more intangible considerations involved in such appointments.

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Typically a premium is paid to international candidates for the risk involved in moving them and their family. Key elements which must be considered when attracting international candidates to relocate include:

- Allowance for exchange rates and the need to equalise the remuneration package with the country of origin of the executive.
- Premium for the risk involved. Often executives are required to implement significant change management programmes which in itself bring risk and uncertainty.
- Balance the risk versus reward - relocating the executive and family represents personal uncertainty.
- Will the relocation be long term or simply a transfer for a fixed term?
- The executive will wish to maintain their standard of living upon return to their country of origin.
- Tax considerations – the Australian tax regime vs other markets

It is not our intention to particularise individuals in our comments, only to say that much material is now a matter of public material, and there have been instances of perceived excesses, but in acknowledging this, it is difficult to disregard the market forces of the last decade.

We most certainly would not be the advocates of excess, but believe there are specific areas where a little more attention and financial prudence should be practiced. Many of the perceived excesses (as a result of cash bonus schemes - short and long term - together with share/option rewards in all their configurations and termination payments due to contractual obligations) do in our opinion sometimes fail to satisfy the 'reasonable' test.

We would of course, be happy to discuss our thoughts with you and provide further detail should you wish us to do so.

Yours sincerely



GARY REIDY
Managing Director
Australia & New Zealand